

## AFRICA RISK CONSULTING

### Country briefing – Ghana

26 September 2014

#### 1 Summary

*The International Monetary Fund (IMF) arrives to negotiate a macroeconomic stability programme. President John Mahama (2012-present) tells the press that he hopes that Ghana will receive a stimulus package from the fund in early 2015. The markets respond positively to the news – the cedi rallies and bond yields fall – but an IMF backed austerity programme remains unpopular with Ghanaians due to fears of further increases in the cost of living. The newly re-elected National Patriotic Party leader Nana Akufo Addo criticises the government's economic management. The government enters international arbitration with the Côte d'Ivoire government over a maritime border dispute – with significant offshore oil discoveries at stake. Further potential offshore oil discoveries improve the oil production forecast. The shut-down of gas from Nigeria through the West African Gas pipeline prompts another power crisis. However, several new investment announcements highlight the positive long-term power outlook.*

##### 1.1 Markets react positively to IMF assistance...

The government has started negotiations with the **International Monetary Fund (IMF)** to improve macroeconomic stability. An IMF team arrived in **Accra** for a first round of negotiations from 17 to 25 September.<sup>1</sup> The negotiations have reportedly progressed well. Although the IMF has not released an official statement, president **John Dramani Mahama** (2012 – present) confirmed on 25 September that the government hoped to begin a three-year programme in January 2015. The president said that he hoped a fiscal injection would help boost the country's foreign currency reserves.<sup>2</sup> No further details of an IMF-backed economic plan have been released but in their 2013 annual report on Ghana the IMF called for tax increases on fuel and real estate, fuel subsidy cuts and reducing the public wage bill and funding to government agencies (see *ARC Ghana August 2014 Briefing*).

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<sup>1</sup> Peacefm, 16 Sep 2014

<sup>2</sup> Joy online, 25 Sep 2014

The markets have reacted positively to the news of the potential IMF financial package. The cedi rallied across the period of the IMF negotiations to 3.0 cedis to the dollar, up from 3.9 cedis to the dollar at its lowest point in August, and the strongest the currency has been since late July.<sup>3</sup> The government marketed a \$1 billion **Eurobond** at an 8.125% yield, lower than analysts had expected and considerably lower than the 9% yield on government bonds in April. Finance minister **Seth Terkper** said that the bond issue had been oversubscribed, a sign that the financial markets saw long-term economic potential and stability.<sup>4</sup> In response to the higher bond yields and greater market confidence the **Bank of Ghana (BoG)** kept its benchmark interest rate at 19% at its latest monetary policy committee meeting on 17 September. The previous meeting in June had raised the rate from 16%.<sup>5</sup>

The financial sector in Ghana is also hopeful that an IMF programme may mark a turning point for the economy: *“Going to the IMF will build market confidence...it makes sure that the government will implement fiscal consolidation measures.”*<sup>6</sup> However, analysts advise caution until there is evidence of a longer term trend:

*“The real test for Ghana’s economy will be whether it can increase, or hold, the value of the cedi against the dollar over the coming months...the fiscal consolidation programme could provoke another currency downturn in the short term.”*<sup>7</sup>

## 1.2 ...but local concerns centre around further inflation

Ghanaians fear the government’s return to the IMF will result in government austerity measures, leading to a further increase in the cost of living.<sup>8</sup> Inflation has continued in 2014. The consumer price index (CPI), the most widely used measure of inflation, increased to a four-year high of 15.9% in August, up from 15.3% in July. Rising fuel and food prices have driven the increase.<sup>9</sup> The year-on-year producer price inflation (PPI) rose to 48.3% in August, up from 47.2% in July, the highest since January 2010.<sup>10</sup>

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<sup>3</sup> XE.com, 2014

<sup>4</sup> Reuters, 11 Sep 2014

<sup>5</sup> Bloomberg, 17 Sep 2014

<sup>6</sup> Source, financial analyst for a Ghanaian bank, Accra

<sup>7</sup> Source, forex market analyst, London

<sup>8</sup> Graphic online, 4 Sep 2014

<sup>9</sup> Ghana office of statistics press release, 10 Sep 2014

<sup>10</sup> Reuters, 24 Sep 2014



*“Ghanaians know that an IMF bail-out is likely to mean pay cuts, job losses and higher taxes; with families pulling their children out of school to keep food on the table, there is only so much austerity the country can take.”<sup>11</sup>*

Those who support the IMF lending programme such as financial sector players conceded that the IMF programme will be unpopular in the near term, but it will improve long-term macroeconomic stability:

*“These policies [of the IMF programme] are not going to be popular...but to get better it has to first get worse...fiscal consolidation is the only way to bring down inflation and interest rates.”<sup>12</sup>*

Ghana’s trade unions are standing their ground with the IMF programme looming. **Trade Union Congress (TUC)** general secretary **Kofi Asamoah** said that the unions would resist any job losses resulting from the IMF programme.<sup>13</sup> Other unions are taking a less hard-line view. **Industrial and Commercial Workers' Union (ICU)** general secretary **Solomon Kosei** has approached the government and major employers to ensure suitable redundancy pay in the event of retrenchments and to retain key positions.<sup>14</sup>

The IMF negotiations have prompted the opposition **National Patriotic Party (NPP)** to increase criticism of the **National Democratic Congress (NDC)** government’s economic management. The NPP spokesman on finance MP **Anthony Osei Akoto** said that the government had ignored the advice of NPP figures to reign in public spending at the start of 2014 and had made the situation worse.<sup>15</sup> The NPP has also called on the IMF to protect public sector jobs and reduce the costs of living and doing business.<sup>16</sup>

In previous months the NPP’s government criticism was subdued while it focused on the party leadership elections on 31 August. The NPP voted overwhelmingly to elect **Nana Akufo Addo**, who becomes the party’s presidential candidate for the late 2016 election.<sup>17</sup> Akufo Addo – a losing candidate in the last two presidential elections (2008 and 2012) – described the IMF programme as “*a sad moment in Ghana’s history*”, and said that the government had “*wasted*” the fiscal consolidation measures implemented during the last NPP government of **John Kufuor** (2001 – 2009).<sup>18</sup>

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<sup>11</sup> Source, director of a think-tank, Accra

<sup>12</sup> Source, financial analyst for a Ghanaian bank, Accra

<sup>13</sup> Citifm 16 Sep 2014

<sup>14</sup> New Crusading Guide, 12 Sep 2014

<sup>15</sup> Starrfm, 16 Sep 2014

<sup>16</sup> Ghanaweb, 16 Sep 2014

<sup>17</sup> Graphic online, 31 Aug 2014

<sup>18</sup> Joy online, 10 Sep 2014

### 1.3 Ghana files international arbitration against Côte d'Ivoire

The government has filed for arbitration over a maritime boundary dispute with the **Côte d'Ivoire** government. **Marietta Brew Appiah-Oppong**, the attorney general and minister of justice, announced on 23 September that Ghana had filed for arbitration against its neighbour under the **United Nations Convention on the Laws of the Sea (UNCLOS)** after negotiations over the border failed to reach a conclusion.<sup>19</sup>

The dispute centres on the emerging offshore oil and gas sector. The disputed boundary lies over the oil-rich **Tano** basin where **United Kingdom (UK)**-based **Tullow Oil** discovered the **Jubilee** field in 2008 and the **Tweneboa-Enyenra-Ntomme (TEN)** field in 2009. In March 2010 **United States (US)**-based **Vanco Exploration** announced a discovery at the **Dzata-1** deep-water well in the Jubilee field on the border with Côte d'Ivoire. Following this the Ivorian government claimed that the exploration had encroached on their territorial waters and discussions commenced between the countries over the boundary.<sup>20</sup>

In April 2013, **French** company **Total** announced a discovery of oil at its first deep water exploration well **Ivoire-1X**, adjacent to the border.<sup>21</sup> Following this discovery, the Ivorian government launched an official query of the existing median line between the two territories with the UN claiming that the Dzata-1 exploration encroached on Ivorian waters.<sup>22</sup>

In November 2013 the two countries set up a commission to determine the maritime border but it made little progress.<sup>23</sup> Ghana's suit at UNCLOS disputes the original Ivorian claim.<sup>24</sup> The Ghanaian government's decision to seek international arbitration confirms the diplomatic impasse:

*"The breakdown of the talks has been kept quiet up until now and the Ghanaians want to make sure they can retain both the lion's share of the oil field and good relations with their western neighbour."<sup>25</sup>*

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<sup>19</sup> Daily guide, 23 Sep 2014

<sup>20</sup> Modern Ghana, 14 Mar 2010

<sup>21</sup> Petroleum Economist, May 2013

<sup>22</sup> Reuters, 23 Sep 2014

<sup>23</sup> World Bulletin, 10 Jun 2014

<sup>24</sup> Reuters, 23 Sep 2014

<sup>25</sup> Source, diplomat, Accra

## 1.4 ENI and Lukoil in further oil discoveries

The outlook for the emerging oil and gas sector has further improved after another potential offshore discovery in the **Offshore Cape Three Points (OCTP)** deep water block. **Russia-based Lukoil-Overseas** announced the find on 3 September and has 90 days to determine whether it is commercially viable.<sup>26</sup>

Ghana's overall oil output is set to increase. **Italy-based ENI** announced the development of a floating offshore production and storage (FPSO) vessel for its offshore **Sankofa** wells on 29 August. The vessel will allow ENI to commence the production of oil and gas from Sankofa, which has an estimated reserve of 390m barrels.<sup>27</sup> The wells will start producing 50,000 barrels per day from 2017.<sup>28</sup>

Energy and petroleum minister **Emmanuel Kofi Buah** said that this new production combined with increased production from **Tullow Oil's** Jubilee field and TEN project will double crude oil production from 110m barrels to 220m barrels by 2017.<sup>29</sup>

*"Ghana's economic difficulties are partially because the Jubilee field hasn't produced as much oil as people thought it would....if production could go as high as 220,000 [barrels] per day then the government would have significantly increased revenue."<sup>30</sup>*

## 1.5 Power crisis strikes again...

Ghana has been plunged back into a power crisis. **Nigeria** halted all gas flow down the unreliable **West African Gas Pipeline (WAGP)** from 17 to 21 September after oil and gas workers went on strike.<sup>31</sup> This forced Ghanaian authorities to shut down three thermal power plants: **Sunon Asogli, Mines Reserve** and **Tema T3**. The **Electricity Company of Ghana (ECG)** subsequently implemented load shedding of a record 500 megawatts (MW) of power from the grid.<sup>32</sup> During the shut-down, the purchase of crude oil to fuel thermal power plants increased the price of generating electricity by 150%.<sup>33</sup>

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<sup>26</sup> Reuters, 3 Sep 2014

<sup>27</sup> Graphic online, 29 Aug 2014

<sup>28</sup> Bloomberg, 5 Sep 2014

<sup>29</sup> Bloomberg, 5 Sep 2014

<sup>30</sup> Source, oil trader, Johannesburg

<sup>31</sup> Citifm, 21 Sep 2014

<sup>32</sup> Joy Online, 18 Sep 2014

<sup>33</sup> Graphic Online, 17 Sep 2014

Low water levels at Ghana's leading generating facility, the **Akosombo** hydroelectric plant led the ECG to schedule further load shedding for September and October.<sup>34</sup> The state-owned **Volta River Authority (VRA)** also decreased the power capacity of the plant in order to carry out vital repairs.<sup>35</sup> Repairs are also being carried out on **Tema T1** and **Tema T2** thermal plants, which has limited their capacity as well.<sup>36</sup> All of these factors compounded the effect of the WAGP shutdown. As a result, the ECG released a load shedding timetable for October that includes four twelve-hour electricity disruptions a week.<sup>37</sup>

Bank of Ghana governor **Henry Kofi Wampah** said that unreliable electricity provision across 2012 and 2013 undermined the economy significantly.<sup>38</sup> Trade groups including the **Association of Ghana Industries** and cold storage operators have called on the ECG to exempt them from load shedding due to the damage to their business.<sup>39</sup> The impact significantly weakens the investor climate: *"Ghana's unreliable power has put off investors for many years, this latest power crisis is likely to do so again."*<sup>40</sup>

## 1.6 ...but increased investment improves long term power outlook

The power sector has seen increased investment across 2014 as the VRA seeks to finance new projects and independent power producers (IPPs) move into the market. Several announcements were recorded in September:

- **Mainstream Renewable Power** has entered into an agreement with **Switzerland**-based wind farm developer **NEK Umwelttechnik** to purchase the 225 MW **Ayitepa Wind Farm**, located on the east coast of Ghana in the **Greater Accra** region. The project is estimated to cost \$525m and is due to come-online in early 2016.<sup>41</sup>
- France-based **Santerre Ltd** signed a memorandum of understanding (MoU) with the ECG to finance and develop a 200MW thermal power plant at **Prampram** in the Greater Accra region for an estimated cost of \$150m.<sup>42</sup>
- **Japan-based Sumitomo Corporation** announced the acquisition of a 28% stake in the **Kpone Independent Power Project** (see August briefing) leading the project to financial completion.

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<sup>34</sup> Starrfm, 7 Sep 2014

<sup>35</sup> Citifm, 22 Sep 2014

<sup>36</sup> Citifm, 22 Sep 2014

<sup>37</sup> GBC, 23 Sep 2014

<sup>38</sup> Reuters, 17 Sep 2014

<sup>39</sup> Citifm, 23 Sep 2014, Peacefm, 25 Sep 2014

<sup>40</sup> Source, diplomat, Accra

<sup>41</sup> Penn Energy, 15 Sep 2014

<sup>42</sup> IPP Journal, 1 Sep 2014

Construction is due to begin before the end of 2014 and the first phase of the 340MW plant is due to come online in 2017.<sup>43</sup>

- **China-based Shenzhen Energy**, the majority owner of the Sunon Asogli thermal plant, announced plans to build a 1,200MW coal fuelled plant in Ghana, to be operational by 2017. A team from Shenzhen will travel to Ghana to negotiate a power purchase agreement in October.<sup>44</sup>
- The **International Finance Corporation (IFC)** of the **World Bank** signed a partnership agreement with the VRA to help finance the state-owned generation company's future projects.<sup>45</sup>

There are several other power project in development, which may accelerate following the signing of the US-funded \$480m **Ghana Power Compact II** last month (see August briefing). The number of projects under development prompted the government to put forward its target of generating 5,000MW from 2020 to 2016. Many of the projects in the pipeline are for renewable energy – and therefore not affected by fluctuating fuel supplies and prices – which will place the power supply on a more stable footing. However, infrastructure impediments also limit the renewables drive – according to the energy ministry, currently the grid can only support 550MW of renewable-generated power.<sup>46</sup>

## 2 Implications

The developments towards the IMF stimulus programme and subsequent stabilisation of the cedi has significantly improved the macroeconomic outlook. President Mahama's support for the IMF programme assured markets and investors, which view the programme as progress towards improving macroeconomic stability. However, the developments do not yet mark a turning point for the economy. With the cedi still low against the dollar and inflation high the economy has yet to establish longer-term trend.

Politically, the ruling NDC may lose further popularity as it starts to implement unpopular fiscal consolidation advocated under the IMF programme. Now that the NPP has selected a new leader, the party will use the austerity measures to criticise the NDC in the run up to the 2016 elections. This increases the risk that civil society groups and trade unions will organise further anti-government protests. The NDC hopes that economic consolidation pays off quickly – and inflation falls.

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<sup>43</sup> Press release, 23 Sep 2014

<sup>44</sup> Business & Financial Times, 24 Sep 2014

<sup>45</sup> Business & Financial Times, 8 Sep 2014

<sup>46</sup> Minister of energy speech, 9 Sep 2014

ENI and Lukoil's oil discoveries and the commencement of production from Tullow's TEN project also improve the economic outlook. However, the failure of negotiations and start of international arbitration with the Ivorian government over the maritime dispute risks delaying oil and gas projects. Relations between the two governments have improved since Mahama came to power in July 2012 and the governments have agreed to accept the outcome of arbitration.

Power provision – due to unreliable fuel supplies – is an ongoing government concern. The government's reliance on erratic Nigerian gas supplies through the WAGP and fluctuating hydro power generation was exposed over the last month. Production at the Chinese-funded **Ghana Gas Infrastructure Project (GGIP)**, harvesting gas from the Jubilee field and piped to a processing plant at **Atuabo** (see August briefing), is expected to start in late 2014. This will help to stabilise thermal generation, but even after the much delayed plant comes online, the government will still need to import gas. Diversifying the energy mix through renewable energy projects will also improve the long-term power sector outlook, which remains positive.