Country report **GHANA**

Summary

In a region where political stability is hard to come by, Ghana stands out. The country is one of the most stable democracies and has one of the lowest corruption rates in Sub-Saharan Africa. In addition, the coming online of Ghana's first oil field, combined with increased productivity in the cocoa sector resulted in strong GDP growth. For 2011, we expect GDP growth to reach 11%, from 7.7% in 2010. However, risks remain. Political risks stem from the fact that Ghana's two main political parties have began slandering one another, potentially causing frictions among their supporters. Economic risks include a persisting current account deficit of around 5%, despite an increase in exports, as well as a public budget deficit averaging roughly 6.5% over the past five years. Still, both external and public debt levels are sustainable.

Things to watch:

- Persisting twin deficits
- Allocation of oil revenues
- Political tensions in light of upcoming elections

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Ghana

National facts		
Type of government	Constitutional Democracy	
Capital	Accra	
Surface area (thousand sq km)	239	
Population (millions)	23.8	
Main ethnic groups	Akan (45%)	
	Mole-Dagbon (15%)	
Main religions	Christian (68.8%)	
	Muslim (15.9%)	
	Traditional (8.5%)	
Head of State (president)	John Atta Mills	
Head of Government (prime-minister)	idem	
Monetary unit	Cedi (GHS)	
Economy		**2010**
Economic size	*bn USD*	*% world total*
Nominal GDP	32	0.05
Nominal GDP at PPP	64	0.09
Export value of goods and services	10	0.05
IMF quotum (in mln SDR)	369	0.17
Economic structure	*2010*	*5-year av.*
Real GDP growth	7.7	6.5
Agriculture (% of GDP)	30	31
Industry (% of GDP)	19	20
Services (% of GDP)	51	48
Standards of living	*USD*	*% world av.*
Nominal GDP per head	1331	13
Nominal GDP per head at PPP	2628	22
Real GDP per head	975	12

Social and governance indicators	rank / total
Human Development Index (rank)	130 / 169
Ease of doing business (rank)	67 / 183
Economic freedom index (rank)	95 / 179
Corruption perceptions index (rank)	62 / 178
Press freedom index (rank)	26 / 178
Gini index (income distribution)	42.76
Population below $1.25 per day	0.30

Foreign trade			
Main export partners (%)		*Main import partners (%)*	
Netherlands	13	China	16
Ukraine	12	Nigeria	15
UK	8	India	1
France	1	US	1

Main export products (%)	
Gold	48
Cocoa	22
Wood	3
Oil	1
Main import products (%)	
Manufactures	78
Fuels	23
Non-fuel primary products	2
Openness of the economy	
Export value of G&S (% of GDP)	30
Import value of G&S (% of GDP)	44
Inward FDI (% of GDP)	5.7

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

Economic structure and growth

In a region where political stability is hard to come by, Ghana stands out. The country is one of the most stable democracies and has one of the lowest corruption rates in Sub-Saharan Africa. Although, with a real GDP per capita of USD 975, it is still considered a low income country, this situation may soon change. At the start of 2011, Ghana became a mid-sized oil producer. The country’s Jubilee oil field has recoverable reserves estimated between 800mln and 3bn barrels of oil. By Mid-2011, Ghana produced 120,000 barrels a day, making it one of the top 10 oil producers in Africa.

The new oil wealth has altered the country’s make-up. Traditionally, the agricultural sector in general, and the cocoa sector in particular, were considered the backbone of the country’s economy, accounting for roughly 20% of GDP and employing the majority of the population. The sector’s strategic importance as a source of foreign exchange revenue also granted it considerable attention and secured it a steady flow of public investments. Whether the coming online of Ghana’s oil plant will alter the direction of these investments remains to be seen, but the sector does stand to lose some of its importance in the overall economy.

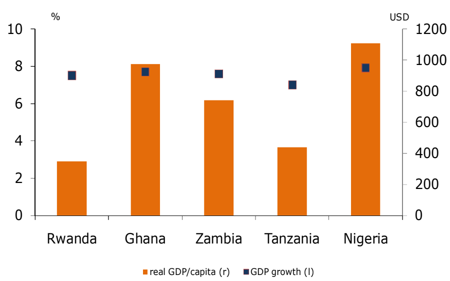
In the coming years, oil revenues will translate in high GDP growth rates. After growing by 7.7% in 2010 (up from 4% in 2009), we expect growth to reach roughly 11% in 2011. Aside from oil production, elevated growth rates also reflect increased activity in the construction and mining sectors, as well as a stark increase in the price of gold, another important export good. In addition, record cocoa output in the first half of 2011 further spurs growth. Output growth in the cocoa sector is the result of public efforts to increase productivity and enhance the quality of the produce by developing new pesticides and improving marketing systems, while increasing the profit for farmers. These efforts should help ensure high productivity and high quality in years to come. Despite this favorable outlook, many challenges remain. Productivity in Ghana's small manufacturing sector remains weak and manufacturers have trouble competing internationally. Furthermore, poor infrastructure, although better than in neighboring countries, continues to slow down growth. Meanwhile, public expenditures strain credit availability to the private sector. Finally, unemployment and a large informal sector keep Ghana from realizing its full potential.

In addition to these bottlenecks, the outlook is subject to a number of downside risks. These include Ghana's vulnerability to commodity price volatility, the possible corrupting influence of the large oil revenues, as well as the country's vulnerability to weather related shocks. Weather events impact the country's agricultural output. Moreover, as Lake Volta constitutes the country's most importance source of electricity, severe droughts translate into electricity shortages, which could impact the country's overall economic performance.

On a brighter note, even though Ghanaian exports were traditionally directed at Europe, the country is increasingly shifting its focus to emerging markets, including China and India. Trade with these countries now accounts for 36% of Ghana's total trade, while China has become the one of the largest sources of FDI flowing into Ghana, second only to the UK. In light of the ongoing debt crisis in the EU, a reduced dependence on demand and investment flows from this region is considered favorable.

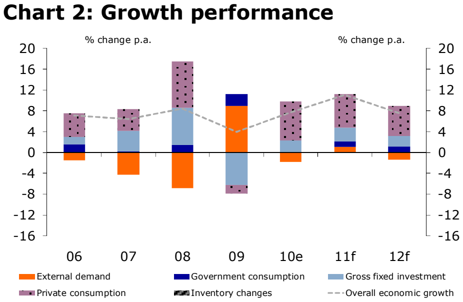
Ghana's banking sector is dominated by subsidiaries from large Western banks. The sector was spared much of the turmoil that affected global financial institutions. Instead, banks continue to perform well and the number of loans to the private sector continues to grow.

Chart 1: Income level



Source: EIU

Chart 2: Growth performance



Source: EIU

Political and social situation

Ghana continues to be a beacon of stability in a region fraught with conflict. Even so, the upcoming elections in 2012 present a window of vulnerability to political violence. Tensions between the country's ruling party, the National Democratic Congress (NDC) led by President Ata Mills and the opposing New Patriotic Party (NPP) have already increased. Preliminary polls suggest that either side has a decent chance to win the elections. It is feared that the consequent neck-on-neck race may have destabilizing effects. The most worrying sign is the fact that leaders of both parties are increasingly employing local media to slander their opponents. The slander resonates with the supporters of each leader, who often feel personally offended. However, despite these worrying signs, we should not immediately fear for the worst. We especially derive comfort from the lack of major underlying grievances that could mobilize large segments of the populations.

Regarding Ghana's social situation, the government has made great strides in improving health and education facilities. It already attained the Millennium Development Goal target of halving the number of children that are underweight. Moreover, school enrolment rates are well above the

Sub-Saharan African average. However, from Ghana's low position on the Human Development Index (it scores 130th out of 169) we can only conclude that much remains to be done. For one, the country's high HIV prevalence rate is proving hard to tackle. Furthermore, the lack of formal employment opportunities weighs on the country's overall productivity. In this respect it is fortunate that a large informal economy provides employment to those that are unable to find formal jobs.

Unfortunately, Ghana is surrounded by countries with poor records on political and social stability, including Ivory Coast. At the beginning of 2011, Ivory Coast's elections turned violent when former president Gbagbo refused to step down to make way for the election winner, Ouattara. Although the resulting conflict has been resolved, continuing tensions could have consequences for Ghana as well, as large numbers of refugees and fleeing rebel forces could present a threat to Ghana's internal stability. Nonetheless, so far it seems that the language barrier (with Ghana being the only English speaking country among its French speaking neighbours) deters refugees, while Ghana's relatively strong army is able to keep out rebel forces.

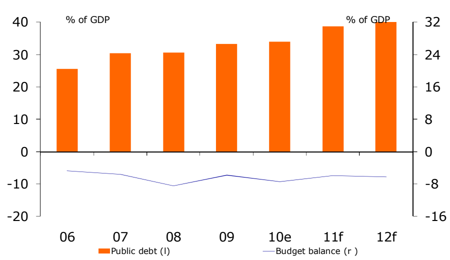
Economic policy

Ghana's government sets out to achieve macroeconomic balance. It put in place monetary policies aimed at reducing inflation and fiscal policies aimed at lowering the budget deficits by cutting unnecessary and wasteful expenditures. The importance of realizing the latter stems from Ghana's membership to the West-African Monetary Zone (WAMZ), which requires members to keep their budget deficits below 4% of GDP.

Nonetheless, despite these efforts and the WAMZ requirement, Ghana's budget deficit remains elevated. In 2010, the deficit reached 7.4% of GDP, up from 5.8% of GDP in 2009, due to elevated interest payments as well as payments made on domestic arrears build-up during the crisis. Consequently, the primary deficit stood at a much lower 2.9% of GDP in 2010.

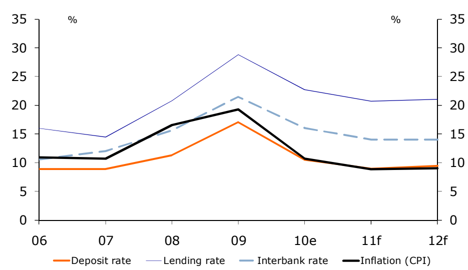
For 2011, the inflow of oil revenues should help reduce the budget deficit to a still substantial 5.9% of GDP. The government is expected to earn 6% of GDP in oil revenues. Roughly two thirds of this revenue will be available for immediate spending, while another third will be allocated to the newly established heritage and stabilizations funds.

Chart 3: Public finances



Source: EIU

Chart 4: Interest and inflation rates

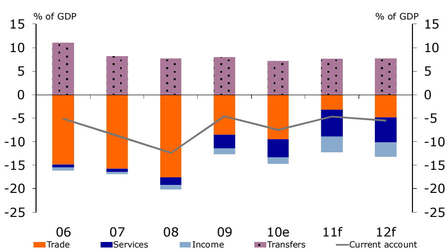


Source: EcoWin

However, even with the funds absorbing some of the oil revenues, large inflows of cash could still induce high public spending. Although this would not necessarily lead to higher deficits, it could reverse previous efforts to cut unnecessary expenditures. Moreover, there is also the risk that large oil revenues will allow politicians to postpone vital reforms. Among these is the review of the current tax exemption policies, as part of an overall effort to enhance revenue mobilizations. A failure to implement these reforms would be harmful, especially in light of the government's planned investments in infrastructure and its new 'Single Spine Salary' proposal. The latter is to

ensure that all civil servants with similar responsibilities are awarded the same wage. Although the policy is to save money in the long term, implementing it will be costly.
Ghana's budget deficits increased the public debt level, which rose to 34% of GDP in 2010, from 33% of GDP in 2009. For 2011, a further rise, to 39% of GDP, is expected. The public debt is partially financed with the help of loans and grants from China. In 2010, Ghana signed a USD 13mln loan with the China Development Bank and the China Exim Bank, which is to benefit infrastructural improvements. In addition, concessional loans were provided by international donors, such as the World Bank. Finally, a Eurobond issued in 2008 helped to raise funds, as did three 3-year bonds in the amount of USD 600mln.
Prudent monetary policy helped to bring down inflation from a stellar 19.3% in 2009, to 10.3% in 2010. For 2011, we expect inflation rates to come down further, to an expected 8.9%, on the back of a stable exchange rate and lower food prices. Reduced inflation allowed the central bank to reduce its interest rates from 18.5% in 2009, to 12.5% currently, to improve domestic borrowing. Nonetheless, a continued focus on inflation is called for, especially in light of the large oil revenues. A failure to manage these revenues in a prudent matter will put upward pressure on inflation. This would interfere with the Central Bank's long-term goal of lowering inflation to between 3 and 4%. A failure to manage oil revenues, and especially a failure to sterilize these revenues, would also affect the exchange rate of the cedi vis-à-vis other currencies. In such a case, the cedi would appreciate, thereby negatively affecting the relative competiveness of traditional and upcoming exports sectors. However, for now, the free floating cedi appears stable, after fluctuating somewhat at the start of 2011.

Chart 5: Current account



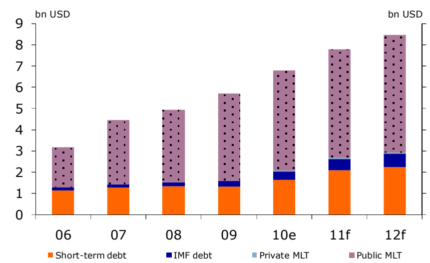
Source: EIU

Balance of Payments

Ghana generally reports a deficit on the trade account, reflecting large imports of manufactures and fuels. However, in 2009, slowing domestic demand helped to reduce the trade deficit, which has since remained at lower levels, although, in 2010, the deficit increased marginally due to large capital imports related to the oil sector development. In contrast, for 2011, we expect the trade deficit to contract from 9.2% of GDP in 2010, to 3.5% of GDP 2011, due to the oil exports, combined with record cocoa exports and an inflated gold price.
Nonetheless, the development of the oil industry also requires large amounts of services to be imported. Accordingly, the deficit in the services balance rose from USD 773mln in 2009, to USD 1,249mln in 2010. For 2011, we expect a further increase, although the revival of the tourism industry should help cushion the blow.
The income balance generally reports a deficit as well, reflecting the interest paid on foreign loans, as well as profit repatriation by multinationals. In 2011, the income deficit is expected to grow, owing to the increased profit repatriations by foreign oil companies.

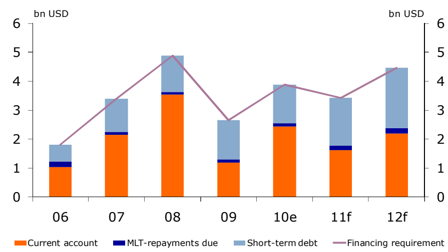
The transfers balance generally reports a surplus, which has been relatively stable over the years. The surplus is derived from inflows of foreign aid and remittances.
A large deficit on the trade balance, together with sizeable deficits on the services and income balances, resulted in a current account deficit of 7.5% of GDP in 2010. In 2011, we expect the current account deficit to contract on the back of a reduced deficit on the trade account.
Although foreign direct investments (FDI) inflows plummeted during the crisis, they have picked up with remarkable speed. Explaining this recovery is the development of Ghana's oil installations that both require and attract large amounts of FDI. The main sources of FDI were emerging countries, including China and India. In addition, the UK continues to be an important source of investments. Nonetheless, in 2010, FDI inflows did not fully cover the current account deficit, creating some dependence on much more volatile portfolio investment inflows. For 2011, as the current account deficit is expected to decline, this issue should be resolved.
FX reserves have improved further, after covering as little as 1.7 months of imports in 2007. Instead, in 2010, we expect FX reserves covered roughly 3.5 months of imports. The inflow of oil revenues should help to further improve these reserve ratios, especially since part of the inflows is to be stored in foreign currencies.

Chart 6: Composition of external debt



Source: EIU

Chart 7: Financing requirement



Source: EIU

External position

In 2010, external debt stood at 56% of GDP, down from 57% of GDP in 2009. For 2011, we expect this ratio to decrease further on the back of strong GDP growth. However, in absolute terms, external debt is expected to grow USD 7.8bn in 2011, from USD 6.8bn in 2010 (as shown in chart 6).
Rising debt levels are mostly the result of an increased external borrowing by the government. In fact, around 70% of all middle-to long-term external debt is held by the government (see chart 6). As described above, a large part of public debt is borrowed on concessional terms, meaning that maturities are long and the interest rates are relatively low. Nonetheless, the rapid increase in external public debt, after the country received massive debt relief in 2006, is worrying.
Short term debt makes up roughly 25% of all external debt (2010) and is mostly held by the private sector. Despite the rise in both long-term and short-term external debt, debt levels are regarded sustainable and FX reserves still more than fully cover the total debt service due with ease.

Ghana

Selection of economic indicators	2006	2007	2008	2009	2010	2011e	2012f
Key country risk indicators							
GDP (% real change pa)	7.1	6.5	8.4	4.0	7.7	11.1	7.6
Consumer prices (average % change pa)	10.9	10.7	16.5	19.3	10.7	8.8	9.0
Current account balance (% of GDP)	-5.1	-8.7	-12.4	-4.6	-7.5	-4.1	-4.9
Total foreign exchange reserves (mln USD)	2090	2630	1783	2856	4300	5250	5380
Economic growth							
GDP (% real change pa)	7.1	6.5	8.4	4.0	7.7	11.1	7.6
Gross fixed investments (% real change pa)	6.3	18.3	30.1	-21.4	10.2	12.0	9.0
Private consumption (% real change pa)	5.5	5.1	10.8	-2.0	9.6	8.0	7.5
Government consumption (% real change pa)	15.1	1.5	13.0	20.0	0.9	8.0	10.0
Exports of G&S (% real change pa)	8.8	18.2	16.8	7.6	24.6	34.0	18.4
Imports of G&S (% real change pa)	9.1	21.7	24.6	-12.6	21.0	22.0	17.0
Economic policy							
Budget balance (% of GDP)	-4.7	-5.6	-8.5	-5.8	-7.4	-5.9	-6.3
Public debt (% of GDP)	26	30	31	33	34	39	42
Money market interest rate (%)	10.6	12.0	15.6	21.5	16.0	14.0	14.0
M2 growth (% change pa)	39	37	45	36	35	34	25
Consumer prices (average % change pa)	10.9	10.7	16.5	19.3	10.7	8.8	9.0
Exchange rate LCU to USD (average)	0.9	0.9	1.1	1.4	1.4	1.5	1.5
Balance of payments (mln USD)							
Current account balance	-1043	-2151	-3543	-1199	-2430	-1440	-1950
Trade balance	-3027	-3894	-4999	-2207	-3057	-890	-1570
Export value of goods	3727	4172	5270	5840	7892	13130	13450
Import value of goods	6754	8066	10269	8046	10950	14030	15020
Services balance	-137	-162	-497	-773	-1249	-2030	-2220
Income balance	-127	-139	-259	-297	-451	-1190	-1250
Transfer balance	2248	2043	2212	2078	2327	2680	3080
Net direct investment flows	636	970	2103	1678	1846	1940	2030
Net portfolio investment flows	4800	5500	7200	6626	7795	8150	10030
Net debt flows	910	1180	521	744	1020	950	670
Other capital flows (negative is flight)	-4933	-4959	-7061	-6712	-6696	-8620	-10630
Change in international reserves	371	540	-780	1137	1535	970	160
External position (mln USD)							
Total foreign debt	3184	4463	4928	5720	6795	7780	8460
Short-term debt	1143	1265	1347	1323	1642	2100	2250
Total debt service due, incl. short-term debt	882	1379	1531	1650	1666	2020	2510
Total foreign exchange reserves	2090	2630	1783	2856	4300	5250	5380
Key ratios for balance of payments, external solvency and external liquidity							
Trade balance (% of GDP)	-14.8	-15.7	-17.5	-8.5	-9.5	-2.5	-3.9
Current account balance (% of GDP)	-5.1	-8.7	-12.4	-4.6	-7.5	-4.1	-4.9
Inward FDI (% of GDP)	3.1	3.9	7.4	6.5	5.7	5.6	5.1
Foreign debt (% of GDP)	16	18	17	22	21	22	21
Foreign debt (% of XGSIT)	43	55	53	57	56	43	45
Debt service ratio (% of XGSIT)	12	17	16	17	14	11	13
Interest service ratio incl. arrears (% of XGSIT)	1	1	2	2	2	1	1
FX-reserves import cover (months)	3.0	3.1	1.7	3.2	3.7	3.5	3.3
FX-reserves debt service cover (%)	237	191	116	173	258	259	214
Liquidity ratio	109	99	84	110	108	113	108

Source: EIU