

## AFRICA RISK CONSULTING

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*President Nana Addo Dankwa Akufo-Addo (2017-present) delivers his first state of the nation address, emphasising a weak economic inheritance. Finance minister Ken Ofori-Atta presents his budget to parliament, setting a 6.3% gross domestic product (GDP) growth target for 2017, a reduction in the fiscal deficit to 6.5% of GDP, and a 13.7% increase in government expenditure. The cedi (¢) drops 5.71% against the dollar from 1 January, after losing 9.6% against the dollar in 2016. A Ghanaian delegation completes hearings concerning the maritime border dispute with Côte d'Ivoire at the International Tribunal of the Law of the Sea (ITLOS), with a ruling expected at the end of September.*

#### Akufo-Addo delivers his first state of the nation address...

President **Nana Addo Dankwa Akufo-Addo** (2017-present) on 21 February delivered his first state of the nation address (SONA) to parliament.<sup>1</sup> Akufo-Addo emphasised the weak economy he inherited from **John Dramani Mahama's** (2012-2017) outgoing **National Democratic Congress (NDC)** government.<sup>2</sup> Akufo-Addo claimed that, in the lead-up to 2016 presidential elections, the Mahama government replicated the pre-election fiscal indiscipline of former late president **John Atta Mills** (2009-2012):

*"[The Mills government's] management of our economy in the run up to the 2012 presidential and parliamentary elections resulted in a quagmire that necessitated the urgent intervention of the **International Monetary Fund (IMF)** in 2014. [The Mahama government] promised **Ghanaians** that the reckless public expenditure that characterised the 2012 election year would not be repeated... The promises to the Ghanaian people were, however, not kept. In fact, virtually all the targets under the IMF programme, as at December 2016, have been missed."<sup>3</sup>*

Akufo-Addo claimed that the NDC government exceeded its expenditure target in 2016 by 4%, up to 30.2% of gross domestic product (GDP).<sup>4</sup> Akufo-Addo also stated that revenue collection was poor – at 19.9% of GDP, against a target of 22.7%.<sup>5</sup> Akufo-Addo noted a high fiscal deficit – 9% of GDP (10.2% on a commitment basis) in 2016, against a target of 6%.<sup>6</sup> As result Akufo-Addo claimed that the Ghanaian government has little fiscal space and will have to rely on borrowing or aid.

*"The reality of the state of Ghana's public finances is quite stark. Today... three main budgetary lines: wages and salaries, interest payments and amortisation and statutory payments... account for 99.6% of government revenue. This means that anything else that government has to do outside of the previous government [actions] will have to be financed by borrowing or aid. There is practically no fiscal space left."<sup>7</sup>*

<sup>1</sup> Citi FM, 21 Feb 2017.

<sup>2</sup> Citi FM, 21 Feb 2017.

<sup>3</sup> Citi FM, 21 Feb 2017.

<sup>4</sup> Citi FM, 21 Feb 2017.

<sup>5</sup> Citi FM, 21 Feb 2017.

<sup>6</sup> Citi FM, 21 Feb 2017.

<sup>7</sup> Citi FM, 21 Feb 2017.

### ... and Ofori-Atta presents 2017 budget

Finance minister **Ken Ofori-Atta** presented the government's 2017 budget to parliament on 2 March.<sup>8</sup> Ofori-Atta stressed the poor economic inheritance from the previous NDC government and the need to borrow in order to support the ruling **New Patriotic Party's (NPP)** policy objectives. Ofori-Atta claimed that the government inherited a difficult economic environment, with:

- public debt rising to over 120 billion cedis (¢) (\$25.8 billion) in 2016, or 72.5% of gross domestic product (GDP), compared to less than 38 billion cedis (¢) (\$8.17 billion) in 2012, 47.8% of gross domestic product (GDP);
- expenditure amounting to 30.3% of GDP at the end of 2016, against a target of 26.4% of GDP;
- fiscal deficit rising to 10.3% of GDP on a commitment basis (8.7% on a cash basis), compared to a target set in the \$918m IMF extended credit facility (ECF) of 5.3% of GDP;
- a slowdown in economic growth of 3.6% in 2016, due to recurrent energy challenges and lack of an enabling environment for the private sector;
- government and investment constraints caused by low revenue collection, expenditure overruns and corruption, high wage bills, rigidity of fiscal structure, and high debt service payments;
- reduction in commodity prices, including cocoa, oil and gold – Ghana's main exports;
- inflation reaching 15.4% in 2016, against a target of 10.1%;
- a weak cedi, depreciating 9.6% against the dollar in 2016.<sup>9</sup>

However, Ofori-Atta did highlight several positives in 2016:

- a balance of payments surplus for the first time since 2011, of \$247m or 0.6% of GDP;
- a reduction in the trade deficit from \$3.1 billion in 2015 to \$1.7 billion;
- foreign reserves increasing from \$5.88 billion in 2015 to \$6.16 billion.<sup>10</sup>

Considering this environment, Ofori-Atta presented an ambitious economic plan for 2017. Ofori-Atta has set a target of 6.3% GDP growth in 2017, projecting an average of 7.4% growth from 2017 to 2019 (9.1% and 6.9% in 2018 and 2019 respectively).<sup>11</sup> Ofori-Atta expects industry to be the fastest growing sector in 2017, at approximately 11.2%.<sup>12</sup> Ofori-Atta also plans to pursue "*prudent fiscal policy measures*"<sup>13</sup> and "*cyclical fiscal policies*"<sup>14</sup> in order to reduce the fiscal deficit to 6.5% of GDP in 2017, down to 3.5% in 2018 and 3% in 2019.<sup>15</sup> Ofori-Atta said total government expenditure will reach ₵58.14 billion (\$12.5 billion) in 2017, or 28.6% of GDP, a 13.7% increase compared to 2016.<sup>16</sup> In order to finance this budget, Ofori-Atta proposed to "*broaden the tax base whilst reducing and abolishing some taxes and levies*"<sup>17</sup> as well as increasing foreign debt, though he gave no details about either of these measures.<sup>18</sup> The IMF will reportedly show some leniency toward government borrowing,

<sup>8</sup> www.mofep.gov.gh

<sup>9</sup> www.mofep.gov.gh

<sup>10</sup> www.mofep.gov.gh

<sup>11</sup> www.mofep.gov.gh

<sup>12</sup> www.mofep.gov.gh

<sup>13</sup> www.mofep.gov.gh

<sup>14</sup> www.mofep.gov.gh

<sup>15</sup> www.mofep.gov.gh

<sup>16</sup> www.mofep.gov.gh

<sup>17</sup> www.mofep.gov.gh

<sup>18</sup> www.mofep.gov.gh

*“The IMF will allow some borrowing but not a lot. That was why the fund indicated that the government must go slow on its campaign promise. The Akufo-Addo government has suggested possible re-negotiation with the IMF.”<sup>19</sup>*

Even though many NDC members viewed the criticism of the previous government as inaccurate, local sources describe it as a necessary dose of realism,

*“The reproaches about corruption and fiscal indiscipline are real. In fact, they have always been our problem. We correct it usually with the presence of the IMF and when we finish, then we relapse. For example, 2000, 2008 and 2012 were serious years of indiscipline.”<sup>20</sup>*

The NPP’s economic proposal appears ambitious in the context of Ghana’s economic difficulties in 2016. The criticism of the NDC appears justified, if the NPP’s statistics are accurate. However, the NPP’s policies are largely dependent on an ability to borrow, a process over which the IMF will have significant influence. The extent of the IMF’s leniency will be the best indicator of the NPP’s ability to deliver on its promises, especially in 2017.

### **Cedi drops 5.71% against dollar since 1 January**

The **Ghana Stock Exchange (GSE)** announced on 28 February that the cedi had depreciated 5.71% against the dollar since 1 January, reaching ₵4.44 per dollar on 28 February.<sup>21</sup> The cedi’s continued poor performance shows that investor confidence in the Ghanaian economy remains low. Reportedly, this drop makes the cedi the world’s second worst performing currency in 2017, after the **Sierra Leone** leone.<sup>22</sup> Local economists claim that a major contributor to this continued depreciation is foreign-owned companies’ repatriation of hard currency.<sup>23</sup> Economists also view the recent government announcement of \$1.6 billion in undisclosed debt as a significant factor on depreciation. The cedi had already lost 9.6% of its value against the dollar in 2016.<sup>24</sup> Even though many analysts have praised the **Bank of Ghana (BoG)** (central bank) in recent months for its work in stabilising inflation, the BoG reportedly can do little to impact the value of the cedi. **Ecobank Capital** managing director, **Kisseih Antonio** said,

*“The BoG cannot wave a magic wand to stabilise the currency when the problem we have is a structural one, not a monetary one. We all seem to point fingers at the BoG when the cedi is not doing well, but the government, and not the BoG, is in charge of fiscal policy and matters. The BoG can only help in the short term by intervening in the foreign exchange market to mitigate any depreciation.”<sup>25</sup>*

**Ken Thompson**, CEO of **Dalex Finance and Leasing Co Ltd**, believes that the government should test the resilience of the cedi, and allow it to fall to the market equilibrium price,

*“It is a supply and demand [situation]... There is more demand than supply so it is going to depreciate. Also, you can’t expect to import everything, export very little and have a stable currency. That doesn’t happen... As far as I’m concerned, let’s allow the cedi to depreciate and I truly believe that the true value of the cedi now is between 5 and 5.5 cedi to the dollar.”<sup>26</sup>*

Other commentators believe the government is not prioritising the strengthening of the cedi,

*“The deficit target and other measures should restore confidence among foreign investors to show interest in cedi investments... If you look at inflation and deficit targets then you can deduce that they are not in a haste to stabilise the cedi... The fall of the cedi offers opportunity to*

<sup>19</sup> Source, journalist, Accra

<sup>20</sup> Source, journalist, Accra

<sup>21</sup> Graphic Online, 28 Feb 2017.

<sup>22</sup> Source, journalist, Accra

<sup>23</sup> B&FT Online, 28 Feb 2017.

<sup>24</sup> B&FT Online, 28 Feb 2017.

<sup>25</sup> B&FT Online, 28 Feb 2017.

<sup>26</sup> Citi FM, 28 Feb 2017.

*export but the sad reality is that Ghana lacks the capacity – we have not invested in local industries enough.”<sup>27</sup>*

Ofori-Atta had announced on 27 February that he plans to implement fiscal policies and economic measures to stabilise the cedi.<sup>28</sup> One proposed government measure is the “*one district, one factory*”<sup>29</sup> programme, which will seek to increase exports in the weak cedi environment.<sup>30</sup> Ofori-Atta said that the agriculture sector will be a priority area for industrial investment to increase foreign currency reserves.<sup>31</sup>

The cedi’s drop and recent revelations of financial mismanagement worsen the country’s image among investors. However, a potential upside for investors could be reduced labour and investment costs. The cedi’s weakness will afford the NPP the ability to pursue its “*one district, one factory*” policy more aggressively.

### Ghana attends hearing for maritime border dispute with Côte d’Ivoire

A Ghanaian delegation, between 6 and 16 February, attended hearings at the **International Tribunal of the Law of the Sea (ITLOS)** regarding the maritime border dispute with Côte d’Ivoire.<sup>32</sup> The case is now at its last stage before a ruling. ITLOS could force Ghana to stop drilling and production activities along its mutual maritime border with Côte d’Ivoire. The border dispute stemmed from significant offshore oil and gas discoveries in the **Tano Basin**, most of which is within Ghanaian territory.<sup>33</sup> Côte d’Ivoire in 2009 claimed that Ghana had moved into its maritime boundary, and began to seek court arbitration of the issue.<sup>34</sup> The Ghanaian delegation calls for ITLOS to

*“... reject Côte d’Ivoire’s attempts to argue that an oil field built up and developed over decades should have been abandoned overnight in 2009.”<sup>35</sup>*

ITLOS will deliver a ruling at the end of September.<sup>36</sup> Local legal experts believe that a judgment against Ghana is unlikely,

*“From what I know of the case, it would be a shock to everybody familiar with the case, including the Ivorians, if the tribunal does not deliver judgment for Ghana. Ghana’s case is very strong and was extremely well presented and argued.”<sup>37</sup>*

Local sources do not believe that the case will affect relations between the two countries,

*“I don’t know that it’s having any adverse effect on our bilateral relations. It’s been cordial – they [Côte d’Ivoire] are also supplying us with electricity. But I am not oblivious of a win-win judgment by the court. This will, however, be only after it has granted Ghana its primary claim and demand, which is to preserve and protect all the existing concessions based on the maritime boundary we have both followed for over 50 years. After that, the Ivorians will walk away with some pacifier.”<sup>38</sup>*

It appears unlikely that Ghana will lose its ability to drill within the contested area. Fortunately for both parties, however, it does not seem that the case will lead to political tension between the two countries.

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

<sup>28</sup> Citi FM, 27 Feb 2017.

<sup>29</sup> Citi FM, 27 Feb 2017.

<sup>30</sup> Citi FM, 27 Feb 2017.

<sup>31</sup> Citi FM, 27 Feb 2017.

<sup>32</sup> Graphic Online, 17 Feb 2017.

<sup>33</sup> www.offshoreenergytoday.com

<sup>34</sup> Graphic Online, 17 Feb 2017.

<sup>35</sup> Graphic Online, 17 Feb 2017.

<sup>36</sup> Graphic Online, 17 Feb 2017.

<sup>37</sup> Source, legal expert, Accra

<sup>38</sup> Source, journalist, Accra

### About Africa Risk Consulting:

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