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The government will issue a \$2 billion 10-year syndicated bond in the second half of 2016. It will use the funds to clear over \$1.53 billion of debt accumulated between state-owned Volta River Authority (VRA), the Electricity Company of Ghana (ECG) and the Ghana Grid Company Ltd (GRIDCo). The Bank of Ghana maintains its key monetary policy rate at 26%, focusing on currency stability, despite an apparent disparity between its rate and banks' lending rates. The Judicial Service Staff Association of Ghana (JUSSAG) holds a two-week strike demanding payment of salaries, while all courts except the Supreme Court suspend operations.

Government to issue \$2 billion to reduce public power firms' debt

The Ghana government on 6 June announced plans to issue a \$2 billion 10-year syndicated bond in the second half of 2016 in order to try to help reduce debt in the public power sector.¹ The bond will, at best, dynamise the public power sector amidst a power crisis ongoing since 2013 and, at worst, significantly decrease the government's public spending power on top of an already high debt load. The government's debt load includes a \$918m extended credit facility (ECF) from the **International Monetary Fund (IMF)**, while its budget deficit remains around 5%. The government would mostly use the bond to tackle the \$1.53 billion debt, accumulated in arrears over the past 20 years, that the state-owned generation company **Volta River Authority (VRA)**, distribution company **Electricity Company of Ghana (ECG)** and transmission company the **Ghana Grid Company Ltd (GRIDCo)** owe.² The government has reportedly held discussions with **Stanbic**, **Ecobank** and **Standard Chartered Bank**, presumably to discuss marketing the bond.³

The companies' debt has surged due to the need to import light crude oil and lean gas in order to ensure sustainable electricity output. The majority of this debt comprises outstanding light crude oil and gas invoices – together in excess of \$1.4 billion.⁴ The need to import crude oil in particular increased after domestic oil production dropped at the **Ireland**-based **Tullow Oil**-operated **Jubilee** oil field in April which was experiencing an output shortage due to a faulty turret bearing on its floating storage and offloading vessel (FPSO).⁵

Press reports state that the VRA's debt will reach over \$2 billion by the end of the year, more than the total value of VRA's assets.⁶ Several direct users of VRA power owe significant amounts to the company, including ECG and GRIDCo.⁷ VRA bears the brunt of the government's debt in the public energy sector – of its debt in 2014 was due to ECG's inability to pay.⁸

There is still doubt surrounding the yield level at which Ghana would issue the bond. Ghana's Eurobond yields are still the third highest among 18 **sub-Saharan** bond issuing countries.⁹ However, higher yields could lead to higher investor interest. Chief oil ministry director **Thomas Akabzaa**

¹ Reuters, 7 Jun 2016.

² Reuters, 7 Jun 2016.

³ Multiple sources: Bloomberg, 7 Jun 2016; Reuters, 7 Jun 2016.

⁴ GhanaWeb, 31 May 2016.

⁵ www.tulloil.com

⁶ GhanaWeb, 31 May 2016.

⁷ GhanaWeb, 31 May 2016.

⁸ GhanaWeb, 31 May 2016.

⁹ Bloomberg, 14 Jun 2016.

claimed that the bond would be financed through a 10% tax on electricity tariffs and a surcharge on petroleum.¹⁰

“The bond could be very expensive for the government, but at least it will lessen the debilitation of state-owned companies. The question will be how the government manages the debt in addition to debt they already owe. It may be a sign of pessimism ahead of elections. If they raise the money and lose the [presidential] elections [in November], it will be the new government’s burden.”¹¹

Central bank maintains monetary policy rate at 26%

The **Bank of Ghana (BoG)** (central bank) on 16 May held its monetary policy interest rate at 26%.¹² The BoG monetary policy committee meeting was the first under new governor **Abdul-Nashiru Issaku**, suggesting he will not imminently loosen monetary policy (see *ARC Briefing Ghana April 2016*). The decision to hold the rate was unsurprising following the decrease in headline inflation in April (see below). The BoG monetary policy committee warned of upwards inflationary pressures from increasing food costs and higher fuel and utility prices.¹³ The BoG, however, holds a broadly positive growth outlook which, it claims, will balance out inflation risks.

The monetary policy committee noted stronger than forecast economic activity.¹⁴ In particular, it cited its **Composite Index of Economic Activity**, which showed growth in industrial consumption of electricity, port activities, cement sales and domestic Value Added Tax (VAT) collection.¹⁵ It also said that its survey indicated increased business and consumer confidence due to relative currency stability and improved electricity supply.¹⁶ The BoG noted that the government’s fiscal performance through 2015 and the first quarter of 2016 was better than expected and that the fiscal deficit for 2015 is estimated at 6.7% of gross domestic product (GDP), comparing positively to previous targets of 7.3%.¹⁷ The deficit in the first quarter is provisionally estimated at 0.4% of GDP lower than the 1.5% target.¹⁸

The BoG forecast that the cedi will remain stable and the current account deficit will continue to narrow on its tight policy stance and improved inflows. The central bank estimates that as of 12 May, the currency had depreciated 0.3% against the dollar compared to 17.2% in the same period in 2015.¹⁹ The BoG announced that the current account deficit for the first quarter was 1.2% of GDP compared to 1.9% in the corresponding period of 2015.²⁰

The BoG identified risks to growth including tight credit conditions and the pace of fiscal consolidation ahead of the November presidential election.²¹ Financial analysts predict no significant movement in the monetary policy rate:

“There is minimal chance that the monetary policy committee will change the monetary rate this year. In reality, the monetary rate has had no impact on the banks’ lending rate and domestic market. It is a waste of time. It has not achieved the intended results [to lower working lending rates]. [Meanwhile], the price of goods and services are either stable or going up. The impact of inflation is also negligible.”²²

¹⁰ Bloomberg, 7 Jun 2016.

¹¹ Source, journalist, Accra

¹² www.ghanabusinessnews.com

¹³ www.ghanabusinessnews.com

¹⁴ www.ghanabusinessnews.com

¹⁵ www.centralbanknews.info

¹⁶ www.centralbanknews.info

¹⁷ www.centralbanknews.info

¹⁸ www.centralbanknews.info

¹⁹ www.centralbanknews.info

²⁰ www.centralbanknews.info

²¹ www.centralbanknews.info

²² Source, financial analyst, Accra.

Judicial services staff hold two-week strike

The **Judicial Service Staff Association of Ghana (JUSSAG)** held a nationwide strike until 1 June, citing poor service conditions and government failure to pay salaries.²³ The strike highlights the poor state of Ghana's judicial services, which could increase the risk of corruption and bribery due to the government's failure to provide adequate and timely compensation.²⁴ The strike brought all judicial service activity to a standstill, postponing several court cases in the absence of auxiliary supervisors to oversee proceedings.²⁵ The only exception was the **Supreme Court**, which continued with current cases; however, it did not open any new cases during the two-week strike.²⁶

Journalist **Anas Aremeyaw Anas'** investigation in September 2015 revealed the extent of corruption within the judiciary, alleging numerous examples of judges and court workers taking bribes and extorting litigants. The investigation led to much public criticism of the judiciary and government support for judicial employees.²⁷ Local sources say judicial staff are poorly paid:

*"[M]any rely on 'tips' from lawyers and clients and are therefore more open to taking bribes. Directors receive up to \$700 a month and drivers can receive as little as \$100. I can confirm this as I have seen certified pay slips."*²⁸

JUSSAG stated that "after a year of failed assurances, the employees will not return to work until further notice".²⁹ The **Judicial Council (JC)** demanded that JUSSAG call off the strike immediately, while also calling for a rapid government response to kick off the dialogue:

*"The JC is deeply concerned that it has taken some time for the negotiation to be completed and for the grievances of JUSSAG to be addressed; [JC] has therefore impressed on the employment and labour relations minister the need to expedite the resolution of the matter."*³⁰

National Labour Commission (NLC) executive secretary **Charles Adongo Bawa Duah** has called the strike "illegal", claiming JUSSAG did not give the NLC prior notice of the strike.³¹ Duah said the **Labour Act** states that either party intending to take industrial action or institute lockout must give written notice of this to the other party and the NLC, within seven days of failure to agree to refer the dispute to voluntary arbitration or the termination of the proceeding.³² However, JUSSAG general secretary **Derik Annang** said the strike fulfilled the requirements of Section 159 and 160 of the Labour Act that spell out the procedures and conditions under which a union can embark on a strike.³³

JUSSAG called off the strike on 1 June, claiming that it had achieved an agreement with the government in order to receive salaries arrears.³⁴ However, local analysts believe that this may not be the last case of industrial action from JUSSAG before elections,

*"They claim an agreement has been reached with government on the way forward in paying salaries. It does appear to be completely resolved, however. I suspect they could go on strike again close to election time if the president fails to sign the new pay agreement."*³⁵

²³ The Africa Report, 24 May 2016.

²⁴ The Africa Report, 24 May 2016.

²⁵ MyJoyOnline, 31 May 2016.

²⁶ Source, journalist, Accra.

²⁷ Multiple sources: BBC, 30 Sept 2015; The Africa Report, 24 May 2016.

²⁸ Source, journalist, Accra

²⁹ The Africa Report, 24 May 2016.

³⁰ Ghana Business News, 24 May 2016.

³¹ Ghana Business News, 24 May 2016.

³² Ghana Business News, 24 May 2016.

³³ The Africa Report, 24 May 2016.

³⁴ Source, journalist, Accra

³⁵ Source, journalist, Accra

Implications

Ghana's seemingly ever-increasing public debt burden, despite certain limitations from the IMF programme, could be an indication that the government is less confident in its chances to win the elections in November. However, the eradication of colossal power sector debt would be an important step towards increased dynamism in Ghana's state-owned companies, on which unsustainable debt has a crippling effect. Should the IMF react to the decision, it may decide to impose stricter fiscal limitations until Ghana repays the debts owed to the IMF.

The seemingly fixed monetary policy that the BoG is pushing appears to be struggling to reduce lending rates and continuing to prioritise the cedi's stability. Although banks appear to be suffering from the high monetary policy rates, which would appear unattractive to borrowers, BoG policy appears fixed until the end of 2016, or at least until after elections.

The length of JUSSAG's strike highlights the strength of the union within a vital public sector, impeding even the Supreme Court's operation. Although the strike has temporarily ended, there is still potential for JUSSAG to recommence labour action if the government fails to commit to the negotiation period agreement.

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