CONTENDING WITH MAHAMA'S ECONOMIC ILLITERACY AND INCOMPETENCE

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As a former chair of government's Economic Management Team, Ex-President John Mahama's grasp of the fundamentals of the economy is shockingly shallow. His pronouncements, in and out of office makes one wonder if he has any idea at all of the depth of the mess he left behind in office, a scary Achilles' Heel that will be our undoing if he should, as he fancies, ever become President again.

Dateline June 13, 2018. At precisely 10:03am, John Mahama posted on his Twitter handle, @JDMahama:

"Today, GHC4.7 to $1. Weak fundamentals?"

, along with a video clip of then 2012 election candidate, and now Vice President Dr. Mahamudu Bawumia.

In the clip, from the 5th Ferdinand Ayim Memorial Lectures at which he recounted the mess Mahama and NDC had made of the economy, Vice President Bawumia stated, emphatically, that ***"the lesson from history for governments is that you cannot manage the economy with propaganda. In fact, you can engage in all the propaganda you want but if the macroeconomic fundamentals are weak, the exchange rate will expose you."***

Mahama's twitter 'rant' follows a long line of similar outbursts (remember his "super incompetent" quip which fell flat?) clearly symptomatic of a man still smarting from the relentless pummelling, damaging salvos and killer punches he received at the hands of Dr. Bawumia that eventually resulted in his being voted out of office with the widest margin of votes in our voting history.

But more than his hurt feelings, Mahama seems unable to come to terms with his deficiencies on matters of the economy.

And here is why.

Economic Fundamentals

The fundamentals of an economy are the trends in the basic building blocks of what is technically referred to as its "Macroeconomic Framework". There are four building blocks as follows:

- **The Fiscal Sector:** Measures include Fiscal Deficit/Surplus, Primary Balance and Public Debt, measured as proportions of GDP
- **The Real Sector:** Principal measure is Real GDP Growth
- **The Monetary Sector:** Principal Monetary Policy in Ghana is *Inflation* Targeting, and

- **The External Sector:** Measures include Gross International Reserves and Current Account Balances

*When these 'blocks' interact, their impact is transmitted, among others, in the form of **movements in Exchange and Interest Rates.***

This Dr. Bawumia gets. And Mahama does not. Which is why keeping mum would have saved him the embarrassment of betraying his economic illiteracy.

In effect, when Bawumia said "***if the macroeconomic fundamentals are weak, the exchange rate will expose you,"*** he was simply referencing the macroeconomic framework, and its reflection in the exchange and interest rates: a weak macroeconomic framework will eventually lead to a weak currency (high depreciation) and rising interest rates.

The test, therefore, is whether the economic fundamentals under Mahama/NDC was strong, or weak, and how did it impact the exchange and interest rates, and, compared to the current trend, whether Mahama is spot on, or simply reaffirming his economic illiteracy and incompetence.

Does the Fundamentals Measure Up?

In the run up to the 2016 Elections, seven out of every ten Ghanaians said John Mahama has **failed on the economy**, and is **leading the country in the wrong direction**. And this was no perception. It was the reality.

Let us take the 'building blocks' one after the other.

- **The Fiscal Sector:**
  - *At the end of Mahama/NDC term, the **Debt-to-GDP ratio** was 73.10% (up from 32.30% at end of 2008). Akufo-Addo brought it down in his first year to 69.20%. At the end of February, 2018, it has dropped further to 60%*
  - *The **Fiscal Deficit** as at end 2016 was 9.3%, missing the IMF target by a wide margin. At end 2017, it was down to 5.9% (below the IMF target)*
  - *The **Primary Deficit** was minus 1.4% at the end of 2016 and surplus of 0.6% at end 2017*
  - ***Conclusion:** The Fiscal Sector fundamentals are stronger today than it was under Mahama*

- **The Real Sector:**
  - ***Real GDP growth** went up from the 3.7% at the end of Mahama's term to 8.5% at the end of 2017*
  - ***Conclusion:** The Real Sector fundamentals are stronger today than it was under Mahama*

- **The Monetary Sector:**
  - *When Mahama's term ended, **Inflation** was at a*

high of15.4%. At the end of 2017 it reduced to 11.8%. It is now below 10%, grossing 9.6% in April 2018

- ***Conclusion:*** *The inflation-targeting Monetary Sector fundamentals are stronger today than it was under Mahama*

- **The External Sector:**
  - *Our **Gross International Reserves** at the end of 2016 was 3.5 months of import cover. At end 2017 it has grown to 4.3 months. Already, at the end of April 2018, the GIR was at 3.8 months of cover*

  - *The **Current Account balance** was minus 6.6% at the end of 2016 but has significantly narrowed to minus 4.6% by end of 2017.*

  - ***Conclusion:*** *The External Sector fundamentals are stronger today than it was under Mahama*

In sum, the economic fundamentals to date under Nana Akufo-Addo is by far better than it was under Mahama and based on expectations, the Exchange Rate (and Interest Rate) should reflect similar patterns. That Mahama fails to even recognise that the fundamentals are stronger today than it was under him is itself telling.

Does it Reflect in the Exchange Rate?

Subject to endogenous and exogenous factors, the Exchange Rate is prone to short-term volatilities as market sentiments and expectations change. This results in either single day or few days movements in values.

However, anchored by strong economic fundamentals, the exchange rate is expected to be relatively stable over time/revert to normalcy. This is reflected in a slower rate of depreciation over time, and vice versa. In other words, an exchange rate anchored by weak economic fundamentals will experience a higher rate of depreciation.

So, the question is, between the Mahama tenure and the current, did/is the exchange rate betray, or affirm the economic fundamentals. Was Bawumia incorrect when he said to Mahama that his propaganda of a strong economy will ultimately be exposed by a faster depreciation of the cedi? And would a better performance of the economy now translate into a slower rate of depreciation? The answers are clearly in the data:

- **Year-On-Year Depreciation of the GH¢ against the US$ (%):**
  - ***Under Mahama:*** *At the end of his term, the rate of depreciation was 9.7% (-9.7%)*

  - ***Under Akufo-Addo:*** *The rate of depreciation has slowed at the end of 2017, closing at 4.9% (-4.9%).* ***Since then it has improved significantly, moving more than 500 basis points into positive territory to +0.2% at the end of April.*** *As at today, June 14, a day after*

Mahama's ill-informed rant, the local currency has strengthened against the US dollar, trading at GH¢4.45.

Conclusion

Clearly, Mahama cannot grasp the concept of "economic fundamentals." If he did, he would not be picking a random, single day exchange rate and suggest it is the result of a weak economy.

It is also clear that Mahama is still in denial, or perhaps because he does not understand it, that he presided over a regime that mismanaged the economy into a ditch, disassembling the building blocks of the economic fundamentals. It is said that understanding that you have a problem and defining the nature of the challenge is half the job done. Clearly, Mahama is not out of the blocks yet, while Akufo-Addo's government is close to the finish line.

The analysis above also proves Bawumia right: if you incompetently manage the economy with propaganda designed to paint the fundamentals in glowing light, you end up, as Mahama did, being exposed by the exchange rate in the form of a 9.7% rate of depreciation of the local currency. And if you manage the economy in a transparent, competent manner, you reduce the rate of depreciation to 4.9% at the end of your first year in office and then move into positive territory.

Finally, with a growing Gross International Reserve (already 3.8 months of cover at end April), the prognosis is clear: that the local currency will continue to strengthen and achieve a stable exchange rate over the short to near term.

Herein lies the challenge in contending with Mahama's economic illiteracy and incompetence.