

## AFRICA RISK CONSULTING Ghana Monthly Briefing December 2015

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### Ghana Summary 8 December 2015

*The ruling National Democratic Congress (NDC) elects incumbent president John Dramani Mahama (2012- present) as its candidate for the December 2016 presidential election. However, the NDC primaries increase internal party rivalries due to poor organisation of the vote and the rapid rise of young party officials. Official New Patriotic Party (NPP) statements accuse soldiers linked to an ousted party faction of raiding its national headquarters in Accra. The draft 2016 budget aims to avoid government overspending in the 2016 election year, despite increasing debt concerns and Ghana's history of election year fiscal slippage. The Bank of Ghana (BoG) raises the benchmark interest to a 12-year high in an attempt to curb inflation.*

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### The ruling NDC elects Mahama as its 2016 presidential candidate

The ruling **National Democratic Congress (NDC)** voted almost unanimously for incumbent president **John Dramani Mahama** (2012- present) as its candidate for the December 2016 presidential election. During the party primaries on 21 November, Mahama ran unopposed as the NDC's presidential candidate, securing 95% of the party votes.<sup>1</sup> Mahama will contest the elections against the opposition **New Patriotic Party (NPP)** candidate, **Nana Addo Dankwa Akufo-Addo**. In his victory speech to the party Mahama singled out the power crisis as the greatest challenge during his current term:

*"It has been a challenging three years ... market fires that affected almost every region of our country; nationwide strike actions; serious challenges of the economy and most serious of all, power shortages that are still with us."*<sup>2</sup>

The NDC's 1.1 million registered members also elected 275 parliamentary candidates for the December 2016 general elections.<sup>3</sup> Prior to the primaries the party registered a substantial increase in applicants for parliamentary candidates following a change of party rules that now allows all registered party members to vote in the primaries.<sup>4</sup> Some young party officials successfully unseated longstanding party officials in key parliamentary seats, increasing tensions within the party.<sup>5</sup> The most prominent was 27-year-old presidential aide **Sam George**, who unseated NDC stalwart **Enoch Teye 'ET' Mensah in Ningo-Prampam (Greater Accra Region)**.<sup>6</sup> Poor organisation also increased tensions within the party.<sup>7</sup> The NDC's regional and local biometric voter registers left segments of some constituencies unable to vote.<sup>8</sup>

*"A number of young new guys will come into parliament, which is the big story that came out of the NDC primaries. Sam George defeated ET Mensah – an important NDC elder – by a large margin."*<sup>9</sup>

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<sup>1</sup> Reuters, 22 Nov 2015.

<sup>2</sup> Reuters, 22 Nov 2015.

<sup>3</sup> TVC News, 22 Nov 2015.

<sup>4</sup> GNA, 15 Aug 2015.

<sup>5</sup> See ARC Briefing for Ghana, Sept 2015.

<sup>6</sup> Star FM Online, 23 Nov 2015.

<sup>7</sup> GNA, 30 Nov 2015.

<sup>8</sup> GNA, 30 Nov 2015.

<sup>9</sup> Source, journalist, Accra

Following the primaries, Mahama and the government have received some respite on easing the power crisis. A 235 megawatt (MW) **Turkish**-owned power barge, **Karadeniz Powership Ayşegül Sultan**, arrived at **Tema Port** on 29 November.<sup>10</sup> Its owner, Turkish energy company **Karadeniz Holding**, hires out the emergency power plants to several countries facing energy deficits.<sup>11</sup> The Ghanaian government signed an agreement with Karadeniz subsidiary **Karpowership Ghana Company Ltd** in June 2014 for two power barges to provide 450 MW of power to the grid over a 10-year period.<sup>12</sup> The second barge is due to arrive in mid-2016.<sup>13</sup> Power minister **Kwabena Donkor** said the new electricity supply would help offset a daily electricity deficit of around 500 MW.<sup>14</sup> However, several local sources feared that the government would have difficulty supplying the heavy fuel operated power barge.<sup>15</sup> Mahama has pledged to end the power crisis by the end of 2015.<sup>16</sup> The government also aims to increase electricity generation capacity to 5,000 MW by 2016.<sup>17</sup>

### Violent raid on opposition NPP headquarters

Renewed tensions within the opposition NPP are in line with the trend of increasing political violence and disturbances in the lead up to the December 2016 election. Official NPP statements accused soldiers of raiding its national headquarters in **Accra** on 23 November.<sup>18</sup> NPP officials claimed that around 15 armed men in military uniform came to its offices in military and police vehicles in the late evening.<sup>19</sup> The NPP said the security forces confiscated computer equipment and claimed to have found weapons.<sup>20</sup> It said soldiers produced a sack with weapons and claimed to have found the weapons in the compound.<sup>21</sup> However, a police investigation told the press that the incident was a “civilian raid” and did not involve the security forces.<sup>22</sup>

The NPP communications department said it did not know who was behind the raid.<sup>23</sup> However, other NPP sources believe that a faction linked to suspended party chairman **Paul Akofo** organised the raid with security forces.<sup>24</sup> In October supporters of the NPP’s 2016 president candidate **Akufo-Addo** suspended **Akofo**.<sup>25</sup> The local press has alleged that following the incident authorities reportedly arrested 12 suspects, including **Akofo**’s supporters and a retired soldier.<sup>26</sup>

*“The government-aligned press is getting hold of these stories about NPP internal issues and ensuring they get wide airplay, which is not helping the NPP.”<sup>27</sup>*

### Draft 2016 (election year) budget aims for fiscal consolidation

Finance minister **Seth Terkper** has made a further pledge that the government will avoid overspending in the 2016 election year.<sup>28</sup> During a budget announcement to parliament on 13 November, Terkper confirmed that the government forecasts a budget deficit of 5.3% of gross domestic product (GDP) in 2016, compared to the 7.3% of GDP target in 2015.<sup>29</sup> Terkper said this was in line with the three-year \$918m **International Monetary Fund (IMF)** support agreement signed in

<sup>10</sup> Reuters, 30 Nov 2015.

<sup>11</sup> RDM Newswire, 27 Oct 2015.

<sup>12</sup> GBC, 27 Oct 2015.

<sup>13</sup> GBC, 27 Oct 2015.

<sup>14</sup> Reuters, 30 Nov 2015.

<sup>15</sup> Reuters, 30 Nov 2015.

<sup>16</sup> Reuters, 30 Nov 2015.

<sup>17</sup> Star FM Online, 27 Oct 2015.

<sup>18</sup> Daily Guide, 24 Nov 2015.

<sup>19</sup> Reuters, 23 Nov 2015.

<sup>20</sup> Reuters, 23 Nov 2015.

<sup>21</sup> Reuters, 23 Nov 2015.

<sup>22</sup> Reuters, 23 Nov 2015.

<sup>23</sup> Reuters, 23 Nov 2015.

<sup>24</sup> Daily Guide, 24 Nov 2015.

<sup>25</sup> Reuters, 23 Nov 2015.

<sup>26</sup> The Graphic, 23 Nov 2014.

<sup>27</sup> Source, journalist, Accra

<sup>28</sup> Bloomberg, 13 Nov 2015.

<sup>29</sup> Bloomberg, 13 Nov 2015.

April.<sup>30</sup> In signing the IMF agreement, the government committed to fiscal consolidation primarily through reducing the public wage bill and increasing revenue.<sup>31</sup> Terkper said the fiscal deficit was 5.1% of GDP from January to September 2015, below the target of 5.7% of GDP.<sup>32</sup>

The government has a history of fiscal slippage during an election year. In the 2012 election year, the fiscal deficit reduced to 12.1% of GDP, more than double the deficit target.<sup>33</sup> Terkper said:

*"We will sustain fiscal discipline while investing in infrastructure and social services... we will resist the temptation of election year overspending."*<sup>34</sup>

The debt position is also deteriorating. The debt-to-GDP ratio increased to 71% in June 2015, from 60% in January 2015.<sup>35</sup> **Fitch Ratings** noted that the draft 2016 budget included plans for the government to launch a \$750m **Eurobond** in 2016.<sup>36</sup> Terkper had mentioned in late October that the government might launch a \$500m Eurobond before the end of 2015 if market conditions were conducive.<sup>37</sup> The government raised \$1 billion on the bond market in October.<sup>38</sup>

The yield for Ghana's five-year cedi bonds increased to a three-year high on 26 November, raising further debt concerns.<sup>39</sup> **Barclays Plc, Stanbic Bank Ghana Ltd** and **Strategic African Securities Ltd** managed the sale of 516.5m cedis (\$136m) at 24% on 26 November.<sup>40</sup> The government had issued five-year debt at a yield of 21% in March.<sup>41</sup>

*"A lot of investors are concerned about the level of public debt and its outlook ... Fiscal pressure still remains high and it is feeding into interest rates."*<sup>42</sup>

According to the draft 2016 budget, government spending is forecast to increase by 15% year-on-year to 46.4 billion cedis (\$12.2 billion).<sup>43</sup> Revenue is forecast to increase 25% to 38 billion cedis (\$10 billion).<sup>44</sup> The draft 2016 budget is based on a benchmark oil price of \$53 per barrel.<sup>45</sup>

The government expects an economic rebound in 2016 despite the fiscal constraints.<sup>46</sup> The budget forecasts 5.4% GDP growth in 2016 due to the start of production at new offshore oil fields and fewer power outages.<sup>47</sup> Terkper said growth is currently forecast at 4.1% of GDP for 2015.<sup>48</sup>

### Bank of Ghana raises policy rate

The **Bank of Ghana (BoG)** raised the benchmark interest rate 100 points (1%) to 26%, a 12-year high, in an attempt to curb inflation.<sup>49</sup> During the monetary policy meeting on 16 November, BoG governor **Henry Kofi Wampah** cited an "expected" **United States (US) Federal Reserve** decision to raise its policy rate and "developments" in **China**.<sup>50</sup> Analysts described the BoG decision, the fourth rate rise in 2015, as "unexpected" after **Reuters** and **Bloomberg** surveys before the decision expected the BoG to leave the rate unchanged.<sup>51</sup>

<sup>30</sup> Bloomberg, 13 Nov 2015.

<sup>31</sup> Bloomberg, 13 Nov 2015.

<sup>32</sup> Bloomberg, 13 Nov 2015.

<sup>33</sup> Bloomberg, 12 Nov 2015.

<sup>34</sup> Bloomberg, 13 Nov 2015.

<sup>35</sup> Bloomberg, 12 Nov 2015.

<sup>36</sup> Reuters, 17 Nov 2015.

<sup>37</sup> Reuters, 17 Nov 2015.

<sup>38</sup> Reuters, 17 Nov 2015.

<sup>39</sup> Bloomberg, 26 Nov 2015.

<sup>40</sup> Bloomberg, 26 Nov 2015.

<sup>41</sup> Bloomberg, 26 Nov 2015.

<sup>42</sup> Sampson Akligoh, managing director of Accra-based InvestCorp Ltd, Bloomberg, 26 Nov 2015.

<sup>43</sup> Bloomberg, 13 Nov 2015.

<sup>44</sup> Bloomberg, 13 Nov 2015.

<sup>45</sup> Bloomberg, 13 Nov 2015.

<sup>46</sup> Bloomberg, 13 Nov 2015.

<sup>47</sup> Bloomberg, 13 Nov 2015.

<sup>48</sup> Bloomberg, 13 Nov 2015.

<sup>49</sup> Bloomberg, 16 Nov 2015.

<sup>50</sup> Reuters, 16 Nov 2015.

<sup>51</sup> Reuters, 16 Nov 2015.

At the same time, the BoG forecast inflation of between 17% and 17.4% in 2015, significantly higher than the initial 11.5% forecast.<sup>52</sup> Inflation remained unchanged month-on-month at 17.4% in October.<sup>53</sup> The government expects inflation to ease to 10.1% by the end of 2016.<sup>54</sup>

*“Earlier pressure on the cedi, as well as the need for significant utility price adjustments will keep inflation pressures, in our view ... raising interest rates now was necessary in order to protect the credibility of monetary policy.”<sup>55</sup>*

*“The current level of inflation and the latest inflation expectations remain far above the medium-term target band of 6% to 10% ... There are imminent upside risks to the inflation outlook such as worsening external financial conditions and the planned utility tariff adjustments.”<sup>56</sup>*

Wampah confirmed that the balance of payments position weakened from January to October 2015 to a \$378m deficit, compared to a \$182m deficit for the same period in 2014. Gross foreign reserves at the end of October amounted to \$5.7 billion, or 3.4 months import cover.<sup>57</sup> From January to October 2015 the cedi depreciated 15.5%, compared to 31% in the same period in 2014.<sup>58</sup> Wampah said demand for imports and lower prices for Ghanaian commodities had weakened the cedi and fuelled inflation.<sup>59</sup>

Wampah said the BoG would pursue further measures to stabilise the cedi and curb inflation. He mentioned the possibility of demanding exporters to use the Ghanaian banking system for repatriations to ease seasonal pressures on the cedi.<sup>60</sup>

## Implications

Mahama’s landslide election as the NDC’s 2016 presidential candidate and the arrival of the Karadeniz power barge may provide a much-needed boost in support for the ruling NDC one year away from the vote. The NDC’s electoral support in 2015 has deteriorated due to the power crisis and economic hardships. The NPP has started to capitalise on this, directing attention to the government’s poor performance. However, internal rivalries within both parties will continue to undermine their respective party cohesion and election campaigns. As previously noted, these tensions will probably translate to increasing political disturbances and violence in the lead up to the vote.

The government’s budget pledges remain at odds with several analyst forecasts and historical trends on election year spending. The NDC’s planned election campaigning, notably involving increased funding for rural development programmes, as well as pressure for some public sector wage increases, means that the government will have difficulty meeting its draft 2016 budget deficit forecast and containing increasing debt levels.

The BoG has had little success in stabilising the cedi and halting inflation. Continuing high inflation has significant political and economic ramifications. It increases the risk of labour action and public sector wage increases, which will further undermine the fiscal position – and the NDC’s standing.

<sup>52</sup> Reuters, 16 Nov 2015.

<sup>53</sup> Reuters, 16 Nov 2015.

<sup>54</sup> Bloomberg, 16 Nov 2015.

<sup>55</sup> Standard Chartered Plc’s Razia Khan in Bloomberg, 16 Nov 2015.

<sup>56</sup> Wampah in Bloomberg, 16 Nov 2015.

<sup>57</sup> Reuters, 16 Nov 2015.

<sup>58</sup> Reuters, 16 Nov 2015.

<sup>59</sup> Reuters, 16 Nov 2015.

<sup>60</sup> Reuters, 16 Nov 2015.

### About Africa Risk Consulting:

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