Euler Hermes Economic Research

Country Report

Ghana

IMF and local medicines are improving the nation's health

General Information

GDP	USD38.65bn (World ranking 92, World Bank 2014)
Population	26.4mn (World ranking 48, World Bank 2014)
Form of state	Constitutional Democracy
Head of government	John Dramani MAHAMA
Next elections	Presidential and legislative, December 2016

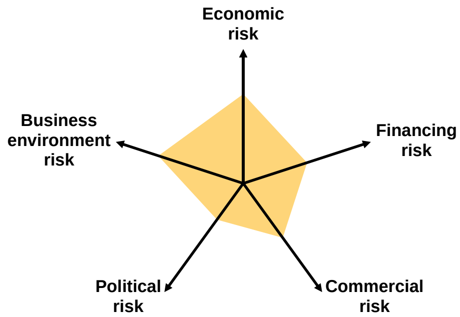
Strengths

- Established track record of good governance, with a functioning democratic system and peaceful transfer of power among political parties.
- Natural resource base (cocoa, gold, forestry etc.) now supplemented by discovery of commercially-exploitable oil reserves – output from 2011.
- Strong GDP growth in recent years, even with a downturn in 2014-15.
- Market-oriented policy framework.
- Positive relations with the IFIs.

Weaknesses

- While some safeguards are established, the ability and capacity to manage oil wealth is yet to be tested fully.
- Continuing twin deficits (fiscal and current account) require careful management.
- Frontier markets, including Ghana and Nigeria, are not immune from sell-off pressures in emerging economies. There is therefore periodic risk of currency depreciation, FX reserve depletion and capital flight.
- Although per capita incomes have improved, poverty remains pervasive in some rural areas.
- Regional instability and uncertainties, including in Burkina Faso, Nigeria and Mali.

Country Rating B2



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
France	12%	1	24%	China
Italy	11%	2	8%	Nigeria
South Africa	9%	3	8%	United States
Netherlands	8%	4	6%	Netherlands
China	7%	5	5%	United Kingdom

By product (% of total)

Exports		Rank		Imports
Petroleum, petroleum products and related materials	29%	1	12%	Petroleum, petroleum products and related materials
Coffee, tea, cocoa, spices, and	29%	2	10%	Road vehicles
Gold, non-monetary (excluding gold	13%	3	6%	Specialised machinery
Vegetables and fruits	10%	4	5%	Miscellaneous manufactured articles, n.e.s.
Metalliferous ores and metal scrap	3%	5	5%	Iron and steel

Source: UNCTAD

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Economic Overview

Strong GDP growth in the period up to 2013

Annual average GDP growth was above +5.5% in 2000-10, a relatively good rate of expansion but around the pace required for a country like Ghana to make positive advances in socio-economic development. In that period, growth largely reflected the performances in the gold, cocoa and forestry industries and associated exports. However, growth of GDP accelerated in 2011, boosted by the energy sector as oil output came on stream at the Jubilee oilfield in that year, when GDP expanded by around +14%. The impetus from that significant economic development was not maintained in 2012 and 2013 but annual GDP growth remained above +7% in those two years.

Policy reality check as IMF provides assistance…

From 2014, weakness in commodity prices for oil, gold and cocoa and earlier fiscal over-spending (with growth and inflationary repercussions, see charts) resulted in reduced capacity to finance twin deficits and the authorities requested IMF financial assistance. Formal Fund board approval for a three-year Extended Credit Facility (ECF) was granted in April 2015. The financial support package of approximately USD940mn runs until the beginning of April 2018. The facility was agreed on the basis that Ghana implements a reform agenda aimed at limiting fiscal and current account deficits. Fund support restored some investor confidence, although the reform strategy (and implementation) will be required to carry over in to the medium term and Ghana remains vulnerable to anti-EM sentiment in general.

As part of the reform strategy and associated austerity measures aimed at restoring debt sustainability, the local authorities agreed to introduce a 17% petroleum tax, to freeze public sector employment levels and to curtail energy subsidies. The overall fiscal consolidation plan suggested a challenging period would ensue and that the rate of overall growth would slow. That is exactly what happened, with GDP growth easing to +3.2% in 2015, compared with an annual average of over +9.5% in 2010-13.

Ghana's previously good track record of economic management and governance was a key feature underpinning IMF support. The World Bank also provides substantial assistance, including a USD500mn IDA payment guarantee involving gas purchases from the offshore Sankofa Gas project and a USD200mn "Enclave Loan" guarantee by the IBRD.

…but, having taken the medicine, the outlook is now improving again

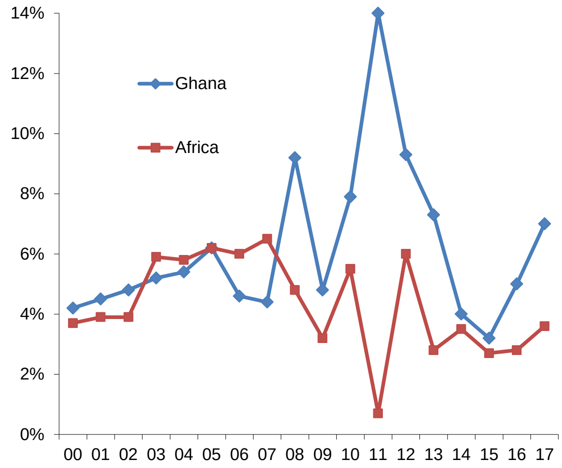
While the Jubilee oilfield is now producing crude oil, other fields have yet to be developed fully and natural gas output holds further potential, including through the Atuabo gas processing plant and associated infrastructure. Output of crude oil is currently around 105,000 bpd, with a target of 190,000 bpd by end-2016 and over 240,000 in 2018. Accordingly, high GDP growth rates are likely to return. EH forecasts GDP growth will increase to around +5% in 2015 (after +4% and +3.2% in 2014 and 2015, respectively, the years of austerity and consolidation) and rebound to approximately +7% in 2017.

Key economic forecasts

	2014	2015	2016f	2017f
GDP growth (% change)	4.0	3.2	5.0	7.0
Inflation (%, end-year)	17.0	17.8	15.0	13.5
Fiscal balance (% of GDP)	-10.2	-7.5	-6.0	-5.5
Public debt (% of GDP)	69.0	70.8	64.5	58.5
Current account (% of GDP)	-8.9	-7.2	-6.5	-5.5
External debt (% of GDP)	41.0	47.9	44.0	40.0

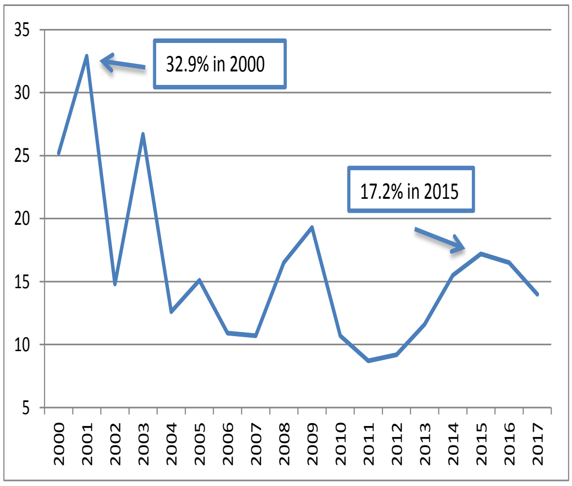
Sources: National sources, IHS, Euler Hermes

GDP growth (%)



Sources: National sources, IHS, Euler Hermes

Consumer Price Inflation (%)



Sources: National sources, IHS, Euler Hermes

Twin fiscal and current account deficits provide vulnerability

In recent years, governments of varying political allegiance have consistently promoted pro-market policies. Despite current financial constraints, EH does not envisage a redirection in broad policy formulation. Even so, twin deficits on the fiscal and current accounts require careful management. It is partially because of these deficits that Ghana is one of the frontier markets that experiences contagion from a general sell-off in emerging markets.

Governments have opened the economy to bilateral assistance, as well as multilateral support, and this is most noticeable in the involvement in the country of China. The lending programme with the China Development Bank includes large infrastructure projects, including in the energy, transport (road, rail and ports) and agriculture sectors.

Public finances

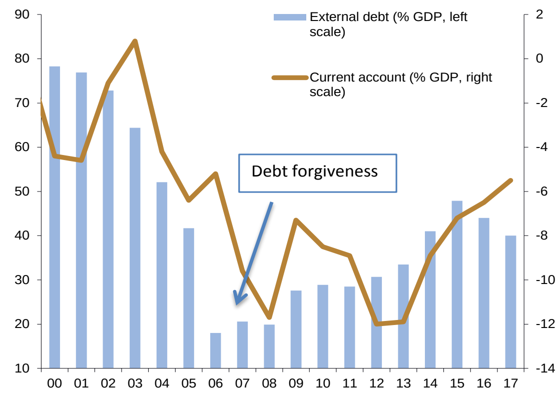
Fiscal deficits (including -11.8 % of GDP in 2012 and still around -6% in 2016) are not sustainable over a protracted period and the economic reform programme supported by the IMF's ECF targets further reductions in the coming years. Public debt is currently equivalent to around 65% of GDP. The government successfully issues Eurobonds and this suggests there is market support that will help to finance the government budget (and support the GHS).

Current account deficits will remain large, although declining in the medium term

Large current account deficits (annual average -8.6% of GDP in 2000-08) were recorded before oil output came on stream and exports of crude oil have now boosted the trade balance. However, imports of energy-related capital goods maintained large current account deficits (-11.9% of GDP in 2013). EH expects deficits of around -6.5% and -5.5% in 2016 and 2017, respectively. After that, with the initial machinery and other oil-industry inputs largely in place and export earnings increasing, current account deficits should be lower.

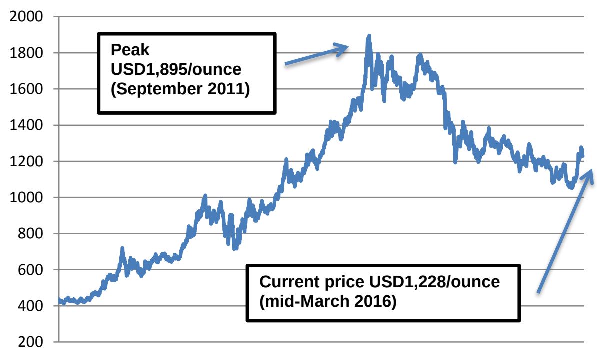
Foreign exchange reserves provide import cover of just below three months, the international comfort benchmark, but FX levels will increase gradually into the medium term. Foreign debt levels and ratios are challenging but servicing commitments on the debt remain comfortable (debt servicing/export earnings below 6%).

Current account and external debt (% of GDP)



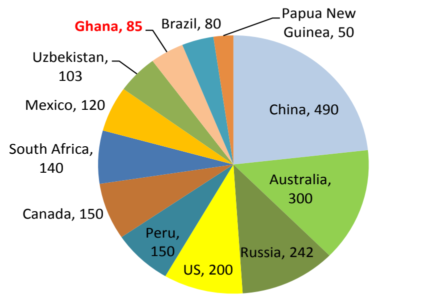
Sources: National sources, IHS, Euler Hermes

Gold Prices (January 2005-November 2015, USD/ounce)



Sources: FT, Euler Hermes

Gold Output (2015, metric tons)



Sources: World Gold Council, Euler Hermes

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