

AFRICA RISK CONSULTING

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Ghana Summary 23 November 2018

Finance minister Ken Ofori-Atta presents the 2019 budget to parliament and says Ghana is on track to exit its \$918m International Monetary Fund (IMF) bailout by the end of 2018. Ofori-Atta aims to reduce the budget deficit to 4.2% of GDP from a target of 4.5% in 2018 and projects 7.6% national economic growth for 2019. The National Communications Authority (NCA) fines all mobile operators a total of \$7m for poor service. Ghana's business environment improves, moving up 6 places to 114th out of 190 countries in the World Bank's Doing Business 2019 report.

Ghana on track to exit \$918m IMF bailout

Finance minister **Ken Ofori-Atta** announced on 15 November that Ghana is on track to exit its almost \$1 billion **International Monetary Fund (IMF)** bailout by the end of 2018.¹ Ofori-Atta's announcement demonstrates the government's continued economic competence and should give investors confidence in Ghana's macroeconomic stability. The IMF Executive Board approved a three-year \$918m financial assistance package under the IMF's **Extended Credit Facility** on 3 April 2015 (see *ARC Briefing Ghana April 2015*).² The IMF programme aimed to restore macroeconomic stability to boost growth and job creation while protecting social spending.³ According to the IMF's press release in April 2015, the main pillars of the reform programme were:

- Fiscal adjustment: "to restore debt sustainability", with a focus on reducing expenditure through the public sector wage bill and mobilising unspecified additional revenues;
- Structural reforms: focused on fiscal discipline through improving budget transparency, notably through "cleaning up and controlling the payroll, right-sizing the civil service, and improving revenue collection";
- Targeting inflation: bringing inflation down to single digits; and
- Preserving financial sector stability.⁴

The IMF's \$918m extended credit facility became a highly politicised issue in the lead up to the December 2016 elections, and was restrictive for government debt financing and wider economic policy (see *ARC Briefing Ghana August 2016, January 2017*). Presenting the 2019 budget to parliament on 15 November, Ofori-Atta said that Ghana would

"...maintain a combination of economic discipline and vibrancy that will ensure that we will not have to be rescued in that manner in the future".⁵

Since coming to power in January 2017, President **Nana Akufo-Addo's** (2017-present) government has almost halved the budget deficit and introduced reforms to control spending and curb inflation.⁶ When Ofori-Atta took over as finance minister in January 2017, Ghana's inflation rate had averaged

¹ News24, 15 Nov 2018.

² IMF, 3 Apr 2015.

³ IMF, 3 Apr 2015.

⁴ IMF, 3 Apr 2015.

⁵ Ken Ofori-Atta quoted in Business Ghana, 21 Nov 2018.

⁶ Africa News, 20 Aug 2018.

17.46% across 2016. In October 2018, the year-on-year inflation rate was down to 9.5%, bringing Ghana in line with the IMF's target of single-digit inflation.⁷



Economic discipline is highly visible in the budget Ofori-Atta presented to parliament. The government proposes legislation that would limit Ghana's fiscal deficit below 5% of gross domestic product (GDP) and would also stipulate that the **Bank of Ghana (BoG)** (central bank) cannot finance the government.⁸ The budget also seeks to strictly enforce the **Public Financial Management Act (PFM)** whereby state-owned enterprises must seek the permission of the finance ministry before taking on debt.⁹ These measures seek to tightly control Ghana's level of sovereign debt moving forward.¹⁰

The same discipline is reflected in the aims of Ofori-Atta's budget, namely the effort to narrow Ghana's budget deficit to 4.2% of GDP in 2019, down from the target of 4.5% of GDP in 2018.¹¹ The aim to reduce inflation to 8% remains unchanged from the 2018 budget.¹² The 2019 budget also sets out the plan to increase the government's revenue target from 50.68 billion cedis (\$10.5 billion) in 2017 to 58.9 billion cedis (\$12.2 billion) in 2019, a 13.96% increase.¹³ The growth of the country's fledgling oil sector underpins Ofori-Atta's projections of 7.6% economic growth in Ghana in 2019.¹⁴

Debt worries still plague Ghana. Contradicting the perceived prudence of the government's economic policies, opposition **National Democratic Congress (NDC)** MP **Ato Forson** told parliament that over the last year, public debt had risen by 32 billion cedis (\$6.5 billion) to 170.8 billion cedis (\$34.9 billion).¹⁵ More debt is planned. Ofori-Atta announced on 25 September that the government plans to issue between \$3 billion and \$7 billion in government bonds annually.¹⁶ One example of new debt is the development earlier this month that saw **Ghana Cocoa Board (Cocobod)** and **Chinese** state-owned **China National Complete Engineering Corp.** sign a memorandum of understanding regarding loans of around \$1.5 billion to develop the cocoa sector.¹⁷ The government's legislation to mitigate public debt appears set to shoulder these debt risks. Testament to this is the current fall in public debt relative to Ghana's GDP despite an increase of \$6.5 billion in the last 12 months.¹⁸

⁷ Ghana Statistical Service Statistical Bulletin October 2018, 14 Nov 2018

⁸ Business Ghana, 21 Nov 2018.

⁹ Business Ghana, 21 Nov 2018.

¹⁰ Graphic Online, 21 Sept 2018.

¹¹ Reuters, 16 Nov 2018.

¹² Reuters, 16 Nov 2018.

¹³ Citinewsroom, 15 Nov 2018.

¹⁴ Bloomberg, 15 Nov 2018.

¹⁵ Business Ghana, 23 Nov 2018.

¹⁶ Bloomberg, 15 Nov 2018.

¹⁷ Bloomberg, 22 Nov 2018.

¹⁸ Bloomberg, 15 Nov 2018.

2019 ALLOCATIONS FOR SPECIAL INITIATIVES

Special Initiatives	Allocation (GHe)
Free SHS	1,682,641,924
IPEP	1,320,000,000
1D1F	95,000,000
Zongo Development Fund	106,875,000
NIA	285,000,000
Planting for Food & Job	380,000,000
NABCO	850,000,000
National Afforestation Programme	47,500,000
Ghana Int. Bauxite & Aluminium Development Authority	19,000,000
Road Infrastructure	380,000,000
NEIP	47,500,000
Railway Development	95,000,000
Ghana Asset Mgt. Co.	3,800,000
Venture Capital	28,500,000
Seed Capital – New Regions	120,000,000
Housing & Mortgage Finance	95,000,000

SUMMARY OF CENTRAL GOV'T OPERATIONS & FINANCING – 2017/2018

Key Fiscal Indicators (in GHe unless otherwise indicated)	2017		2018				
	(Q1-Q3) Outrun	Budget	Revised Budget	Rev Prog (Q1-Q3)	Prov Outrun (Q1-Q3)	GHe	%
Total Revenue & Grants	28,550	49,401	49,059	35,599	32,201	-3,398	-9.5
Percentage of GDP (old GDP series)	13.9	20.4	20.3	14.7	13.3		
Percentage of GDP (rebased GDP)	9.6	16.5	16.4	11.9	10.8		
Total Expenditure (incl. Arrears clearance)	37,367	60,372	60,030	43,379	41,251	-2,128	-4.9
Percentage of GDP (old GDP series)	18.1	25	24.8	17.9	17.1		
Percentage of GDP (rebased GDP)	12.5	20.2	20.1	14.5	13.8		
Budget Balance	-8,818	-10,971	-10,971	-7,780	-9,050	-1,269	16.3
Percentage of GDP (old GDP series)	-4.3	-4.5	-4.5	-3.2	-3.7		
Percentage of GDP (rebased GDP)	-3	-3.7	-3.7	-2.6	-3		
Primary Balance	876	3,939	4,120	2,810	1,487	-1,323	-47.1
Percentage of GDP (old GDP series)	0.4	1.6	1.7	1.2	0.6		
Percentage of GDP (rebased GDP)	0.3	1.3	1.4	0.9	0.5		

Source: Government of Ghana Budget Highlights, 15 Nov 2018

Whilst important, fiscal discipline may see the government lose out on investment through failing to offer ample financial rewards to investors. The new state-owned bank, **Consolidated Bank Ghana**, formed in August from a consortium of five domestic banks that gave out too many non-performing loans (see *ARC Briefing Ghana August 2018*), asked institutional holders of \$230m in investments to accept a 7.5% return of their investment via a bond that yielded only after five years.¹⁹ This represents a significant cut on the investment managers' expected returns: **Ghana Securities Industry Association** president and managing director of the local unit of **Stanlib Asset Management**, **Emmanuel Asiedu**, said the same investors had previously earned annualised rates of as much as 19% on savings with terms of three months to two years.²⁰

Fiscal discipline has by no means dampened the government's appetite for spending. The government signed a memorandum of understanding with **South Africa**-based firm **Africa Investment** to construct the **Accra Sky Train** project for the sum of \$3 billion.²¹ Upon a successful feasibility study and approval from the cabinet and parliament, construction of the railway is due to begin in January 2020.²² The aviation ministry also announced that plans for a national airline public-private joint venture are far advanced, and that it is confident the national airline will be established by the end of 2018.²³ Whilst the initial cost of such projects are expensive, they promise to enhance Ghana's infrastructure. As transportation of people and goods becomes easier, economic activity should increase across the country, justifying the projects' initial cost.

In sum, investors can take confidence from the government's prudent macroeconomic approach and the nearing end of Ghana's IMF bailout. However, high debt, whilst currently under control, could derail Ghana's economy in the case of stalling economic growth through a fall in the global price of oil.

Ghana moves up 6 places in World Bank's Doing Business 2019 report

Ghana jumped up 6 places from its previous year's performance in the **World Bank's Doing Business 2019** report to reach 114th out of the 190 countries surveyed.²⁴ This shows investors that Ghana is

¹⁹ Business Day, 19 Nov 2018.

²⁰ Business Day, 19 Nov 2018.

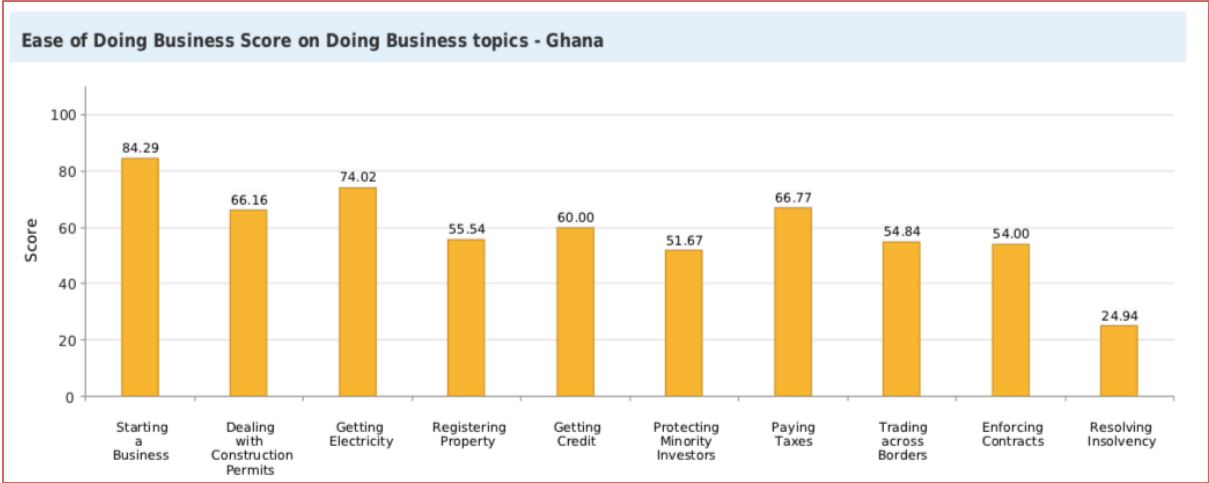
²¹ Construction Review Online, 15 Nov 2018.

²² Construction Review Online, 15 Nov 2018.

²³ Myjoyonline, 7 Nov 2018.

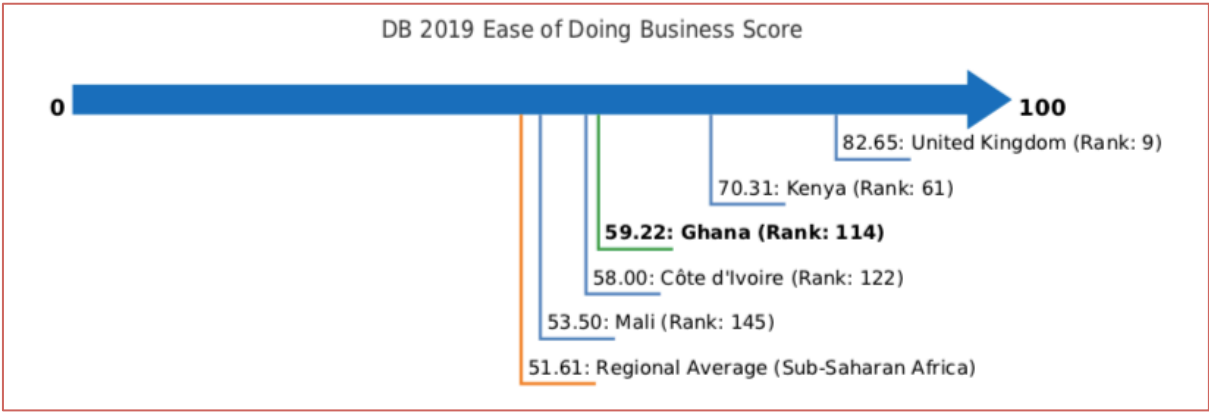
²⁴ Doing Business 2019, p. 5.

becoming a better place in which to trade, and thus an attractive investment destination. Ghana's reforms in the year under review to improve its business operating environment include the introduction of a paperless customs clearance processing system, allowing financial losses to be carried forward for five years on a tax bill, making trade considerably easier for those operating in Ghana.²⁵ The time and cost of registering a business in Ghana has reduced significantly in recent years, reducing an inherent barrier to conducting business.²⁶



Source: World Bank Doing Business 2019, Training for Reform, Economy Profile Ghana

With a score of 59.22, Ghana ranked above the **sub-Saharan Africa** average of 51.61 as well as neighbouring **Cote d'Ivoire** (122nd position with a score of 58) and **Nigeria** (146th place with a score 52.89).



Source: World Bank Doing Business 2019, Training for Reform, Economy Profile Ghana

Ghana's improving business environment has attracted foreign capital. **Japan**-based car manufacturer **Nissan** signed a memorandum of understanding with the government of Ghana on 6 November to establish a car assembly plant, without providing further details.²⁷ Nissan's managing director of **Africa, Mike Whitfield**, said he sees Ghana as "*the gateway to West Africa*".²⁸ Nissan is the biggest car seller in Ghana with a 32% market share and plans to make the country its sales hub in West Africa.²⁹ Trade minister **Alan Kwadwo Kyeremanten** said the government was considering incentives for

²⁵ Gold Street Business, 1 Nov 2018.
²⁶ Gold Street Business, 1 Nov 2018.
²⁷ Reuters, 6 Nov 2018.
²⁸ Reuters, 6 Nov 2018.
²⁹ Reuters, 6 Nov 2018.

Nissan in order to create a business environment that would allow the company to expand its presence.³⁰ **Germany**-based car manufacturer **Volkswagen** and **China**-based vehicle manufacturer **Sinotruck** have already penned preliminary deals with the government of Ghana to build assembly plants in Ghana.³¹ Foreign direct investment (FDI) in Ghana attracted \$4.91 billion in 2017.³²

President Akufo-Addo's landmark '**Ghana Beyond Aid**' policy has the expressed intention to create "*an enabling environment for the private sector to thrive*".³³ This, coupled with the evidence of the Doing Business report, demonstrates that investors can expect the government to continue reforms to make the country an easier place to do business.

Communications authority fines all mobile operators for poor service

The **National Communications Authority (NCA)** fined all four mobile operators – **Vodafone, MTN, Glo, and Airtel/Tigo** – a total of \$7m on 21 November for failing to meet benchmark standards.³⁴ The NCA cited drops in mobile signal and poor sound quality as grounds for their fines.³⁵ This warns investors that the government has the capacity to enforce adherence to its regulations, and shows investors that they ignore regulations and trading standards at their peril.

The NCA carried out quality of service monitoring in the first quarter of 2018 to discern whether mobile phone operators were upholding the terms of their licence key performance indicators: sufficiently good coverage for calls and data along with the sound quality of calls.³⁶ No company met these obligations to the NCA's satisfaction.³⁷ Subsequently, the NCA gave each mobile operator three months ending 21 August to rectify the service issues it had flagged, when it conducted further monitoring to reassess mobile services.³⁸ Although some services had improved, all mobile operators fell short of their licence obligations.³⁹

These fines demonstrate that regulatory bodies such as the NCA are capable of and willing to issue fines to ensure that private companies in Ghana deliver the service they commit to provide.

Planner

21-23 Nov 2018 **Bank of Ghana** MPC meeting date;

26 Nov 2018 **Bank of Ghana** MPC press release;

Dec 2018 (**Ghana**) *News24*. **National Democratic Congress (NDC)** presidential election primaries;

7 Nov or 7 Dec 2020 (**Ghana**) *Ghanaweb*. General election due;

Chronology

22 Nov 2018 **Accra (Ghana)** *BBC*. The **National Communications Authority** fines all four mobile operators – **Vodafone, MTN, Glo, and Airtel/Tigo** – a total of \$7m for failing to meet benchmark standards;

³⁰ Reuters, 6 Nov 2018.

³¹ Reuters, 6 Nov 2018.

³² Gold Street Business, 16 Apr 2018.

³³ www.ghana.gov.gh.

³⁴ BBC, 22 Nov 2018.

³⁵ BBC, 22 Nov 2018.

³⁶ Graphic, 21 Nov 2018.

³⁷ Graphic, 21 Nov 2018.

³⁸ Graphic, 21 Nov 2018.

³⁹ Graphic, 21 Nov 2018.

22 Nov 2018 **(Ghana)** *Bloomberg*. **Ghana Cocoa Board (Cocobod)** seeks \$1.5 billion from **Chinese** state-owned **China National Complete Engineering Corp.** to develop the cocoa sector;

19 Nov 2018 **Accra (Ghana)** *Business Day*. New state-owned bank, **Consolidated Bank Ghana**, asks holders of \$230m in investments to accept lower rates and a five-year freeze before accessing funds;

15 Nov 2018 **Accra (Ghana)** *News24*. Finance minister **Ken Ofori-Atta** states that **Ghana** is on track to exit the \$918m **International Monetary Fund** bailout by the end of 2018;

9 Nov 2018 **Accra (Ghana)** *Graphic*. Railways development minister **Joe Ghartey** signs an agreement with **South Africa**-based **Africa Investment SkyTrain Consortium**, to build a sky train in **Accra**;

6 Nov 2018 **Accra (Ghana)** *IOL*. **Japan**-based automaker **Nissan** signs a preliminary deal to set up an assembly plant in **Ghana**;

31 Oct 2018 **Accra (Ghana)** *Vanguard*. Aviation minister **Joseph Kofi Adda** looks for partners to invest in a planned national air carrier;