Rabobank

Country report **GHANA**

Summary

Ghana's main economic risk is the country's persisting twin deficit on the current account balance (of 9.4% in 2011) and fiscal balance (of 4% of GDP in 2011). The fiscal deficit is expected to widen to above 5% of GDP this year, as the December 2012 presidential and parliamentary elections have led to a spending spree. Both deficits are expected to remain substantial in the foreseeable future, as oil exports remain subdued and the upcoming elections do not allow austerity measures. However, large net foreign direct investments, which cover over 80% of the current account deficit, give some comfort. Although the outcome of the elections is highly unsure and tensions within and between the main political parties are expected to continue, we expect the country to remain a politically stable country. Ghana's cedi has depreciated by 19% since January 2012. The cedi and inflation will therefore remain of concern in the coming year. Foreign-exchange reserves cover about 3 months of imports, which is below comfort levels. Foreign debt is increasing steadily after debt relief in 2005/06, but remains acceptable at an expected 24% of GDP this year.

Things to watch:

- Persistent twin deficit on current account balance and fiscal balance
- Weak currency
- Presidential and parliamentary elections of December 2012
- Oil output

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Ghana

National facts		
Type of government	Constitutional Democracy	
Capital	Accra	
Surface area (thousand sq km)	239	
Population (millions)	24.3	
Main ethnic groups	Akan (45%)	
	Mole-Dagbon (15%)	
Main religions	Christian (68.8%)	
	Muslim (15.9%)	
	Traditional (8.5%)	
Head of State (president)	John Dramani Mahama	
Head of Government	idem	
Monetary unit	Cedi (GHS)	
Economy		**2011**
Economic size	*bn USD*	*% world total*
Nominal GDP	39	0.06
Nominal GDP at PPP	75	0.09
Export value of goods and services	15	0.07
IMF quotum (in m SDR)	369	0.17
Economic structure	*2011*	*5-year av.*
Real GDP growth	14.4	6.8
Agriculture (% of GDP)	26	30
Industry (% of GDP)	26	20
Services (% of GDP)	49	50
Standards of living	*USD*	*% world av.*
Nominal GDP per head	1579	15
Nominal GDP per head at PPP	3020	24
Real GDP per head	1094	13

Social and governance indicators			rank / total
Human Development Index (rank)			135 / 187
Ease of doing business (rank)			63 / 183
Economic freedom index (rank)			84 / 179
Corruption perceptions index (rank)			69 / 183
Press freedom index (rank)			41 / 178
Gini index (income distribution)			42.8
Population below $1.25 per day			29%
Foreign trade			**2011**
Main export partners (%)		*Main import partners (%)*	
France	20	China	20
Netherlands	10	Nigeria	12
US	9	US	8
Italy	8	India	5
Main export products (%)			
Gold			39
Cocoa			16
Wood			1
Oil			22
Main import products (%)			
Manufactures			79
Fuels			21
Non-fuel primary products			2
Openness of the economy			
Export value of G&S (% of GDP)			37
Import value of G&S (% of GDP)			50
Inward FDI (% of GDP)			8.2

Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

Economic structure and growth

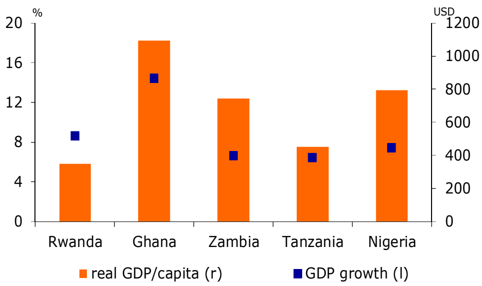
With a GDP per capita of USD 1,523, Ghana is classified as a middle-income country. Agriculture and the services sector are the main sources of employment in Ghana, while gold, cocoa and oil exports are the main foreign currency earners. Oil exports took off last year, when the Jubilee field started operations, but oil output lags behind expectations due to anti-flaring policies of the government. The current output is 80,000 barrels per day, versus an earlier expectation of 120,000 barrels per day. The extraction of associated gas has been hampered by the slow pace of development of the necessary infrastructure. Both oil and gas will help diversify the economy. Meanwhile, cocoa harvests in the 2011/12 season that runs from October to May, remained below the record output level of one million tonnes of the 2010/11 season, which was boosted by good weather, improved farming techniques and some smuggling from neighboring Ivory Coast. The harvest may even remain below the initial target of 870,000 tonnes, as discrepancies between stock inventories and official purchases came to light and very low amounts were declared in April 2012 due to poor weather and pest attacks. Lower global cocoa prices may hit Ghanaian cocoa revenues as well.

Although the start of oil production was responsible for a significant part of Ghana's economic growth of 14.4% in 2011, the gold, cocoa and services sectors were responsible for more than half of the country's growth. As the base effect of the onset of oil production has worn off and growth in the cocoa sector will be weaker, we expect economic growth to come in at between 7% and 8% this year. Next year's growth is forecast at a comparable level, boosted by the expansion of gold mines and the development of the oil and gas sectors.

Foreign investment inflows in oil and non-oil sectors are large, at an annual rate of above 7% of GDP in the past four years. Chinese investment into the country amounts to billions of dollars. Many of these investments go to the development of the oil and gas industry, from which China is seeking preferential oil and gas supply returns. Important export partners of Ghana include the European Union and the United States, while China has become the most important import partner with a share of 20% in 2011.

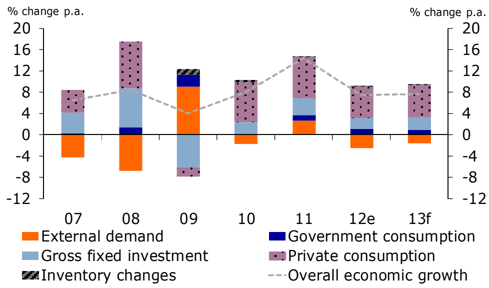
Ghana boasts one of the most advanced financial sectors of sub-Saharan Africa. Although the banking sector is relatively healthy, non-performing loans are still high at 16%, while structural constraints obstruct the decline in lending rates.

Figure 1: Growth and income levels



Source: EIU (data 2011)

Figure 2: Growth performance



Source: EIU

Political and social situation

Ghana is one of the most politically stable countries in Africa with an established record of peaceful power changes. Nevertheless, the political landscape is turbulent in the run-up to the parliamentary elections, which take place on 28 December 2012, and the presidential elections, which are on 7 December 2012 and are - if necessary - followed by a run-off on 28 December 2012. The current ruling party is the social democratic National Democratic Congress (NDC) of the deceased John Atta Mills. In the 2008 elections, Mills beat Nana Akuffo-Addo of the center-right New Patriotic Party (NPP) by a margin of less than 1% of the votes. President John Atta Mills died on 24 July 2012 at the age of 68, while he was being treated for throat cancer. Although Mills' illness was never officially confirmed and Mills himself insisted he was doing well, there had been news reports that he was unwell as well as rumors of his death (twice) in the last few years. Vice-President John Dramani Mahama (NDC) is replacing Mills until the elections of December. The country was shocked by the death of President John Atta Mills, but the smooth handling of the death of Mills has confirmed the stability of Ghana's institutions.

The presidential and parliamentary elections are focusing on employment creation, education, social provision and political transparency. Also, the increasingly close relationship with China is a major election issue, with the opposition party NPP criticizing an overly reliance on the country and failing to negotiate the best deals for infrastructure projects and loans. In the run-up to the elections, accusations between the NDC and the NPP over, among others, preaching violence have intensified and the NDC was tainted by the largest corruption scandal in many years. Meanwhile, unrest within the ruling NDC has increased, as a part of the NDC considers the party and government as not working in their interests. This has led to the recent departure of Jerry Rawlings, founder of the NDC and President of Ghana in the period 1993-2001, and his wife from the NDC to launch the National Democratic Party (NDP). Mills' death and Rawlings' new faction have both increased uncertainty around the outcome of the elections. In the next few months it has to be seen whether Mills' successor, Mahama, will get the same support as Mills. The NDP, which is expected to push Nana Konadu Agyeman Rawlings, the wife of former President Rawlings, forward as presidential candidate, is not expected to gain enough support given the fact that she won only 3% of the votes at the NDC primaries last year. NPP's confrontational election campaign until Mills' death, attacking the record of Mills and the NDC, may antagonize the electorate if the party does not temper this. Considering this and the tight contest in 2008, close elections are anticipated again. However, given the peaceful history of Ghana, we expect the country to remain politically stable.

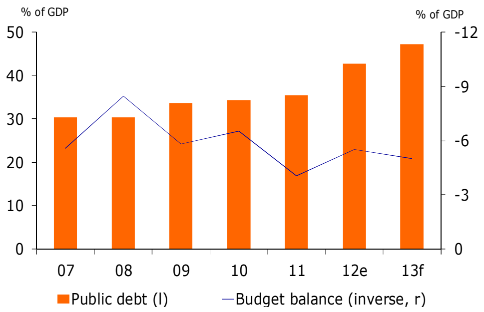
Ghana's health and education sectors belong to the more developed ones of sub-Saharan Africa, but continuing progress in the development of these sectors is needed. The country is on track to become the first African country to achieve the UN Millennium Development Goal of halving extreme poverty and hunger by 2015.

The geopolitical position of Ghana in the world is growing thanks to the oil discoveries (see section above), but remains negligible. The relationship with Ivory Coast was hit last year by a maritime border conflict following the Ghanaian oil discoveries of the past few years. This could lead to increasing tensions, but an agreement about the creation of a joint exploration area is more likely.

Economic policy

Economic policy in Ghana is formulated in close cooperation with the IMF under the Extended Credit Facility. Although Ghana's fiscal deficit has declined from 8.5% of GDP during the global crisis of 2008 to 4% of GDP last year, it remains substantial. After the Ministry of Finance initially targeted a fiscal deficit of 4.8% of GDP for 2012, the Ministry has recently asked Parliament for approval of a significantly wider fiscal deficit of 6.7% of GDP this year. The main reasons for this are an 18% public sector pay rise and a reform of the entire wage structure for state employees, which were both agreed this year. Meanwhile, the upcoming presidential and parliamentary elections are expected to hold off cost-reducing public sector reforms and the elimination of fuel subsidies. The Ghanaian government cut fuel subsidies in December 2011, but restored them partially in February 2012 following an agreement with the trade unions. At the moment, Ghana's budget is still dependent on donor aid, with a projected value of USD 1.4bn or 3.2% of GDP.

Figure 3: Public finances



Source: EIU

Figure 4: Inflation

Source: EcoWin

As a result of the persistent fiscal deficits, Ghana's public debt is rising from 30% of GDP in 2008 to an expected level of 43% of GDP this year. This increases the need for the yet-to-be elected government to implement prudent fiscal policies to curb the public debt, so that it will not become unsustainable.

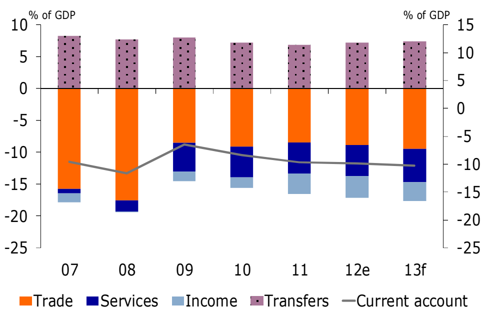
The Ghanaian government built up a substantial stock of domestic payment arrears in the period from 2008 to 2010, but the stock has been reduced significantly in 2011. Arrears clearance led to a reduction of the stock of arrears from GHS 2.1bn (or 4.6% of GDP) in 2010 to GHS 0.6bn (1.1% of GDP) in 2011, while no new arrears were reported in 2011 due to new policies. For example, the ministers need specific approval before committing the government to any contractual obligations. Despite the progress, the country missed its performance target for domestic arrears under ECF, but the IMF granted a waiver for this.

The monetary policy of the Bank of Ghana (BoG) aims to support growth, while ensuring price stability. The central bank's target is an inflation rate of 8.5% for 2012, but this very much depends on the development of the cedi. Ghana's managed floating currency, the cedi, has depreciated by 19% since the beginning of the year due to the country's large current account and fiscal deficits, excess domestic liquidity and global uncertainty that prompted several investors to pull out of emerging markets. The BoG spent almost USD 1bn of its international reserves (USD 4.9bn, end-2011) defending the cedi in the first half of 2012, but this has not helped much. The depreciation in the first half of 2012 has pushed inflation somewhat higher, as it rose from 8.6% year-on-year (yoy) at the end of 2011 to 9.5% yoy in June 2012. Some inflation pressure has been contained by the BoG, which hiked its policy rate by 1 percent point to 14.5% in April 2012 and further raised the rate to 15% in June 2012. However, according to the IMF, the BoG acted slowly and international reserves could have been saved, if policy had been tighter in the first quarter of 2012. In the run-up to the elections, a further tightening policy will be difficult. As the BoG shifted its policy from spending its international reserves to monetary tightening in the first quarter of 2012, the risk of a balance of payments crisis has been reduced. Due to continuing export transactions, the international reserves are forecast to rise again later going forward.

Figure 5: Exchange rate

Source: EcoWin

Figure 6: Current account



Source: EIU

Balance of Payments

In general, Ghana's trade balance shows a deficit as a result of high manufacture and fuel imports. In 2011, the trade deficit came in at 8% of GDP, as high oil, cocoa and gold export growth were offset by a strong growth in imports, mainly due to investment-related oil imports. The oil sector has played an important role in the large current account deficits, as the sector has increased the country's import dependency due to capital intensive imports from China, while the sector is also responsible for an accelerating dollarization of the economy. As oil exports are expected to increase significantly from 2015/16 on, oil revenues may substantially reduce the trade deficit or lead to a trade surplus.

Services imports have significantly increased since 2007, mainly due to investment-related imports of services. As a result, the services balance has deteriorated from a deficit of 0.7% of GDP in 2007 to a deficit of 4.7% of GDP in 2011. We expect a similar deficit this year. Meanwhile, profit repatriation has led to a significant deterioration of the income balance. The balance went from a small deficit of around 1.5% of GDP in 2007 to a deficit of about 3.1% of GDP in 2011. As profit outflows are predicted to remain substantial, we expect the balance to remain of this size in the coming few years. Although the transfer balance showed a surplus of USD 2.6bn or 6.6% of GDP in 2011, this was not enough to offset the deficits on the trade, services and income balances.

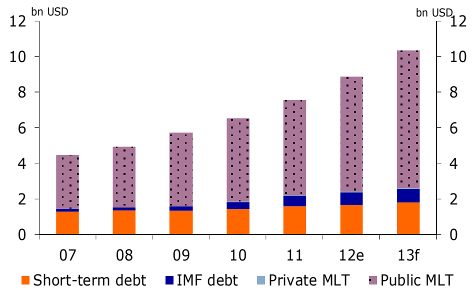
All in all, this results in an expected current account deficit of about 11% of GDP in 2012 and 2013. This is slightly higher than in 2011, when the deficit amounted to 9.4% of GDP (or USD 3.7bn). Although this deficit is worrying high, a more positive trade balance is expected to improve the current account balance in the coming decade. The fact that large foreign direct investment inflows cover over 80% of the current account deficit every year, creates some comfort about the deficit as well. Substantial portfolio investment inflows largely exceed the rest of the current account deficit.

External position

Total external debt has fallen substantially following debt relief due to Heavily Indebted Poor Countries (HIPC) completion in 2004 and Multilateral Debt Relief Initiative (MDRI) completion in 2005. External debt went from USD 7.6bn or 63% of GDP in 2003 to USD 3.2bn or 16% of GDP in 2006. However, since then, debt has increased with the development of the oil industry. Debt is expected to increase to USD 8.9bn or 24% of GDP in 2012. Seventy percent of the debt has a medium to long maturity, while this debt is almost completely held by the public sector.

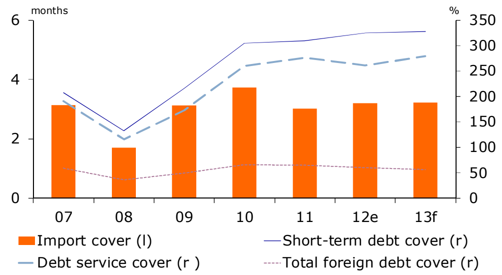
Ghana's weak external position is illustrated by its foreign exchange reserves of USD 4.9bn at the end of 2011. Due to currency intervention by the BoG in January 2012, the FX import cover has fallen below comfortable levels and covered just 2.5 months of imports at the end of June 2012. New intervention is not expected, as the BoG has changed its strategy to monetary tightening. Due to continuing export transactions, the foreign exchange reserves are forecast to rise to USD 5.3bn at the end of 2012. As a result, the import cover is expected to rise to just above 3 months of imports at the end of 2012. Meanwhile, short-term debt cover and debt service cover stood at a sound level, above 250% last year.

Figure 7: Foreign debt



Source: EIU

Figure 8: External liquidity



Covers offered by official FX-reserves
Source: EIU

Ghana

Selection of economic indicators	2007	2008	2009	2010	2011	2012e	2013f
Key country risk indicators							
GDP (% real change pa)	6.5	8.4	4.0	8.0	14.4	7.4	7.6
Consumer prices (average % change pa)	10.7	16.5	19.3	10.7	8.7	9.0	8.2
Current account balance (% of GDP)	-9.6	-11.7	-6.5	-8.4	-9.4	-10.7	-10.9
Total foreign exchange reserves (m USD)	2630	1783	2856	4328	4944	5340	5870
Economic growth							
GDP (% real change pa)	6.5	8.4	4.0	8.0	14.4	7.4	7.6
Gross fixed investments (% real change pa)	18.3	30.1	-21.4	10.2	14.2	9.0	10.0
Private consumption (% real change pa)	5.1	10.8	-2.0	9.6	9.7	7.7	8.0
Government consumption (% real change pa)	1.5	13.0	20.0	0.9	8.0	10.0	7.5
Exports of G&S (% real change pa)	18.2	16.8	7.6	24.6	38.0	8.5	11.5
Imports of G&S (% real change pa)	21.7	24.6	-12.6	21.0	22.0	11.5	12.0
Economic policy							
Budget balance (% of GDP)	-5.6	-8.5	-5.8	-6.5	-4.0	-5.5	-5.0
Public debt (% of GDP)	30	30	34	34	36	43	47
Money market interest rate (%)	12.0	15.6	21.5	16.0	14.0	14.0	13.8
M2 growth (% change pa)	37	39	25	32	34	25	22
Consumer prices (average % change pa)	10.7	16.5	19.3	10.7	8.7	9.0	8.2
Exchange rate LCU to USD (average)	0.9	1.1	1.4	1.4	1.5	1.8	2.0
Recorded unemployment (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Balance of payments (m USD)							
Current account balance	-2379	-3328	-1688	-2701	-3675	-3980	-4360
Trade balance	-3894	-4999	-2207	-2962	-3183	-3580	-3960
Export value of goods	4172	5270	5840	7960	12785	12980	14030
Import value of goods	8066	10269	8046	10922	15968	16560	17990
Services balance	-167	-497	-1173	-1526	-1859	-1820	-2170
Income balance	-361	-43	-386	-535	-1230	-1240	-1210
Transfer balance	2043	2212	2078	2322	2597	2660	2980
Net direct investment flows	1383	2715	1424	2527	3214	3280	3610
Net portfolio investment flows	5500	7200	6840	8000	9448	10880	12260
Net debt flows	1180	521	744	801	1021	1340	1480
Other capital flows (negative is flight)	-5144	-7889	-6183	-7068	-9350	-11100	-12450
Change in international reserves	540	-780	1137	1560	658	410	540
External position (m USD)							
Total foreign debt	4463	4928	5720	6541	7576	8900	10370
Short-term debt	1265	1347	1323	1420	1597	1660	1800
Total debt service due, incl. short-term debt	1379	1531	1650	1662	1791	2040	2110
Total foreign exchange reserves	2630	1783	2856	4328	4944	5340	5870
International investment position	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total liabilities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Key ratios for balance of payments, external solvency and external liquidity							
Trade balance (% of GDP)	-15.7	-17.5	-8.5	-9.2	-8.1	-9.7	-9.9
Current account balance (% of GDP)	-9.6	-11.7	-6.5	-8.4	-9.4	-10.7	-10.9
Inward FDI (% of GDP)	5.6	9.5	5.5	7.9	8.2	8.9	9.1
Foreign debt (% of GDP)	18	17	22	20	19	24	26
Foreign debt (% of XGSIT)	55	53	58	55	44	51	55
Debt service ratio (% of XGSIT)	17	16	17	14	10	12	11
Interest service ratio incl. arrears (% of XGSIT)	1	2	2	2	1	1	1
FX-reserves import cover (months)	3.1	1.7	3.1	3.7	3.0	3.2	3.2
FX-reserves debt service cover (%)	191	116	173	260	276	261	278
Liquidity ratio	97	85	106	107	104	102	102

Source: EIU