Euler Hermes Economic Research

Country Report

Ghana

IMF and private support help cope with financing needs

General Information

GDP	USD37.54bn (World ranking 89, World Bank 2015)
Population	27.41mn (World ranking 48, World Bank 2015)
Form of state	Constitutional Democracy
Head of government	Nana AKUFO-ADDO
Next elections	December 2020

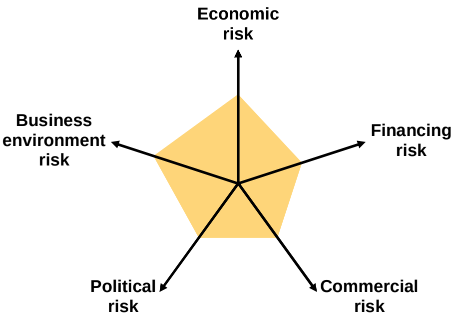
Strengths

- 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 International Financial Institutions (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, like Ghana, are not immune to 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
India	23%	1	24%	China
Switzerland	12%	2	11%	Nigeria
China	10%	3	8%	Netherlands
France	7%	4	7%	United States
Netherlands	5%	5	5%	Côte d'Ivoire

By product (% of total)

Exports		Rank		Imports
Gold, non-monetary (excluding gold ores and concentrates)	37%	1	12%	Petroleum, petroleum products and related materials
Coffee, tea, cocoa, spices, and manufactures thereof	24%	2	11%	Road vehicles
Petroleum, petroleum products and related materials	19%	3	6%	Specialised machinery
Vegetables and fruits	4%	4	5%	Other transport equipment
Metalliferous ores and metal scrap	3%	5	4%	Other industrial machinery and parts

Source: UNCTAD (2015)

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Economic Overview

Commodity driven

Annual average GDP growth was above +5.5% in 2000-10. Albeit being a relatively good expansion rate of expansion it is just about the pace required for a country like Ghana to make positive advances in socio-economic development.

Gold, cocoa and forestry industries and associated exports are the key sectors. Since 2011, when oil output came on stream at the Jubilee oilfield, GDP has been boosted by the energy sector, with a +14% expansion that year. The drive weakened in 2012 and 2013 but annual GDP growth remained above +7% in both years. Since then, growth has decreased, due to weaker commodity prices.

IMF backing decreased liquidity risks…

Beginning in 2014, weakness in oil, gold and cocoa prices, coupled with earlier fiscal over-spending (which in itself had growth and inflationary repercussions) resulted in a reduced capacity to finance the country's twin deficits.

The authorities turned to the IMF for financial assistance. A three-year Extended Credit Facility (ECF) was granted in April 2015. The financial support package of approximately USD940mn was agreed on the condition that Ghana implements reforms aimed at limiting its fiscal and current account deficits. The fund's support has restored some investor confidence and helped sovereign bond issuances.

…but the rebalancing was not there

Contrary to expectations, the fiscal deficit deteriorated in 2016, to -9% of GDP (-3.8% of GDP was initially planned). The previous administration increased public spending and suffered from poor tax collection. As a result, public debt is larger than previously thought and stood at 74% of GDP at the end of 2016, up from the expected 66%. Perceptions that public finances were in good shape helped to secure some market financing, given that Ghana was backed by IMF support.

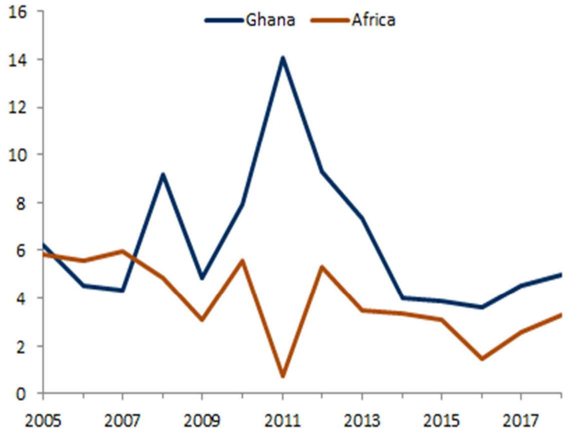
An Extension of this program beyond April 2018 will be difficult since acceptance by the Fund would require some efforts to improve public finance. Twin deficits and low import cover (about 3 months) mean depreciation pressures on the Cedi. The local currency depreciated by -58% since end-13 (of which -15% from November-16 to date). This implies that inflation should remain above 10%. Some fiscal efforts are now likely. As a result, growth should recover only gradually to +5% in 2018. If needed, the administration should later turn to the IMF.

Key economic forecasts

	2015	2016e	2017f	2018f
GDP growth (% change)	3.9	3.6	4.5	5
Inflation (%, average)	17.1	17	12	11
Fiscal balance (% of GDP)	-4,8	-9	-7	-5
Public debt (% of GDP)	70.8	74	77	78
Current account (% of GDP)	-7,5	-6,5	-5	-6,5
External debt (% of GDP)	43.4	39	37	35

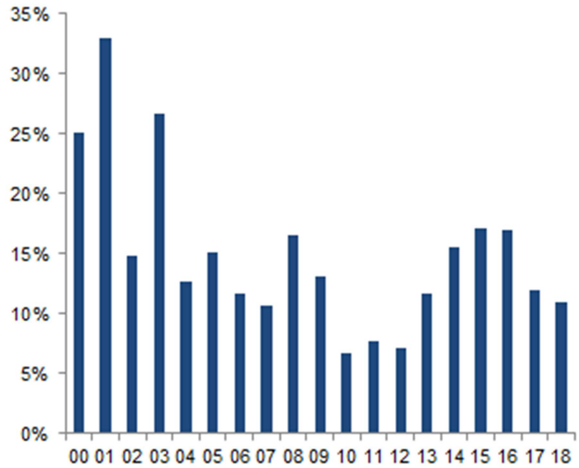
Sources: National sources, IHS, Euler Hermes

GDP growth (%)



Sources: National sources, IHS, Euler Hermes

Consumer Price Inflation (%)



Sources: National sources, IHS, Euler Hermes

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