

AFRICA RISK CONSULTING

Ghana Monthly Briefing October 2022

Ghana Summary 10 October 2022

United States (US)-headquartered credit ratings agencies Fitch Solutions and Moody's downgrade Ghana's credit rating on 23 and 30 September respectively over debt restructuring concerns. The downgrades place Ghana deeper into sub-investment grade, which will increase Ghana's debt-servicing costs and exacerbate its ongoing economic challenges. The Bank of Ghana's (central bank) decision to increase the country's repo rate by 250 basis points to 24.5% further highlights Ghana's economic woes. The central bank has now increased the repo rate by 1,100 basis points since October 2021. The rapid increase in interest rates is expected to constrain consumer spending and credit availability, leading to a decline in economic activity and domestic investment. President Nana Addo Dankwa Akufo-Addo (2017-present) is facing increased pressure as economic issues worsen, illustrated by heckling when he addressed the 2022 Global Citizen Concert in Accra. Opposition politicians view the current situation as an opportunity to criticise Akufo-Addo and the ruling New Patriotic Party (NPP) and undermine the president's economic record.

Ratings agencies downgrade Ghana over debt restructuring concerns

United States (US)-headquartered credit ratings agencies Fitch Solutions and Moody's downgraded Ghana's credit rating on 23 and 30 September respectively.¹² This is the second time Fitch has downgraded Ghana in three months, after lowering its credit rating from 'B-' to 'CCC' on 10 August (see *ARC Briefing Ghana Aug 2022*).³

In the latest downgrade, Fitch issued Ghana with a 'CC' credit rating, two levels into sub-investment grade, also known as 'junk status'. Moody's downgraded Ghana's long-term and unsecured debt ratings to 'Caa2' from 'Caa1' and lowered its local currency (LC) and foreign currency (FC) country ceilings to 'B2 and B3', from 'B1 and B2'.⁴ These ratings are also sub-investment grade. This follows a similar downgrade by US-headquartered ratings agency **Standard & Poor's (S&P)**, which issued Ghana with a sub-investment grade rating on 8 August.⁵ As such, all three of the major global ratings agencies view Ghana's sovereign debt as presenting a high credit risk.

These rapid credit ratings downgrades are in response to Ghana's ongoing economic crisis, which has been defined by increasing inflation and rapid depreciation of the national currency, the cedi. The cedi has lost at least 37.5% of its value against the US dollar in the past year; as of 8 October, it was trading at GHS 11.2 to \$1.⁶

The latest round of credit downgrades has been sparked by the country's macroeconomic challenges and recent speculation that Ghana is seeking to restructure its external debt and is in discussions with the **International Monetary Fund (IMF)** about how best to achieve this. Moody's noted that such a restructuring would be considered a "distressed exchange" and be viewed as a debt default by the ratings agency.⁷ Fitch also cited the possibility of debt restructuring as its rationale for downgrading Ghana further into junk status. Fitch further noted the challenges associated with the rising interest

¹ Moody's, 30 Sep 2022

² Fitch, 23 Sep 2022

³ Fitch, 10 Aug 2022

⁴ Moody's, 30 Sep 2022

⁵ Ghanaian Ministry of Finance, 8 Aug 2022

⁶ Pulse, 10 Oct 2022

⁷ Moody's, 30 Sep 2022

on the country's domestic debt and its continued lack of access to **Eurobond** markets.⁸ Ghana lost access to the Eurobond market in late 2021 due to surging debt related to the impact of the **Covid-19** pandemic.⁹ Ghana's exclusion from the Eurobond market resulted in the first of the three Fitch credit rating downgrades this year, lowering its rating from a 'B' to a 'B-' on 15 January (*ARC Briefing Ghana Jan 2022*).

The downgrades will result in Ghana's government paying more in debt servicing costs. The interest on Ghana's 91-day treasury bill increased by 0.42% to 29.90% after the last credit downgrades and is expected to increase even more. Ghana's debt-servicing costs in the first half of 2022 were estimated to be around \$2 billion, equivalent to 68% of the state's tax revenue.¹⁰ Given the ongoing depreciation of the cedi and the increase in the country's debt in recent months, these costs are expected to rise. This means government will have less to spend on essential development programmes such as infrastructure investment, education and social security. The downgrades will also further restrict Ghana's access to international capital markets, suppressing the state's ability to access investment and liquidity. Finance minister **Ken Ofori-Atta** has indicated that it could take the country three years to recover from these downgrades.¹¹

The combination of the rapidly weakened cedi (which makes dollar-denominated debt more expensive) and the increased cost of borrowing caused by the ratings downgrades will result in a budgetary and financial shock to Ghana. This is likely to deepen the country's growing debt, which the **World Bank** has forecast to reach 104% of gross domestic product (GDP) by the end of the year.¹² These factors have increased pressure on the government to reach an agreement with the IMF as soon as possible to prevent the government from defaulting on its debt or being unable to pay public sector salaries.

Nevertheless, there are some promising economic developments. The **Ghana Statistical Service (GSS)** reported on 20 September that Ghana's economy grew by 4.8% in the second quarter (Q2), compared to the 4.2% growth recorded in the same period in 2021.¹³ Growth was driven by the services, agriculture and manufacturing sectors. The fact that the bulk of the growth came from outside the hydrocarbons sector indicates that the wider economy is growing. This growth is further boosted by Ghana recording a \$1.7 billion trade surplus in August.¹⁴ Although, it is unlikely to offset the effects of the country's surging inflation rates, it could mark a wider economic recovery.

Central bank raises interest rates yet again

The **Monetary Policy Committee (MPC)** of the **Bank of Ghana (BoG)** decided on 6 October to increase the monetary policy rate by 250 basis points to 24.5%.¹⁵ The increase comes less than two months after the MPC raised rates by 300 basis points to 22% on 17 August (*see ARC Briefing Ghana Aug 2022*) and poses a significant threat to economic growth. The rate increase was in response to the latest GSS figures, which showed that consumer inflation reached 33.9% in August.¹⁶ The BoG is eager to tame inflation due to the economic harm and social instability that out-of-control inflation can cause, as well as illustrate to the IMF that the country is serious about addressing its economic challenges.

Despite the increase in the repo rate (the rate the central bank charges commercial banks), the country's reference rate (the rate at which commercial banks lend money) has so far remained at 27.44%.¹⁷ However, the **Ghana Association of Banks (GAB)** only confirmed this as the reference rate

⁸ Fitch, 23 Sep 2022

⁹ Marketforces Africa, 15 Jan 2022

¹⁰ Bloomberg, 20 Sept 2022

¹¹ Ghanaian Times, 30 Sep 2022

¹² World Bank, Oct 2022

¹³ Graphic.com.gh, 20 Sep 2022

¹⁴ BoG, 6 Oct 2022

¹⁵ BoG, 6 Oct 2022

¹⁶ VOA, 14 Sep 2022

¹⁷ GAB, 5 Oct 2022

on 5 October and, as such, it is likely that commercial banks will soon increase the rates they charge their clients. The reference rate has more than doubled in the past year, from 13.47% in October 2021 to the current rate of 27.44%, while the repo rate has increased from 13.5% in October 2021 to the current rate of 24.5%.¹⁸

The anticipated increase in the reference rate is likely to constrain liquidity in the Ghanaian credit market and increase the cost of borrowing for consumers and investors alike. The cost of financing capital expenditure will increase noticeably in the coming weeks, especially for individuals or organisations who hold debt with an adjustable rate. This will discourage further domestic investment and spending, undermine economic growth and increase the difficulty of operating in the Ghanaian market.

Akufo-Addo heckled at public concert

President **Nana Addo Dankwa Akufo-Addo** (2017-present) is facing increasing pressure after the recent credit rating downgrades and persistently high levels of inflation to urgently find solutions to Ghana's economic woes. Akufo-Addo was booed and heckled by the crowd at the **2022 Global Citizen Festival** in Accra's **Black Star Square** on 24 September, an indication of the dissent he faces.¹⁹ The overt hostility shown to Akufo-Addo by the predominantly young and urban crowd is likely to have concerned the president, who is eager to avoid further protests motivated by popular economic frustration such as those that occurred in June (*see ARC Briefing Ghana July 2022*).

Akufo-Addo's political rivals have also identified the president as being politically vulnerable over the current economic situation. Former president **John Dramani Mahama** (2012-2017) – who was ousted by Akufo-Addo in the 2016 elections and lost again to Akufo-Addo in 2020 – has criticised the government's handling of the economy and, on 7 October, urged for the negotiations with the IMF to be fast-tracked.²⁰ Mahama and the opposition **National Democratic Congress (NDC)** are keen to criticise Akufo-Addo and the ruling **New Patriotic Party (NPP)** for the cost of living crisis in order to weaken the ruling party ahead of the 2024 general election. Akufo-Addo's vulnerability on economic issues is particularly noteworthy, as he first won the presidency in 2016 on a platform of competent economic management and a pledge to stabilise the cedi.²¹

The government appears to agree with the opposition's assessment of the political environment. On 28 September – a week before Mahama's statement – finance minister Ofori-Atta claimed that the government was trying to fast-track the IMF process.²² Ofori-Atta's statements were made during the IMF's team mission to Ghana, which commenced on 26 September and concluded on 7 October. The IMF team met with several senior government and finance officials but has given little indication about what conditions it will set if it approves the \$3 billion in desired funding.²³ The IMF executive will deliberate on the mission's findings and recommendations and will issue a statement in the coming weeks. However, any agreement will most likely include mandated steps to improve Ghana's debt sustainability, likely including the substantial debt restructuring feared by the ratings agencies.

¹⁸ UBA Ghana, 10 Oct 2022

¹⁹ Business Ghana, 28 Sep 2022

²⁰ Ghanaian Times, 7 Oct 2022

²¹ New York Times, 6 Dec 2016

²² CNBC Africa, 28 Sep 2022

²³ IMF, 7 Oct 2022

Planner

28-29 Oct 2022 **(Ghana)** Kwahu Summit;
2023 **(Ghana)** New Patriotic Party (NPP) primaries;

Chronology

10 Oct 2022 **Accra (Ghana)** *AU-AfCFTA*. The 10th ministerial meeting of the **African Continental Free Trade Area (AfCFTA)** is held in Accra;

8 Oct 2022 **Paris (France)** *Ghanaweb*. President **Nana Addo Dankwa Akufo-Addo** arrives in **France** on a six-day working visit during which he will address the 215th session of the board of the **United Nations Educational, Scientific and Cultural Organization (UNESCO)** on 10 October;

7 Oct 2022 **Accra (Ghana)** *IMF*. **International Monetary Fund** team concludes 11-day staff visit to Ghana during which it met with President **Nana Addo Dankwa Akufo Addo**, vice-president **Mahamudu Bawumia**, finance minister **Ken Ofori-Atta**, and **Bank of Ghana** (central bank) governor **Ernest Kwamina Yedu Addison**;

6 Oct 2022 **Accra (Ghana)** *Foreign Brief*. Health officials launch another round of polio vaccinations aimed at treating six million children under five years old;

6 Oct 2022 **Accra (Ghana)** *Business Ghana*. **Development Bank Ghana (DBG)** signs a memorandum of understanding (MoU) with the **Association of Ghana Industries (AGI)** and **Ghana Stock Exchange (GSE)** to help empower small-medium enterprises in the country;

3 Oct 2022 **Accra (Ghana)** *Reuters*. **Cocobod**, the national cocoa regulator, signs a \$1.13 billion syndicated loan with several international banks to finance purchases for the upcoming season, which is due to open later in October;

30 Sep 2022 **Kibi (Ghana)** *Pulse*. A local task force targeting illegal mining operations arrests 24 suspected illegal miners in connection with a shooting incident in the **Asaman Tamfoe** area of **Eastern Region**;

30 Sep 2022 **Accra (Ghana)** *Reuters*. **Australian** mining firm **Atlantic Lithium** indicates that it expects to begin production at its **Ghana** operations in the second half of 2024, with its **Ewoyaa** project expected to be Ghana's first commercial lithium mine;

28 Sep 2022 **Accra (Ghana)** *CNBC Africa*. Finance minister **Ken Ofori-Atta** claims that the government is trying to fast-track the **International Monetary Fund (IMF)** talks process;

27 Sep 2022 **Washington DC (United States)** *The Herald Ghana*. **International Monetary Fund (IMF)** director of communications **Gerry Rice** states prior to the IMF team completing its visit to **Ghana** that it is too early to speculate on whether the institution would insist on Ghana restructuring its debt;

30 Sep 2022 **Paris (France)** *Moody's*. **United States**-headquartered credit rating agency **Moody's** downgrades **Ghana's** long-term and unsecured debt ratings to 'Caa2' from 'Caa1';

24 Sep 2022 **Accra (Ghana)** *Business Ghana*. President **Nana Addo Akufo-Addo** is booed and heckled at the **2022 Global Citizen Concert** in **Accra**;

23 Sep 2022 **Hong Kong (China SAR)** *Fitch Ratings*. **United States**-headquartered credit rating agency **Fitch Solutions** downgrades **Ghana** from 'CCC' to 'CC', the third ratings downgrade by Fitch in 2022;

21 Sep 2022 **New York (United States)** *UN Affairs*. President **Nana Addo Akufo-Addo** addresses the **United Nations (UN) General Assembly**, focussing on global economic challenges and the need for increased cooperation and integration among **African** states.

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