

Ghana



Ghana flag: colour red represents the blood spilled to attain independence from Great Britain, the gold represents the mineral wealth of the country, the green is the richest forests and black star is symbol of African emancipation.

▲ **Description**

Ghana has one of the most stable democracies in Africa and one of the highest reserves of gold, which it is Ghana’s major export, followed by oil and cocoa beans. Before the pandemic its GDP was growing at around 6%, with an economy based mainly in services and industry. The government was focused on reducing debt and strengthen its financial system. It was even able to raise USD 3 bn in February in Eurobonds. The negative impact of lower oil prices and constrains in global supply chains damaged its exports, pressuring the currency and raising inflation. The slowdown in economic growth is threatening now its path towards control of government’s debt, while the early relaxation of social distance measures led new daily cases to a record, implying the possible need of new lockdowns.

▲ **Risk assessment**

LOW Political Risk: Ghana is regarded as one of Africa’s most stable democracies, and since the establishment of the democracy in 1992, the two parties NPP and NDC have won different mandates to rule the country without the need of major rerun elections or impeachments.

HIGH Inflation risk: The recent devaluation of Cedi (Ghana’s currency) may trigger an even steep rise in inflation (already at 11% vs 9.7% end of 2019).

HIGH Credit risk: Given the IMF’s predicted decline in 2020 of gross international reserves to USD 5.3 bn (8% of GDP), the credit risk is high as the reserves will be used to cover the government deficits of -9.5% in 2020 and -5% in 2021, implying the need for further debt increases beyond current level of 63%. The increase in debt will in turn increase interest expenses (at 5.7% of GDP in 2019) leading to an unsustainable path of debt, unless the country recovers the high growth rates of more than 6% before the virus. On the other hand, major refinancing needs will be after 2022. Aggravating this risks are the commitments that the government has in “take or pay” contracts that according to its own estimates may result in a cost of 25% of GDP cumulatively by 2023.

NEUTRAL Financial sector risk: Central Bank is performing a clean-up of the sector since 2017, removing licenses from fragile banks, promoting mergers and raising capital levels. Notwithstanding, NPLs are still at high levels around 18%.

NEUTRAL Commodities risk: While Ghana exports are mainly of commodities, around 30% is Gold and around 30% Oil, which usually have a negative correlation in prices at crises or economic downturns. Cocoa exports represent around 10% and its price has been falling due to the negative impact in consumption from Covid-19 quarantines.

▲ **Index**

1. **Description and risk assessment**.....(page 01)
2. **Geopolitics**(page 02)
3. **Government**(page 03)
4. **Economic Analysis**(page 04)
5. **Government Budget**(page 07)
6. **Government Debt and Reserves**(page 08)
7. **Current Account**.....(page 09)
8. **Central Bank and banking sector**.....(page 11)
9. **Covid-19**.....(page 12)
10. **Problems in the energy sector**.....(page 13)

Economic Indicators	
Nominal GDP (USD bn) (2020 IMF proj.)	64.2
GDP/Capita (USD, nominal) (2020 IMF proj.)	2,085
Real GDP growth (2020 IMF proj.)	1.5%
Inflation (2020 IMF proj.)	9.7%
Unemployment (World Bank 2019)	4.3%
Agriculture weight (% GDP)	20%
Industry weight (% GDP)	40%
Services weight (% GDP)	40%
Current Account (%GDP) (2020 IMF proj.)	-4.5%
Government debt (% GDP) (2020 IMF proj.)	66.8%
Government deficit (%GDP) (2020 IMF proj.)	-9.5%
Gross Internat. reserves (%GDP) (2020 IMF proj.)	8.2%

Source: FMI; World Bank

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Geopolitics

Capital city: Accra

Total land: 227,533 sq km

Land use: Agriculture (69%), forest (21%).

Population: around 30 million (growth 2%); life expectancy 68 years.

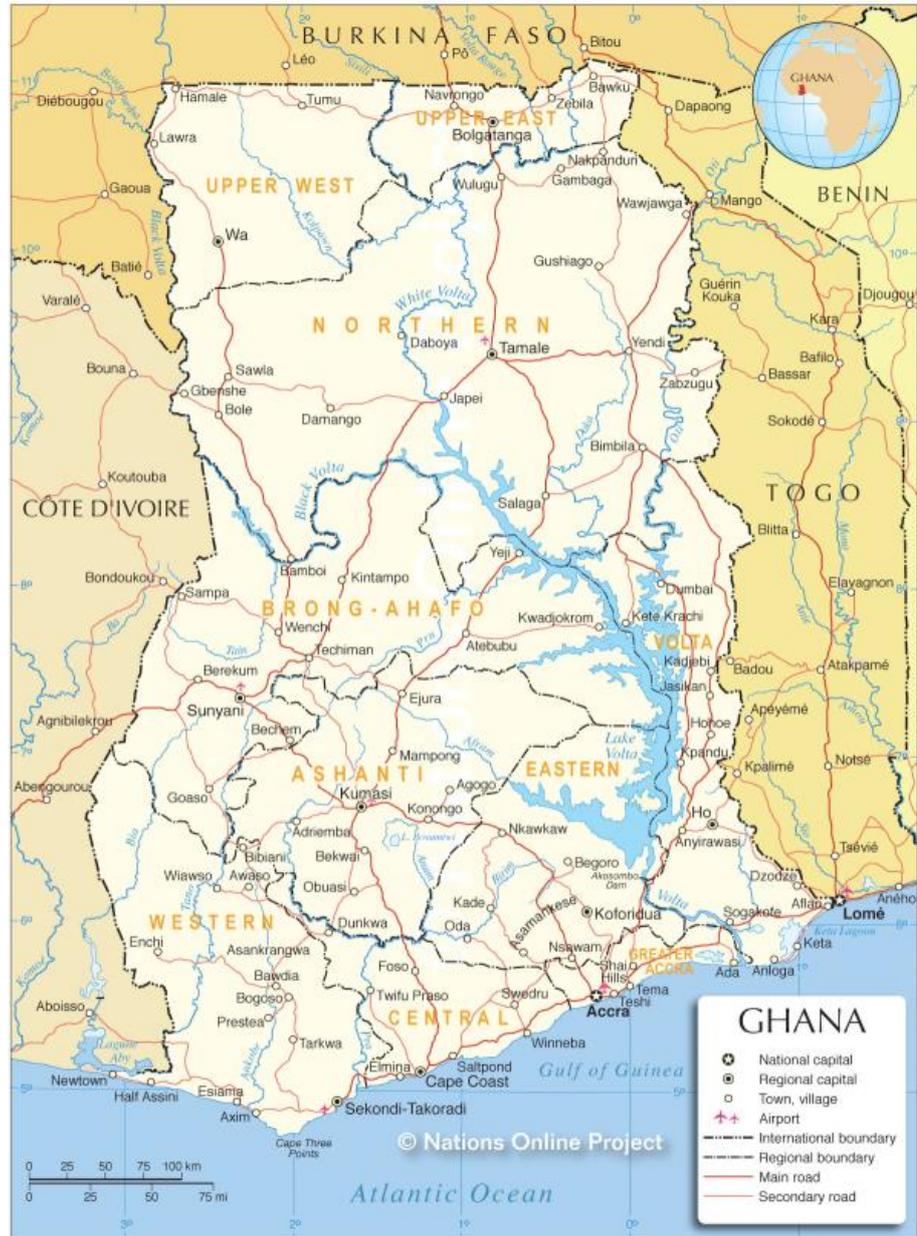
Population Distribution: Cluster along the southern half with higher density in the Atlantic Coast.

Languages: English (official); Asante 16%, Ewe 14%, Fante 11.6%; Others 57%.

Religions: Akan 47%, Mole-Dagbon 16.6%; Ewe 13.9%, others 22%.

Borders: Burkina Faso, Côte d'Ivoire, Togo.

Natural disasters: Droughts, especially in the north.



Source: Nations Online

Ghana attained its independence in 1957, after the merger between the British Colony of the Gold Coast and Togoland. The constitution and creation of different official parties were only in 1992, due to multiple internal conflicts in the early years.

Lake Volta is the largest artificial lake in the world due to the construction of the Akasombo Dam in 1965.

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Government

Ghana is a Presidential Republic; the chief of state and head of government is President Nana Akufo-Addo (NPP). The president is elected by an absolute majority, for a 4 year term (2 consecutive terms maximum). The council of ministers is appointed by the president and approved by parliament. The unicameral assembly has 275 seats.

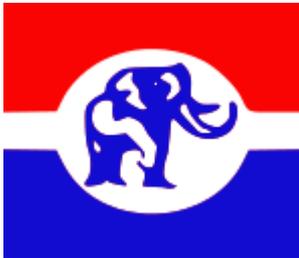


President Nana Akufo-Addo

History of calm democracy: Lt. Jerry Rawlings took power in 1981, after multiple internal conflicts, and instituted a democracy in 1992. He ruled until 2000, after winning 2 democratic elections in 1992 and 1996. In 2000 John Kufuor of the opposition New Patriotic Party (NPP) won the election and was reelected in 2004. In 2008 it was John Mills from the National Democratic Congress (NDC) winning the election, however due to his death in 2012, was replaced by his vice-president John Mahama, who won the 2012 election. In 2016 Nana Akufo-Addo (NPP) won the election and will run again in 2020 against John Mahama (NDC).

Constitutional amendments: Proposed by parliament to Council of State (a group of advisers of the president). Amendments to fundamental articles of constitution requires referendum with 40% of participation with at least 75% of votes casted, 2/3 of majority vote by the Assembly and approval of the president.

Last election was held in December 2016, and Nana Akufo-Addo (NPP) elected in the first round with 53.7%, while John Mahama (NDC) got 44.5%



National Patriotic Party symbol

President Nana Akufo-Addo was elected in 2016. He served as attorney-general in 2001 to 2003 and as Minister for Foreign Affairs from 2003 to 2007. His father was Chief Justice from 1966 to 1970, Chairman of the Constitutional Commission from 1967 to 1968 and non-executive President of Ghana from 1970 to 1972. He was born in Accra in 1944 and studied in England despite not finishing his Philosophy, Politics and Economics course. He also did an apprenticeship in law in Ghana and co-founded the law firm Prempeh and Co, after working in the US law firm Coudert Brothers.



National Democratic Congress symbol

Parliament: The unicameral parliament with 275 seats will also hold elections in December of 2020. In 2016's elections the NPP got 171 seats and NDC 104.

National Patriotic Party: This party is described as centre-right and liberal conservative, and has been one of the two major parties since the establishment of a democracy in 1992. It was in power from 2000 to 2008 and from 2016 until 2020.

National Democratic Congress: This is the social democratic party to which Jerry Rawlings, the man that established the democracy in Ghana, belonged. In 2000 after ruling since 1981, the party gave voluntarily the country's power to NPP which had won that year elections.

The Supreme Court has 13 justices and one chief justice who is appointed by the president in consultation with the Council of State and approval of parliament.

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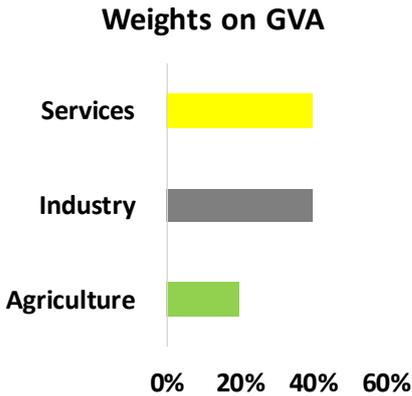
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▲ Economic Analysis

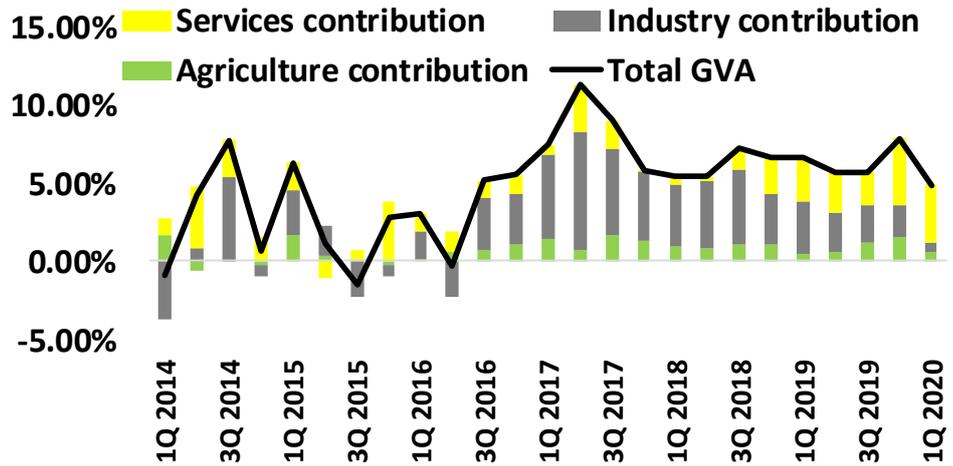
GDP

Ghana's GDP is mostly based on the services sector and industry while agriculture represents only 20%. In the first quarter of 2020 GDP growth was only 4.9% vs 6.7% in 1Q 2019, due to a sharp contraction in agriculture, mining and construction activities, affected by Covid-19.

Gross Value Added YoY (%)

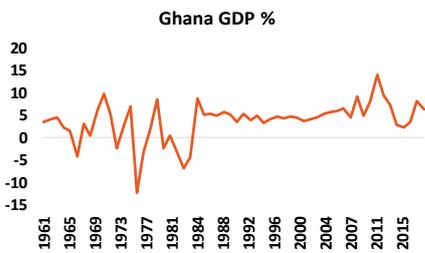


Source: Ghana Statistical Services

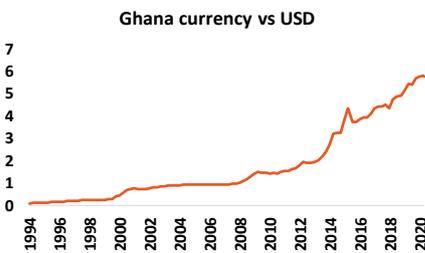


Source: Ghana Statistical Services

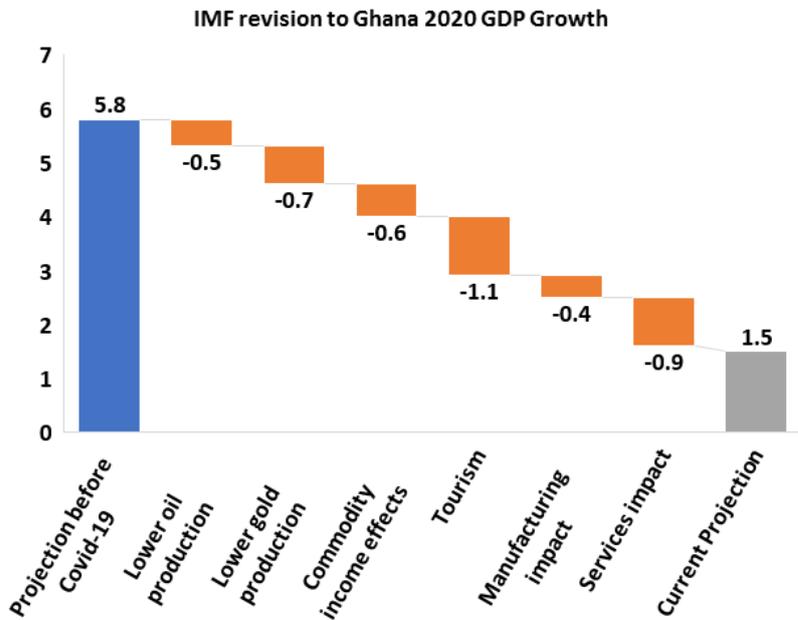
Due to Covid-19, IMF revised the estimates for 2020 growth from +5.8% to only +1.5% due mainly to negative impact from tourism, gold and oil production and services:



Source: Ghana Statistical Services



Source: Ghana Statistical Services



Source: IMF

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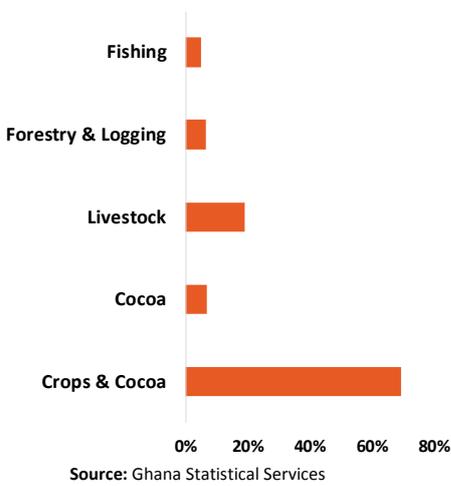
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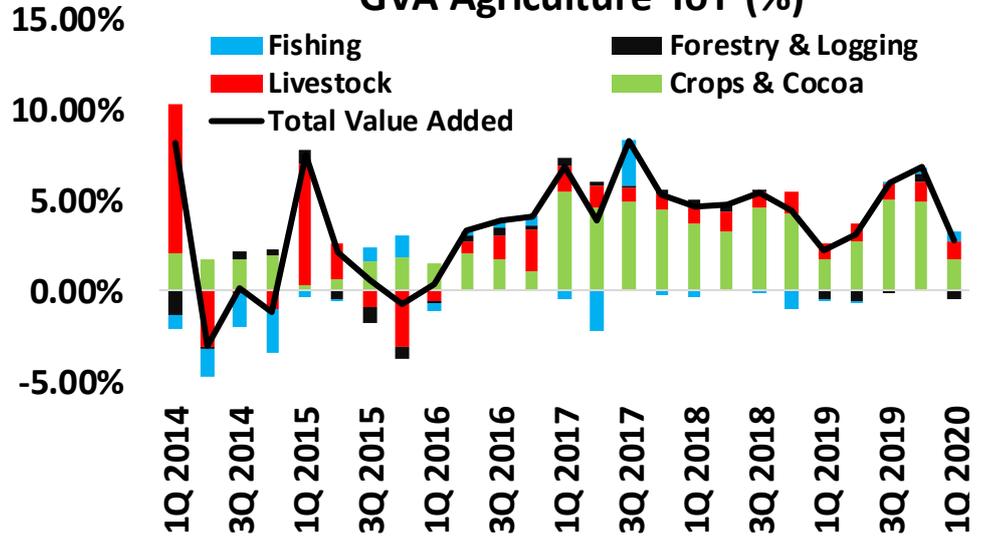
Agriculture:

Agriculture activity has been growing mainly in crops and cocoa production. In 1Q 2020 due to lockdowns imposed there was a light impact in growth, which will probably turn negative in 2Q 2020.

Agriculture weights



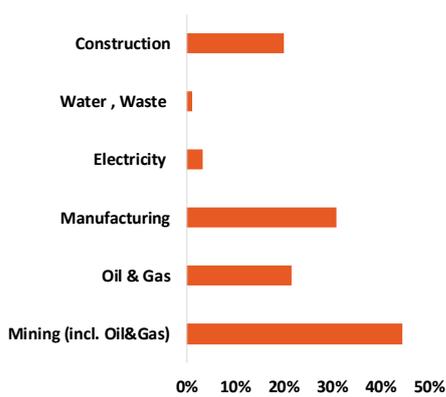
GVA Agriculture YoY (%)



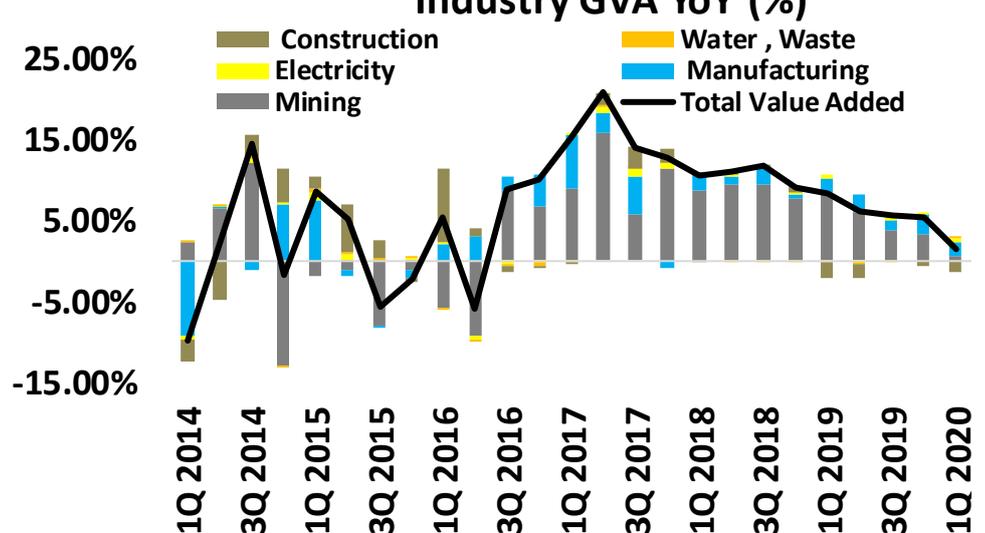
Industry:

Main growth in Ghana's industry is in mining activities related to gold and oil extraction. In the 1Q 2020 it was visible the impact of lockdown in this economic sector.

Industry weight



Industry GVA YoY (%)



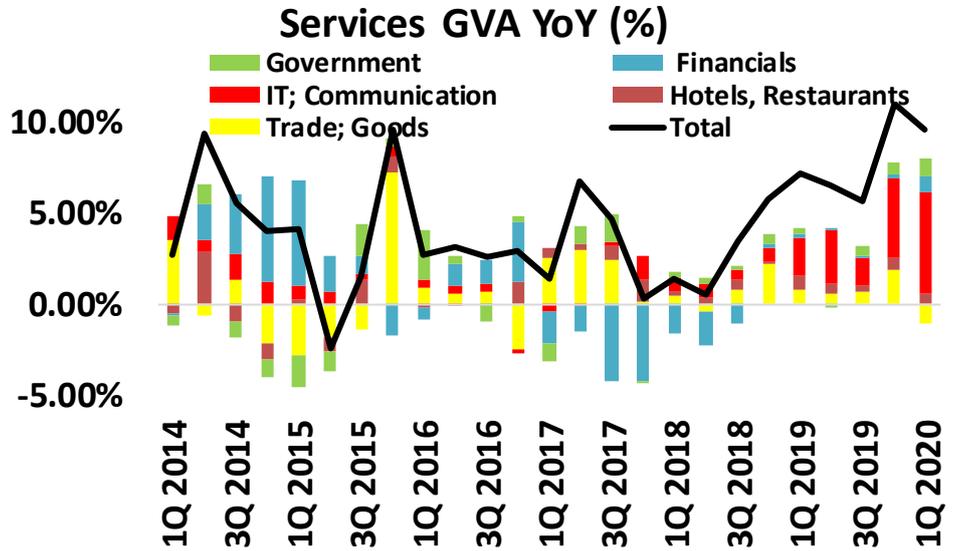
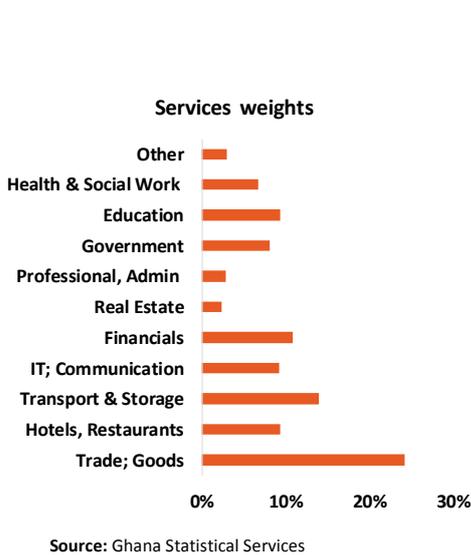
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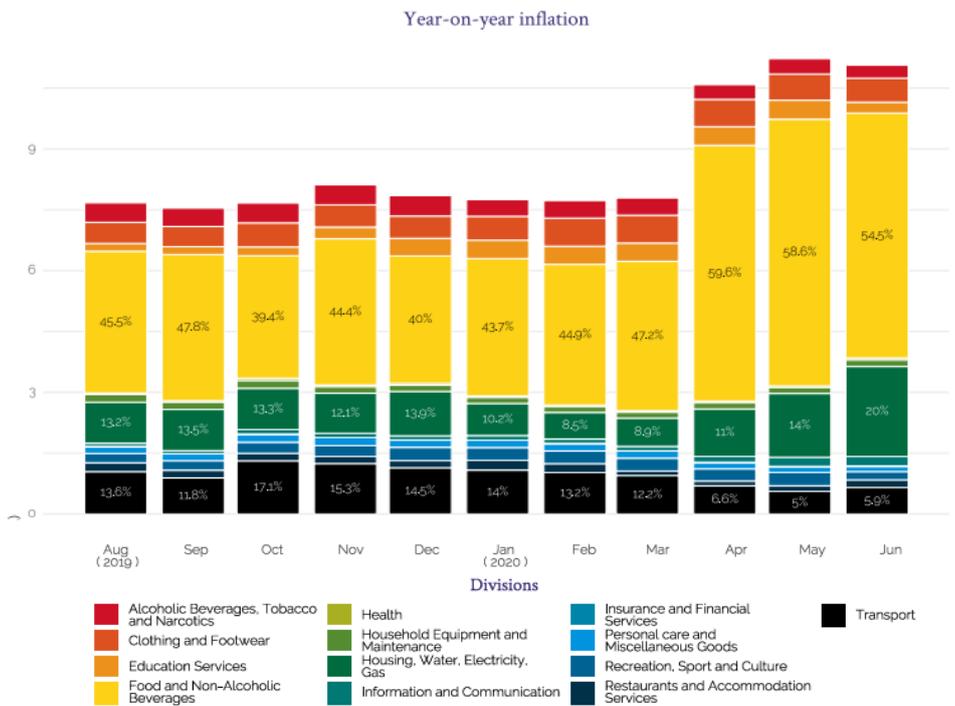
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Services:

As in other countries, the Technology and communication segments are growing, however trade and exchange of goods was impacted negatively due to supply constraints and lockdown in the 1Q 2020.



Inflation: Inflation rose yoy by 11.1% in June 2020 due to rise in Food and non-alcoholic beverages (+14%) and Housing, Water, Electricity and Gas (+21%). However IMF expects inflation to drop to only 9.7% in 2020 due to lower oil prices and food prices after the first shock in supply chain from covid-19.



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Government Budget

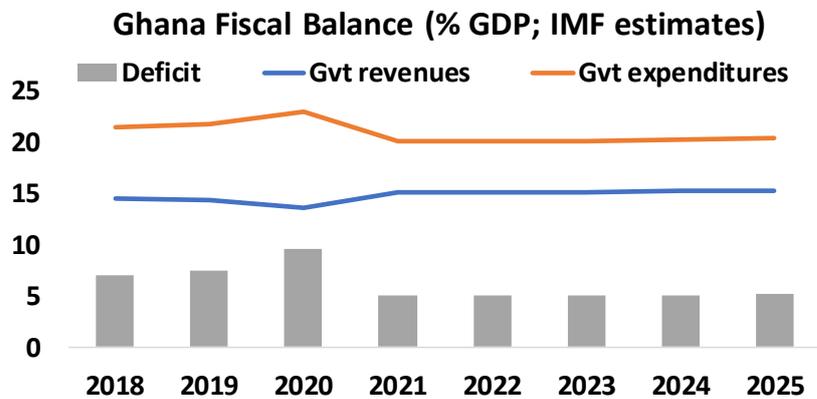
The Covid-19 crisis will demand a higher spending in healthcare and subsidies while cutting short the revenues from exports and tax. IMF predicts a government deficit of 9.5% of GDP in 2020, which includes a decrease in revenues expected of 2.2% of GDP (vs pre-covid 19), and higher expenditures of 0.4% on covid-19 measures.

To balance the increase in costs, the government expects to cut costs of goods, services, transfers and capital investments of around 0.3% of GDP.

Fiscal impact of Covid-19 (IMF estimates)	% GDP
Revenue loss	-2.2
Fiscal response	-0.4
Government cuts in costs and postponement of interest in loans	0.7
Net impact	-1.9

Source: IMF

Government was able to postpone interest payments to non-marketable domestic bonds held by public institutions to fund the financial sector clean-up (around 0.3% of GDP).



Source: IMF

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Government Debt

At end of 2019, government’s debt reached 63% of GDP, while domestic represented 31% of GDP and External 32.4%.

IMF estimates that in 2020 the ratio of debt to GDP will increase to 67%, mainly due to increase in external debt.

Last issuance: In February 2020 Ghana issued a USD 3bn in Eurobonds, which was 5 times oversubscribed:

- 7 years Eurobond of USD 1.25 bn at 6.375%
- 15 years Eurobond of USD 1 bn at 7.875%
- 41 years Eurobond of USD 750 mn at 8.875%

Other sources of funds:

- **IMF:** Approved a loan of USD 1bn in 2020.
- **World Bank:** besides the support of USD 100 mn for reinforcement of health system, the World Bank is negotiating with the government a further loan of USD 300 mn.
- **Oil Stabilization fund:** The government intends to withdraw around USD 218 mn from this fund. This fund was created to offset negative impacts in the country from volatility of oil prices.
- **Heritage Fund:** Proposed to parliament to grant access to the Heritage Fund of USD 591 mn.

Extra financing needs: Government still has around USD 1.1 bn to raise, which if no other choice is found, should be raised through domestic debt market.

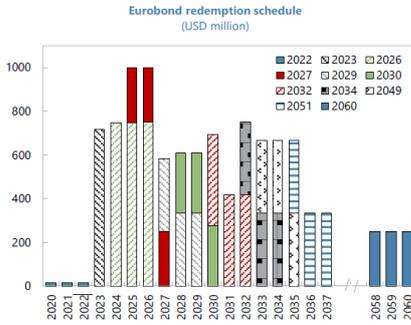
Ratings:

- **S&P:** B *- (30-04-2020 downgraded outlook to negative but kept rating)
- **Moody’s:** B3 *- (17-04-2020 downgrade outlook to negative from positive)
- **Fitch:** B (21-04-2020)

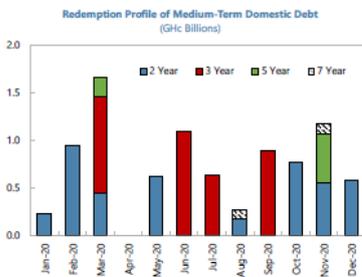
Gross International Reserves

Gross international reserves will decline to 2.7 months of imports by end of 2020, even assuming the exceptional financial support of USD 1.3 bn from IMF and World Bank.

External borrowing only presents a risk after 2023...



...but the domestic debt redemption profile must be carefully managed in 2020...



Source: IMF

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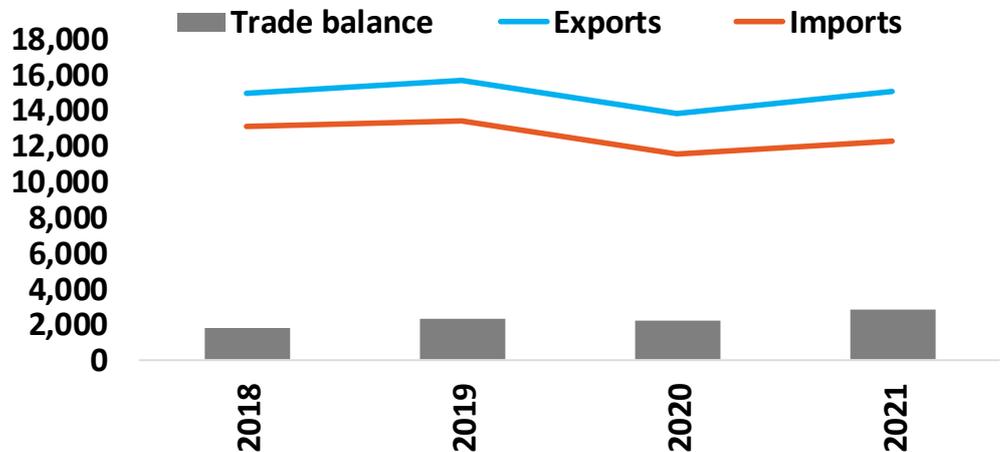
▲ Current Account

IMF expects current account deficit to reach 4.5% of GDP in 2020 due to the decline in value of oil exports (by more than USD 2 bn), lower tourism and remittances. This negative effect will be partially offset by the increase in value of gold exports and decrease in imports.

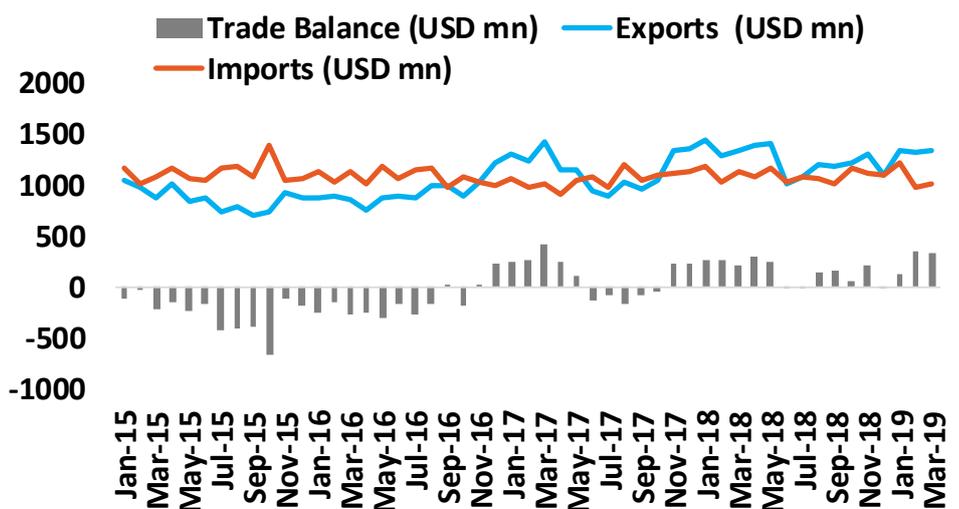
IMF estimates (USD mn)	2018	2019	2020	2021
Current Account	-2044	-1835	-2858	-2013
Trade Balance	1809	2282	2226	2753
Services	-2514	-3569	-3710	-2823
Income	-3922	-3954	-3487	-4098
Transfers	2583	3406	2113	2155

Source: IMF

IMF estimates for Ghana Trade (USD mn)



Source: IMF



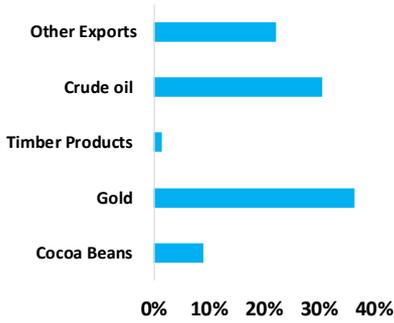
Source: Ghana Central Bank

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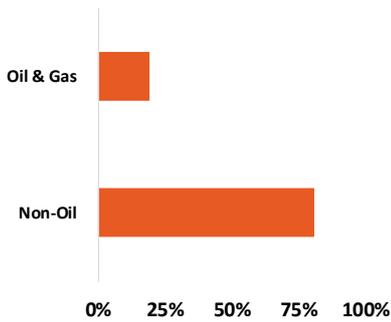
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Exports weight



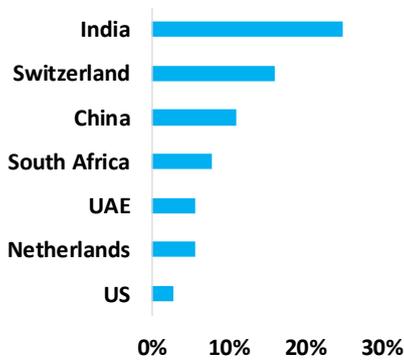
Source: Ghana Central Bank

Imports weight



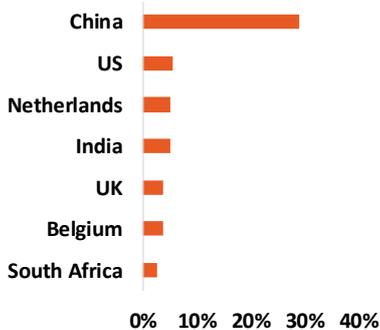
Source: Ghana Central Bank

Export weights



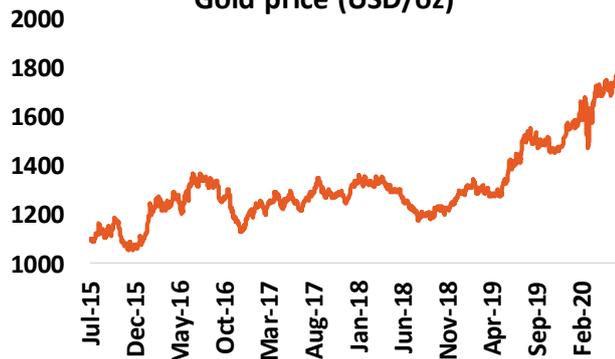
Source: OEC

Import weights



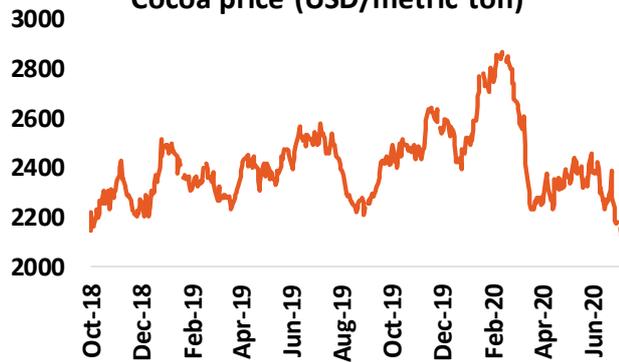
Source: OEC

Gold price (USD/oz)



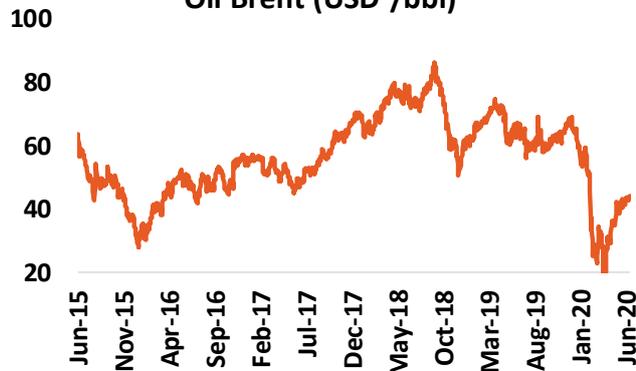
Source: Bloomberg

Cocoa price (USD/metric ton)



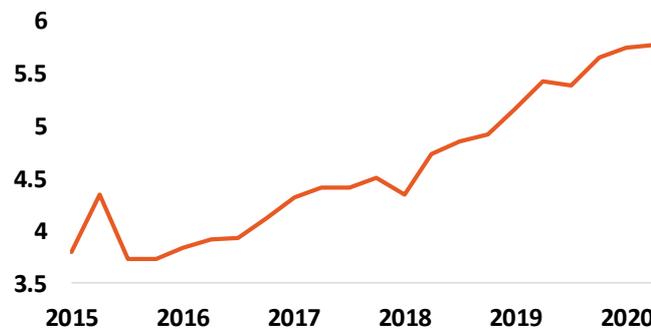
Source: ICE Futures

Oil Brent (USD / bbl)



Source: ICE Futures

Ghana currency vs USD



Source: Ghana Statistical Services

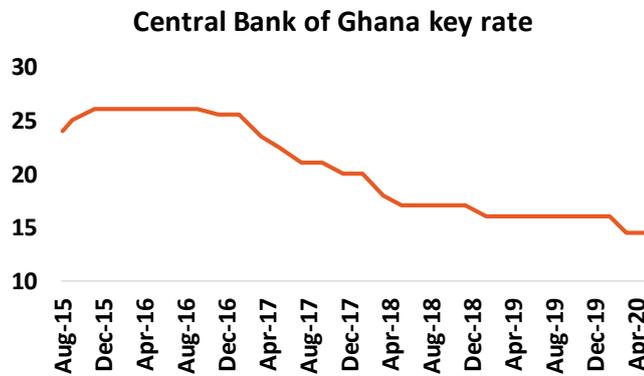
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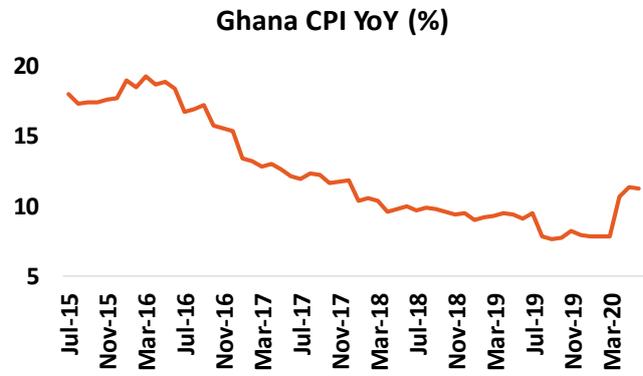
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▲ **Ghana's Central Bank**

Central bank targets inflation between 6% to 10%, and accordingly, has been decreasing its key interest rate since 2016 in line with the decrease in inflation.



Source: Central Bank of Ghana



Source: Ghana Statistical Services

March 18th decision:

- Cut key rate by 1.5% to 14%
- Provide liquidity to banks, by lowering reserve requirement from 10% to 8%
- Lower capital conservation buffer from 3% to 1.5% to increase bank lending
- Decrease provisioning requirements for some types of loans from 10% to 5%
- Increase limits of mobile transactions and waive fees for small transactions

▲ **Banking sector**

Clean up of banking sector: The country initiated in 2017 a clean-up of the sector after identifying several vulnerabilities, with a total cost of USD 2.1 bn. The vulnerabilities included under-provisioning and capital shortfalls. By 2019, of the total 36 banks, 9 were stripped of its licence, 3 mergers were approved, and other 16 banks secured the needed additional capital. Other 5 banks received cash injections from a group of private pension funds.

The top 3 banks in 2019 were Ghana Commercial Bank (locally owned) with around USD 1.9 bn of operating assets (12.1% of market share), followed by Togo-headquartered Ecobank (12%) and Absa Bank (formerly Barclays Bank of Ghana, with 10.9%).

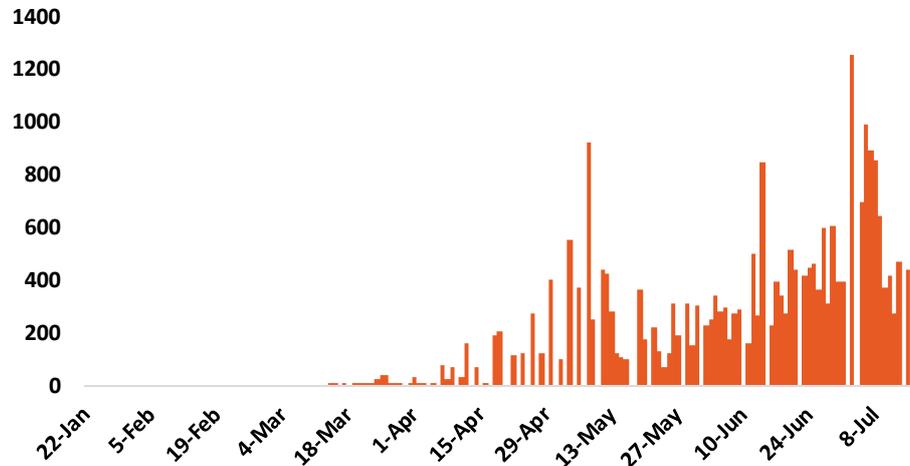
The average **Commercial bank lending rate** between June 2018 and June 2019, was **27.47%**. The high rate is related to the high risk premium charged due to the **high rate of NPLs**, around 14% at end of 2019. The NPLs rate was 17.3% as of October of 2019, but was decreased due to write-offs in several banks.

Account ownership is increasing having reached around 60% of adults in Ghana.

▲ **COVID-19**

Confirmed cases: 25,252 / Deaths: 139 / Recoveries: 21,397

Ghana covid-19 new daily cases



Source: Ghana Statistical Services

Main measures imposed by the government included partial lockdowns, reinforcement of healthcare system and an economic package.

Ghana’s Central Bank cut the key rate from 16% to 14.5% in March.

Covid-19 measures:

- March 16th: Suspension of public gatherings exceeding 25 people for 4 weeks, closure of all universities and schools; mandatory 14 day self quarantine for people returning from countries with more than 200 cases.
- **No testing without symptoms, except for close contacts.**
- **Reinforcement of healthcare** system with USD 100 million funded by World Bank
- March 23rd: **closure of borders to travelers.**
- March 30th: **USD 166 mn for support to SMEs**, employment, creation of guarantees and first loss instruments. Partial lockdown in major urban areas.
- Tax filing deadline was extended from April to June

Relaxation of measures too early?

On April the government decided to lift the 3-week partial lockdown (one of the first globally) and in June authorized social gatherings of 100 people for worship. It also authorized weddings, marketplaces and political activities.

The result is visible in the graph above, as the number of daily cases has spiked.

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▲ Problems in the energy sector

Due to lack of electricity supply in 2014, the government decided to improve infrastructure and signed contracts with multiple independent power producers (IPP) to provide power using “take or pay” power purchase agreements (PPAs), through the state owned energy companies and the Ministry of Energy.

However due to uncoordinated efforts by several government agencies, the generating capacity contracted was almost double of the peak of demand. Due to lack of infrastructure, the government is unable to export the excess power generated.

In 2019, the amounts due to SOEs and IPPs due to excess capacity and consumed capacity amounted to USD 1 bn. The government was required to guarantee the payments of SOEs to IPPs in case these companies did not have the necessary funds.

So, in conclusion, and according to government estimates, if there is no action to address the financial impact of these contracts, the accumulated cost to the government would increase to USD 12.5 bn (around 25% of GDP) by 2023.

The government created a Energy Sector recovery Task Force to tackle this issue with the World Bank and the IMF estimated that if it was successful the cost could be only 1% of GDP per year. However these estimates were based on assumptions of oil price (before the recent fall in prices) and electricity demand growth.

▲ Sources

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