

AFRICA RISK CONSULTING

Ghana Monthly Briefing August 2020

Ghana Summary 21 August 2020

Ghana Election Poll posts its first poll results ahead of the 7 December general election, showing that the opposition National Democratic Congress is leading the ruling New Patriotic Party by 8%. United States-based credit ratings agency Fitch Ratings warns of a ratings downgrade on the back of government's slower than expected fiscal consolidation, which may lead to a higher public debt trajectory. President Nana Addo Dankwa Akufo-Addo (2017-present) hints that Ghana will re-open borders by 1 September, depending on the country's ability to test all arriving passengers.

Official start of election season

Ghana's 7 December election race has officially kicked off. As election season begins, many analysts are closely watching the level of political division in the country. While Ghana is renowned for the strength of its democratic institutions, recent elections have been marred by high levels of political division, social unrest and violence. Ghanaians will vote for their members of parliament as well as a president to run the country for the next four years. The vote will be the eighth general election since the **1992 Constitution of the Republic of Ghana** came into effect in 1993.

Ghana Election Poll on 5 August posted its first poll results ahead of the general elections, showing the opposition **National Democratic Congress (NDC)** leading the ruling **New Patriotic Party (NPP)** by 8%.¹ NPP leader President **Nana Addo Dankwa Akufo-Addo** (2017-present) will face former president and NDC leader **John Mahama** (2012-2017) for a third consecutive time. Mahama described on 19 August the upcoming elections as "*a critical event that will help shape the nation's destiny*".² Mahama framed the election as a choice over government spending, saying that while the incumbent government is financially restricted, his NDC party will inject funding into infrastructure and pick up many government projects that the NPP had abandoned, all within the first year of his next administration.

A source of political division in the run-up to this election (and in recent previous elections) has been the **Electoral Commission's (EC)** plan to compile a new voters' register relatively shortly before the election (see *ARC Briefing Ghana February 2020*). Some opposition politicians had hinted that they might dispute December's election outcome over the voter register changes. The ruling NPP argued that the electoral roll is bloated, making it susceptible to rigged elections, while opposition parties argued that the EC's move could lead to their being disenfranchised.

However, this fear eased this month when the EC announced that the new electoral register has marginally more voters than its old roll.³ The EC said it had registered almost 17 million voters over 38 days, exceeding the number of voters on the old electoral roll by about 130,000 people. Mahama's heartland, the **Northern** region, gained 16% more voters in the new register than it had in the previous election. Only **Greater Accra**, considered a swing region, saw a bigger rise, with 37% more registrations.

The EC on 1 August outlined a roadmap for the December elections, setting 5 October as the date for presidential and parliamentary candidates to file their nominations and 6 November as the deadline

¹ GhanaWeb, 5 Aug 2020

² GhanaWeb, 20 Aug 2020

³ Bloomberg, 13 Aug 2020

for all participating political parties to distribute their final voters' roll. Voting will start on 1 December (for security personnel, media and other officials), with the general public scheduled to cast their ballots on 7 December. The results will be declared latest by 10 December. If none of the presidential candidates receives more than 50% of the votes required for winning the election, a second round of voting will take place on 28 December.

The election includes a number of smaller parties. These include the **Convention People's Party (CPP)**, the **People's National Convention (PNC)**, the **Progressive Peoples Party (PPP)** and the **Liberal Party of Ghana (LPG)**. Political analysts believe the minor parties have no real chance to make a meaningful impact.⁴

Fitch warns of credit rating downgrade

United States-based credit ratings agency **Fitch Ratings** said on 19 August that Ghana's plans to pursue fiscal consolidation more slowly than the government previously indicated may lead to a higher public debt trajectory and could be a source of downward pressure on the country's ratings.⁵ A downgrade to Ghana's credit rating would weaken the country's ability to borrow money on the markets and investors would demand higher returns to lend to government.

Fitch noted that it had expected a substantial, temporary deterioration in the budget balance in 2020, in line with the shock from the **coronavirus** pandemic. However,

"[T]he pace of fiscal consolidation over the medium term outlined in the government's latest forecasts represents a bigger departure from our assumptions. Projections in the budget guidelines suggest that the deficit will remain above the 5% ceiling until 2022, but still record a primary deficit even in 2024, against the FRA requirement of a primary surplus. A failure to substantially narrow fiscal deficits in 2021-2024 may result in a significant increase in the ratio of public debt to GDP."⁶

Fitch in April affirmed Ghana's credit rating as 'B' with a "stable outlook".⁷ Its April decision was based on the country's "swift recovery after the coronavirus pandemic shock" and the availability of additional fiscal and external financing options to the sovereign.⁸ Four months later, amid a global pandemic and recession, the ratings agency has considerably lowered its expectations for Ghana to solve its mounting debt problem and limit spending. Fitch said in its latest analysis that Ghana's ratios of public debt and interest costs relative to fiscal revenue are very high compared with the median for other 'B' rated sovereigns. Noting that its projections need to be seen in the context of upcoming elections, Fitch said "failure to implement a credible consolidation strategy" after the December election could lead to negative rating action.

Government on 7 August approved a revised budget in which it forecasts the deficit to reach 11.4% of GDP in 2020, up from 4.7% in its initial budget. Ten days later, government's 2021-2024 budget guidelines indicated that the fiscal deficit could rise even higher to 12.2% of GDP this year. Parliament on 7 August approved a temporary suspension of the 5% of GDP deficit ceiling stipulated in the **Fiscal Responsibility Act**. For the first time in nearly two decades, debt servicing in 2019 cost the government more than half of total public revenues. The ratio of debt service expenditure to government's total revenue and grants in 2019 hit 51.2%, increasing by 24.4% from a ratio of 26.8% in 2013.

⁴ Source, mid-level government consultant, Accra; ARC's Ghana analyst

⁵ Fitch Ratings, 19 Aug 2020

⁶ Fitch Ratings, 19 Aug 2020

⁷ Fitch Ratings, 21 Apr 2020. Fitch uses a letter system; for example, a company rated AAA is very high quality with reliable cash flows, while a company rated D has already defaulted. 'B' ratings indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

⁸ Fitch Ratings, 21 Apr 2020

Fitch warned in June that **sub-Saharan Africa (SSA)** government debt burdens are rising at a faster pace and to a higher level than in other emerging markets, heightening the risk of further downgrades and defaults.⁹ The agency forecast the median government debt/GDP ratio for the 19 Fitch-rated SSA sovereigns to reach 71% at end of 2020, from 57% at the end of 2019 and 26% in 2012. Fitch's decision was based on the severe impact that the coronavirus and oil price shock is having on sub-Saharan Africa. Fitch has downgraded seven countries – **Angola, Cabo Verde, Gabon, Nigeria, Seychelles, South Africa and Zambia** – since the beginning of March this year, based on the economic impact of the pandemic and the limited margin of resilience from the rise in debt.

International borders to open in next month?

President Nana Akufo-Addo on 16 August said government is preparing to re-open Ghana's borders by 1 September, depending on an assessment of the coronavirus situation and the ability of airport medical personnel to test all arriving passengers.¹⁰ Ghana, like many **African** nations, is starting to reopen airports, remove curfews and resume international tourism. Given Akufo-Addo's track record as something of a trailblazer in Africa in his early actions responding to the pandemic, it is very likely that Akufo-Addo will reopen Ghana to international travel in the coming weeks.

Re-opening the country for international travel is crucial for Ghana's business and tourism sectors. Akufo-Addo's administration regards tourism as one of the economic pillars for growth, job creation and diplomacy. In his 2018 speech addressing the nation, the president promised to support Ghana's tourism sector with infrastructure investments, and more recently, the finance minister's 2019 budget allocated GHS 75m (\$16.2m) to the tourism ministry.

President Akufo-Addo has been internationally commended for his clear and regular communication throughout the pandemic. Since the start of Ghana's **Covid-19** outbreak on 12 March, the president has addressed the nation over a dozen times. In April, his administration announced five key objectives to fight Covid-19. Akufo-Addo was also quick to ease lockdown restrictions, starting from 31 May. While the prompt reopening was controversial – arguments remain about whether the decision was based on scientific evidence or political considerations, given that there is an election approaching – the decision meant Ghana's economy avoided economic setbacks seen elsewhere on the continent (e.g. South Africa).

But Ghana's pandemic response has not been without its flaws. A **BBC Africa Eye** undercover investigation released on 10 August revealed that some staff in Ghana's hospitals have been selling vital personal protective equipment for personal profit.¹¹ Ghana has faced a severe lack of essential protective equipment and more than 2,000 medical workers have been infected by coronavirus since the outbreak began.

Africa Centres for Disease Control and Prevention (Africa CDC) said on 6 August that Africa has surpassed one million coronavirus infections, accounting for about 5% of global cases.¹² Low levels of testing in many countries mean Africa's infection rates are likely to be higher than reported. Africa CDC said 10 countries account for 80% of the new coronavirus testing on the continent, these are (in order): South Africa, **Egypt**, Nigeria, Ghana, **Morocco, Kenya**, Ethiopia, **Rwanda, Uganda** and **Mauritius**.

⁹ Fitch Ratings, 30 Jun 2020

¹⁰ Graphic Online, 16 Aug 2020

¹¹ BBC, 10 Aug 2020

¹² Africa CDC, 6 Aug 2020

Planner

- 5 Oct 2020 **(Ghana)** Deadline for presidential and parliamentary candidates to file their election nominations;
- 6 Nov 2020 **(Ghana)** Deadline for participating political parties to distribute their final voters roll;
- 7 Dec 2020 **(Ghana)** General elections;
- 10 Dec 2020 **(Ghana)** Announcement of general election results;
- Postponed **(Africa)** African Continental Free Trade Area deadline for 90% tariff liberalisation.

Chronology

- 19 Aug 2020 **Accra (Ghana)** *Fitch Ratings*. Global ratings agency **Fitch Ratings** says **Ghana's** plans to pursue fiscal consolidation more slowly than the government had previously indicated may lead to a higher public debt trajectory and could be a source of downward pressure on the country's ratings, although the projections need to be seen in the context of upcoming elections;
- 18 Aug 2020 **Accra (Ghana)** **AA. African Continental Free Trade Area (AfCFTA)** officially takes over a building in capital **Accra** to serve as the secretariat of the AfCFTA;
- 18 Aug 2020 **Lagos (Nigeria)** *This Day*. **Nigerian** government threatens to file a suit against the **Ghanaian** government at the **Community Court of Justice of the Economic Community of West African States** (ECOWAS Court) if the country is found to have breached the sub-region's protocol of free movement of peoples;
- 17 Aug 2020 **Accra (Ghana)** *B&FT Online*. Finance ministry says the fiscal deficit is projected to narrow from 11.4% of GDP in 2020 to 9.4% in 2021, and that it will narrow further to 6.4% in 2022, 4.9% in 2023 and 3.2% in 2024;
- 17 Aug 2020 **Accra (Ghana)** *Energy Voice*. A government representative says **Energy Sector Recovery Task Force** has begun talks with independent power producers in order to find "sustainable long-term solutions" for the energy sector;
- 16 Aug 2020 **Accra (Ghana)** *Graphic Online*. President **Nana Akufo-Addo** says government is preparing to re-open borders by 1 September, depending on an assessment of the **coronavirus** situation;
- 16 Aug 2020 **Accra (Ghana)** *MyJoyOnline*. President **Nana Akufo-Addo** calls on **Ghana Police Service** to deal with perpetrators of violence in the just ended voters' registration exercise;
- 5 Aug 2020 **Accra (Ghana)** *GhanaWeb*. **Ghana Election Poll** posts its first poll results ahead of December's general elections, showing the opposition **National Democratic Congress** leading the ruling **New Patriotic Party** by 8%;
- 3 Aug 2020 **Accra (Ghana)** *Automotive World*. **Germany**-based car maker **Volkswagen** opens a vehicle assembly facility in capital **Accra**, expanding its footprint in **sub-Saharan Africa** with other locations in **South Africa, Kenya, Nigeria** and **Rwanda**;
- 27 Jul 2020 **Accra (Ghana)** *MyJoyOnline*. **Canada**-based mid-tier gold miner **Golden Star Resources** enters into an agreement for the sale of its 90% interest in the **Bogoso-Prestea Gold Mine** to **United Kingdom**-based **Future Global Resources**, the mining subsidiary of UK-based **Blue Holdings Investment Group**, for a purchase price of up to \$95m.

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

ARC's core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

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