Economic and Market Insight

Policy Update: ECF Programme Update

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Research & Analytics

ECF is on Track as Ghana Seals SLA on the Second Review of the Programme, but the Work Towards Restoring Fiscal and Debt Sustainability is Still Cut Out

The IMF Staff's latest mission to Ghana concluded with Ghana sealing a Staff-Level Agreement (SLA) on the second review of the 3-Yr programme supported by the Extended Credit Facility (ECF), subject to the IMF Management and Board's approval. Overall, six (6) Quantitative Performance Criteria (QPCs), three (3) Indicative Targets (IT), one (1) Structural Benchmark (SB) for Dec-2023 and three (3) SBs for end-Mar-2024 were accessed. In the IMF Mission Chief's verdict, Ghana's performance under the programme has been generally strong, with most quantitative targets met and the progress on the key structural reform milestones already yielding positive results. The second review is subject to the approval of the IMF Management and Board. An approval is, however, predicated on Ghana agreeing on a Memorandum of Understanding (MOU) with bilateral creditors on official debt treatment consistent with programme parameters and in line with the agreement in principle reached with the Official Creditor Committee (OCC) in January 2024. The IMF Board's approval will trigger the disbursement of a third tranche of US$360 mn for budgetary support.

The IMF Staff report steady progress on programme implementation thus far, but the work is still cut out: Programme implementation is broadly on track, with the government upholding fiscal rectitude supported by an appropriately tight monetary policy stance and ongoing structural reforms. The GDP growth outturn over the review period beat the programme assumption, with inflation easing below the lower limit of the outer band of the monetary policy consultative clause. Following the over 4% of GDP in fiscal adjustment recorded in 2023, the primary balance (on a commitment basis) also exceeded expectations at 0.3% of GDP (vs target: -0.5%), with cumulative change in the net international reserve above the floor. However, given the significantly higher stakes and Ghana's long history of budget overruns in election years, the fiscal outlook remains a key concern. Deliberate fiscal rectitude in 2H2024 anchored on revenue growth and strict expenditure and commitment controls is thus required to keep the programme on track. The suspension of the proposed 2.5% VAT on electricity and pollution tax has already created a revenue gap of GHS1.8bn in the 2024 budget. The continuing challenges in the electricity and cocoa sectors also pose significant systemic risks to programme execution going forward.

Table 1: ***The Quantitative Performance Indicators for the latest ECF Review***

	Proposed End-Dec-23 Performance Indicator	Proposed End-Mar-24 Performance Indicator
Quantitative Performance Criteria		
Net Int. Reserve (Cum. change floor) US$'M	655	107
BoG's claims Gen gov't (cum. change ceiling |US$'B)	0	0
PV of newly contracted/guaranteed ext. debt US$'M	66.2	84.7
Primary balance (commitment | GHS'B)	4.61	1.39
Non-acu. of ext. debt payment arrears US$'M	0	0
Newly contracted collateralized debt US$'M	0	0
Monetary Policy Consultative clause		
Outer band (Upper Limit)	33.40%	30.90%
Inner band (upper limit)	31.40%	28.90%
Central target rate	**29.40%**	**26.90%**
Inner band (Lower limit)	27.40%	24.90%
Outer band (Lower limit)	25.40%	22.90%
Indicative Targets		
Non-oil public revenue (cum. floor)	116,365	32,952
Social spending (cum. floor)	4,068	1,298
Net Δ in the stock of payables to IPPs ceiling	0	0

Source: IMF Technical notes|GCB Capital Research

Figure 2: ***Structural benchmarks for Dec-2023 and Mar-2024***

Structural Benchmarks	Target date
Operationalize the Int.Tax Admin. System by completing: 1) Procurement of the system, 2) Data migration from other portals 3) Appraisal of current situation and verification of requirements 4) Implementation of the functionality of VAT 5) Implementation of the functionality of CIT 6) Implementation of the functionality of PIT	Dec-23
Expand GIFMIS infrastructure to 265 IGF-reliant institutions with all the available functionalities	Dec-24

Source: IMF Technical notes| GCB Capital Research

The MOU with Bilateral Creditors trigger could delay the IMF Board's approval of the second review: While the government and the IMF are satisfied with the ongoing negotiations with official creditors towards sealing an MOU on official debt treatment, the government has already missed its Q1 2024 indicative timeline to seal the MOU. Agreeing bilateral deals with every member of the official creditor group towards reaching an MOU in line with the programme requirements and the agreement in principle sealed in January 2024 may take some time. We expect the negotiation team to advance the discussions, drawing on Zambia's experiences and the roadblocks to the agreement with commercial creditors which fell short of the programme requirements. While the June 2024 timeline for the IMF Board approval may be workable, the experiences from Zambia suggest there could be delays in working out the details of an MOU that satisfies the official creditors and the DSA requirements under the programme.

Expenditure rationalisation will not be enough, and the government must plug the GHS1.8bn revenue gap the "hard way": While expenditure rationalisation is an obvious option to compensate for revenue shortfalls, it will hurt the debt-service-to-revenue ratio, a key performance metric under the programme. Thus, the government has adopted compliance enforcement from existing tax handles to plug the revenue gap instead of new taxes. The Ghana Revenue Authority (GRA) will target the existing tax handle on the foreign income of resident Ghanaians (an existing tax handle) as the anchor to close the revenue gap created by the suspended tax policies. Additionally, the ongoing structural reforms, including onboarding over 200 subvented agencies on the Ghana Integrated Financial Management System (GIFMIS), will help with better expenditure and commitment controls, limiting the creation of arrears. While we welcome stricter compliance enforcement, we believe the risk of revenue shortfall extends to many existing revenue lines and may require deeper structural reforms to harness their full potential. Therefore, we are not immediately upbeat about significant gains from this approach as we believe the gains will be gradual given that the formal sector is already over-taxed. Thus, we see no "magic wand" to mobilise significantly more revenue from the informal sector immediately. Systemic challenges from the energy and cocoa sectors also remain major sources of risk to the fiscal outlook, pending the implementation of the proposed reforms. Given Ghana's storied history of election-induced fiscal slippages, we also reckon that achieving a meaningful expenditure rationalisation in an election year is a tough ask. Therefore, the risk of fiscal overruns remains high despite the glowing assurances. Given the long history of revenue undershooting targets, the GRA and the Ministry of Finance's conviction about meeting the 2024 revenue target through compliance enforcement sounds bold and ambitious. Therefore, achieving the 2024 revenue target will require "extraordinary efforts" at compliance enforcement.

Research Contacts

Courage Kwesi Boti

Economist/ Research Lead

+233302945848 |+233302945838

ckboti@gcb.com.gh

Fund Management Contacts

Afua Akyaa Osei

Vice President, Fund Management

+233302945848 |+233302945838

aaosei@gcb.com.gh

Wilson Kyeremeh

Portfolio Manager, HSG

+233302945848 |+233302945838

wkyeremeh@gcb.com.gh

Advisory & Capital Markets Contacts

Michelle Nana Ohenewaa Kitson-Amoah

Associate, Advisory & Capital Markets

+233302945848 |+233302945838

mnodadey@gcb.com.gh

Disclaimer

GCB CAPITAL LTD.

49 Ndabaningi Sithole Rd

Labone, Accra

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