Country update

GHANA

Summary

The large macroeconomic imbalances with which Ghana entered the global financial crisis have narrowed recently. However, there are still sizeable vulnerabilities. For instance, while the fiscal deficit has decreased, the government has accumulated new domestic payment arrears. The external position is now less vulnerable. In the longer run, Ghana's fortunes will be determined by the wisdom with which Ghana will manage its new oil wealth, which will start to come in as Ghana becomes a mid-sized oil exporter in late 2011. Meanwhile, inflation has recently fallen below 10%, but it is unlikely to remain that low in the immediate future.

Things to watch:

- Impact of Ghana becoming an oil producer
- Fiscal performance

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Ghana

National facts	
Type of government	Constitutional democracy
Capital	Accra
Surface area (thousand sq km)	239
Population (millions)	23.3
Main ethnic groups	Akan (45.3%)
	Mole-Dagbon (15.2%)
Main religions	Christian (68.8%)
	Muslim (15.9%)
	Traditional (8.5%)
Head of State (president)	John Evans Atta Mills
Head of Gov (prime-minister)	idem
Monetary unit	Cedi (GHS)

Economy		2009
Economic size	*bn USD*	*% world total*
Nominal GDP	15	0.03
Nominal GDP at PPP	36	0.05
Export value of goods and services	7	0.05
IMF quotum (in mln SDR)	369	0.17
Economic structure	*2009*	*5-year av.*
Real GDP growth	3.5	6.2
Agriculture (% of GDP)	34	36
Industry (% of GDP)	25	25
Services (% of GDP)	41	39
Standards of living	*USD*	*% world av.*
Nominal GDP per head	649	7
Nominal GDP per head at PPP	1506	13
Real GDP per head	563	7

Social and governance indicators	rank / total
Human Development Index (rank)	152 / 182
Ease of doing business (rank)	92 / 183
Economic freedom index (rank)	87 / 179
Corruption perceptions index (rank)	69 / 180
Press freedom index (rank)	27 / 175
Gini index (income distribution)	42.8
Population below $1 per day (PPP)	0.3

Foreign trade			2009
Main export partners (%)		*Main import partners (%)*	
Netherlands	13	China	17
UK	8	Nigeria	11
France	6	US	7
Ukraine	6	Côte d'Ivoire	6
Main export products (%)			
Gold			44
Cocoa			25
Wood			4
Main import products (%)			
Manufactures			28
Fuels			8
Non-fuel primary products			2
Openness of the economy			
Export value of G&S (% of GDP)			48
Import value of G&S (% of GDP)			68
Inward FDI (% of GDP)			10.6

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

Introduction and update

With a current account deficit of 21.3% of GDP, a fiscal deficit of 14.5% of GDP, foreign reserves equal to only 1.7 months of imports and inflation running at 16.5% in 2008, Ghana entered the global financial crisis with large macroeconomic imbalances. Since then, most of these indicators have improved, though sizeable vulnerabilities remain. The government managed to decrease the fiscal deficit to 9.8% in 2009. However, as the IMF recently noted, on a commitment basis (instead of a cash basis), the actual deficit was about 3% of GDP larger than programmed. This shortfall was financed by the accumulation of new domestic expenditure arrears. Nevertheless, the IMF recently approved the second review of Ghana’s Extended Credit Facility, and has now approved disbursements totaling USD 119mln. This will help to boost Ghana’s external position. Thanks to earlier multilateral support and the Special Drawing Right augmentation at the IMF, foreign reserves have already improved. They now stand at about USD 3bn (or 3 months of imports), up from a dangerous USD 1.8bn (or 1.7 months of imports) in 2008. Meanwhile, the current account deficit fell to 8.3% in 2009, but is likely to grow once again in 2010. However, afterwards the deficit will narrow, as significant amounts of oil will start to be exported.

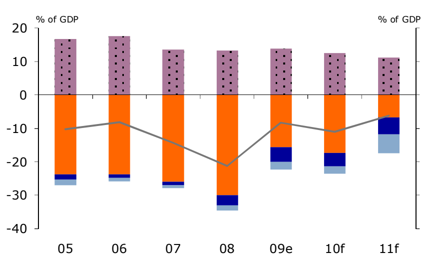
Oil wealth

Ghana is soon to become a mid-sized oil producer. Later in 2010 production will start at the Jubilee field, which has recoverable reserves between 800mln and 2bn barrels of oil. By Mid-2011, Ghana will produce 120,000 barrels a day, making it one of the top 10 oil producers of Africa. The new oil wealth will boost growth and help to trim the still sizeable current account deficit. It will also contribute to a diversification of the current account (though not away from commodities), as it will add a third important export product next to gold and cocoa, which together have accounted for 65-70% of total exports in the last few years. In the coming years, the contribution of the oil money to the budget will be limited. Afterwards, fiscal oil revenue is likely to increase. This pattern means that donor money is likely to remain an important source of income for the government in the immediate future. The big question is how well Ghana will use its new wealth. Will the new wealth be used to make the investments that will further transform the country into a frontier market? Or will oil lead to rent seeking and corruption that will stifle the rest of the economy? Both seem very well possible. On the one hand, Ghana's institutions, though certainly not perfect, are relatively good by African standards. Power has switched peacefully and democratically twice since 2000. As the number 69 (out of 180 countries) the country also scores rather well on the Corruption Perception Index of Transparency International. However, experiences of other countries show that sudden commodity wealth tends to undermine good governance and institutions. What is more, Ghana's high inflation and large current account and fiscal deficits of recent times do not show a track record of macroeconomic prudence. Thus, there is a risk that the oil wealth will be used to boost wasteful spending.

Finally single digit inflation?

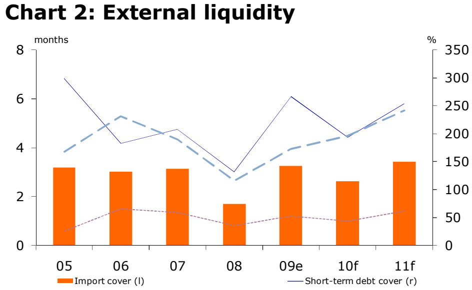
Inflation has recently fallen sharply. As a result it reached single digit territory in June 2010, as it fell to 9.5% yoy, down from 10.7% yoy in May. One year ago it still stood at 20.7%, fuelled by fiscal expansion and high food and energy prices, just after the Monetary Policy Committee added an inflation target to its mandate of stimulating growth in 2007. In the preceding four years monetary policy had been expansionary. Thus, for many years, average yearly inflation has not been below 10%. Although, the fall of inflation to below 10% is very welcome, it has primarily been caused by lower food prices, with non-food inflation remaining persistently high. Moreover, the government recently decided to steeply increase the tariffs for electricity and water, in it itself a positive step as it will reduce the government support to electricity and water parastatals. As a result, there will be upward pressure on inflation, making it unlikely that the 7 – 11% inflation target of the central bank will be met. The dip of inflation below 10% can thus not be expected to be structural. Nevertheless, lower inflation has created some room for lower interest rates. Indeed, the central bank cut interest rates cut on 16 July: policy rate went down from 15% to 13.5%. It was the fourth consecutive reduction since November 2009, when this interest rate still stood at 18%.

Chart 1: Current account



Source: EIU

Chart 2: External liquidity



Source: Covers offered by official FX-reserves, EIU

Ghana

Selection of economic indicators	2005	2006	2007	2008	2009e	2010f	2011f
Key country risk indicators							
GDP (% real change pa)	5.9	6.4	5.7	7.3	3.5	4.6	14.0
Consumer prices (average % change pa)	15.1	10.9	10.7	16.5	19.3	12.0	11.2
Current account balance (% of GDP)	-10.3	-8.2	-14.3	-21.3	-8.3	-11.0	-6.2
Total foreign exchange reserves (mln USD)	1753	2090	2630	1783	2856	2750	4250
Economic growth							
GDP (% real change pa)	5.9	6.4	5.7	7.3	3.5	4.6	14.0
Gross fixed investment (% real change pa)	12.3	13.3	24.5	8.6	6.5	13.5	11.0
Private consumption (real % change pa)	9.2	8.5	10.0	14.9	3.6	4.5	7.2
Ghana, Government consumption (% real change pa)	-3.7	-8.2	10.0	7.9	5.0	4.8	6.0
Exports of G&S (% real change pa)	10.4	13.6	1.4	2.0	1.0	8.0	38.0
Imports of G&S (% real change pa)	13.5	13.5	16.6	13.3	4.0	10.0	15.0
Economic policy							
Budget balance (% of GDP)	-3.0	-7.5	-9.2	-14.5	-9.8	-8.9	-6.4
Public debt (% of GDP)	76	41	50	52	55	60	55
Ghana, Money market interest rate (%)	14.7	10.6	12.0	15.6	21.5	16.0	14.0
M2 growth (% change pa)	19	39	37	45	27	24	38
Consumer prices (average % change pa)	15.1	10.9	10.7	16.5	19.3	12.0	11.2
Exchange rate LCU to USD (average)	0.9	0.9	0.9	1.1	1.4	1.4	1.4
Balance of payments (mln USD)							
Current account balance	-1105	-1043	-2151	-3543	-1287	-1970	-1430
Trade balance	-2545	-3027	-3894	-4999	-2401	-3110	-1550
Export value of goods	2802	3727	4172	5270	5715	6900	10250
Import value of goods	5347	6754	8066	10269	8116	10010	11800
Services balance	-167	-137	-162	-497	-702	-720	-1180
Income balance	-187	-127	-139	-259	-329	-400	-1290
Transfer balance	1794	2248	2043	2212	2145	2250	2590
Net direct investment flows	145	636	855	2112	1638	1780	1900
Net portfolio investment flows	4000	4800	5500	7200	6235	6810	7340
Net debt flows	213	889	1176	525	321	920	570
Other capital flows (negative is flight)	-3106	-4912	-4840	-7074	-5770	-7560	-6850
Change in international reserves	148	371	540	-780	1137	-20	1530
External position (mln USD)							
Total foreign debt	6731	3188	4463	4970	5412	6350	6950
Short-term debt	587	1143	1266	1356	1072	1420	1680
Total debt service due, incl. short-term debt	1043	906	1384	1541	1657	1400	1760
Total foreign exchange reserves	1753	2090	2630	1783	2856	2750	4250
Key ratios for balance of payments, external solvency and external liquidity							
Trade balance (% of GDP)	-23.7	-23.8	-25.9	-30.0	-15.6	-17.3	-6.7
Current account balance (% of GDP)	-10.3	-8.2	-14.3	-21.3	-8.3	-11.0	-6.2
Inward FDI (% of GDP)	1.4	5.0	5.7	12.7	10.6	9.9	8.2
Foreign debt (% of GDP)	63	25	30	30	35	35	30
Foreign debt (% of XGSIT)	117	43	55	53	56	58	47
International investment position (% of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt service ratio (% of XGSIT)	18	12	17	16	17	13	12
Interest service ratio incl. arrears (% of XGSIT)	2	1	1	2	2	2	1
FX-reserves import cover (months)	3.2	3.0	3.1	1.7	3.3	2.6	3.4
FX-reserves debt service cover (%)	168	231	190	116	172	196	241
Liquidity ratio	102	109	99	84	107	102	111

Source: EIU