

AFRICA RISK CONSULTING

Country briefing – Ghana

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Summary

President John Dramani Mahama's (2012-present) popularity continues to fall as the government fails to halt the ongoing economic crisis. Social media-savvy coalition Concerned Ghanaians for Responsible Government (CGRG) protests the rising cost of living and fuel shortages. Mahama reshuffles the cabinet to improve the government's image and brings in experienced economist Ekwow Spio-Garbrah as trade and industry minister. Ratings agency Moody's downgrades the economy as inflation continues and the cedi is the world's worst performing currency. The government cuts the growth forecast to 7% and relies on rising gold and cocoa prices to improve the economy in the medium term. Fuel shortages and a partial removal of the fuel subsidy increase costs for consumers and business. The power sector outlook improves following announcements of much needed investment.

1.1 President Mahama's popularity falls and protesters take to the streets

President **John Dramani Mahama's** (2012 – present) popularity has dropped sharply due to the ongoing economic crisis, amid the rising cost of living and shortages of fuel and power. Inflation increased in June to a four-year high of 15%, accounted for by the overall 56% rise in the price of water, electricity, gas and other fuels, and 24% rise in transport costs, since the start of 2014.¹ The deteriorating debt position forced the government to cut fuel subsidies on 13 July (see below), which will result in further price increases. The government's upper limit inflation target in 2014 was 11.5%.² Power outages have also been a frequent occurrence in 2014 as generation equipment repairs, natural gas shortages and drought have contributed to reduced supply.³

*"The mood is dire ...people have no faith that the government will be able to turn this around."*⁴

¹ Bloomberg, 9 Jul 2014.

² Africa Report, 5 Feb 2014.

³ Bloomberg, 14 Jul 2014.

⁴ Source, journalist, Accra

The decision to fly \$3m to Ghana's World Cup football team in a chartered plane further reduced Mahama's popularity. Local press reports said Ghanaians viewed the move as the president caving in to the demands of highly paid footballers in the same week as announcing public sector wage cuts.⁵

Ghanaians' dissatisfaction has transformed into protests against Mahama's government. A group of around 500 protesters sought to demonstrate at **Flagstaff House**, the presidential office, on 1 July but police prevented them from reaching their destination. A civil society coalition **Concerned Ghanaians for Responsible Government (CGRG)** led the protest. The protest became popularly known as 'occupy flagstaff house' or 'occupy Ghana.' The protesters were reported to be well off professionals who organised the protest via social media.⁶ They delivered a 2,700-signature, 20-point petition⁷ calling on the government to address the depreciation of the cedi, improve the power and fuel supply, and reduce inflation and the number of tax increases.⁸ The group has continued protesting and on 11 July initiated the 'red Friday' campaign which encourages Ghanaians to wear red on Fridays to publicise their demands over social media.⁹ The campaign targets both the ruling **National Democratic Congress (NDC)** and the opposition **National Patriotic Party (NPP)**. The executive secretary of CGRG is **George Kojo Anti**, formerly a master's student at the **University of Ghana**.¹⁰

Union groups are also protesting. The **Organised Labour** group led by Ghana's **Trade Union Congress** declared a unilateral strike on 24 July, asking all those in formal and informal employment to demonstrate in **Accra** and other regional capitals.¹¹

The opposition NPP, which has repeatedly called on Mahama to accept an **International Monetary Fund (IMF)** bailout and address the country's opposition woes, is hopeful it can improve its position on the back of Mahama's unpopularity:

*"What we (the NPP) hope to do is show Ghanaians that, come election time, there is a party which will take responsibility for the economy and not hide behind reshuffles and rhetoric...the way things are going now Mahama could win the election for us."*¹²

⁵ Source, journalist, Accra

⁶ Al-Jazeera, 14 Jul 2014.

⁷ Bloomberg, 1 Jul 2014.

⁸ Change.org petition 2014

⁹ Al-Jazeera, 14 Jul 2014

¹⁰ Blog of US academic Joseph Verschaeve, 2013

¹¹ Joyonline, 21 Jul 2014.

¹² Source, senior opposition figure and former minister, London

However, the NPP has done little to capitalise upon the situation in recent weeks as they focus on internal politics, deciding on presidential candidates for the 2016 elections. The two frontrunners are NPP leader **Nana Akufo-Addo** and former trade minister **John Kyetemeran** (see *ARC Ghana April 2014 Briefing*).¹³

1.2 Mahama reacts with a cabinet reshuffle

Mahama has reshuffled his cabinet in a bid to improve the government's image and bring in new players. The presidency statement on 16 July listed the following appointments in Mahama's first cabinet reshuffle since taking office in January 2013:

- **Mark Owen Woyongo**, former defence minister, replaces interior minister **Kwesi Ahwoi**;
- **Benjamin Bewa-Nyog Kunbuor**, former majority leader in parliament, becomes defence minister;
- **Ekwow Spio-Garbrah** replaces **Haruna Iddrissu** as minister for trade and industry. Spio-Garbrah is a former **World Bank** economist, minister of communications, and ambassador to the **United States**.

*"Spio-Garbrah is a safe pair of hands, he is one of Ghana's most experienced public servants and is respected in the business community. His experience both in and out of government will be an asset to Mahama."*¹⁴

- Haruna Iddrissu moves to the employment and labour relations ministry.

The president also dissolved the information and media relations ministry, moving it into the communications ministry (as it was prior to 2001). Ministers in the key ministries of finance, foreign affairs, economic planning and regional integration kept their positions.¹⁵

Local media sources were unconvinced the reshuffle can improve Mahama's and the government's position.¹⁶

*"Ghanaians are ambiguous on the reshuffle, getting rid of the ministry of media relations is popular because it was basically the same as communications... [but] what people care about is the cost of living; if it doesn't improve, then Mahama's name is still mud."*¹⁷

¹³ Source, diplomat, Accra

¹⁴ Source, diplomat, Accra

¹⁵ Joyonline, 16 Jul 2014.

¹⁶ Modern Ghana, 17 Jul 2014.

¹⁷ Source, journalist, Accra

1.3 ...as the economic situation worsens

Ghana's economic situation continues to worsen. On 27 June ratings agency **Moody's** downgraded Ghana's sovereign rating from a B1 to a B2 citing the country's rising debt burden and decreasing debt affordability. Moody's expects debt to exceed 65% of GDP by the end of 2015 (it was 55.7% at the end of 2013 and 54.8% at the end of May).¹⁸ Decreasing government revenues exacerbate the problem.¹⁹

The cedi continued to slide against the dollar. It was at 3.48 cedi (GH¢) to the dollar on 21 July, a total depreciation of 46.8% in 2014, making it the world's worst performing currency. The slide shows little signs of stopping and **HFC Bank Ghana** has said that it could fall another 19% this year, going above 4 cedi to the dollar.²⁰ In response the **Bank of Ghana** has once again raised the interest rate, which is now up to 19%. Governor **Henry Kofi Wampah** said that the bank's monetary policy committee had increased the interest rate to ease international pressure on the cedi.²¹ The Bank of Ghana has also cancelled sales of all five- and seven-year bonds, but is due to sell \$327m of three-year bonds in late July and October.²² Investor interest is waning,

*"Investors don't want to place their money into an economy where the government economic policies seem incoherent; it doesn't make sense for them to take on that kind of risk."*²³

Finance minister **Seth Terkper** presented a supplementary budget to parliament on 16 July which revealed the extent of the downturn. The government cut the growth forecast in 2014 to 7.1% from 8% and raised the budget deficit cap to 8.8% from 8.5%. Terkper also announced that the government would be seeking a further 3.1 billion cedi (\$935m) to supplement the 34.9 billion cedi (\$10.3 billion) budget.²⁴

Despite the negative economic news, the government's message remains positive. The government said its measures to increase macroeconomic stability and growth would revive the economy.²⁵ Earlier in July, responding to the Moody's downgrade, Terkper said that Ghana was coming out of a recession, that a good harvest would slow food inflation, and that increases in revenue from gold and cocoa exports would restore economic stability.²⁶ The government hopes for an improvement in the key markets of cocoa and gold, and increased oil revenues. Gold markets have stabilised with an overall growth of

¹⁸ Reuters, 16 Jul 2014.

¹⁹ Reuters, 27 Jun 2014.

²⁰ Bloomberg 3 Jul 2014.

²¹ Reuters, 9 Jul 2014.

²² Bloomberg, 11 Jul 2014.

²³ Source, diplomat, Accra

²⁴ Reuters, 16 Jul 2014.

²⁵ Reuters, 16 Jul 2014.

²⁶ Bloomberg, 30 Jun 2014.

\$77.7 per ounce across 2014 to \$1,312 per ounce. Cocoa prices have increased 12.6% from \$2,819.43 per tonne to \$3,174.33 per tonne across the same time frame.

1.4 Fuel shortages and cuts in fuel subsidies hurt businesses and consumers

Fuel shortages increased at the end of June due to a strike by bulk oil distribution companies over GH¢1.8 billion (\$530m) of unpaid government subsidy payments. On 30 June the government responded by releasing 9m litres of fuel products onto the market to prevent further shortages and paid the companies \$100m in foreign currency.²⁷

The price of fuel has risen sharply in 2014. The fuel shortage in June drove up the price of fuel which increased further in response to the government's decision on 13 July to cut some fuel subsidies. The cuts to the affected subsidies came into effect on 14 July and caused the price of premium petrol to rise 23% overnight, as diesel and liquefied petroleum gas increased 22% and 15.7% respectively. With fuel prices rising steeply from December 2013, this has been a difficult year for consumers and businesses. In 2014 the price per litre of premium petrol has increased 58% from GH¢2.12 (\$0.63) to GH¢3.36 (\$0.99), diesel has increased 55% from GH¢2.42 (\$0.71) to GH¢3.23 (\$0.95), and liquefied petroleum gas has increased 46% from GH¢2.27 (\$0.67) to GH¢3.32 (\$0.98).²⁸

The government had reintroduced fuel subsidies in April in order to keep down the cost of living, but decided to partially remove the subsidy due to the deteriorating debt position and the government's inability to pay oil distribution companies in June. The subsidy cut is part of the government's plan to reduce spending in order to increase macro-economic stability. Energy minister **Emmanuel Armah Kofi Buah** indicated that the government would consider further subsidy cuts in the future.²⁹ However, the increase in fuel prices is an ongoing concern for business,

*"Many small businesses, and especially the import/export sector, are hurting with these price rises – getting your goods from one place to another has become prohibitively expensive for some."*³⁰

1.5 The power sector outlook improves

Over the past month the government has announced a number of new investments in the power sector. The **Electricity Company of Ghana (ECG)** announced on 14 July that it had engaged an as-yet-

²⁷ Africa Report, 30 Jun 2014.

²⁸ NPA website, 2014

²⁹ Reuters, 14 Jul 2014.

³⁰ Source, journalist, Accra



unnamed **Swedish** company to build a 1000MW underwater turbine tidal power plant in the **Ada Estuary**. The project will generate 5MW power by the end of 2014 and will increase in installments until ECG reaches its 1000MW target by the end of 2016. ECG announced that it was in talks with two other companies to generate a further 450MW in tidal energy.³¹

Funding is also underway for the **Kpone Thermal Power Plant**, a 340MW thermal (oil and gas) power plant. The state-owned **Volta River Authority** will operate the plant. **South African** bank **FirstRand** announced on 23 June that its investment banking arm would invest \$120m directly in the plant and is the lead organiser for another \$400m of commercial funding for the \$820m project. **Cenpower Generation Company** and other sponsors (\$250m) are providing finance and ECG expects about \$200m from international development institutions.³²

These deals are good news. Ghana badly needs to generate more electricity to cover an estimated 200MW shortfall in its current supply as power cuts continue to be a regular occurrence.³³ A diplomat in Accra described the announcement as

“some solid good news that should help both individuals and businesses in Ghana in the long run...it is important that these projects are funded and completed without delays.”³⁴

The government is considering other long term options to improve supply. The **Nuclear Power Regulatory Bill** currently before parliament paves the way for Ghana to build its first 1000MW nuclear fission power plant. If plans develop, Ghana would be the second country in Africa after South Africa to generate nuclear power. The government hopes to pass the bill by the end of 2014 but it will be at least five years before any nuclear power plant comes online.³⁵

2 Implications

Mahama's and the NDC's position has eroded further. The lack of action to improve the debt position in the last year means that the government is now forced to implement unpopular subsidy and other spending cuts. These necessary measures to restore macroeconomic stability will come at a time of increasing cost of living. Discontent in the electorate is growing. The CGRG coalition, increasingly known as 'occupy Ghana', shows that the educated urban class which had been at the forefront of a growing economy has lost patience with the government. Their discontent combined with union action could draw large crowds onto the streets against the government if inflation continues to rise.

³¹ Ghana Broadcasting Corporation, 14 Jul 2014.

³² Bloomberg, 23 Jun 2014.

³³ ECG website, 15 Jul 2014.

³⁴ Source, diplomat, Accra

³⁵ Ghanaweb, 21 Jul 2014.

Despite these concerns the opposition NPP is unable to capitalise on the situation. The NPP is entering a period of significant infighting until it chooses its presidential candidate in October. This appears to be the deadline for the government to improve the economic situation, or the NPP's momentum may build in the lead up to the 2016 elections.

The unstable economic environment and the increased risk of street unrest undermine Ghana's political risk profile in the near to medium term. The need to implement short term controls is also hurting the policies needed to bring about long term stability. The cancellation of five and seven year bonds contradicts the government's plan, but is necessary given the continued poor performance of the cedi. The government hopes that slowly rising prices of gold and cocoa, and no further delays to the new gas processing plant for the **Jubilee** field, will lead to an increase in revenues in the coming year. This was the basis of the government's argument for the supplementary budget request. The long term view remains positive with investment, albeit slowed, still flowing into key sectors such as energy.