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NKC AFRICAN ECONOMICS

AN OXFORD ECONOMICS COMPANY

# Country Annual Profile Ghana


## Analysts

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**Double demand shock to drag economic growth down to four-decade low**

**Fiscal deficit to balloon as revenues tank, while government tries to save the economy**

- **Ghana is set to be hit hard, from both a health and economic perspective, by the Covid-19 pandemic and oil price shock. According to statistics from the Johns Hopkins University on April 23, the country registered 1,154 cases of Covid-19 and nine fatalities, which currently makes it the country with the most cases in West Africa. The double demand shock will hurt the local economy through various channels.**
- At this point in time the economic impact would be severe, with real economic growth expected to slow to a four-decade low of -0.9% this year. The local partial lockdown that lasted for three weeks would dampen local production as activity grinds to a near halt for a period of time. Moreover, the oil price plunge will create a further drag on economic activity.
- We expect the current account deficit to widen to $3.4bn (5.4% of GDP) this year, from an estimated $1.7bn (2.5% of GDP) last year. Given the lack of global demand, the disruptions in global supply chains, and travel restrictions, we expect the trade and services accounts to be hardest hit in 2020. Although gold prices continue to rise, it will do little to soften the blow, as demand remains weak.
- Previously, we highlighted that fiscal slippages in the election year remain our biggest concern; however, recent global events and the spillover effects thereof to the local economy dwarf those concerns. We now project the fiscal deficit to widen to 8.4% of GDP this year, from a previous forecast of 4.9% of GDP.

**Key Assumptions / Forecasts**

| | | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|
| Nominal GDP | $bn | 65.53 | 66.28 | 62.58 | 67.28 | 74.08 | 80.74 |
| Nominal GDP per capita | $ | 2,201.22 | 2,178.52 | 2,013.88 | 2,119.86 | 2,286.03 | 2,441.08 |
| Real GDP growth | % year | 6.26 | 5.79 | -0.90 | 8.21 | 6.85 | 4.76 |
| CPI inflation | % | 9.84 | 8.67 | 7.30 | 8.62 | 8.50 | 8.42 |
| LCU/$ | Average | 4.59 | 5.22 | 5.89 | 6.45 | 6.79 | 7.08 |
| Exports | $bn | 14.94 | 15.63 | 11.03 | 14.69 | 17.54 | 18.87 |
| Imports | $bn | 13.13 | 13.34 | 9.53 | 12.97 | 15.56 | 16.97 |
| Current account | $bn | -2.04 | -1.68 | -3.36 | -3.27 | -2.58 | -2.83 |
| Current account | % of GDP | -3.12 | -2.54 | -5.38 | -4.86 | -3.48 | -3.50 |
| FDI | % of GDP | 4.44 | 3.99 | 3.28 | 4.08 | 3.81 | 3.60 |
| External debt | % of GDP | 35.58 | 37.95 | 43.91 | 43.67 | 42.25 | 41.11 |
| Reserves | $bn | 5.77 | 6.98 | 5.32 | 4.87 | 5.23 | 5.58 |
| Import cover | Months | 2.98 | 3.31 | 3.19 | 2.33 | 2.20 | 2.20 |
| Government balance | % of GDP | -3.80 | -4.46 | -8.38 | -6.35 | -4.59 | -4.63 |
| Government debt | % of GDP | 59.29 | 62.61 | 71.57 | 70.60 | 66.59 | 63.23 |
| Brent Crude oil | US$/bbl | 71.1 | 64.4 | 29.9 | 35.2 | 44.9 | 49.7 |


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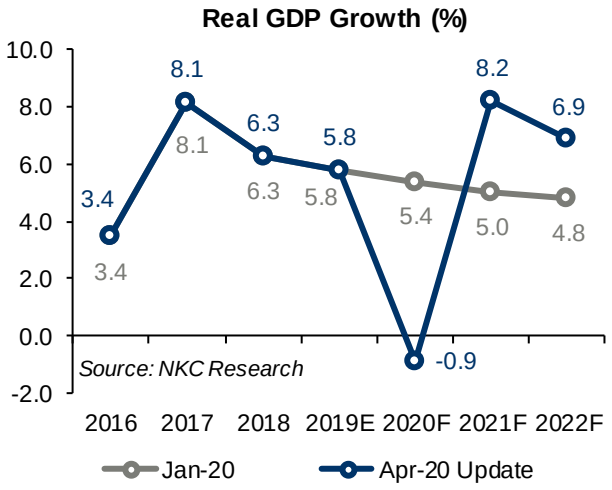
## Economic impact of Covid-19 and oil price shock

**Economy to contract as the local lockdown and the slump in trade and tourism hurt the economy**

At this moment, the economic impact would be severe with **real economic growth expected to slow to a four-decade low of -0.9% this year**. The country would be hurt the most via the trade channel, as Ghana's five biggest exporting destinations went into lockdown mode for an extended period, thus affecting local production significantly. It should be noted that we expect manufacturing to take more of a hit than oil and gold production during this period. In addition, the local partial lockdown that lasted for three weeks would further dampen local production as activity grinds to a near halt for a period of time. Moreover, the oil price war between Saudi Arabia and Russia, coupled with a lack of demand during the Covid-19 pandemic, led to a plunge in international oil prices, which will create a further drag on economic activity. Mineral fuel exports, the second-biggest exporting category, are expected to take a severe knock this year as a drop in demand and prices is set to hurt exports and production and weigh on economic growth.

Although tourism's contribution to GDP is relatively low compared to other African countries, the imposed global travel restrictions are set to further hurt the economy. From a fiscal perspective, the government has limited fiscal space, as government debt has already reached elevated levels and the fiscal deficit was forecast to come in just below the 5% of GDP ceiling before Covid-19 struck. Nonetheless, given the recently announced fiscal stimulus measures, we expect the fiscal deficit to rise well above the 5% of GDP ceiling, while the government debt-to-GDP ratio is expected to increase further. Lastly, taking the aforementioned developments into account, we project unemployment to increase considerably this year, along with a big fall in FDI and reserves.

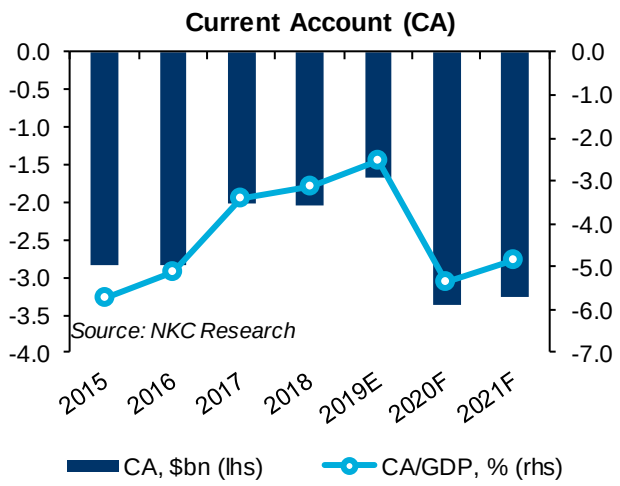



Real GDP growth slowed from 5.7% y-o-y in Q2 to 5.6% y-o-y in Q3. Soft numbers indicate that growth accelerated in Q4. Nonetheless, the Covid-19 pandemic and oil price plunge have prompted us to lower our forecast for this year to a near four-decade low of -0.9%.

## Current account deficit to widen significantly

**Trade and services accounts to deteriorate as goods and services exports fall**

Our outlook for the current account changed considerably over the past three months. After accounting for the effect of the Covid-19 pandemic and the oil price plunge, **we now expect the current account deficit to widen to $3.4bn (5.4% of GDP) this year,** from an estimated $1.7bn (2.5% of GDP) last year. Given the lack of global demand, the disruptions in global supply chains, and travel restrictions, we expect the trade and services accounts to be hardest hit in 2020. Although gold prices continue to rise, it will do little to soften the blow, as demand remains weak. The income account will feel some reprieve as the lower production and price environment will lead to lower profit expatriation.

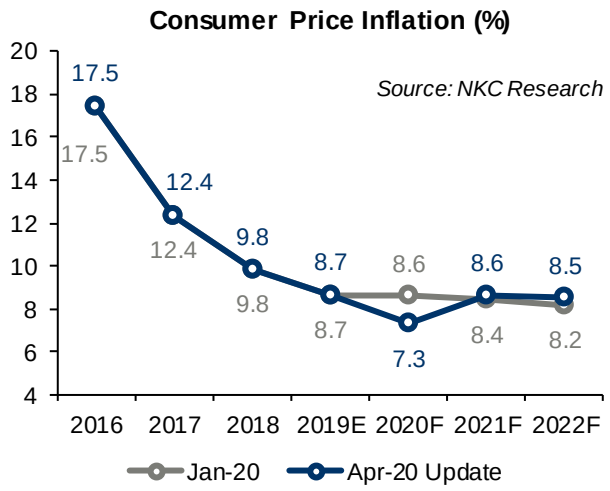



The current account deficit is estimated to have narrowed last year on the back of stronger export growth. The forecast for this year, however, now indicates that the current account deficit could widen substantially as services and goods exports fall considerably.

## Inflation to trend lower as demand drops

**Lower demand to drive inflation lower, while the central bank acts aggressively**

Consumer price pressures are set for some reprieve as demand weakens. The cedi, like most emerging and developing currencies, came under pressure amid the global financial meltdown. Although the cedi started depreciating, the plunge in international oil prices will outweigh the currency effect and as a result, **we expect inflation to trend even lower to 7.3% over the short term**. The expected lower oil revenues will force local authorities to curb expenditure somewhat, which will put further downward pressure on the inflation environment. The Bank of Ghana (BoG)'s substantial policy rate cut (-150 bps) in March is justified when considering the likely impact of Covid-19 and the drop in oil prices.




Risks to the inflation environment remain tilted towards the upside, driven by a weaker local unit in recent months and fiscal pressures. However, dampened demand as a result of the Covid-19 pandemic would offer some reprieve to inflation this year.

## Fiscal deficit to balloon as revenues tank

**Partial lockdown, dip in profits, and job losses to result in severe drop in fiscal revenues**

The fiscal account outlook differs considerably from the one presented in our earlier publication. We previously highlighted that fiscal slippages in the election year remain our biggest concern; though, recent global events and the spillover effects thereof to the local economy dwarf those concerns. **We now project the fiscal deficit to widen to 8.4% of GDP this year**, from a previous forecast of 4.9% of GDP. While we do not expect expenditure to fall by much as government introduces fiscal stimulus measures to save the economy, we do project that fiscal revenues will fall significantly this year. The fall in commodity prices and subsequent drop in profits, the extended period of lockdown, the job losses, and so forth would all lead to much lower personal and business income tax collection.

# Economic & Political Risk Update

**Ghana's overall risk score has deteriorated over the past quarter**, which was to be expected, after we incorporated both the Covid-19 pandemic and oil price shocks into our forecasts.

**Economic policy risk** remains unchanged, as we see the effects of the double demand shock on both monetary and fiscal policy to be temporary. From a monetary perspective, we expect inflation to move lower due to the lack of demand and the much lower oil price environment in the short term. However, from next year onwards, we expect to see inflation rise again as demand and oil prices pick up again. On the fiscal policy side, we project a substantial widening of the fiscal deficit this year as revenues collapse and the government introduces fiscal stimulus measures to safeguard the economy. Nonetheless, we forecast that the fiscal deficit would return to baseline in the medium term.

**Structure risk** has deteriorated over the past three months, mostly driven by a worsened economic growth outlook over the short term. The partial lockdown that the country endured for three weeks, coupled with the spillover effects from the Covid-19 pandemic and oil price plunge, has prompted us to lower the country's economic growth forecast to the lowest rate in almost four decades. We expect the slump in growth to have a more prolonged effect. **Liquidity risk** moved sideways over the past quarter.

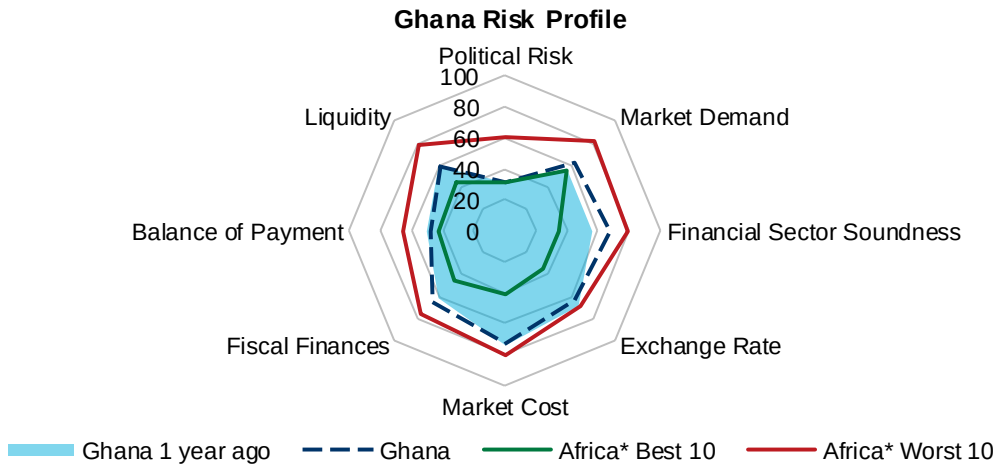
Over the short term, **political risk** stems from the challenges posed by the Covid-19 pandemic and the intensification of political rhetoric ahead of the December polls. Mr Akufo-Addo and the ruling NPP are expected to return for new terms, possibly with an increased majority, and whatever political instability develops over the election period is unlikely to last beyond it**.** .

## Key strengths:

- Strong medium-term growth prospects
- Attracts substantial levels of FDI
- Stable political environment and consolidated democracy.

## Key weaknesses:

- Prone to fiscal slippages, especially during election years
- Years of fiscal mismanagement have contributed to elevated debt levels
- Reliance on external portfolio inflows to help fund the current account deficit
- High government and external debt levels
- Malfunctioning SOEs draining the fiscus and putting the economy at risk.




* Refers to all other African economies covered by NKC

For a more in-depth explanation of the various risk measures, please see our measurement **methodology.**

# Economic Risk Comparison

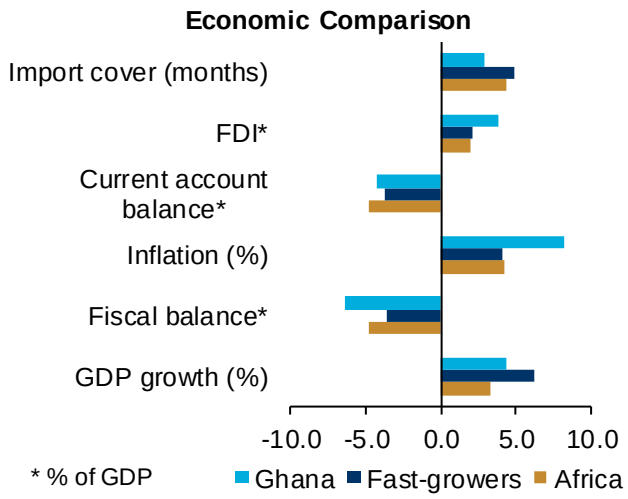
## Peer comparison

Normally, we would compare Ghana's performance on six macroeconomic indicators to the median performance of four of the continent's fastest-growing economies; however, given the fact that we are in the process of updating all our forecasts due to the impact of Covid-19, a comparison with the peer countries would not be accurate. Nonetheless, for this round we focus on Ghana's strengths and weaknesses when compared to its peers.

**On the negative end of the spectrum**, Ghana underperforms relative to both the African and fastest-growing peer medians in the consumer price inflation, fiscal balances, and external liquidity categories. The country's most salient weakness remains its fiscal balance and the subsequent public debt ratios. **On the positive end**, Ghana usually outperforms both the fastest-growing peer median and the African median in both the current account and foreign investment indicators. **Presenting a more mixed performance**, Ghana's median economic growth rate over the medium term tends to be higher than that of the other countries on the continent, but when compared to the median of only the fastest-growing African peers, the country underperforms.

## Credit rating developments

**Fitch Ratings** affirmed Ghana's sovereign credit rating at B/stable on April 21. In general, the agency stated that the affirmation of the rating reflects its view that the Ghanaian economy would make a swift recovery after the Covid-19 pandemic shock, and given the fiscal and external financing options available to the country. **Moody's Investors Service** (Moody's) affirmed Ghana's sovereign credit rating at B3 on April 17, but the outlook on the rating was changed to negative from positive. The ratings agency decided to skip a step and not change the outlook back to stable after it previously changed the outlook from stable to positive in January 2020. Moody's noted that the decision to revise the outlook to negative stems from rising risks, mostly emanating from the recent Covid-19 outbreak and risks related to the country's funding and debt service. **S&P Global Ratings** (S&P) affirmed Ghana's sovereign credit rating at B/stable on March 13. On April 9, the ratings agency said that the "*outlook for sub-Saharan Africa is grim with few policy tools amid the Covid-19 pandemic*".




**Ghana & Peers Graph**

In the accompanying graph above, we compare the individual performance of Ghana on six macroeconomic indicators, using averages for the 2019-21 period, against the median of some of the fastest growing economies on the continent. We also compare Ghana's performance to the median of all other 28 countries covered by NKC across the continent to show how Ghana measures up in an African context.

Fast-growing Peers: Côte d'Ivoire, Ethiopia, Kenya, and Tanzania.

**Rating Agencies**

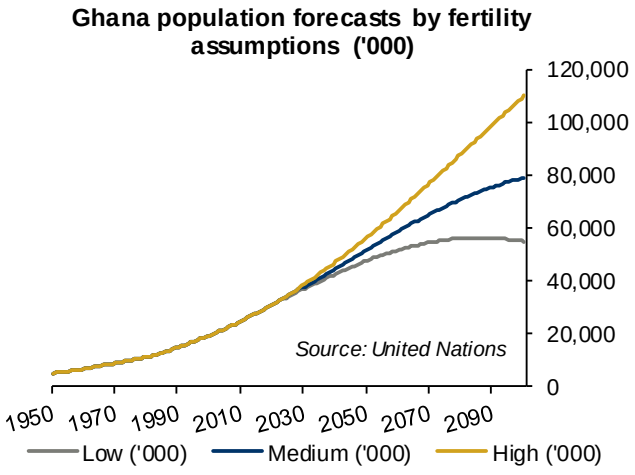
| S&P | Moody's | Fitch |
|---|---|---|
| B | B3 | B |
| Stable | Negative | Stable |

**Note:** The international ratings agencies provide an assessment of sovereign credit risk, indicating a government's willingness and ability to repay its debts. NKC, in turn, focuses exclusively on elements of economic and political risk, not sovereign risk.

# Demographics

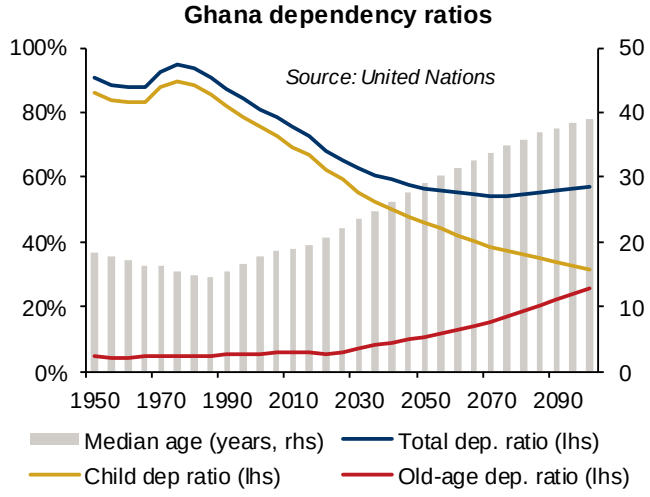
## Population

Ghana's population was estimated at just over 30 million in 2019 and is projected to reach 52 million by 2050 – an average annual growth rate of 1.8% p.a. according to the UN's medium fertility assumption. Meanwhile, the country's total dependency ratio (ratio of the non-economically active population aged 0-14 and over 65 to the economically active population aged 15-64) will continue to decline well into the century. This raises the possibility of the country benefiting from a demographic dividend in which lower dependency ratios boost disposable incomes, which in turn stimulate economic activity, assuming adequate employment opportunities are created. Ghana's urban population has increased significantly over the past few decades. It is estimated that nearly 15 million people resided in urban areas in 2015 (54% of the population) and this number is expected to reach 37.5 million by 2050 (73%).

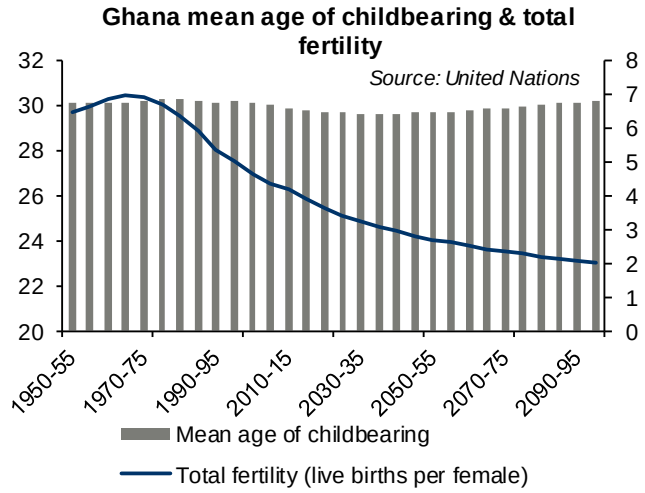



## Poverty, inequality, and unemployment

The IMF noted in December that while Ghana has made impressive development gains in recent decades, poverty reduction has slowed down since 2012 while inequality has widened. To accelerate the diversification of the economy and to address poverty and inequality, the authorities have launched the "Ghana beyond Aid" reform agenda. The northern regions of Ghana experience higher levels of unemployment and poverty, with weaker access to basic services and infrastructure than more urban regions near the Accra-Kumasi-Takoradi triangle. In terms of education, both regional disparities and social class determine the quality of education received. Regarding the latter, wealthier Ghanaians can afford to send their children to private schools, given that public schools are often resource poor.

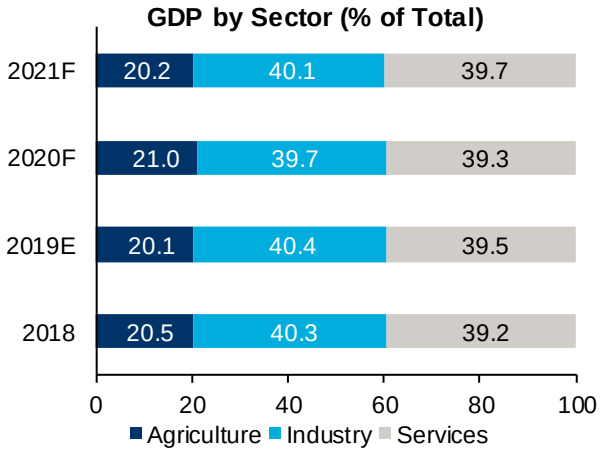



According to the UN, Ghana ranked 142nd out of 189 countries in the 2019 Human Development Index, which places it in the medium human-development category. The index considers life expectancy at birth, GNI per capita, and literacy. Ghana's performance is weaker than countries such as Mauritius (66th), South Africa (113th), and even Gabon (115th), but better than Kenya (147th), Angola (149th), and Nigeria (158th). Unemployment remains a problem due to inadequate job creation, poor access to and quality of education, and skills ill-suited to market demand.



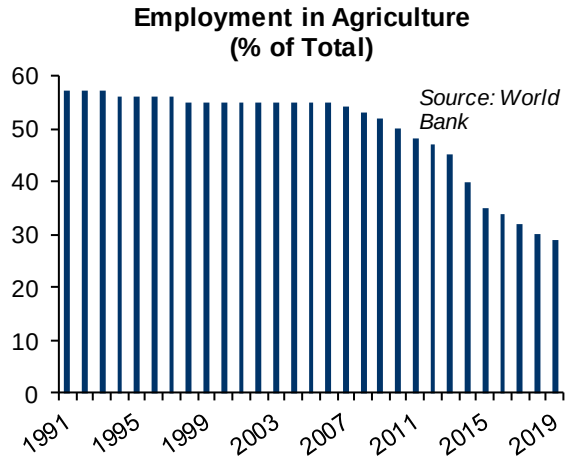
# Economic Structure

The Ghanaian economy's recovery from the devastating economic effects of the Covid-19 virus pandemic will be difficult. Unlike economies of the Western world which have the economic capacity to rebound in a relatively shorter time, African economies, such as Ghana, are expected to struggle with recovery over a protracted period of time. The Covid-19 disease has adversely affected the entire economy, which has forced the government to seek a $1bn interest-free loan facility from the IMF to address fiscal and balance of payment issues during 2020. What makes matters worse is that the Ghanaian government's ability to offer buffers against the adverse effects of the Covid-19 pandemic is severely constrained, since its current debt levels offer little room for the fiscal stimulus that will be needed.

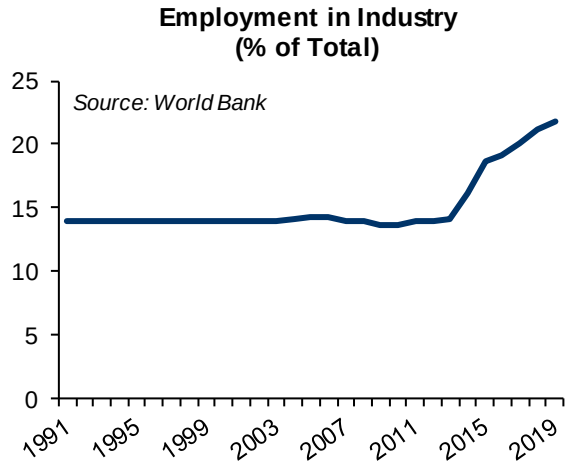


*Source: NKC Research*

Agriculture has long been vital to the economy of Ghana, providing a livelihood for a large portion of the population and contributing an estimated 20.1% to real gross value added (GVA) in 2019. Cocoa represents the country's most important agricultural commodity. As with almost all facets of the Ghanaian economy, the cocoa industry has been hard hit by the Covid-19 pandemic. The dramatic drop in international cocoa demand and poor weather conditions during 2020 will greatly impact the agricultural sector.




Since the industrial sector has increased in importance following the start of oil production – this industry's GVA is equal to 40.4% – Ghana may be quite exposed to the recent substantial decline in international oil prices. That said, the uptick in the gold price owing to the yellow metal's safe-haven appeal during the Covid-19 pandemic will offer some reprieve against the adverse oil price shock. Since gold and crude oil remain two of Ghana's most salient export commodities, the country's external balances are especially vulnerable to fluctuations in the prices of these commodities.

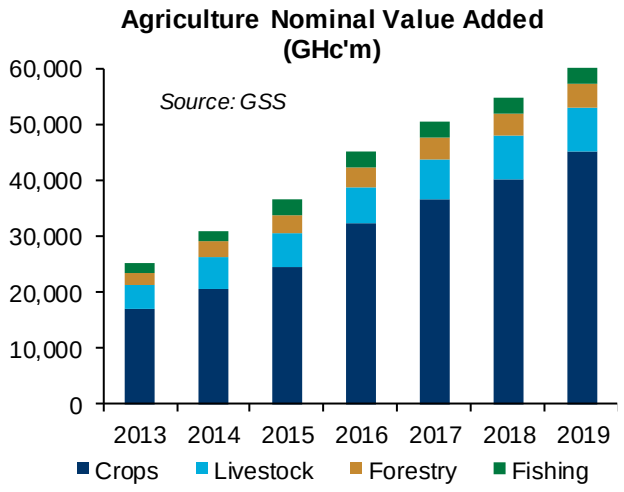



The services sector will likewise take significant strain during the current lockdown period that is in effect. Ghana's business and leisure tourism industry has become quite a boon to the economy in recent years, but dramatically reduced international travel will stunt the sector's growth during 2020. The government's Covid-19 alleviation plan, which was approved in early April by Parliament, will buffer businesses to some extent but will definitely place significant pressure on an already strained fiscal purse.

# Agriculture

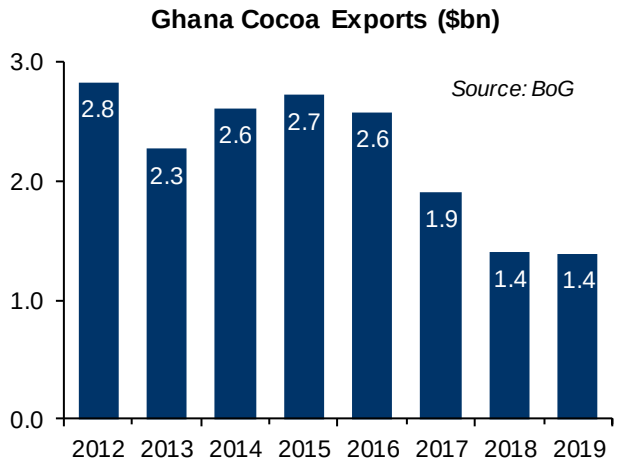
In the past, the agricultural sector formed the backbone of the Ghanaian economy following the country's independence, with the OECD reporting that agriculture's share of GDP peaked at around 60% in the late 1970s before dropping down to about 40% in the 1990s. In 2019, the sector accounted for only 20.1% of nominal GDP, but it is still responsible for providing both formal and informal employment to a large part of the population.

The coastal belt is the main destination for Ghana's fishing industry as well as a large proportion of small-scale farming. A third of the country is covered by the forest zone which forms the heartbeat of the agricultural industry. This is where cocoa beans are produced for exports, as well as rubber, sugar cane, palm oil, and food for local consumption. Furthermore, the northern savannah is more suitable for livestock farming, along with other crops such as yams, rice, and millet.

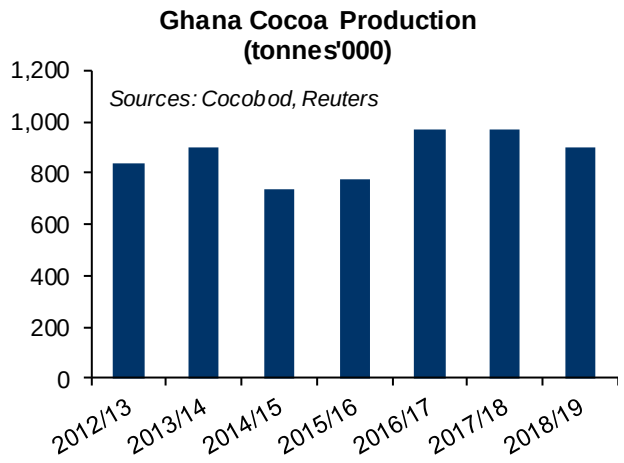



## Coronavirus devastates cocoa market

Dark days lie ahead for Ghana's cocoa industry, as the coronavirus pandemic has not only led to a plunge in cocoa prices on the world market but also stalled the current syndication process for loan facilities for the 2020/21 crop season. The fall in cocoa prices has so far caused the country $1bn in revenue losses, with many local farmers fearing for the worst should the pandemic persist. Ghana's cocoa sector employs some 800,000 rural families and produces crops worth about $2bn in foreign exchange annually. As a result of the ravaging effects of the Covid-19 pandemic on economies the world over, the Ghanaian Cocoa Board has expressed fears that the near future of small-holder cocoa farmers could be bleak.



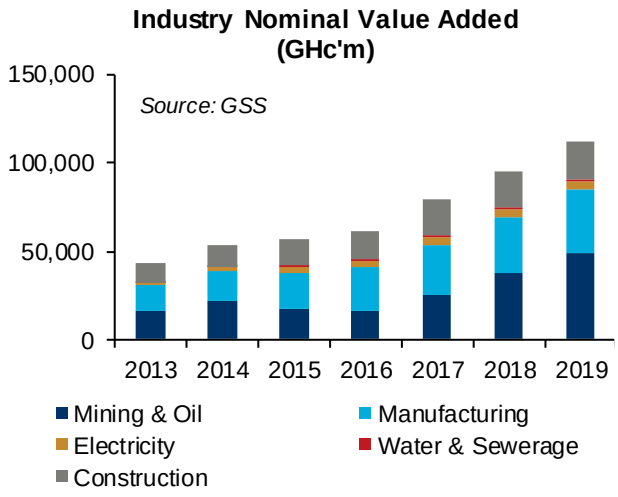

Ghana produced roughly 900,000 tonnes of cocoa during the 2017/18 season, down from around 970,000 tonnes the previous season. Production then declined to about 815,000 tonnes in 2018/19. The continued decline in cocoa production over the past two seasons has been ascribed to a combination between swollen shoot disease, higher average temperatures, and strong Harmattan winds. The International Coffee and Cocoa Organisation (ICCO) estimates that the 2019/20 cocoa crop will come in at around 875,000 tonnes. According to the BoG, cocoa exports remained stable at $1.4bn in 2019 despite the decline in cocoa output in 2018/19.



# Industry

## Overview

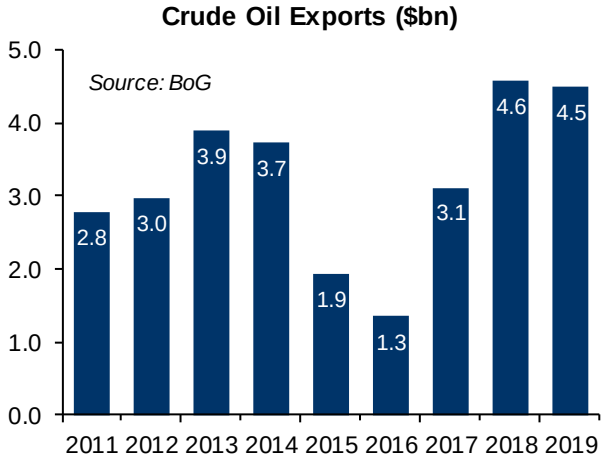
The industrial sector's contribution to Ghana's nominal GDP increased significantly after oil production commenced at the end of 2010. Nevertheless, the sector's contribution to GDP declined during 2014-16 due to lower global oil prices and disruptions to domestic oil output. The rebound in crude oil production and prices in 2017 helped push the industry's contribution to nominal GDP higher in that year.




## Hydrocarbons

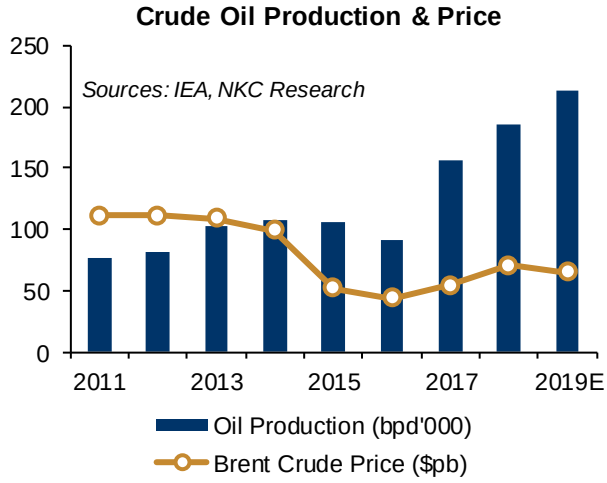
Ghana discovered its first large-scale, commercially viable oil field in June 2007. A string of discoveries in the Jubilee offshore field from 2007 onwards resulted in a total reserve estimate of around 1.5 billion barrels, with a potential upside of two billion barrels – it must be highlighted that the Energy Information Administration (EIA) puts this figure at only 0.7 billion barrels in 2018.

In addition to the fall in oil prices, coupled with the Covid-19 pandemic, Ghanaian oil production activity is expected to see delays as Tullow Oil revises its production targets and terminates the drilling contract with Maersk Drilling for the Maersk Venturer drillship offshore from Ghana. Ghanaian authorities initially estimated a benchmark crude oil price of $58.66pb until the end of 2020, but at current levels of below $30pb, Ghana's projected oil revenue is set to take a major hit. If prices should stay around the $30pb mark, then the Ghanaian government is likely to get less than half of its projected revenues. Overall, Ghana's oil exports decreased slightly from $4.6bn in 2018 to around $4.5bn in 2019.




## Unfavourable gas financing increasing fiscal pressure

The country's offshore gas is rapidly becoming a fiscal burden amid its debt crisis. In particular, the adverse impact of a flagship public-private partnership (PPP) supported by the World Bank in Ghana, the Sankofa offshore gas project — which is backed by a total of $1.2bn in guarantees and debt financing — has become an increasing fiscal burden. In 2019, the Ghanaian government's bill for "*unused gas*", owing to a "*take or pay*" clause in the Sankofa contract, amounted to $250m due to a combination of lack of demand and delays in building the associated infrastructure needed to export Sankofa's gas.



## Gold still shines

Gold is Ghana's most important mineral and its biggest export earner, with the commodity accounting for roughly 40% of Ghana's total goods export receipts in 2019. Ghana's gold reserves lie in the Ashanti region, which has large deposits that are mined, and in the western and central regions, where the mining is largely alluvial. The US Geological Survey (USGS) estimates that Ghana could claim having had roughly 1,000 tonnes of gold reserves in 2019. According to the USGS, Ghana was the seventh-largest gold producer in the world in 2019 and accounted for 4% of global production.

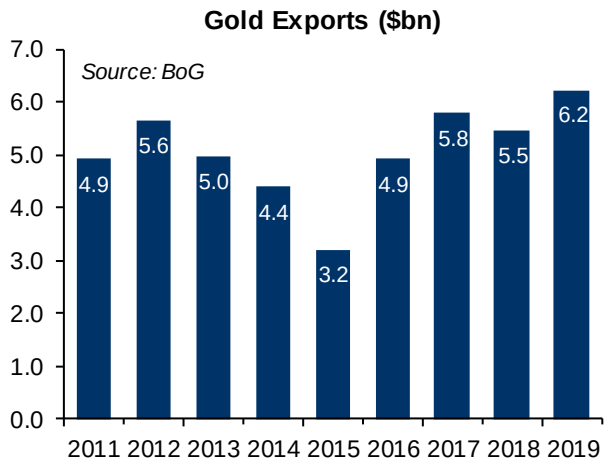
Gold prices have surpassed the $1,700/oz mark – a seven-year high – in recent weeks and a fresh wave of the global risk-aversion trade in a time of uncertainty has been a key factor that underpins gold's safe-haven appeal. This, along with recent US dollar weakness, puts gold in the spotlight and creates ample opportunities for investors to get in on gold stocks at a discount. These market conditions will be ideal for major gold producers in Ghana.

## Covid-19 threatens artisanal mining

As Covid-19 creates a local gold glut, artisanal miners are dropping prices by as much as 40%. Border restrictions and flight cancellations have created gold gluts in local markets, depressing prices for small-scale miners even as global prices are pushed back towards seven-year highs by investors piling into bullion as a safe-haven asset. Exporters in Ghana are stockpiling their gold in vaults at Accra's airport as they wait for flights to resume.

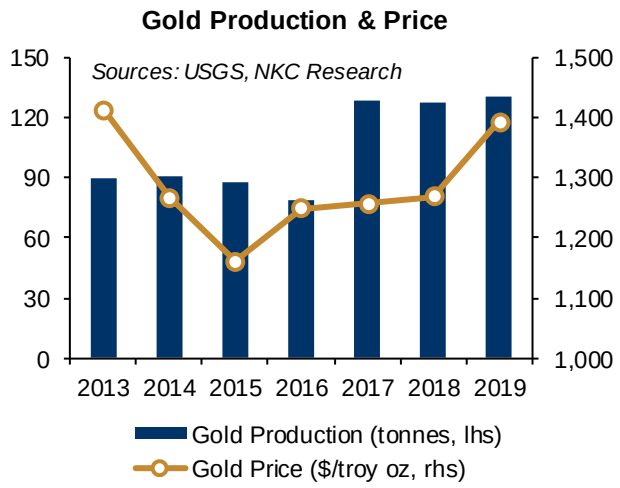
## Gold exports rise on the back of higher international prices

According to the central bank's estimates, gold exports increased from $5.5bn in 2018 to $6.2bn in 2019. This uptick in exports of the yellow metal came on the back of an increase in international prices – from an average of $1,269/oz in 2018 to an average of $1,392/oz in 2019. In addition, the USGS estimates that output rose from 127 tonnes in 2018 to 130 tonnes in 2019. More recently, the Asanko Gold Mine announced that it has generated an amount of $105m from gold sales of 67,820 ounces at an average realised price of $1,542/oz during 2020 Q1. The Asanko Gold Mine had its best quarter since commercial production began four years ago.




### Perseus Mining donates to COVID-19 fight

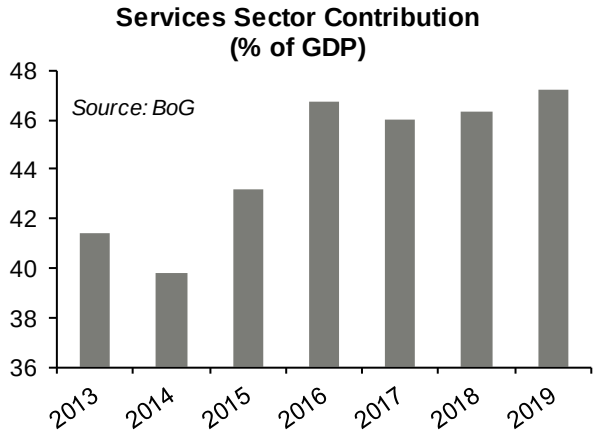
Perseus Mining Limited has donated a total of $387,500, including both cash and goods, to assist its host governments and host communities in Ghana and Côte d'Ivoire in their efforts to fight the spread of COVID - 19 in West Africa. As of April 6, 2020, there continues to be no cases of COVID-19 infection reported by any of Perseus's employees or contractors operating at its Edikan and Sissingué gold mines, or at the Yaouré gold mine construction site. This also extends to the residents of host communities located adjacent to those operations.



# Services

## Overview

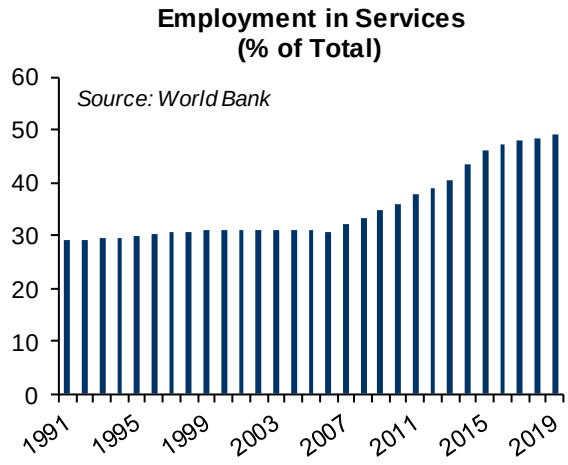
Ghana's services sector contributed an estimated 40% to GDP in 2019. The sector is fairly diversified, with some of the key subsectors being banking & insurance, trade, hotels & restaurants, tourism, transport, and telecommunications. The decline in domestic purchasing power, which necessitated a tight monetary policy response, has however capped the sector's potential. Still, disinflation and a gradual loosening of monetary policy should support a rebound in services sector activity moving forward.




## Tourism

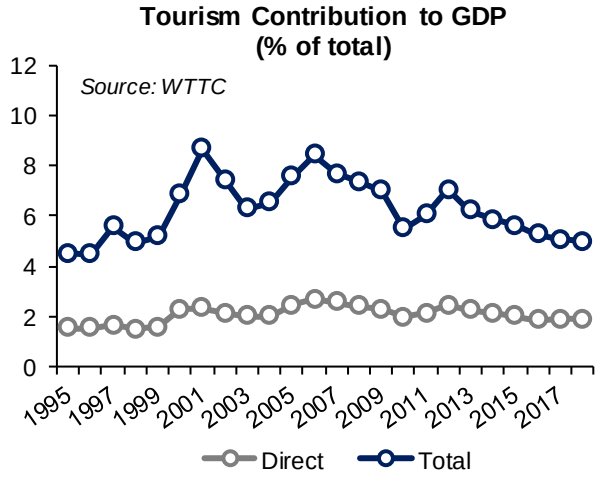
Ghana's lush and unspoiled coastline, diverse cultural and historical heritage, and a generally welcoming people are some of the main attributes making the country an attractive African tourist destination. That said, much of these resources remain untapped by foreign visitors, many of whom come to the country to investigate business opportunities.

According to the World Travel & Tourism Council (WTTC), the direct contribution of travel and tourism to Ghana's GDP amounted to around 1.9% in 2019. The industry's direct contribution to GDP has declined from around 2.5% in 2012 and an average of roughly 2.9% p.a. during the previous decade. This decline is more pronounced when including the indirect effects on economic activity – the industry's total contribution to GDP declined from 7.1% in 2012 to 5% in 2019. From an employment perspective, the sector directly supported an estimated 212,397 jobs in 2019, and around 623,066 jobs are directly or indirectly related to the sector.




## Covid-19 lockdown set to slow tourism sector expansion

The Ghana Tourism Authority (GTA) has indefinitely closed down all beaches in the country in the wake of the Covid-19 outbreak. This follows President Akufo-Addo's decision to ban all public gatherings as a measure to prevent the spread of the coronavirus – similar to many countries across the world. The ban affects schools, church services, mosque meetings, and even sporting activities in the country. As with many other nations, the Ghanaian tourism sector is bound to take a massive hit in 2020 as international travel numbers fall substantially.



## Telecommunications

According to *BuddeComm*, Ghana has one of the most robust mobile markets in Africa. At present, the major telecommunications operators active in the country include the regional heavyweights MTN Ghana, Vodafone Ghana, and AirtelTigo, formed from the merger of Airtel Ghana and Tigo Ghana.

Ghana's telecommunications market has benefited from the privatisation of the incumbent Ghana Telecom and its rebranding as Vodafone Ghana. The company is the principal fixed-line provider and also the third-largest player in the mobile services sector, after MTN and the recently merged AirtelTigo.

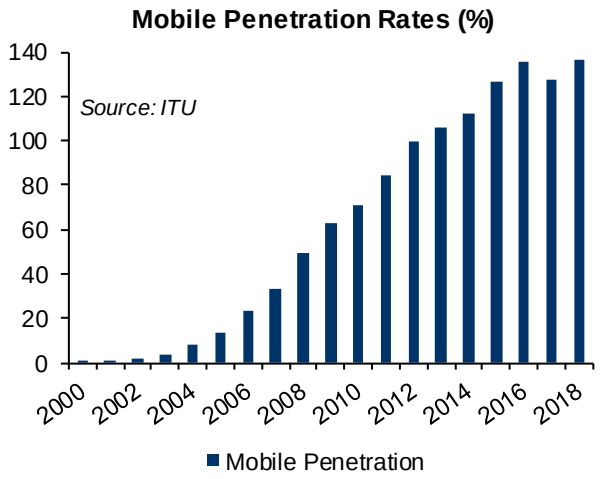
### 245,000 Ghanaians Benefit from MTN's Free Education Websites

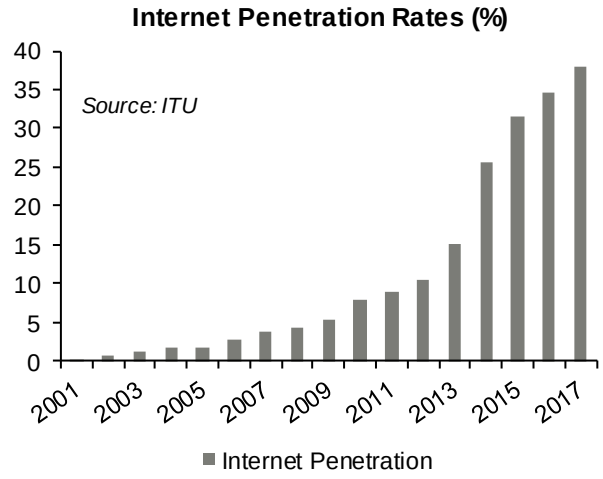
MTN Ghana, as part of its Y'ello Hope package to support the government's efforts to mitigate the impacts of COVID-19, is providing free Internet connectivity to over 100 educational sites for private and public school students across the country. In order to minimize the spread of COVID-19, the Government of Ghana closed down Universities, Senior High Schools and basic schools from 16 March 2020 until further notice. Over 15 tertiary institutions now have access to 62 websites whilst Senior High Schools and basic schools are benefiting from about 38 sites. In all, this package supports a total of over 245,134 customers.

## Internet penetration

Ghana's internet market is fiercely competitive, and though there is a large number of licensed internet service providers, most subscribers make use of a handful of service providers. In March 2019, Vodafone Ghana launched the first LTE services combined with an extension of the LTE-A functionality by MTN Ghana, which has greatly improved the quality of mobile data services for end-users.

Ghana's telecommunications sector has enjoyed robust growth over the past decade, with the percentage of individuals using the internet increasing from 7.8% in 2010 to 39% in 2017 (the most recent year for which data is available). In turn, Ghana's mobile penetration rate has grown from 70.3% in 2010 to 137.5% in 2018. This high level of mobile penetration has made the country a prime market for reaching the unbanked through m-banking.



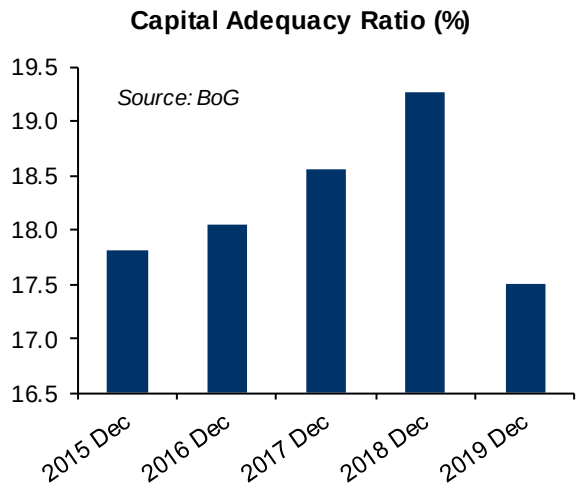

## Private sector assists with online learning

MTN Ghana is providing free internet connectivity to over 100 educational sites for private and public school students across Ghana. The initiative forms part of the company's effort to support the government's moves to mitigate the impact of the Covid-19 pandemic. MTN's free educational websites package would support a total of 245,134 Ghanaian customers. This drive is largely in line with many telecommunications companies in other countries in Africa and in the world that have come to the aid of educational institutions that have been closed as a result of national government lockdowns.

# Finance & Banking

## Reform and recapitalisation

As part of a reform programme to bolster the stability of the Ghanaian banking sector, the BoG embarked on a recapitalisation exercise which saw the licences of seven insolvent banks being revoked. After the recapitalisation exercise ended on 31 December 2018, a review of the outcome in early January 2019 showed that a total of 23 banks met the minimum capital requirement, comprising 14 foreign-controlled banks and nine domestically controlled banks. The reforms contributed to a more consolidated banking sector that would be better positioned to ward off future risks, but the process required government intervention which pushed public debt levels markedly higher.

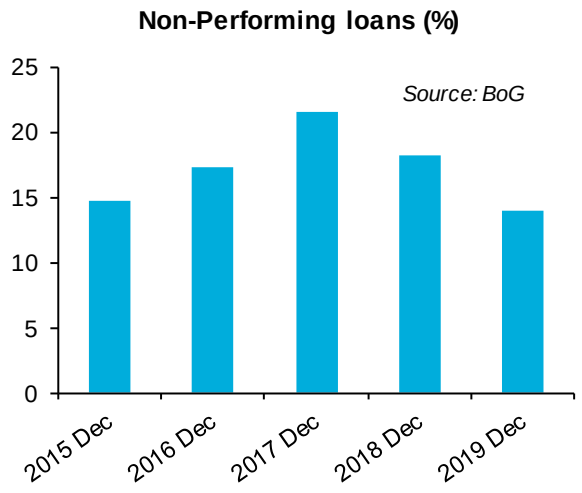



## Financial soundness and challenges

Although the recapitalisation exercise scaled down the number of banks to 23 in December 2018 from 33 in December 2016, the industry's balance sheet indicators pointed to stronger performance in key indicators. There has also been a strong rebound in credit growth since the reforms took effect. Nevertheless, the IMF notes that access to credit remains a bottleneck, with private sector credit remaining around 12% of GDP since 2015, which is low compared to the SSA median of 16% of GDP. In terms of asset quality, BoG data shows that the NPL ratio declined to 13.9% in December 2019 from 17.3% in October 2019 on the back of recoveries and write-offs, as well as the strong pickup in total credit. This is the lowest-recorded ratio in at least five years. Also, the sector remains solvent with a capital adequacy ratio (CAR) of 17.5% as at end-December 2019, well above the statutory minimum of 10.0%. While the IMF noted that banking sector performance was improving, it highlighted that the performance of non-banking institutions was mixed, with persistent underwriting losses for the insurance industry and signs of distress for fund managers. Following license revocation of more than 400 specialised deposit-taking institutions (SDIs) between May and August 2019, upfront reimbursement of small depositors is ongoing. The Fund estimated SDI reimbursement costs at 0.6% of GDP, on top of 3.3% of GDP for the banking sector clean-up. Overall, we expect 2020 to be particularly challenging for Ghana's banking sector, as by April 8 we expected real GDP growth to slow to a four-decade low in 2020.

**Completing the Financial Sector Clean-Up**

The IMF made the following key points regarding the banking sector in December 2019:
1. Banking sector performance is improving as the supervisory and regulatory framework is tightened, but performance of non-banking institutions is mixed.
2. The authorities are forging ahead with the financial sector restructuring, but additional risks are materialising.
3. The BoG's balance sheet will need to be shielded from further losses and strengthened over time.
4. Access to credit remains a bottleneck to sustained economic growth.
5. Tighter supervision can help ensure durable improvements in financial sector governance.



# Economic Policy

## Policy responses to fight Covid-19 fallout

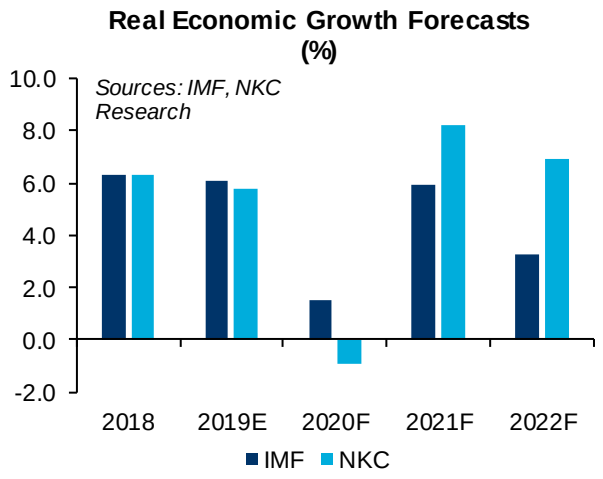
On April 13, the **IMF's** executive board approved a $1bn disbursement to Ghana to shield against the fallout of the Covid-19 pandemic.

From a **monetary policy** point of view, the central bank decided to reduce the main policy rate by 150 bps to 14.5% on March 18. Furthermore, the BoG also decided to implement the following measures:

- The primary reserve requirement (PRR) has been reduced to 8% from a previous 10%;
- The capital conservation buffer (CCB) is lowered to 1.5% from a previous 3.0%, which effectively reduces the CAR to 11.5%;
- The provisioning for loans in the "Other Loans Especially Mentioned" (OLEM) category is cut to 5% from a previous 10% for all banks and SDIs;
- Loan repayments for microfinance institutions that are past due for up to 30 days will be deemed 'current', which is also the case for all other SDIs.
- Lastly, the BoG has agreed with banks and mobile money operators on various other measures.

On the **fiscal policy** front, the Ghanaian government committed $100m to bolster preparedness and response efforts, and roughly $175m under its Coronavirus Alleviation Programme (CAP) to assist affected industries and households. Additional funds have been put aside for test kits, pharmaceuticals, equipment, and bed capacity. The aim of the CAP is to protect households and livelihoods; support micro, small and medium-sized businesses; minimise job losses; and source extra funding for the promotion of industries in an effort to enhance industrial output for local consumption and exports. Five relief measures being imposed by government to support Ghanaians comprise:

- No water bills for all Ghanaians for the months of April, May, and June;
- No taxes on emoluments for three months for all health workers, with additional allowances for frontline health workers;
- Free transportation for health workers;
- Free packaged food for up to 400,000 individuals and homes; and
- Government to roll out a soft loan scheme.




### Covid-19 Combat Measures

On March 16, the government announced the following measures as its first response to Covid-19: (a) suspension of all public gatherings exceeding 25 people for four weeks; (b) closure of all universities and schools until further notice; and (c) mandatory 14-day self-quarantine for a Ghanaian resident who has been to a country with at least 200 confirmed cases of Covid-19.
On March 23, authorities extended measures by closing its borders to travellers for two weeks.

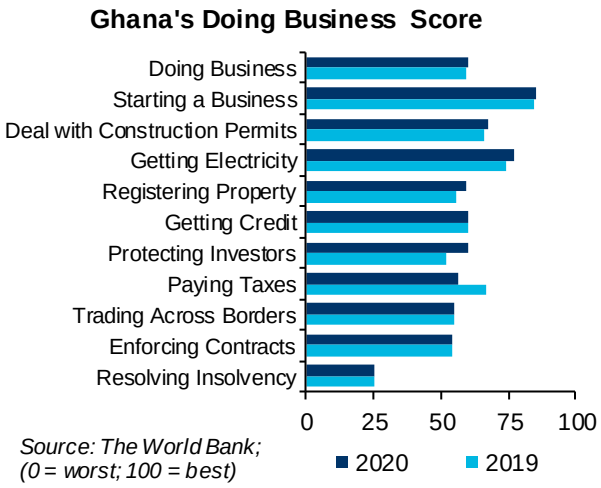
### Ghana Lockdown Measures

On March 30, President Nana Akufo-Addo announced a two-week partial lockdown of major urban areas, which commenced during the early hours of March 31. The partial lockdown only affects the cities of Accra (the capital), Kumasi, and Tema. Residents of these cities were ordered to stay at home for the two-week period and are only allowed to leave their homes for essentials like food, medicine, and water. The partial lockdown was extended by another week and ended on Sunday April 19.

# Business Environment

## Doing Business

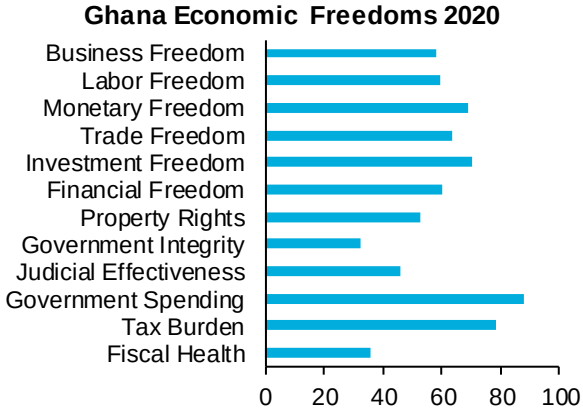
After making substantial improvements in the 2019 World Bank Doing Business Index, Ghana lost some momentum in 2020. Overall, Ghana's score deteriorated by 0.4 pt to 60 and its rank was recorded at 118th out of 190 countries worldwide. Ghana took small positive steps to improve the ease of doing business in five of the 10 categories. For example, the country made it quicker to get electricity "*by improving the review process and increasing the availability of equipment for new electricity connections*". At the other end of the spectrum, Ghana made paying taxes more complicated and more costly. Paying taxes, trading across borders, and resolving insolvency remain particularly cumbersome to business.




*Source: The World Bank; (0 = worst; 100 = best)*

## Economic freedom

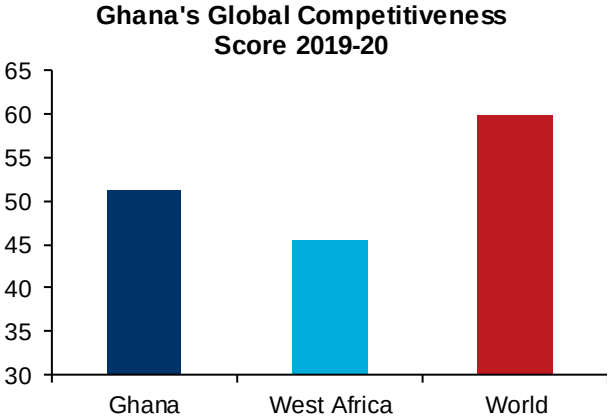
According to the Heritage Foundation, Ghana's overall economic freedom score of 59.4 in 2020 makes it the 104th freest economy out of 180 countries globally. Ghana's score improved by 1.9 ppt in the most recent index, aided by a better score for fiscal health. Ghana is ranked 11th among the 47 sub-Saharan Africa countries included in the sample. The think tank notes that although Ghana has found itself in the 'mostly unfree' category since 2017, it has made progress towards 'moderately free' for the past two years. For Ghana to improve on the further bolstering of its fiscal health is imperative, while improvements should be made to strengthen property rights, judicial effectiveness, and government integrity. On property rights, the Heritage Foundation highlights that "*the process for getting clear title over land is difficult, complicated, and lengthy*". Meanwhile, judges are poorly paid and therefore tempted to accept bribes, while scarce resources compromise and delay the judicial process.




*Source: The Heritage Foundation; (100 = free; 0 = repressed)*

## Competitiveness

The World Economic Forum's Global Competitiveness Index 2019 ranked Ghana 111th out of 141 countries – five positions weaker than in 2018, although the score only deteriorated mildly. Overall, Ghana's performance is seen as less competitive than the likes of Mauritius (52nd), South Africa (60th), Botswana (91st), and Namibia (94th), but more competitive than Senegal (114th), Uganda (115th), and Nigeria (116th). Ghana scored very well in terms of its institutions and market size, but weakly in macroeconomic stability, financial systems, infrastructure, and health.




*Source: World Economic Forum; (100 = max available score; 0 = min available score)*

# Economic Growth

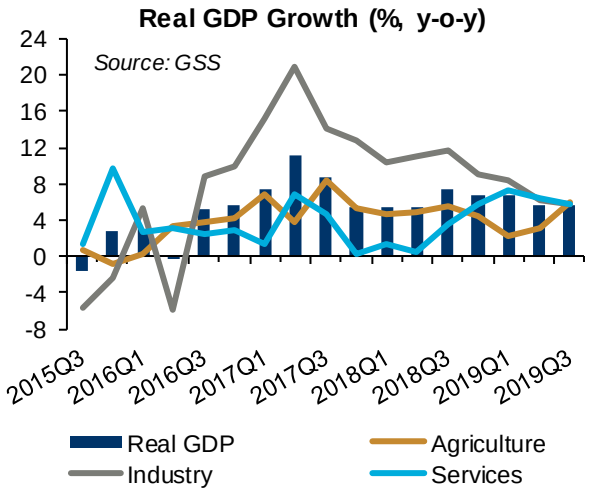
## Growth to slow to nearly four-decade low

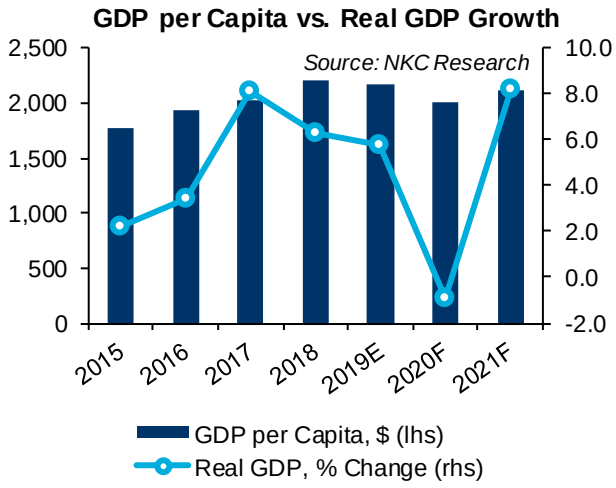
The latest available data indicates that real GDP growth declined to 5.6% y-o-y in Q3 2019. Soft numbers indicate that economic growth accelerated in Q4. In Q3, agricultural growth remained robust, while industrial and services sector growth moderated. We estimate that the Ghanaian economy would have expanded by 5.8% last year.

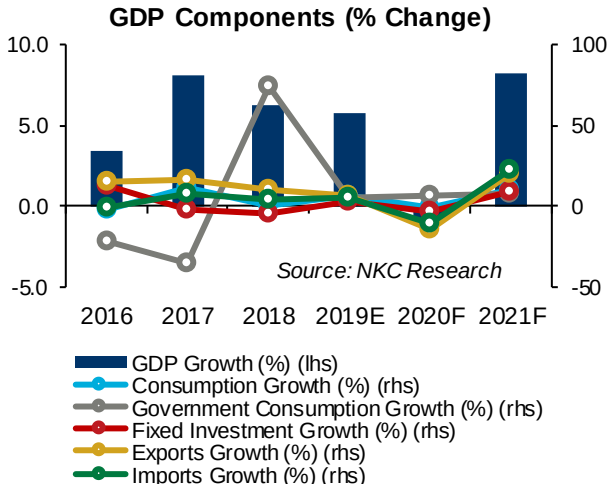
Our economic growth forecast for this year has been altered considerably after accounting for the effects of the Covid-19 pandemic and oil price plunge. The worsened outlook for global economic activity, the extended lockdowns of the country's major trading partners, and the extension of the country's own partial lockdown have prompted us to lower **Ghana's economic growth forecast even further to -0.9% for this year**. We now expect the economy to contract for the first time since 1983. The factor that limits the government's response to the pandemic is the lack of fiscal space. The IMF had already declared the Ghanaian government to be in debt distress before the Covid-19 pandemic and oil price slump started.

The country would be hurt the most via the trade channel, as Ghana's five biggest exporting destinations went into lockdown mode for an extended period, thus affecting local production significantly. It should be noted that we expect manufacturing to take more of a hit than oil and gold production during this period. Moreover, the oil price war which led to a plunge in international oil prices will create a further drag on economic activity. Although tourism's contribution to GDP is relatively low compared to other African countries, the imposed global travel restrictions are set to further hurt the economy. The forecast could be affected by the following:

- **Covid-19:** Should the global infection rate not moderate, it would push world economy activity lower, subsequently hurting the local economy even further.
- **Oil price war:** The oil price war, coupled with the lack of demand as a result of the Covid-19 pandemic, could seriously dampen Ghana's industrial output this year.
- **Policy responses:** Both the government and central bank acted fast to introduce stimulus measures. These measures would shield the economy from the fallout of the double demand shocks.



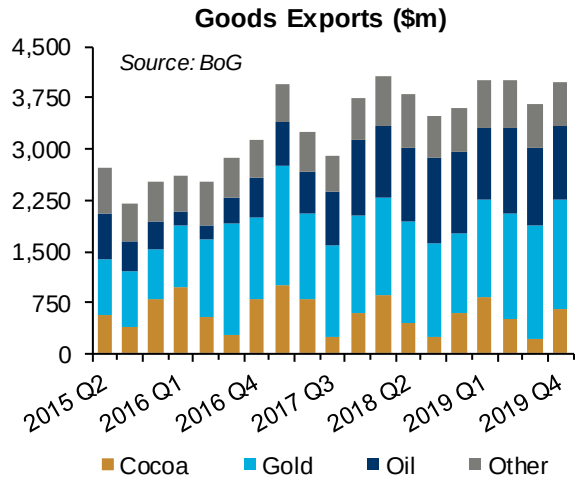
# Current Account

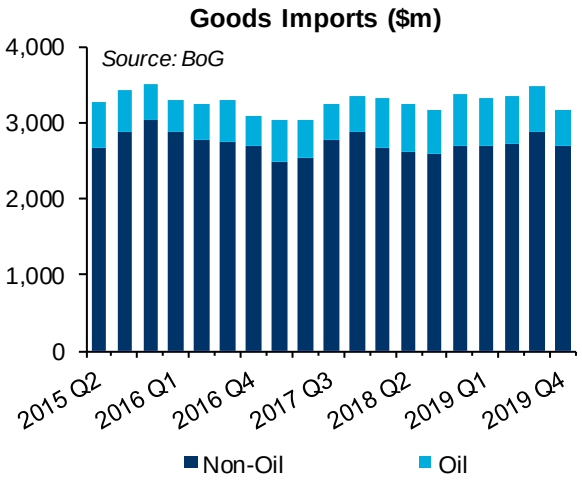
## Current account improved last year

The country's trade surplus improved last year, as the increase in the higher export base outweighed the slight rise in imports. More specifically, the trade surplus rose by 27% to $2.3bn in 2019, from $1.8bn in the previous year.

Preliminary figures suggest **exports** rose by 4.6% to $15.6bn in 2019, primarily driven by a 14.6% rise in gold export receipts. This comes as no surprise as the latter's prices increased by 9.7% last year. Oil exports declined marginally by 1.8% in 2019, while the exports of cocoa beans remained flat at around $1.4bn last year. Soft numbers indicate that exports started the year on a positive note and rose by 3.4% y-o-y to $2.7bn over the first two months of the year. Once again, the positive gold price environment played a role, as the exports of gold remained robust. Looking at trade flows in the other direction, **imports** increased marginally by 1.7% to $13.3bn last year. Non-oil imports were the main driver and rose by 4.2% to $10.9bn, while oil imports fell by 8.6% to $2.4bn.

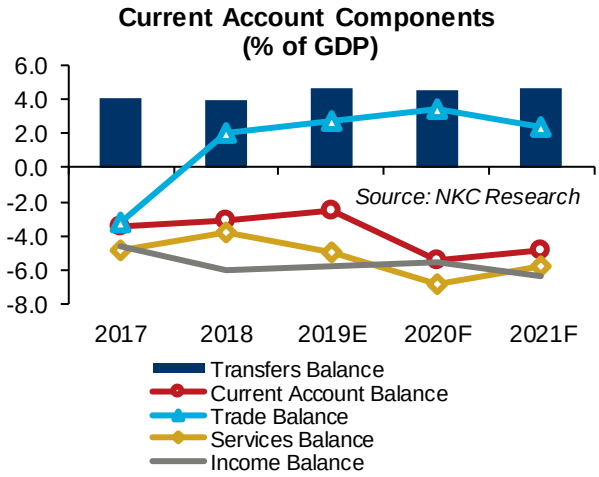
Due to the lack of detailed current account data, we focus on **invisible accounts** data for only the first three quarters of last year. The substantial increase in the surplus of the current transfers account (+27.4% y-o-y) and the narrowing of the deficit in the income account (+4.0% y-o-y), more than offset the widening in the shortfall on the services account (-30.0% y-o-y). Taking the aforementioned developments into account, the current account deficit narrowed by 17.2% y-o-y to $830m during the first three quarters of 2019, from $1.0bn during the same period in 2018.




## Outlook paints a bleak picture

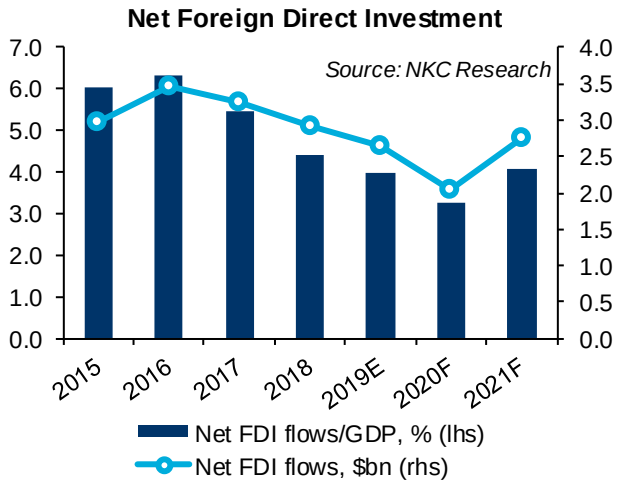
Our outlook for the current account has changed considerably over the past three months. After accounting for the effect of the Covid-19 pandemic and the oil price plunge, **we now expect the current account deficit to widen to $3.4bn (5.4% of GDP) this year** from an estimated $1.7bn (2.5% of GDP) last year. Given the lack of global demand, the disruptions in global supply chains, and travel restrictions, we expect the trade and services accounts to be hardest hit in 2020. Although gold prices continue to rise, it will do little to soften the blow as demand remains weak. The income account will feel some reprieve, as the lower production and price environment will lead to lower profit expatriation.



# Capital Account

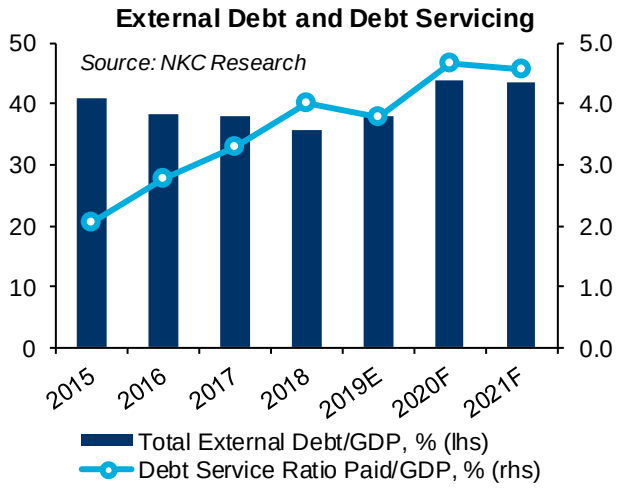
## FDI to tank this year

In general, Ghana's investment prospects remain favourable. The revival of the non-oil economy offers considerable opportunities for investment, especially in the services sector. According to the latest data from the BoG, net FDI fell by 12.3% y-o-y to $2.1bn during the first three quarters of 2019, from $2.4bn in the same period in 2018. Therefore, we estimate that FDI would have decreased to $2.6bn last year (4.0% of GDP). In our previous forecast, we projected net FDI inflows to fall slightly further; however, given recent global developments, we now expect net FDI to fall considerably more. The global recession and the subsequent lower company profits, coupled with a lower commodity price environment, will cause investments to dry up over the short term. As a result, **we forecast net FDI inflows to decline to $2.1bn this year**, before rebounding to $2.7bn next year.



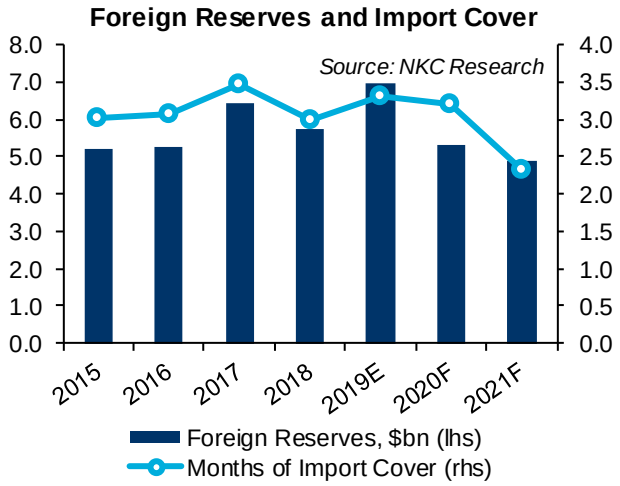

## External debt

Accra issued $3bn worth of Eurobonds in March last year, but only $1bn was used to settle near-term foreign obligations. A final IMF disbursement was also expected to drive external debt higher. We estimate that total external debt would have increased by 7.9% to $25.2bn in 2019. Looking ahead, **external debt is expected to increase further to $27.5bn (43.9% of GDP) this year**, as another round of Eurobond issuance is expected to drive debt higher. Furthermore, the latest $1bn disbursement by the IMF to fight against the fallout of the Covid-19 pandemic is expected to drive external debt even higher.




## Reserves sturdier than expected

The $3bn Eurobond sale in March last year provided reserves with a massive boost, but the drawdown thereafter has been less severe than what we had anticipated would be the case. In fact, gross foreign reserves rose by 21.1% to $6.9bn at end-December. Another $3bn Eurobond sale in February this year is expected to boost reserves yet again. However, given our outlook for the economy for the rest of the year, we expect gross foreign reserves to decline substantially. More specifically, the expected decline in both goods and services exports, the drop in portfolio inflows, and significantly lower FDI inflows are all expected to weigh on reserve accumulation this year. Therefore, **we forecast gross foreign reserves to fall by 23.7% to $5.3bn this year**.



# Market Developments

## Exchange rate

After ending last year on the back foot, the cedi strengthened for the most part of the first two months of 2020. More specifically, the cedi appreciated from around GH¢5.70/$ at end-2019 to close to GH¢5.30/$ on February 19, after Ghana's latest multi-tranche sovereign credit offering buoyed the local unit.

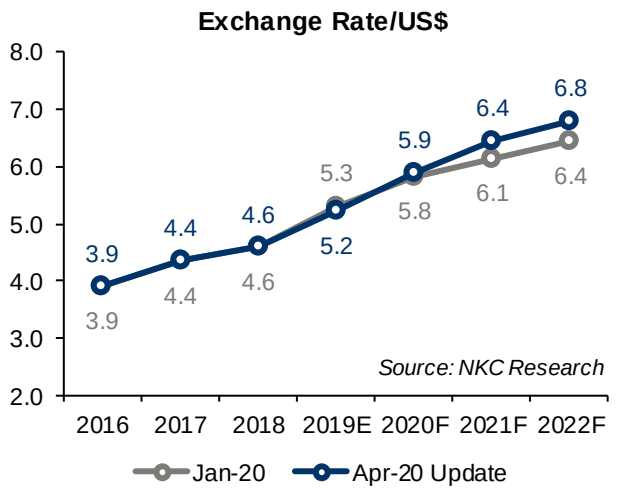
Since the last week of February 2020, the cedi has been on the back foot all the way. The weakening of the currency after the external debt accumulation could also in part be seen as a correction after the considerable strengthening over the first two months. Still, most emerging and frontier market currencies have been struggling after the Covid-19 pandemic spread across the world and oil prices plunged amid a price war between Saudi Arabia and Russia. The global crises forced investors to opt for safe-haven currencies, causing emerging markets to bleed.

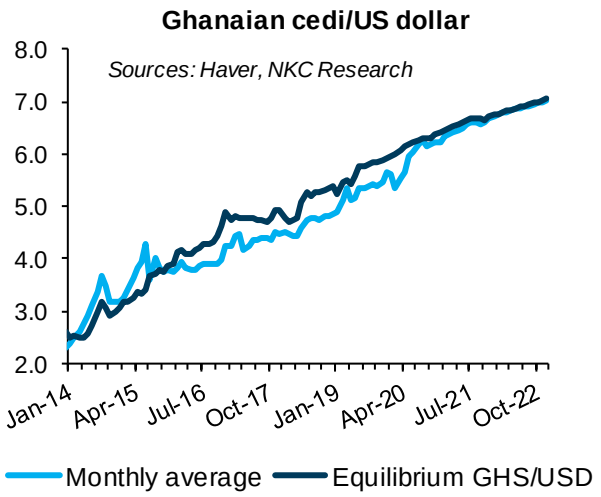
The local unit recovered somewhat during mid-April, as the currency traded at GH¢5.70/$ on April 20, after reaching a low of GH¢5.82/$ on April 14. It remains difficult to determine the drivers of the movement in the local currency due to the volatility this year.

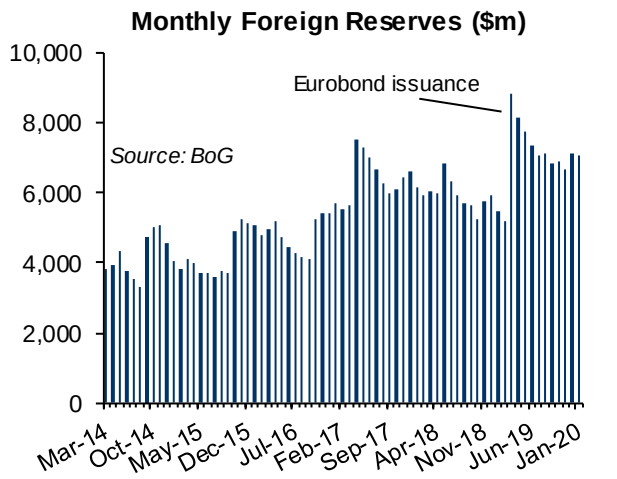
## Key developments to look out for:

- Central bank opted to reduce the policy rate in March. Further stimulus measures by both the monetary and fiscal authorities will be monitored, as it can have a substantial effect on the local unit.
- Weaker fiscal account as revenues decline amid global slowdown. Increasing debt sustainability concerns could result in portfolio outflows.

We have altered our view on the local currency for this year. The central bank already lowered the main policy rate by 150 bps to 14.5% at its meeting in March. Also, given lower oil and non-oil revenues, we expect the fiscal deficit to widen, adding further pressure to the local unit. Lower portfolio and FDI inflows could also aid in driving the cedi weaker. We project real GDP growth to be much weaker given the very real possibility of a global recession, adding more pressure on the cedi. Taking the aforementioned developments into account, **we forecast the cedi to depreciate to an average of GH¢5.89/$ this year**, before depreciating further to an average of GH¢6.45/$ next year.

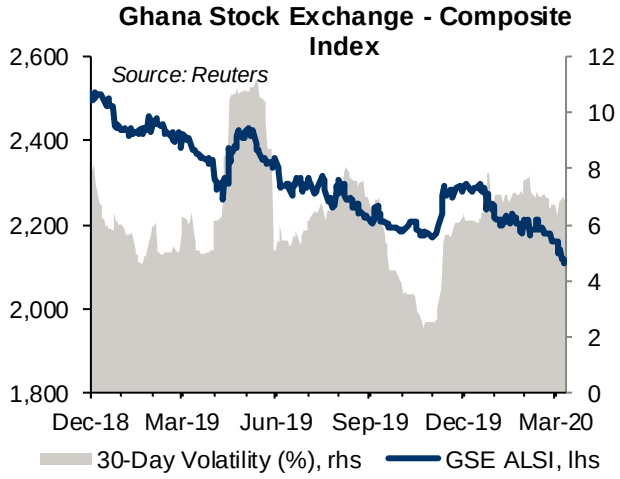


## Stock exchange

The Ghana Stock Exchange (GSE) experienced a fairly volatile time last year and ended the year 8.2% lower than at the previous year-end. It has been much of the same this year as the GSE continued to trend lower. Although the bourse remained resilient for the first few months, it has been downhill since then. In fact, the GSE recently sunk to its lowest level in 34 months. The bearish market can be directly attributed to the fallout of the Covid-19 pandemic.

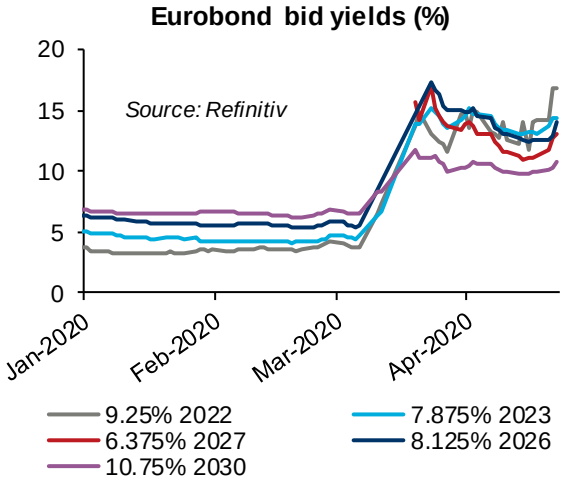



## Debt market

A wave of risk aversion has pummelled global financial markets since the pandemic took hold in March, punishing African risk assets asymmetrically due to rising concerns related to timely commercial debt servicing and spillover effects of the commodity price collapse. Fears related to private sector credit payments rose as a consortium of African ministers, including Ghana, levelled a request in March to multilateral, bilateral, and private sector creditors to endorse debt holidays, relief and waivers worth $100bn. Tight-end yields led the primary market debt curve suppression on the back of modest disinflation and a more accommodative policy stance. Subscription rose, which – along with lower bid yields – enabled government to take advantage of lower borrowing costs amid increased pandemic-related funding pressure. Meanwhile, on the secondary market, the benchmark debt curve suppressed across all maturities in response to liquidity measures employed by the apex bank. The tight end reacted to aggressive monetary stimulus in response to the pandemic, while duration prices returned to pre-pandemic levels after a surge in yields (March to mid-April). Turning to sovereign credit, the yields on outstanding Ghanaian dollar offerings surged as pandemic-related risk aversion reverberated across the globe. Ghana took advantage of the golden window of opportunity just prior to the Covid-19 shock to print a triple-tranche bond worth $3bn in February. The placing of the longest-dated bond in the region, with a combined order book exceeding $15bn, evidenced the pre-shock elevated appetite for high-yielding African debt. The large print proved prescient, as Accra entered the pandemic shock on a firmer footing than the majority of its peers, placing Ghana in a comparatively stronger position to withstand a protracted global recovery and extended period of risk aversion.

### Debt Holiday Appeal

The appeal submitted by UNECA included the proposal that a portion of the disbursement ($44bn) should be pooled-in into a global special purpose vehicle (SPV) earmarked for external debt service until economic recovery takes hold and agreement can be reached with creditors. The SPV will ensure no default by debtor countries while opening up the fiscal space needed to respond to the pandemic.



# Monetary Environment

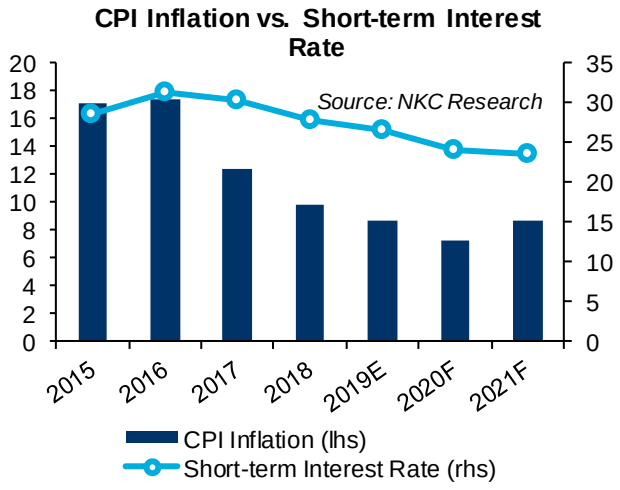
## Inflation remaining steady for now

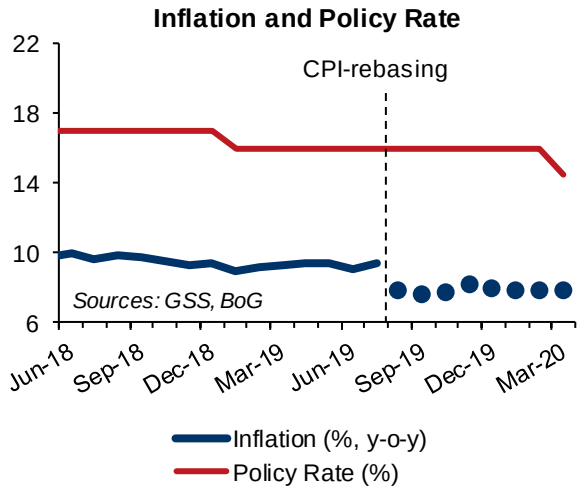
The norm has gone out of the window as global developments over the past couple of months will have a significant effect on not only the Ghanaian inflation environment but the economy as a whole. The outbreak of Covid-19 and the plunge in international oil prices will hamper the economy in the short term. The cedi, like most emerging and developing currencies, came under pressure amid the global financial meltdown. Although the cedi started depreciating, the plunge in international oil prices will outweigh the currency effect and as a result, **we expect inflation (average of 7.3% this year) to trend even lower over the short term.** Furthermore, the expected lower oil revenues will force local authorities to curb expenditure somewhat, which will put further downward pressure on the inflation environment. Moreover, central banks across the globe were forced to cut policy rates aggressively in reaction to the financial market meltdown. Therefore, the substantial policy rate cut in March by the BoG is justified when considering the possible impact of Covid-19 and the drop in international oil prices.

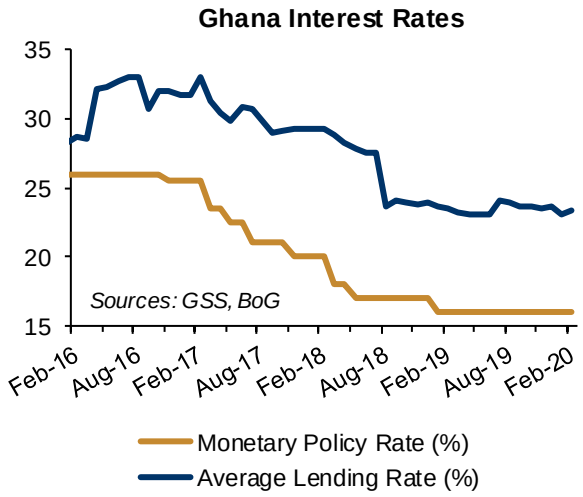
CPI inflation remained unchanged for a third consecutive month at 7.8% y-o-y in March. The annual change in prices of food increased to 8.4% y-o-y (+7.9% y-o-y previously), while the cost of non-food items fell to 7.4% y-o-y (+7.7% y-o-y previously) in March. On a m-o-m basis, inflation rose to 0.8% from 0.4% in the preceding month. Returning to the annual inflation number, the largest contributors to the overall inflation rate in March were the costs of alcoholic beverages, tobacco & narcotics (+11.4% y-o-y), transport (+9.2% y-o-y), and recreation, sport & culture (+9.0% y-o-y).

## Central bank takes serious steps

The Monetary Policy Committee (MPC) of the BoG decided at its meeting on March 18 to reduce the policy rate by 150 bps to 14.5%. The central bank said the global meltdown could affect the local economy through numerous channels. The most notable channel is that the dampened global demand could seriously impact the country's oil exports earnings and subsequently forex reserves and tax revenues. The disruption in supply chain channels could cause shortages for local companies and therefore hurt imports. The central bank also decided to introduce numerous other measures (as discussed earlier) to combat the impact of the Covid-19 pandemic.



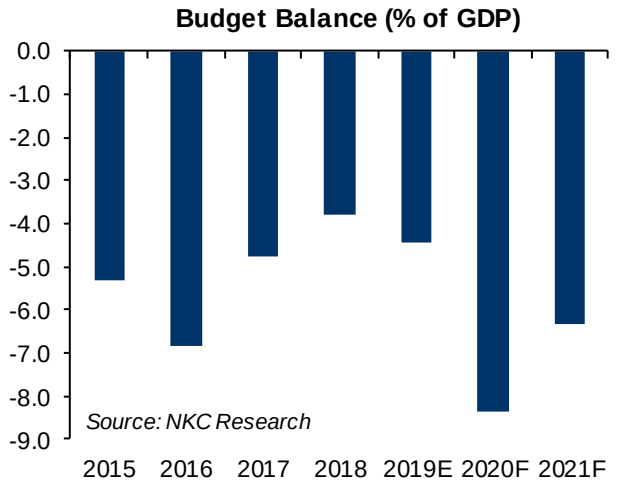



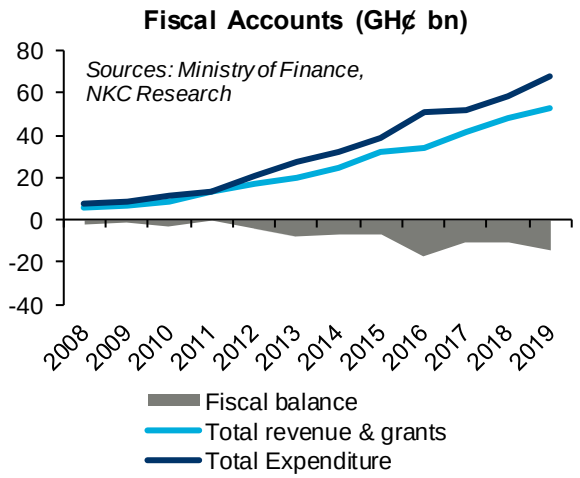
# Fiscal Policy

## Fiscal outlook altered considerably

Preliminary figures from Ghana's Ministry of Finance indicate that the fiscal deficit widened last year. More specifically, the fiscal deficit is estimated to have widened to 4.5% of GDP in 2019, from a deficit of 3.8% of GDP in the previous year. Weak fiscal revenue mobilisation remains a key issue, and the new strategies outlined in last year's mid-year budget review do not inspire much confidence that this issue will be addressed. Government revenue rose by 11.2% to GH¢52.9bn in 2019, from GH¢47.6bn in the previous year. Last year, the government announced several measures to address the issue of persistent revenue shortfalls. In turn, government expenditure is estimated to have reached GH¢68.4bn in 2019, which equates to a rise of 15.8% from the figure in 2018.

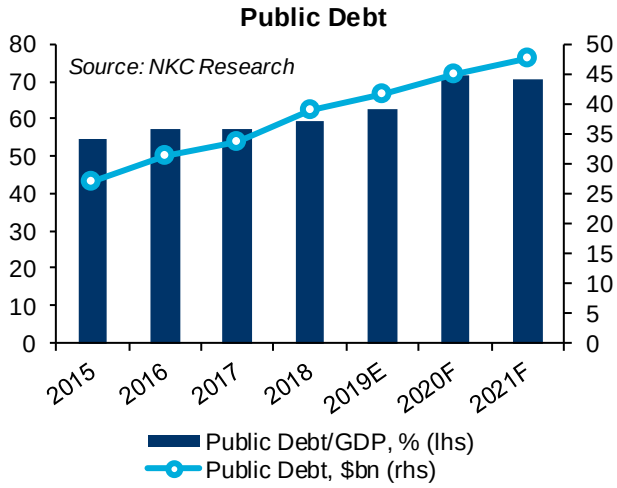



Our revised outlook for the fiscal account differs markedly from the one presented in our previous publication. Before, we highlighted that fiscal slippages in the election year remain our biggest concern; however, recent global events and the spillover effects to the local economy dwarf those concerns. **We now project the fiscal deficit to widen to 8.4% of GDP this year**, from a previous forecast of 4.9% of GDP. While we do not expect expenditure to fall by much as government introduces fiscal stimulus measures to save the economy, we do project that fiscal revenues will fall significantly this year. The fall in commodity prices and subsequent drop in profits, the extended period of lockdown, job losses, and so forth would all lead to much lower personal and business income tax collection.




## Public debt

The country's level of public debt remains one of its biggest weaknesses. Given the estimates of a wider fiscal deficit for last year, coupled with our lower than consensus economic growth forecast, public debt is estimated to have risen to GH¢216.5bn, which equates to 62.6% of GDP in 2019. This is the first time that public debt is estimated to have breached the 60% threshold. The IMF recently reiterated its view that Ghana is considered to be in debt distress. Considering our latest fiscal deficit forecast, **we project that public debt could spike to GH¢263.9bn (71.6% of GDP) this year**. The outlook for public debt has prompted Moody's to change the outlook on Ghana's sovereign credit rating to negative on April 17, from a previous positive outlook.

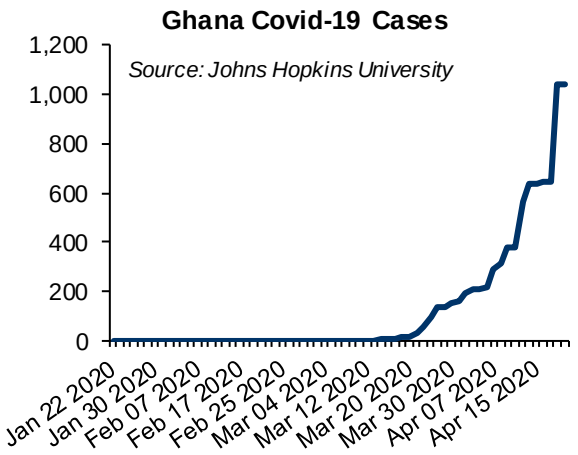


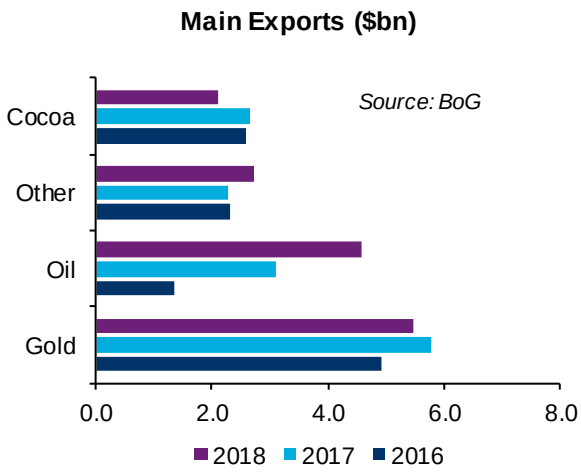
# Special Insert: Covid-19 and oil impact

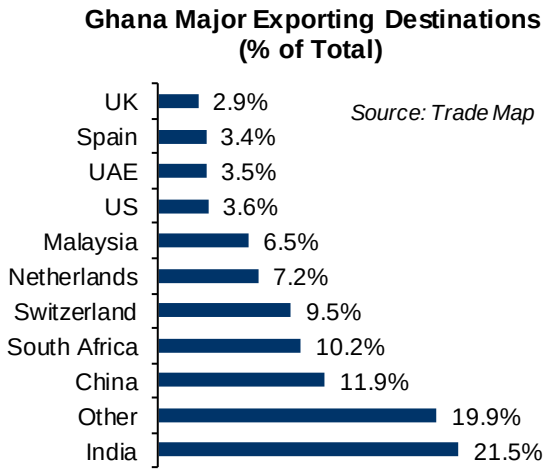
Ghana is set to be hit hard – from both a health and an economic perspective – by the Covid-19 pandemic and oil price shock. According to statistics from the Johns Hopkins University on April 23, the country registered 1,154 cases of Covid-19 and nine fatalities, which currently makes it the country with the most cases in West Africa. Although the number of registered cases depends heavily on the number of tests being done, for which data is not easily accessible in Africa, it is alarming that Ghana has more cases than the West African giant, Nigeria (873).

The double demand shock will hurt the local economy through various channels, with the most notable being the trade channel. Global lockdowns and the subsequent halt in production and disruption to global supply chains will hurt local production and trade severely. Ghana's list of trading partners and exporting categories leaves it vulnerable to these shocks. The country's main trading partners are India, China, South Africa, Switzerland, and the Netherlands, all of which have suffered enormously during this period and have experienced lengthy lockdown periods. Therefore, we expect demand from these countries to fall considerably, thus leading to a significant drop in Ghanaian exports. Ghana's main exporting goods continue to be gold, mineral fuels, and cocoa. The prices of both cocoa and gold have risen sharply in recent times, while the price of crude oil tumbled. The lack of global demand, coupled with the price war between Russia and Saudi Arabia, has caused the international oil price to fall close to zero. As a result, we expect Ghanaian fuel exports to decrease significantly this year. We also expect the exports of gold and cocoa to decrease, but the positive price environment of these products will soften the blow somewhat.

Despite not being a major tourism destination when compared to other African countries, the country will also be affected through this channel. Global travel restrictions are set to hurt the tourism industry, as local vendors, hotels, restaurants, and the like are due to feel the pinch. The sharp decline in tourism revenues could even result in many small local companies in the tourism industry to close its doors permanently. Taking these developments into consideration, we expect the current account to deteriorate, while economic growth is expected to contract for the first time in nearly four decades.



# Political Developments

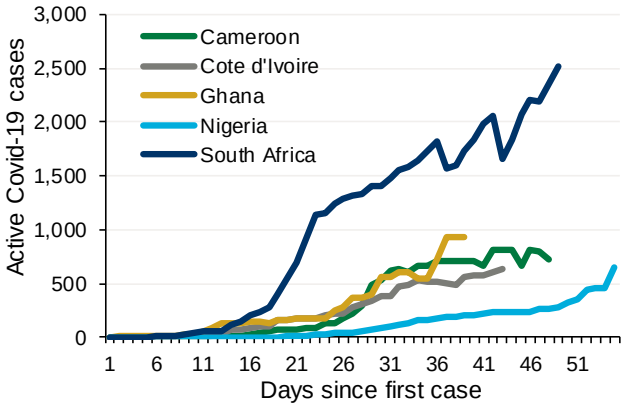
The coming months are certain to see plenty of political jostling and posturing as the December presidential and parliamentary elections draw near. President Nana Akufo-Addo and his New Patriotic Party (NPP) are expected to coast to victory, but the Covid-19 pandemic presents an unprecedented challenge to the incumbent. His administration's handling of the crisis will certainly affect the outcome of the election with the opposition National Democratic Congress (NDC), fielding former president and 2016 losing candidate, John Dramani Mahama, looking to exploit any failings. Opposition to the Electoral Commission's plans to update the voters' roll has already prompted protests and these may intensify. Despite these issues and the upcoming elections, we maintain our political risk rating unchanged at low with the overall trend neutral.

## A global pandemic in an election year

Mr Akufo-Addo continues to lead Ghana ably and has overseen a period of economic growth and political stability. However, the Covid-19 pandemic has presented his administration with an unprecedented challenge, and an especially unwelcome one in an election year. Ghana recorded its first case on March 12 – two individuals returning from Europe – and three days later, with only six cases confirmed, Mr Akufo-Addo announced a ban on public gatherings. The country's first Covid-19 death was recorded on March 21 and six days later, with 137 cases and three deaths, the president announced that Greater Accra, Kasoa, and Greater Kumasi would be placed under partial lockdown for 21 days, effective March 30. Similar to measures introduced in Nigeria, Ghana opted not to impose a nationwide lockdown, choosing instead to focus its efforts on its biggest urban centres.

**Active Covid-19 cases in selected countries**

*Source: Johns Hopkins CSSE, NKC Research*



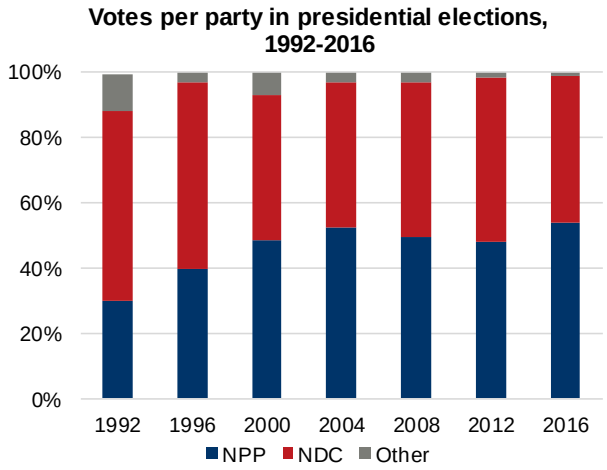

In a televised address on April 19, Mr Akufo-Addo announced that confirmed cases had passed 1,000 (with nine deaths). However, he surprisingly decided against extending the lockdown even though Ghana had the third highest number of confirmed cases in sub-Saharan Africa. He defended the decision by saying that testing and contact tracing had informed his decision-making – as of the day of his speech Ghana had reportedly carried out 68,500 tests with 1.5% of those returning positive. The president noted that there had been a "*basket of issues*" that led to his decision, singling out the impact the lockdown was having on the informal sector. The opposition NDC immediately criticised the decision and pointed out that the number of cases had been steadily increasing, and accused the administration of not valuing the lives of Ghanaians. One spokesperson described the decision as politically motivated, claiming that the decision to lift the lockdown was motivated by a desire to resume voter registration.

Even though the decision to lift the lockdown is a curious one, we are in no position to speculate about Mr Akufo-Addo's motivations. Indeed, time will tell if his decision-making is vindicated and the impact of the virus will be contingent on more than just this decision. Nevertheless, the government's response to the pandemic will be a crucial election issue and, perversely, might offer the floundering NDC an opening that doesn't currently exist.

## The voters' roll: bunfight or brawl?

Long before the NDC claimed that lifting the lockdown was informed by the ruling party's desire to resume voter registration, a fight had erupted over the Electoral Commission's (EC) 2019 decision to update the voters' roll. The EC announced that facial recognition would be added to the biometric requirements (which already included fingerprints) and deployed thousands of biometric verification devices to begin the process. It also announced that only those with a

passport or 'Ghana card' – a plastic identification document containing biometric information issued by the National Identification Authority (NIA) – would be registered. Opposition parties immediately balked at the suggestion, questioning how the roll used in the 2012 and 2016 elections had suddenly become obsolete. They also pointed out that the EC considered the existing roll to be adequate when it conducted District Level and Unit Committee elections in December 2019 and proposed updating rather than replacing the roll.




A coalition of parties, including the NDC, All People's Congress (APC) and People's National Convention (PNC), formed the Inter-Party Resistance Against the New Voters Register and launched a series of protests in January and February. Those opposed to a new voters' roll claim that there is simply not enough time to compile it and, more sinisterly, that the proposal is designed to disenfranchise voters in areas where the NPP enjoys less support. We previously pointed out that the NPP draws most of its traditional support from urban areas and the Ashanti region, and the NDC wins most of its votes from the Northern, Upper East, Upper West and Volta regions. Although the simplification along ethnic lines is contentious, the NPP is often seen as the Ashanti party and the NDC is seen as the Ewe party. The voter registration drive was set to commence on April 18 but was suspended due to the Covid-19 pandemic. The lifting of the lockdown has removed at least one stumbling block to voter registration resuming, but resistance to the proposal and concerns over it being completed ahead of the December polls will persist.

## Western Togoland secession bid on a low simmer

Authorities continue to target the Homeland Study Group Foundation (HSGF), a separatist organisation agitating for the secession of Western Togoland, with the organisation claiming that its members continue to be arrested and harassed. In April, the National Communications Network (NCA) moved to shut down the Tongu Community Multimedia Network (TCMN) in the Volta region due to what it described as "*the illegal activities of some persons involved in the operations of Radio Tongu without a valid authorisation*." In a press statement, the NCA noted that it is empowered to do so in instances where revocation of licenses is necessary on the grounds of national security or public interest, and explicitly referenced a letter received from TCMN director, Bestway Zotter, which it described as "*subtle threats*". Mr Zotter purportedly wrote that "*the pent-up anger in our listeners is loaded, and we will not be able to calm them down anymore*." The Western Togoland issue is decades old and renewed claims for regional autonomy are probably due to the December 2018 referendum which saw the creation of six new regions – with Volta being split into Oti (north) and Volta (south). The situation is unlikely to deteriorate enormously in the immediate term, but the upcoming elections might provide renewed impetus to the long-time succession drive.

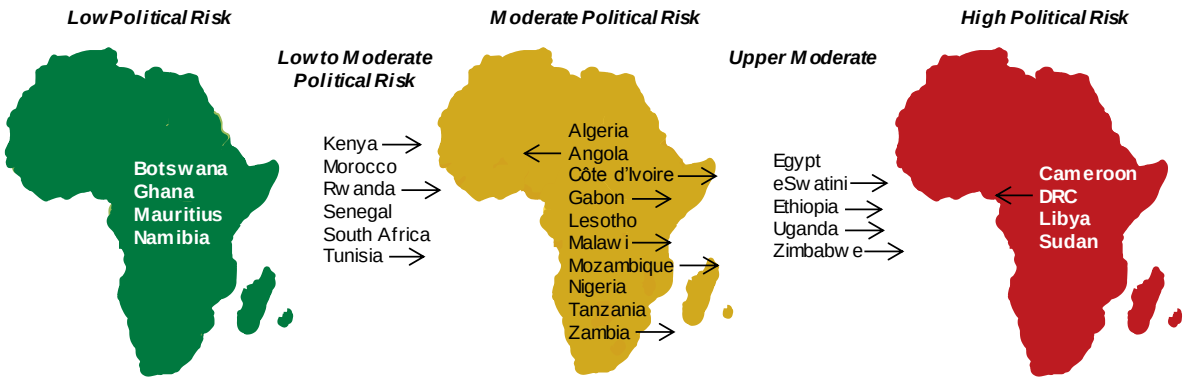
## Outlook

Over the short term, political risk stems from the challenges posed by the Covid-19 pandemic and the intensification of political rhetoric ahead of the December polls. Mr Akufo-Addo and the ruling NPP are expected to return for new terms, possibly with an increased majority, and whatever political instability develops over the election period is unlikely to last beyond it. Over the medium to long term, youth unemployment and agitation could grow, but the likelihood of this remains low. Security concerns in the north may rise should clashes between Fulani herders and farmers intensify. The generally benign and business-friendly policies of the NPP, mixed with the occasional tendency to favour distributive expenditure (especially in an election year) can be expected to stay in place for the remainder of the year. Our current expectation is still for the NPP to go into the December elections as favourites, so for now we would expect the policy environment to remain stable beyond this horizon as well.

# Country Political Stability

| Key Measures | | |
|---|---|---|
| **Structural Risk** | | |
| *Index of risks related to demographics, social cohesion, past conflicts, and economic stressors.* | **Low to moderate** | Structural risks are below regional peers and have been declining in recent years. |
| **Institutional Risk** | | |
| *law, level of democracy, and prevalence of corruption.* | **Low** | Institutional risk remains low and stable, with corruption being the main issue affecting the rating. |
| **Analyst's view and forecast** | | |
| *Subjective, forward-looking assessment of overall political risk over the short to medium term.* | **Low** | Even with elections coming this year, little risk of a serious deterioration in the political environment. |
| **Overall rating: low** | | **Risk trend stable** |

# Africa Political Stability




The democratic status of a country is an insufficient indicator of that country's political risk profile. Subject to the value-belief system of the local populace (do they recognise the claims of kings and sultans to govern); a functioning democratic system is a necessary condition for political stability, but not a sufficient one. Democracy and stability do not necessarily equate nor can we assess business opportunities on the basis of a country's democratic status. It is possible to do business with any country, irrespective of the political risk profile subject to other variables and the understanding that in a high risk country any political action is possible while in lower risk environments the actions of the political system are predictable.

# Background

## Economic development

The economy expanded at an impressive pace during 2009-13, with GDP growth averaging 8.7% a year over this period. Unfortunately, years of reckless fiscal spending finally started to take its toll in 2014, when GDP growth slowed to 2.9%, down from 7.3% the year before. Weak fiscal finances contributed to a widening current account deficit, increasing levels of inflation, high interest rates, and sovereign credit rating downgrades. In 2015, concerns regarding debt sustainability finally persuaded Accra to agree on an IMF support programme aimed at aggressive fiscal consolidation. The adverse effects of the consolidation efforts placed the economy under even more pressure and dragged GDP growth down to 2.2% in 2015. GDP growth then rebounded to 3.5% in 2016. Oil production ramping up sharply due to new projects coming online then pushed GDP growth up to 8.1% in 2017. The economy was also found to be 25% larger in nominal terms in 2017 following a rebasing exercise. GDP growth subsequently eased to 6.3% in 2018.

## Structure of the economy

Agriculture is an important sector of the economy, providing livelihoods for a large portion of the population and contributing an estimated 20.1% to GVA in 2019. Cocoa is the country's most important agricultural commodity and accounted for roughly 14.4% of total exports in 2019. The services sector is expanding at a rapid pace and is well diversified, becoming increasingly important to the economy with a contribution of around 39.5% to GVA in 2019. The importance of the industrial sector has increased since the start of oil production, with the industry accounting for 40.4% of GVA in 2019. Along with cocoa, gold and crude oil are Ghana's most important export commodities and, as a result, the country's external balances are especially vulnerable to fluctuations in the prices of these commodities.

## Balance of payments

Ghana consistently records large deficits on its external accounts. The external shortfall widened sharply to 9% of GDP in 2013. This was mainly ascribed to developments in the invisible account, namely a widening of the services deficit and a decline in the current transfers surplus. The latter was caused by the sharp GDP upgrade, which made it more difficult for the country to obtain external grants. Meanwhile, the services deficit widened due to a sharp increase in payments, with the rise in receipts not being able to keep pace. The current account deficit narrowed sharply to 5.7% of GDP in 2015 despite the fall in commodity prices, with developments in the invisible accounts again representing the main drivers. A sharp increase in gold exports dragged the current account deficit narrower still to 5.1% of GDP in 2016 and to 3.4% of GDP in 2017. Rising oil output and prices then resulted in the current account deficit narrowing to 3.1% of GDP in 2018.

## Policy and politics

The transition to democracy took place in 2000 when John Kufuor won the election on the platform of the New Patriotic Party (NPP). He served two terms before the National Democratic Congress (NDC) won the presidency in 2008, with the election of John Atta Mills. The latter died in office and was replaced by Vice-President John Dramani Mahama, who won the December 2012 election by a narrow margin in the first round. The 2016 election, with the NPP's Nana Akufo-Addo now at the helm, again witnessed a smooth handover in power and showed why Ghana is one of the most admired democracies on the continent. Policy improvements since 2000 have led to better relations with the IMF and aid donors. The challenge now is to shift the economy away from a reliance on concessionary finance and to attract more FDI in the coming years, both of which will be helped by increased oil production and related infrastructure. The global recession and high oil costs necessitated another three-year IMF facility of $600m in July 2009, while a new three-year $918m deal was agreed to in April 2015, primarily aimed at restoring debt sustainability. The latter was completed in April 2019.

# Key Facts

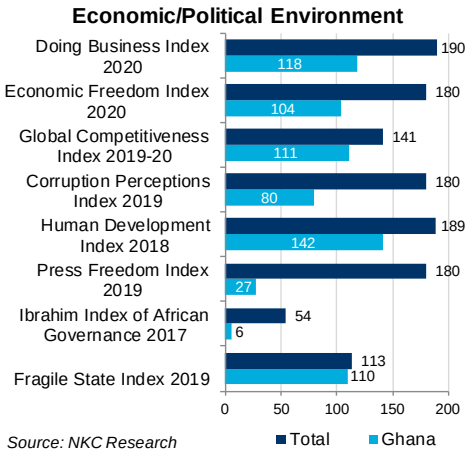
| Geography | |
|---|---|
| **Area:** | Total: 238,533 km²; Land: 227,533 km²; Water: 11,000 km² |
| **Climate**: | Tropical; warm and comparatively dry along southeast coast; hot and humid in southwest; |
| **Terrain**: | Mostly low plains with dissected plateau in south-central area |
| **Land use**: | Agricultural land: 69.1%; forest: 21.2%; other: 9.7% (2011 est.) |
| **Natural resources**: | manganese, fish, rubber, hydropower, petroleum, silver, salt, limestone |
| Source: CIA | |


| Demographics | |
|---|---|
| **Population:** | 30,428,190 (2019 est.) |
| **Population growth rate (%):** | 2.16% (2019 est.) |
| **Life expectancy at birth:** | 67.4 years (2018 est.) |
| **Languages:** | Asante 16%, Ewe 14%, Fante 11.6%, Boron (Brong) 4.9%, Dagomba 4.4%, Dangme 4.2%, Dagarte (Dagaba) 3.9%, Kokomba 3.5%, Akyem 3.2%, Ga 3.1%, other 31.2% |
| **Adult literacy rate (%):** | 76.6% (2015 est.) |
| **HIV/AIDS adult prevalence:** | 1.7% (2018) |
| **Population below poverty line:** | 23.4% (2016) |
| Sources: CIA and World Bank | |

Source : CIA Factbook

| Politics | |
|---|---|
| **Head of state:** | President Nana AKUFO-ADDO |
| **Head of government:** | President Nana AKUFO-ADDO |
| **Capital:** | Accra |
| **Independence:** | 1957 from Britain |
| **Political system:** | Democracy |
| **Next presidential election:** | 2020 |
| **Next legislative election:** | 2020 |
| **Currency:** | Cedi |

| Corruption perceptions index 2019 | |
|---|---|
| | **Score** |
| Developed economies (average) | 74.46 |
| Emerging economies (average) | 38.35 |
| Ghana | 41.00 |
| Africa | 32.44 |
| Source: Transparency International | |
| Scoring system 100 = highly clean, 0 = highly corrupt | |




*Source: NKC Research*

# Economic Data

| Ghana Economic Data | 2017 | 2018 | 2019E | 2020F | 2021F | 2022F | 2023F | 2024F |
|---|---|---|---|---|---|---|---|---|
| **National Income** | | | | | | | | |
| Nominal GDP ($bn) | 59.0 | 65.5 | 66.3 | 62.6 | 67.3 | 74.1 | 80.7 | 87.6 |
| Real GDP Growth (%) | 8.1 | 6.3 | 5.8 | -0.9 | 8.2 | 6.9 | 4.8 | 4.5 |
| Population (m) | 29.1 | 29.8 | 30.4 | 31.1 | 31.7 | 32.4 | 33.1 | 33.7 |
| GDP per Capita $ | 2,025.8 | 2,201.2 | 2,178.5 | 2,013.9 | 2,119.9 | 2,286.0 | 2,441.1 | 2,597.6 |
| Unemployment (%) | 6.6 | 6.7 | 6.8 | 7.7 | 7.4 | 7.1 | 7.0 | 7.0 |
| Consumer Price Inflation (%) | 12.4 | 9.8 | 8.7 | 7.3 | 8.6 | 8.5 | 8.4 | 8.3 |
| Short-term Interest (lending) Rate | 30.4 | 27.8 | 26.7 | 24.0 | 23.5 | 22.8 | 22.5 | 21.8 |
| **External Accounts** | | | | | | | | |
| Exports ($bn) | 13.8 | 14.9 | 15.6 | 11.0 | 14.7 | 17.5 | 18.9 | 20.5 |
| Imports ($bn) | 12.6 | 13.1 | 13.3 | 9.5 | 13.0 | 15.6 | 17.0 | 18.7 |
| Trade Balance ($bn) | 1.2 | 1.8 | 2.3 | 1.5 | 1.7 | 2.0 | 1.9 | 1.8 |
| Current Account Balance ($bn) | -2.0 | -2.0 | -1.7 | -3.4 | -3.3 | -2.6 | -2.8 | -3.1 |
| Current Account Balance (% of GDP) | -3.4 | -3.1 | -2.5 | -5.4 | -4.9 | -3.5 | -3.5 | -3.5 |
| Exchange Rate/US$ | 4.4 | 4.6 | 5.2 | 5.9 | 6.4 | 6.8 | 7.1 | 7.4 |
| Net FDI ($bn) | 3.24 | 2.91 | 2.64 | 2.05 | 2.74 | 2.82 | 2.90 | 3.00 |
| Net FDI (% of GDP) | 5.5 | 4.4 | 4.0 | 3.3 | 4.1 | 3.8 | 3.6 | 3.4 |
| Foreign Reserves ($bn) | 6.4 | 5.8 | 7.0 | 5.3 | 4.9 | 5.2 | 5.6 | 6.0 |
| Import Cover (months) | 3.5 | 3.0 | 3.3 | 3.2 | 2.3 | 2.2 | 2.2 | 2.2 |
| **Public Finances** | | | | | | | | |
| Fiscal Account: Expenditure (% of GDP) | 20.9 | 19.6 | 19.8 | 20.9 | 20.2 | 19.5 | 19.7 | 19.7 |
| Fiscal Account: Revenue (% of GDP) | 16.2 | 15.8 | 15.3 | 12.5 | 13.8 | 15.0 | 15.0 | 15.2 |
| Government Balance (LCU bn) | -12.2 | -11.4 | -15.4 | -30.9 | -27.6 | -23.1 | -26.5 | -29.3 |
| Government Balance (% of GDP) | -4.8 | -3.8 | -4.5 | -8.4 | -6.4 | -4.6 | -4.6 | -4.5 |
| **Debt Indicators** | | | | | | | | |
| Government Debt (LCU bn) | 147.0 | 178.2 | 216.5 | 263.9 | 306.4 | 335.2 | 361.6 | 391.0 |
| Government Debt ($bn) | 33.8 | 38.9 | 41.5 | 44.8 | 47.5 | 49.3 | 51.1 | 52.9 |
| Government Debt (% of GDP) | 57.3 | 59.3 | 62.6 | 71.6 | 70.6 | 66.6 | 63.2 | 60.4 |
| Total External Debt ($bn) | 22.4 | 23.3 | 25.2 | 27.5 | 29.4 | 31.3 | 33.2 | 35.1 |
| Total External Debt (% of GDP) | 37.9 | 35.6 | 37.9 | 43.9 | 43.7 | 42.2 | 41.1 | 40.0 |
| **Key International Assumptions** | | | | | | | | |
| **Real GDP Growth (%)** | | | | | | | | |
| World | 3.3 | 3.2 | 2.6 | -2.8 | 5.9 | 3.5 | 3.0 | 2.9 |
| US | 2.4 | 2.9 | 2.3 | -4.1 | 7.7 | 1.6 | 1.6 | 1.7 |
| China | 6.9 | 6.7 | 6.1 | -0.2 | 9.0 | 5.8 | 5.6 | 5.4 |
| Euro zone | 2.7 | 1.9 | 1.2 | -5.1 | 4.6 | 2.3 | 1.6 | 1.3 |
| **Consumer Price Inflation (%)** | | | | | | | | |
| US | 2.1 | 2.4 | 1.8 | 0.7 | 1.6 | 2.0 | 2.0 | 2.0 |
| China | 1.5 | 2.1 | 2.9 | 3.1 | 1.6 | 2.8 | 2.8 | 2.8 |
| Euro zone | 1.5 | 1.8 | 1.2 | 0.2 | 1.5 | 1.6 | 1.7 | 1.8 |
| **Exchange Rates** | | | | | | | | |
| CNY/$ | 6.8 | 6.6 | 6.9 | 7.0 | 6.9 | 6.8 | 6.6 | 6.5 |
| $/€ | 1.1 | 1.2 | 1.1 | 1.1 | 1.1 | 1.1 | 1.2 | 1.2 |
| **Commodities** | | | | | | | | |
| Brent Crude Oil (US$/bbl) | 54.2 | 71.1 | 64.4 | 29.9 | 35.2 | 44.9 | 49.7 | 51.7 |

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