Euler Hermes Economic Research

Country Report

Ghana

Financial pressures, but help is at hand

General Information

GDP	USD48.14 bn (World ranking 82, World Bank 2013)
Population	25.9 mn (World ranking 47, World Bank 2013)
Form of state	Constitutional Democracy
Head of government	John Dramani MAHAMA
Next elections	Presidential and legislative December 2016

Strengths

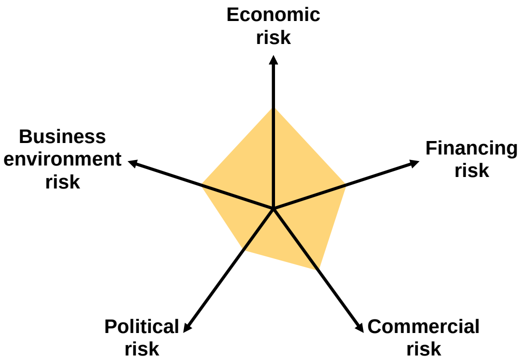
- Established track record of good governance, with a functioning democratic system and peaceful transfer of power among political parties.
- Natural resource base (cocoa, gold, forestry etc.) now supplemented by discovery of commercially-exploitable oil reserves – output from 2011.
- Strong GDP growth in recent years.
- 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	29%	1	12%	Petroleum, petroleum products
Coffee, tea, cocoa, spices, and manufactures thereof	29%	2	10%	Road vehicles
Gold, non-monetary (excluding gold ores and concentrates)	13%	3	6%	Specialised machinery
Vegetables and fruits	10%	4	5%	Miscellaneous manufactured articles, n.e.s.
Metalliferous ores and metal	3%	5	5%	Iron and steel

Source: UNCTAD (2012)

Economic Overview

Policy reality check as IMF provides assistance

At end-February 2015, agreement was reached with the IMF for a three-year Extended Credit Facility (ECF) financial support package of approximately USD940 mn. Formal board approval is required in April but this should be a formality. The facility is intended to offset the negative economic effects of weak gold and cocoa prices and to support reforms aimed at limiting fiscal and current account deficits. Fund support will restore some investor confidence, although an effective reform strategy (and implementation) will be required to carry that over in to the medium term.

As part of the reform strategy and associated austerity measures aimed at restoring debt sustainability, the local authorities have agreed to introduce a 17% petroleum tax, to freeze public sector employment levels and to curtail energy subsidies. The overall fiscal consolidation plan suggests that a challenging period will ensue and the rate of overall growth will slow (see below), but not collapse. Ghana's previously good track record of economic management and governance will aid it in the near term and oil and gas output will provide a boost from 2017.

Relative to other countries in Sub-Saharan Africa, Ghana consistently ranks highly in the World Bank's Ease of Doing Business surveys, with only Mauritius, South Africa and Rwanda assessed higher in 2015.

Strong GDP growth in the period up to 2014…

Annual average GDP growth was above +5% in 2000-08, 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 almost +15%. The impetus from that significant economic development was not maintained in 2012 and 2013 but GDP growth still registered over +7% in those two years.

…but the short-term outlook is less positive before a rebound from 2016

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 was 99,000 bpd in 2013, with a target of 190,000 bpd by end-2016. Accordingly, high GDP growth rates are possible from 2016-17 but, in the interim, austerity and consolidation measures will limit growth. EH forecasts GDP growth will slow to around +4.25% in 2015 (+4.5% 2014) and rebound to approximately +6.5% in 2016.

Key economic forecasts

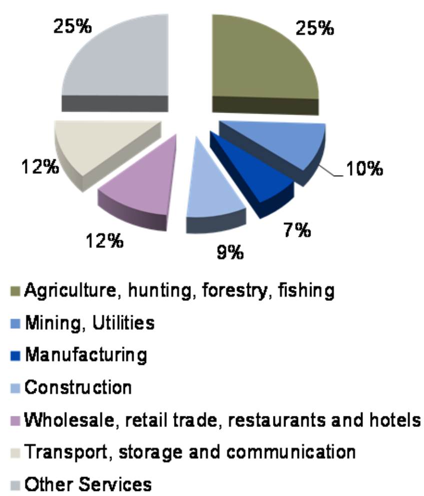
	2012	2013	2014	2015f
GDP growth (% change)	8.8	7.1	4.5	4.3
Inflation (%, end-year)	8.8	12.9	17.0	14.1
Fiscal balance (% of GDP)	-11.8	-10.9	-10.0	-8.0
Public debt (% of GDP)	51.2	57.3	64.3	67.2
Current account (% of GDP)	-11.2	-11.9	-9.3	-8.0
External debt (% of GDP)	30.0	28.0	38.6	39.4

Sources: IHS, national sources, Euler Hermes

GDP profile (% growth)

Sources: IHS, Euler Hermes

GDP breakdown (%)



Sources: UNCTAD

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 was partially because of these deficits that Ghana was one of the frontier markets to experience contagion from a general sell-off in emerging markets in 2014.

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

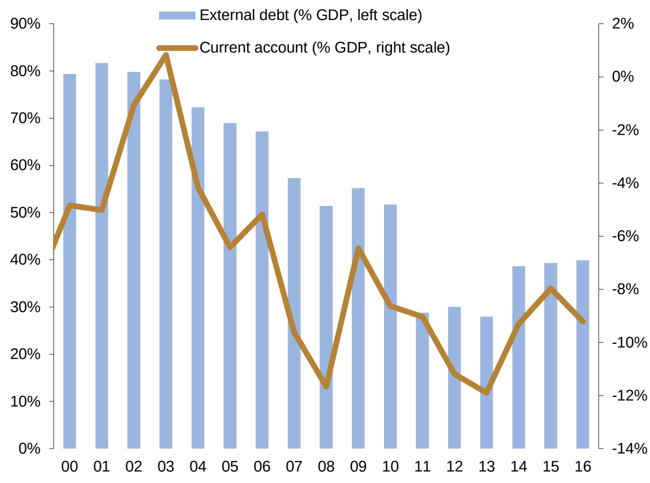
Fiscal deficits (including -11.8 % of GDP in 2012) are not sustainable over a protracted period and the economic reform programme supported by the IMF's ECF targets reductions in the coming years. Public debt is currently equivalent to around 65% of GDP. The government successfully issued a Eurobond of USD1 bn in 2014 and this is partly 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 -8% and -9% in 2015 and 2016, respectively. After that, with machinery and other oil-industry inputs largely in place and export earnings increasing, current account deficits should be lower.

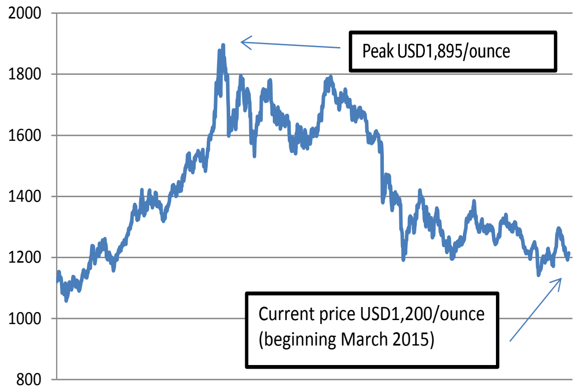
Foreign exchange reserves provide import cover of above three (but below four) months but FX levels will increase into the medium term. Foreign debt ratios are increasing but servicing commitments remain comfortable (debt servicing/export earnings around 2%).

External debt and current account balance (% of GDP)



Sources: IHS, Euler Hermes

Gold prices (USD/ounce)



Source: Euler Hermes

Forecasts of Benchmark Crude Oil Prices (USD/barrel)

	2015	2016
Brent	64	84
WTI	62	80

Source: Euler Hermes