

AFRICA RISK CONSULTING Ghana Monthly Briefing May 2018

Ghana Summary 24 May 2018

Ghana's eurobond sale is four times oversubscribed despite a low interest rate of 7.625% for 10-year bonds and 8.625% for 30-year bonds. The International Monetary Fund (IMF) approves a \$191m loan to Ghana, praising the country's economic condition but encouraging higher tax revenues. Ghana is set to sell nine oil blocks over 2018 and 2019 as oil overtakes cocoa to become Ghana's second biggest export. Clashes between Ghana's Police Service and Armed Forces in the northern city of Tamale threaten the credibility of both institutions.

Ghana eurobond sale four times oversubscribed despite low interest rate

Ghana sold \$2 billion worth of dual tranche eurobonds with 10 and 30-year maturities on 8 May.¹ Ghana's 10-year eurobonds sold with an interest rate of 7.625%, while the 30-year bonds sold with an interest rate of 8.625%.² The eurobonds were four times oversubscribed despite the low interest rates.³ The bond sale has been described as "a marked success" although "the pricing revision may have aided the deal and left investors unhappy."⁴

The oversubscription for Ghana's eurobond demonstrates strong investor confidence in the country's economy and an endorsement of prudent management of the economy:

*"Ghana's trade deficit dropped from 9% of gross domestic product (GDP) in 2016 to 6% of GDP in 2017. Inflation has hit single figures in April 2018 and interest rates have been trending downwards... Ghana's economy is one of the strongest in **sub-Saharan Africa**."⁵*

The debt raised from the eurobond sale will be used mainly to restructure existing debt – which stands at around 70% of Ghana's gross domestic product (GDP) – and balance Ghana's budget deficit.⁶ Sceptical observers label the bond sale a "sticking plaster" for the country's precarious economic situation.⁷ The Eurobond sale may only work to buy Ghana more time to repay its debts, not attend to them head-on.

A more optimistic local source told ARC that the eurobond sale will both redress the issue of national debt and enable Ghana's economy to grow.⁸ Up to \$750m from the \$2 billion eurobond sale is set to be used as revenue for Ghana's ambitious 2018 budget, which plans to build infrastructure such as roads, schools and hospitals across the country, whilst also promising free senior school education countrywide, and a factory in every district.⁹

¹ Reuters, 10 May 2018.

² Reuters, 10 May 2018.

³ Africa Confidential, 18 May 2018.

⁴ Sovereign debt market watcher quoted in Reuters, 10 May 2018.

⁵ Source, journalist, Accra.

⁶ Africa Confidential, 18 May 2018.

⁷ Africa Confidential, 18 May 2018.

⁸ Source, journalist, Accra.

⁹ Reuters, 10 May 2018.

“The [Nana Addo Dankwa] Akufo-Addo [2017-present] government is doing two things at the same time: fixing the mess [i.e. debt] left behind by former president [John Dramani] Mahama [2012-2017] and at the same time growing the economy to create jobs and prosperity.”¹⁰

Whether Ghana can borrow itself out of debt remains to be seen, but by and large, investors and commentators appear confident in the government’s economic plan and the country’s current fiscal strength.

IMF approves \$191m loan to Ghana ...

The **International Monetary Fund (IMF)** approved a \$191m loan to Ghana on 30 April as part of the \$918m credit deal it signed in 2015.¹¹ The IMF deemed Ghana to have largely met the fiscal conditions of the loan after the loan programme was reviewed. However, the IMF made some adjustments to the programme to ensure that Ghana remained on track with the conditions, such as waivers for deviations from the programme’s fiscal targets.¹² Acting chair and deputy managing director of the IMF **Tao Zheng** commended Ghana’s progress:

“Growth has rebounded, the fiscal deficit has declined, leading to a primary surplus for the first time in fifteen years... and key steps have been taken to address fragilities in the financial sector. Reforms should continue to entrench these hard-won gains.”¹³

Although largely positive in his outlook of Ghana’s fiscal positions, Zheng urged Ghana to practise “stronger oversight over the management of public finances” and to continue with its fiscal consolidation programme, with focus on boosting tax collection.¹⁴ The **Ghana Revenue Authority (GRA)** has not been efficient in tax collection: although it raised \$7.2 billion in 2017, tax revenues fell short of the GRA’s target by 1.1 billion cedis (\$237m) despite being significantly up from \$5.8 billion tax revenues in 2016.¹⁵

Tax collection is a vital area of improvement for the government.¹⁶ In order to fulfil every IMF loan criterion, the government needs to reduce the debt to GDP ratio from its current 70% to 35-40%.¹⁷

“That is why GRA is aggressively pushing to capture more taxpayers through their Taxpayer Identification Number (TIN) system.”¹⁸

The government has demonstrated significant efforts to improve its tax collection efforts. GRA staff are carrying out property valuations for the first time in decades to ensure up-to-date tax rates.¹⁹ Property in the **Greater Accra Region** – home to the largest concentration of real estate in **Africa** – yielded just 10m cedis (\$2.16m) in tax in 2017.²⁰ In addition, vice president **Mahamadu Bawumia** announced on 4 April that the government plans to review tax exemptions for companies in the resource sector, including mining and oil companies (see

¹⁰ Source, journalist, Accra.

¹¹ Press release, IMF, 30 Apr 2018.

¹² Press release, IMF, 30 Apr 2018.

¹³ Press release, IMF, 30 Apr 2018.

¹⁴ Public Finance International, 3 May 2018.

¹⁵ Africa Confidential, 18 May 2018.

¹⁶ Africa Confidential, 18 May 2018.

¹⁷ Source, journalist, Accra.

¹⁸ Source, journalist, Accra.

¹⁹ Africa Confidential, 18 May 2018.

²⁰ Africa Confidential, 18 May 2018.

ARC Briefing Ghana April 2018).²¹ Mining industry professionals have highlighted instances of GRA inefficiency in claims that Ghana offered **South Africa**-based mining company **AngloGold Ashanti** tax breaks of up to \$300m to resume operations at the once-abandoned **Obuasi** gold mine.²²

The IMF's approval of its loan to Ghana, coupled with Zheng's positive outlook on Ghana's fiscal improvements, demonstrates confidence in the country's economy. Indicators in inflation and interest rates, responsible management of economy, increasing revenue and cutting the trade deficit are all in the right direction. With improved tax collection and the subsequent reduction in the country's national debt, the economy is likely to see strong growth.

... as Ghana set to sell nine oil blocks

The energy ministry announced on 17 May that it will sell nine oil blocks off its western coast for commercial exploration.²³ Six fields are due to be sold over the course of 2018 and the remaining three to be sold in 2019.²⁴ The state-owned oil company, **Ghana National Petroleum Corporation (GNPC)**, will acquire one field, which it will explore with a strategic partner. The remaining blocks will be sold by open competitive tender and direct negotiations.²⁵ The sale will further boost Ghana's oil industry as the rising price of oil and the development of new oil fields soon to come online in Ghana point to an "oil boom".²⁶

Although Ghana only began producing oil in 2010, its current oil production stands at roughly 180,000 barrels per day.²⁷ A recent **Bank of Ghana (BoG)** report indicated that oil was Ghana's second largest export product in 2017, raising an estimated \$3 billion, trailing gold exports by just \$100m and exceeding cocoa exports by \$300m.²⁸

Clashes between police and armed forces raise concern

Violent clashes between members of the **Ghana Police Service (GPS)** and **Ghana Armed Forces (GAF)** on 16 May in the northern city of **Tamale** have raised concern over each institution's integrity and ability to ensure national security.²⁹ The incident appears to have occurred after police arrested a soldier for assaulting his wife.³⁰

"There are two accounts regarding what caused the fight. Firstly, that the soldier was detained by the police for assaulting his wife and then escaped from the police station and reported to his colleagues. The second account is that a soldier was arrested after being reported to the police by a driver for seizing his taxi, and that the soldier became angry over the arrest."³¹

The high commands of both the police and military services released a joint statement in response to the incident on 17 May in which they pledged to deal with those responsible for

²¹ Reuters, 4 Apr 2018.

²² Africa Confidential, 18 May 2018.

²³ Reuters, 17 May 2018.

²⁴ Reuters, 17 May 2018.

²⁵ Reuters, 17 May 2018.

²⁶ **Imad Mesdoui** quoted in CNBC, 16 Mar 2018.

²⁷ Oilprice.com, 18 May 2018.

²⁸ Pulse, 23 May 2018,

²⁹ Africanews, 18 May 2018.

³⁰ GhanaNews, 16 May 2018.

³¹ Source, journalist, Accra.

the violence and vowed to ensure “*the peaceful co-existence of both services*”.³² The clash occurred just one month after a joint meeting between the police and army discussed violence between the two institutions in the wake of a similar incident in **Bolgatanga (Upper East Region)**, when soldiers attacked a police officer for wearing military shorts.³³

Popular blame for the violence falls squarely on the military. Military personnel reportedly used undue force on police and inhibited them from carrying out their role of maintaining law and order.³⁴ There has reportedly long been a culture of impunity amongst Ghana’s military:

“The military have always felt superior. This is also because they are usually brought in to quell or attack internal problems that police are unable to handle or even sometimes police can handle but there is this perception, and largely real, that Ghanaians fear military more than police. The military has a sense of entitlement and sometimes feel that they are above the law. They are not subject to the ordinary court but Court Marshall.”³⁵

Strife between the two institutions raises wider questions regarding the effectiveness of both the armed forces and the police service. The lack of discipline displayed by those within the country’s armed forces undermines confidence in the army’s ability to perform its function as a fighting force. The undermining of police authority shows them to be weak and unable to maintain order. A lack of cooperation between police and army could also adversely affect efforts to tackle crime across Ghana.

³² Africanews, 18 May 2018.

³³ Africanews, 18 May 2018.

³⁴ Africanews, 18 May 2018.

³⁵ Source, journalist, Accra.

Planner

18-20 Jul 2018 **Bank of Ghana** MPC meeting date

23 Jul 2018 **Bank of Ghana MPC** press release

July 2018 (Ghana) *Africa Confidential*. Mid-year governmental budget review;

19-21 Sep 2018 **Bank of Ghana** MPC meeting date

24 Sep 2018 **Bank of Ghana MPC** press release

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

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

Chronology

23 May 2018 **(Ghana)** *MoneyWeb*. **South Africa**-based telecommunications company **MTN** plans to start selling more than a third of its Ghanaian stocks in an initial public offering;

21 May 2018 **(Ghana)** *Engineering News*. Automobile manufacturer, the **Nissan Group of Africa**, signs a memorandum of understanding with Ghana to introduce an automotive manufacturing programme;

18 May 2018 **(Ghana)** *Oil Price*. Ghana's energy ministry states it will award up to nine new offshore oil exploration blocks in 2018 and 2019;

16 May 2018 **Tamale (Ghana)** *Africanews*. Violent clashes occur between Ghana's military and police;

16 May 2018 **(Ghana)** *News24*. **Human Rights Watch** and **TRIAL International** call on Ghana's government to extradite and prosecute former **Gambian** President **Yahya Jammeh** over the deaths of Ghanaians in 2005;

11 May 2018 **(Ghana)** *Bloomberg*. Ghana sells \$2 billion bonds, with demand for the bonds exceeding their supply fourfold;

30 Apr 2018 **(Ghana)** *Reuters*. The **International Monetary Fund (IMF)** approves the next disbursement of around \$191m to Ghana under the country's aid programme;

25 Apr 2018 **Accra (Ghana)** *Reuters*. Ghana seeks to sell up to \$2.5 billion worth of eurobonds in coming weeks in the 7% range, a significantly lower interest rate than previous bond issues;

20 Mar 2018 **(Ghana)** *BBC*. Ghana and the **United States (US)** deny agreeing to establish a military base in Ghana, despite previous media reports;

19 Mar 2018 **(Ghana)** *GhanaWeb*. Parliament reportedly approves a US-run military base in Ghana;

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