

AFRICA RISK CONSULTING

Ghana Monthly Briefing August 2023

Ghana Summary 11 August 2023

Finance minister Ken Ofori-Atta delivers the annual Mid-Year Fiscal Policy Review on 31 July. The review details Ghana's steep economic challenges as the country's budget deficit grows by more than expected and the government cuts its economic growth forecast for the year. Government statistician Samuel Kobina Annim announces on 9 August that annual inflation increased to 43.1% in July from 42.5% in June. This increases the likelihood that the Bank of Ghana (BoG) will increase interest rates again in the coming months. The BoG is also facing increased politicisation after the opposition National Democratic Congress (NDC) calls for BoG governor Ernest Addison to resign. The NDC says that the central bank recorded a major annual loss in 2022, necessitating the resignation. Ghana faces potential uncertainty over the prospect of military intervention by the Economic Community of West African States (ECOWAS) – of which Ghana is a member – in Niger to reverse a recent military coup in that country.

Finance minister delivers Mid-Year Fiscal Policy Review...

Finance minister **Ken Ofori-Atta** delivered the **Mid-Year Fiscal Policy Review** statement before **Parliament** on 31 July, outlining a concerning picture of **Ghana's** current economic situation.¹ According to Ofori-Atta, Ghana's 2022 budget deficit was approximately 11.8% of GDP, almost double the government's target of 6.3%.² The government also amended its targeted fiscal balance to a 0.5% deficit from a surplus of 0.7% in the initial budget. In addition, the finance ministry now only forecasts the economy to grow by 1.5% of GDP in 2023, well below the initial budget projection of 2.8%, set in November. Currently, Ofori-Atta is predicting that Ghana will reach economic growth of 2.8% of GDP by 2024 and eventually increase to 4.9% by 2026.³ This may be overly optimistic as such projections would likely be based on Ghana's completing its ongoing debt restructuring efforts, meeting the reform benchmarks laid out by the **International Monetary Fund (IMF)**, and not being subjected to any further major external economic shocks.

Ghana's ongoing debt restructuring efforts were a major component of the finance minister's speech. The success of the ongoing **Domestic Debt Exchange Programme (DDEP)** and the government's negotiations with external debt holders is essential to maintaining access to IMF budgetary support. Ofori-Atta noted that the DDEP has achieved a participation rate of 84.9%, exceeding the programme's initial target of 80%. This represents over GHS 82.9 billion (\$7.39 billion) worth of domestically held government debt, predominantly in the form of bonds. The restructuring also included reducing the interest owed on this debt by extending the period by an additional five years. The state remains in negotiations with local pension funds and hopes to conclude a further debt restructuring worth GHS 29.2 billion (\$2.6 billion).

The largest outstanding debt restructuring challenge is the ongoing negotiations with the country's **Eurobond** holders. Ghana's Eurobond debt is estimated to be around \$13 billion. These creditors – especially international bondholders – are largely unsympathetic and have reacted poorly to Ghana's decision in November to suspend servicing these debt instruments. Ofori-Atta noted that these negotiations are still in an early stage and that the government is still awaiting a counterproposal from at least one large group of Eurobond holders. The government remains under pressure to reach

¹ Ghana Web, 31 Jul 2023

² Reuters, 31 Jul 2023

³ Finance ministry, 31 Jul 2023

a restructuring agreement with these creditors as achieving this is an essential step towards fiscal consolidation and economic stabilisation.

.. as rising inflation and interest rates continue...

Although the DDEP programme is going to plan and Ghana will likely secure a restructuring agreement with its Eurobond holders, the state is still facing significant economic headwinds. Indicative of this, year-on-year inflation increased to 43.1% in July from 42.5% in June, marking the third consecutive month of rising prices.⁴ Government statistician **Samuel Kobina Annim**, who made the inflation announcement on 9 August, reported that this increase is largely being driven by food price inflation which increased by 55% during this period. The rise in prices will place further pressure on the Cedi (GHS) and increase the financial strain on Ghanaian society fuelling social and political discontent. Furthermore, the three consecutive months of rising inflation have cast doubt on Ofori-Atta's projection that inflation will ease to 31.3% by the end of 2023.

The increase in inflation rates between April and June already incentivised the **Bank of Ghana (BoG)** (central bank) to increase interest rates following its **Monetary Policy Committee (MPC)** meeting on 19 to 21 July.⁵ The central bank increased its main rate – the monetary policy rate -by a further 50 basis points from 29.5% to 30%. The BoG has now increased the main interest rate by over 1,100 basis points from 19% to 30% in the past 12 months.⁶ This sharp increase was done to stem rising inflation and further sharp increases are to be expected at the next MPC meeting in September unless there is a notable contraction in inflation in the country.

The central bank has also called on the government to implement a tighter fiscal policy by reducing government expenditure and introducing greater austerity measures, which may assist the bank in bringing down inflation.⁷ Ofori-Atta appeared to adhere to this call as his Mid-Year Fiscal Policy statement did include pledges for greater fiscal consolidation and constrained government spending.⁸

... and BoG becomes increasingly politicised

The BoG's aggressive approach to increasing interest rates to rein in inflation requires the central bank to be viewed as a neutral institution and avoid being dragged into political debates, however, the BoG has failed to stay away from this after the opposition **National Democratic Congress (NDC)** called for the resignation of BoG governor **Ernest Addison** and his two deputies on 8 August.⁹ The NDC has given Addison 21 days to resign otherwise the NDC will stage a march to the BoG's headquarters in **Accra**.

The opposition party made this ultimatum in response to the BoG's 2022 financial results which showed that the central bank incurred a loss of GHS 60 billion (\$5.35 billion).¹⁰ Addison has since clarified that this loss is largely due to the BoG's participation in the DDEP as the central bank wrote off half of the GHS 77.6 billion (\$6.9 billion) worth of government debt that it held and agreed to significantly restructure the remaining GHS 38.8 billion (\$3.45 billion).¹¹ While this measure provides a substantial boost to the efforts to ease Ghana's debt burden and stabilise the economy and the fiscus, it caused a significant financial blow to the BoG. The BoG had initially sought to be excluded from the DDEP but complied once it became apparent that its participation was a prerequisite for Ghana securing the \$3 billion bailout from the IMF.¹²

⁴ Modern Ghana, 9 Aug 2023

⁵ Reuters, 24 Jul 2023

⁶ Trading Economics, 24 Jul 2023

⁷ Reuters, 24 Jul 2023

⁸ Ministry of Finance, 31 Jul 2023

⁹ Ghanaian Times, 9 Aug 2023

¹⁰ Modern Ghana, 9 Aug 2023

¹¹ Central Banking, 8 Aug 2023

¹² Yahoo Finance, 28 Jul 2023

The NDC's statement has indicated that the opposition sees the BoG as fair game in its criticism of the government's economic management. Next year's general election is expected to centre on economic issues and will be decided on voters' opinion of if the ruling **New Patriotic Party (NPP)** succeeded in salvaging the economy. As such, the NDC is centring its political messaging on Ghana's ongoing economic challenges, but overt political attacks on the BoG and Addison are somewhat reckless and undermines the perception of the BoG's independence and Ghana's monetary policy. It also indicates that the NDC will seek extensive leadership change at the central bank should it win the 2024 general election. The perception that the opposition party wants to actively interfere in the running of the central bank will also undermine investor confidence and reduce confidence in the stability of Ghana's monetary policy.

Spectre of regional military intervention raises stability concerns

Ghana is facing a potentially destabilising situation through the prospect of military intervention by the **Economic Community of West African States (ECOWAS)** – of which Ghana is a member - in **Niger**. The defence ministers of ECOWAS member states on 30 July set a deadline of 6 August for the military junta which seized power in Niger on 26 July to step aside and reinstate the civilian government.¹³ This statement implied that military intervention in Niger to forcibly reverse the coup was being actively considered, but the deadline came and went, resulting in the leaders of the bloc holding a conference in **Nigeria** on 10 July during which they declared the “activation” of ECOWAS' standby force.¹⁴ This does not mean that ECOWAS will order troops into Niger but does make this possibility more likely, which would have added some pressure on Niger's junta to reinstall the civilian government.

Any military intervention in Niger could spark a wider regional conflict which would have a destabilising impact on Ghana. This is particularly the case since **Burkina Faso** (which Ghana shares a border with) and **Mali** indicated that they would support Niger against such an intervention.¹⁵ Any conflict would also undermine Ghana's efforts to prevent the spread of regional militant groups into its northern regions. However, this scenario assumes Ghana's participation in such an intervention, which Parliament has not approved, or expressed support for.

The NDC has come out and declared its opposition to such an intervention, creating a strong chance that the government would not be able to secure the necessary parliamentary approval given the NPP's narrow control of parliament. Ghana's legislature is even split with the NPP and NDC each controlling 137 seats, and a single independent MP - who caucuses with the NPP - decides control of the house. Thus, it would only take one or two NPP MPs to oppose any military intervention for Ghana to fail to secure parliamentary approval. Such a development would be a blow to Ghana's regional prestige in the eyes of other regional powers such as Nigeria and **Senegal**, who have supported the decision and may view Ghana as an unreliable partner in ECOWAS. As it stands, Ghana has adopted a reserved stance in the debate over any intervention in Niger but is believed to favour exhausting all diplomatic measures first.

Planner

10 – 11 Aug 2023 Accra (Ghana) US-Ghana Business Expo 2023
4 Nov 2023 (Ghana) New Patriotic Party (NPP) primaries
8–24 Mar 2024 Accra (Ghana) Africa Games
December 2024 (Ghana) General Election

Chronology

¹³ DW, 4 Aug 2023

¹⁴ Al Jazeera, 10 Aug 2023

¹⁵ France24, 1 Aug 2023

9 Aug 2023 **Tuobodom (Ghana)** *GNA*. **Techiman North District** police intervene to prevent a clash between rival supporters from the **New Patriotic Party (NPP)** and the **National Democratic Congress (NDC)** in the town of Tuobodom (**Bono East region**);

8 Aug 2023 **Pretoria (South Africa)** *Ghana Today*. The **African Bar Association** confers its **Medal of Merit in Leadership** on President **Nana Akufo Addo** describing the Ghanaian president as a “rare democratic leader in the field of good governance”;

8 Aug 2023 **Accra (Ghana)** *Energy Capital & Power*. Cabinet approves a new **Green Minerals Policy** aimed at positioning Ghana to better benefit from key battery and green technology minerals such as lithium. The new policy mandates that these minerals must be processed domestically and cannot be exported in their raw form;

1 Aug 2023 **Accra (Ghana)** *Ghanaian Times*. Trade minister **Kobina Tahir Hammond** and **Morocco’s** ambassador to Ghana **Imane Ouaadil** affirm their commitment to bilateral cooperation at a meeting in Accra;

01 Aug 2023 **Enchi (Ghana)** *Ghana Web*. Security guards allegedly working for a **Chinese-run** illegal gold mine in **Western North region** open fire on nearby bystanders, killing at least one person;

31 Jul 2023 **Accra (Ghana)** *Africa News*. **United Kingdom (UK)** foreign secretary **James Cleverly** arrives in Accra for an official visit during which he pledges £40m (\$51m) to boost Ghanaian businesses;

28 Jul 2023 **Accra (Ghana)** *Fitch*. **United States**-headquartered **Fitch Ratings** affirms both its Long-Term Foreign-Currency (LTFC) Issuer Default Rating (IDR) and its Long-Term Local-Currency (LTLC) Issuer Default Rating (IDR) for Ghana at ‘Restricted Default’ (RD). This is the second-lowest rating issued by the agency and is reflective of its view that the country’s ongoing debt restructuring constitutes a de facto default;

27 Jul 2023 **Accra (Ghana)** *US State Department*. The **United States (US)** embassy in Ghana announces that the **US-Ghana Business Expo 2023** will take place on 10 and 11 August in Accra;

26 Jul 2023 **Accra (Ghana)** *Ghana Business News*. The **World Bank** warns that Ghana’s energy sector debt could exceed \$8 billion by 2025 unless decisive action is taken to reduce these arrears;

25 Jul 2023 **Accra (Ghana)** *Reuters*. Ghana’s **Parliament** votes to abolish the death penalty in a largely symbolic move as no executions have occurred in the country since 1993;

19 Jul 2023 **Accra (Ghana)** *Reuters*. Supreme Court dismisses a bid to prevent **Parliament** from passing a strict anti-LGBTQI bill that is currently before the legislature;

14 Jul 2023 **Accra (Ghana)** *Defence Web*. **United States** donates two defender-class boats to Ghana’s navy as part of a \$6m maritime security package;

12 Jul 2023 **Accra (Ghana)** *Africa News*. **Parliament** passes the **Narcotics Control Commission (Amendment) Bill, 2023** to enable the government to legally licence cannabis cultivation;

7 Jul 2023 **Tepa (Ghana)** *My News Ghana*. Rival groups of **New Patriotic Party (NPP)** supporters clash in **Tepa (Ahafo Ano North region)** over the primary for the local parliamentary seat.

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