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As expected, the government passes the first International Monetary Fund (IMF) review of its three-year financial support programme. The government points to reduced spending and slowed inflation as early signs of fiscal stabilisation, however donors remain concerned about 2016 election spending. The European Union (EU) renews donor support, citing a government plan to clean up the public sector payroll. The Bank of Ghana (BoG) starts a successful series of interventions to stabilise the cedi. Slum demolitions in Accra lead to clashes between slum residents and security forces. An unexpected shutdown on Tullow Oil's Jubilee field halts production the Atuabo gas processing plant.

IMF and government point to early signs of fiscal stabilisation

The government successfully passed the first review of its three-year \$918m **International Monetary Fund (IMF)** financial support programme. An IMF mission in **Ghana** concluded on 30 June that the government has met most performance criteria of the programme.¹ The IMF should therefore disburse a \$115m tranche in August.² The IMF automatically disbursed the first \$115m tranche when it approved the programme in April.

The IMF mission said that the government had reduced spending and slowed inflation. It forecast that the 2015 budget deficit would reduce to 7.2%, down from a previous forecast of 7.5%.³ IMF mission head **Joel Toujas-Bernate** said that "there was strict containment of spending through budget allocation".⁴ He added that the government had started to "clean up" the civil service payroll and reduce the public sector wage bill.⁵ Toujas-Bernate said the programme was "on track with all the measures and the developments according to plan".⁶

"This is a positive development, but at a deeper level the markets will need a little more to improve. The government was expected to pass its first few reviews; the concern has always been whether the government will bust the budget in the 2016 election year.

*...The overall narrative is that the **NDC (National Democratic Congress)** missed a great opportunity coming into power at start of oil production."⁷*

Debt levels remain a concern. **John Kwakye**, an economist at **Ghana's Institute Of Economic Affairs** think tank, forecasts that Ghana's debt-to-gross domestic product (GDP) ratio will peak at 72% in 2015.⁸ According to the May 2015 **Bank of Ghana Monetary Policy Committee** report, public sector debt increased to 88 billion cedis (\$20 billion) at the end of March 2015, representing 65% of GDP.⁹ Domestic debt accounts for 41.4% of total public debt (external debt accounts for the other 58.6%).¹⁰

¹ Reuters, 30 Jun 2015.

² Reuters, 30 Jun 2015.

³ Reuters, 30 Jun 2015.

⁴ Bloomberg, 30 Jun 2015.

⁵ Bloomberg, 30 Jun 2015.

⁶ Reuters, 30 Jun 2015.

⁷ Source foreign correspondent, Ghana

⁸ The Africa Report, 16 Jun 2015.

⁹ Daily Graphic, 15 Jun 2015.

¹⁰ Daily Graphic, 15 Jun 2015.

However, Kwakye said that the ratio should fall to 58% by 2019, and to 39% by 2034 based on "*progressive fiscal consolidation and continued decline in the fiscal deficit*".¹¹

Government revenues from the mining sector have declined. Revenue from gold exports decreased 17.4% to \$3.8 billion in 2014 due to a decline in output and lower prices, according to the **Ghana Chamber of Mines**.¹² The country's producers exported 3.16m ounces in 2014, down from 3.19m ounces in 2013. Production was a record high of 4.3m ounces in 2012.¹³ In 2014 production fell at most major gold mines, including **Gold Fields' Tarkwa** mine and **Newmont Mining Corporation's Ahafo** mine.¹⁴ Continuing disruptions to power supply, including for bulk users such as mines, are cited as a cause of the reduced production. As a result of the reduction in revenues from gold, overall mining revenues reduced 16.7% in 2014. Gold accounts for nearly 98% of mining revenues.¹⁵

The IMF forecasts inflation of 13-14% in 2015, up from a previous target of 12.5%, although it said the government was on course to meet its 2016 target of 8%.¹⁶ Inflation increased albeit marginally in May for the fourth consecutive month, to 16.9%, from 16.8% in April.¹⁷ President **John Dramani Mahama** (2012- present) on 12 June claimed that a slowdown in inflation was evidence that the government's fiscal consolidation plan is working.¹⁸ At least two economists¹⁹ claim that rising fuel prices are driving inflation and inflation may rise above 17% in June, the highest level since December 2014.²⁰ Fuel stations increased prices by 4.2% on 16 June after the government allowed operators, including **Total SA** and **Royal Dutch Shell SA**, to adjust prices. The government has previously set fees for fuel.²¹ Despite decreasing global oil prices, fuel prices at stations are rising due to the government's removal of most fuel subsidies.

...as the EU renews budget support

European Union (EU) ambassador to Ghana **William Hanna**, during a meeting with government officials on 12 June, confirmed that the EU would resume budget support of €161m (\$183m) to the Ghanaian government in the "*coming weeks*".²² The EU suspended aid to the government in 2013 due to irregularities around the public sector payroll including 'ghost workers'.

Hanna said the IMF agreement signed in April and government efforts to address the payroll irregularities had satisfied the EU.²³ An EU statement made specific reference to the adoption and publication of the government's **Payroll Action Plan** in March 2015. Hanna said resumed funding is "*a vote of confidence in Ghana. They have satisfied the criteria. We trust that they will stick to the IMF programme.*"²⁴ However, Hanna urged more reforms relating to "*ghost workers, and payroll system weaknesses*" as well as other "*structural reforms*" in line with the IMF's criteria.²⁵

*"It was a major issue last year, but diplomats in Accra seem happy with the plan to clean up the (public sector) payroll for the moment."*²⁶

The government will direct the EU funds to healthcare, decentralisation, and environmental policy reform. Specifically, the EU confirmed that €106m (\$116m) of the funding would support the **Ghana Shared Growth and Development Agenda II**, the government's national development plan for 2014

¹¹ The Africa Report, 16 Jun 2015.

¹² Reuters, 17 Jun 2015.

¹³ Bloomberg, 28 Apr 2014.

¹⁴ Reuters, 17 Jun 2015.

¹⁵ Reuters, 17 Jun 2015.

¹⁶ Reuters, 30 Jun 2015.

¹⁷ Reuters, 12 Jun 2015.

¹⁸ Reuters, 12 Jun 2015.

¹⁹ Including **Capital Economics Ltd** and **Databank Group Ltd**

²⁰ Bloomberg, 16 Jun 2015.

²¹ Bloomberg, 16 Jun 2015.

²² EU Commission statement, 12 Jun 2015.

²³ Reuters, 12 Jun 2015.

²⁴ Reuters, 12 Jun 2015.

²⁵ The Africa Report, 16 Jun 2015.

²⁶ Source foreign correspondent, Ghana

to 2017.²⁷ The government will use €31m (\$34m) to support the health ministry in meeting the **Millennium Development Goals**.²⁸

Bank of Ghana intervenes to raise foreign reserves and strengthen cedi

The **Bank of Ghana (BoG)** has started a series of interventions to stabilise the cedi after the local currency fell to a record low against the **United States (US)** dollar. The cedi fell to record low of 4.41 against the dollar on 24 June, representing a 22% fall in 2015, which followed a 31% depreciation against the dollar in 2014.²⁹ On the same day the BoG increased US dollar sales in the interbank market from \$14m per week to \$20m per day, in an effort to halt the slide.³⁰ Since the intervention, and supported by the positive IMF review (see above), the cedi strengthened to 3.49 against the dollar on 9 July, increasing 23% since the IMF review on 30 June.³¹

BoG governor **Henry Kofi Wampah** said,

*"We have raised our intervention significantly over the past two weeks. This is going to continue and we will do more as and when necessary to ease pressure on the cedi...We expect to have a very healthy reserve position by the end of September."*³²

A BoG official also advised on 7 July that the government intends to open its two-year domestic bond auctions to foreign investors by the end of July in an attempt to attract more foreign reserves and reduce borrowing costs.³³ Currently, foreign investors are only able to buy medium- and long-term government securities with maturities of three years or more. Analysts suggested that the process should further strengthen the cedi.³⁴

Finance minister **Seth Terkper** and the IMF have stated that the cedi should strengthen in the second half of 2015 due to an increase in the BoG's foreign exchange reserves. They say that these inflows will come from a planned **Eurobond** sale, donor funding and a \$1.8 billion cocoa loan.³⁵ The government has moved back a planned \$1 billion Eurobond sale from June to September.³⁶ **Klutse Avedzi**, chairman of the parliamentary committee on finance, said the government wanted to present to parliament a mid-2015 review of the budget before the Eurobond sale.³⁷ The IMF in April expected the BoG's net international reserves to decline from around \$1 billion to \$331m between April and August.³⁸

Rare civil unrest over slum demolitions

Slum demolitions in Accra have resulted in a rare incident of violent unrest. Police and soldiers demolished part of a slum area of Accra – officially called Agbogbloshie but also known as **Sodom and Gomorrah** – on 20-21 June, prompting thousands of residents to protest.³⁹ The police fired tear gas after the demonstrators burned tires and blocked roads. There were also reports of gunshots but journalists were unable to verify if security forces used live ammunition.⁴⁰ Police reportedly arrested five demonstrators.⁴¹

Council authorities claimed that the slum houses were blocking drains and their removal was necessary as part of flood control measures to prevent further flooding that had resulted in over 150

²⁷ EU Commission statement, 12 Jun 2015.

²⁸ EU Commission statement, 12 Jun 2015.

²⁹ Reuters, 30 Jun 2015.

³⁰ Reuters, 24 Jun 2015.

³¹ Bloomberg, 9 Jul 2015

³² Reuters, 24 Jun 2015.

³³ Reuters, 7 Jul 2015.

³⁴ Reuters, 7 Jul 2015.

³⁵ Bloomberg, 2 Jul 2015.

³⁶ Bloomberg, 30 Jun 2015.

³⁷ Bloomberg, 30 Jun 2015.

³⁸ Reuters, 25 Jun 2015.

³⁹ BBC, 22 Jun 2015.

⁴⁰ BBC, 22 Jun 2015.

⁴¹ Reuters, 22 Jun 2015.

deaths in early June (see *ARC Ghana June 2015 Briefing*).⁴² However, a local traditional leader claims the authorities demolished homes beyond an expected limit in the slum. President Mahama also reportedly said the previous week that authorities would relocate the residents of the slum gradually.⁴³ The slum is Ghana's oldest and home to around 50,000 people.⁴⁴ The incident highlights the poor infrastructure in Accra and growing resentment against the government.

*"This may not be significant for the election next year. It is a small community in a country of 25 million people. However, it does impact on the perceptions of how the government deals with pressing issues."*⁴⁵

Tullow Oil halts gas supplies, shutting down Atuabo processing plant

An unexpected shutdown on **Tullow Oil's** floating, production, storage and offloading vessel (FSPO) at its offshore **Jubilee** field halted production at the **Ghana Gas Company** onshore gas processing plant at **Atuabo** on 7 July.⁴⁶ Tullow reportedly informed the Ghana Gas Company of the disruption and cut gas supplies on 3 July. The Atuabo plant managing director **George Yankey** said he was unsure when gas supplies would resume.⁴⁷ Tullow has also not advised when it will resume gas supplies.

The \$750m Atuabo plant in western Ghana, where the local oil sector is based, started production in the first quarter of 2015 after several delays. It produces around 100m standard cubic feet of gas per day.⁴⁸ The gas feeds state-owned power producer **Volta River Authority (VRA)**'s thermal power stations.

The shutdown of the Atuabo plant threatens to exacerbate the continuing power crisis (see *ARC Ghana June 2015 Briefing*). The IMF claims the power crisis is the "*the single most important risk*" to its support programme.⁴⁹ However power minister **Kwabena Donkor** claims the crisis is due to growing demand: "*Which developed country records a 12% growth (annually) in demand for power? None.*"⁵⁰

Implications

The positive IMF review has initiated economic and fiscal stabilisation. The renewal of EU aid also demonstrates improved donor confidence in the government. However, donors, diplomats and economists in Accra remain concerned about the possibility of fiscal indiscipline during the 2016 election year. Election year fiscal indiscipline is a recurrent problem in Ghana.

The EU and IMF statements confirming the government has established a plan to clean up the public sector payroll are another positive development. However, donors will closely monitor the plan bearing in mind that the irregularities are part of entrenched political patronage and therefore difficult to stem with an election approaching.

Foreign reserves are set to increase with renewed donor funding, a Eurobond planned in September and a cocoa sector loan. The cedi should see further stabilisation in the second half of the year, as the BoG forecasts.

The clashes between slum residents and security forces has created further public relations damage for the ruling NDC. The electorate is particularly concerned with the way the NDC handles crisis situations, such as this response to the recent flooding in Accra.

⁴² BBC, 22 Jun 2015.

⁴³ Reuters, 20 Jun 2015.

⁴⁴ BBC, 22 Jun 2015.

⁴⁵ Source foreign correspondent, Ghana

⁴⁶ Tullow Oil statement, 7 Jul 2015.

⁴⁷ Reuters, 7 Jul 2015.

⁴⁸ Reuters, 7 Jul 2015.

⁴⁹ Quoted in Financial Times, 8 Jul 2015.

⁵⁰ Quoted in Financial Times, 8 Jul 2015.

The halt of production at the Atuabo gas processing plant, due to the shutdown on Tullow Oil's FSPO at its Jubilee field, will increase the government's dependence on gas imports from **Nigeria**. This, in turn, risks exacerbating the continuing power crisis.

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