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Finance minister Ken Ofori-Atta presents the 2020 Budget Statement and Economic Policy to parliament. Ofori-Atta plans to increase spending by a fifth and raise \$3 billion in international markets. Deputy energy minister Mohammed Amin Adam announces his intention to boost investment and production in the oil sector through law changes that will give companies more leeway in where and when they can drill. Ghana Union of Traders Association (GUTA) shuts down 70 Nigerian-owned businesses as the tit-for-tat trade dispute with Ghana's key regional neighbour intensifies.

Budget 2020: growth without over-spending?

Finance minister **Ken Ofori-Atta** presented the 2020 **Budget Statement and Economic Policy** to parliament on 13 November, in which he plans to increase spending by a fifth and raise \$3 billion in international markets.¹ Ofori-Atta raised the budget deficit forecast for next year to 4.7% of gross domestic product (GDP) from 4.5% given in August, but continues to affirm that the shortfall will stay below the legislated 5% until at least 2023. However, 2020 is an election year, and President **Nana Akufo-Addo** (2017-present), leader of the **New Patriotic Party (NPP)**, is looking to win a second straight term in power.

Ofori-Atta pledges to maintain fiscal discipline:

*"Despite the year being an election year, President Akufo-Addo and his government will ensure that the perennial excessive spending during such periods will not happen in 2020. We shall work within the 2020 appropriation resource envelope and adhere to the fiscal responsibility act to maintain fiscal discipline."*²

Nevertheless, investors are increasingly wary of excessive spending and a worsening public debt-to-GDP ratio. Nearly 25% of the planned expenditure for 2020, 21.7 billion **Ghanaian cedis (GHC)** (\$3.92 billion), will be used to pay debt interest. The **World Bank** and **International Monetary Fund (IMF)** reviewed Ghana's external and overall debt distress level in May and assessed that it will be high.³ The Ghanaian government introduced the **Fiscal Responsibility Act** in February to stem the worrying trend in spending, but the 5% limit is already fast approaching.⁴ Ofori-Atta's 2020 budget forecasts next year's deficit to be **GHC19 billion** (\$3.43 billion), representing 4.7% of GDP, which will be financed from both domestic and foreign sources. The external financing of the deficit will amount to **GHC10.6 billion** (\$1.92 billion) while local financing will amount to **GHC8.3 billion** (\$1.50 billion).

However, containing expenditure is easier said than done. The government will be eager to spend after the country ended its 16th bailout programme with the IMF in April, in which there was a period of fiscal consolidation. The government is also under pressure from trade unions, public institutions and a large portion of the population who feel that the country's impressive growth figures have not benefitted them. This sentiment is shared by **University of Ghana** economics department head **William Bahh Boateng**, who urged the government to brace itself for more fiscal pressure ahead of

¹ '2020 Budget Statement and Economic Policy', Ministry of Finance Government of Ghana, 13 Nov 2019

² GhanaWeb, 14 Nov 2019

³ 'Ghana – Joint World Bank-IMF Debt Sustainability Analysis', World Bank, 15 May 2019

⁴ Source, business analyst, West Africa

the elections.⁵ As such, Ofori-Atta announced plans to spend GHC85.9 billion (\$15.67 billion) next year, which is a 21% increase from last year.

While the country's budget deficit problems are unlikely to improve in the coming year, its growth outlook is positive. The government is targeting growth of 6.8% next year. The World Bank forecasts Ghana's economy to grow 7.5% in 2019 and the IMF forecasts it to grow 7% in the same year. These positive figures will help the government raise its planned \$3 billion through bonds and syndicated loans to support its spending plans and to manage its debts. Ofori-Atta forecasts that the government will generate GHC67.1 billion (\$12.41 billion) in revenue in 2020, although it must be noted that it has missed its revenue targets in the last four years. Ofori-Atta said it is possible to meet the revenue target for 2020 because of expected improvements in tax compliance as well as reforms in revenue administration.

Elsewhere, GHC23 billion (\$4.15 billion), 27% of the total amount, will be spent on wages and salaries, capital spending is projected at GHC9.3 billion (\$1.68 billion), 54% more than this year and 9.7% of the budget, GHC8.3 billion (\$1.5 billion), will be spent on goods and services.

Plans to spur investment and output in the oil sector

Deputy energy minister **Mohammed Amin Adam** announced on 6 November that the government intends to boost investment and production in the oil sector. The government plans to change laws relating to oil drilling that will give companies more leeway in where and when they can drill.⁶ The lower prices and increasing competition in the sector coupled with the government's concern for the longevity of the demand for fossil fuels, as popularity grows for renewable energy, have spurred these legislative changes. The proposed changes aim to make drilling for oil in Ghana easier and cheaper and thus incentivise investors. The new drilling laws are expected to pass through parliament without contestations, meaning they could be implemented before the end of the year.⁷

Adam announced the shift in strategy at **Africa Oil Week in Cape Town (South Africa)**, which was held on 2-6 November. He said the proposed changes would allow companies producing in blocks to explore elsewhere in the same area without having to apply for a new licence. The changes would also allow companies to continue exploring in marginal fields even once their licence expires. Adam said revisions are urgently needed as Ghana's last bid round for 14 blocks was less successful than anticipated, receiving fewer than four bids. He said Ghana expected 14 wells drilled and \$890m invested between 2013 and 2016 but not a single well was drilled and companies spent just \$95m. The government also plans to revoke licences awarded between 2011 and 2016 to four companies that are not developing their assets. Adam declined to name the companies as they had not yet been notified.

Adam hopes the strategy change will result in its fourth-highest oil revenue ever in 2019, with second-quarter collection currently standing at \$364m. Forecasts indicate that the figure will reach \$700m by the end of the year. However, to achieve this goal Adam must solve more immediate problems in the industry. **United Kingdom (UK)**-based oil company **Tullow Oil** on 13 November cut its 2019 oil production and free cash flow forecast for the year because of ongoing issues at its Ghana fields, causing its shares to drop by 14%.⁸ Tullow has been struggling with its operations in Ghana due to mechanical issues at its **Jubilee Field** and a delay in completing a well at **TEN Offshore Field**. Tullow now expects annual oil output to be 87,000 barrels per day, down from an earlier forecast of 89-93,000 barrels per day. Additionally, local oil company **Aker Energy** delayed its development of the \$4.4 billion **Pecan Oilfield** in October due to a disagreement with Ghanaian authorities over

⁵ William Baah Boateng interviewed on Citi TV, 14 Nov 2019

⁶ Reuters, 6 Nov 2019

⁷ Source, political analyst, West Africa

⁸ Tullow Oil, 13 Nov 2019

regulations.⁹ This resulted in Aker Energy's holding company, **Norway-based Aker ASA**, to suffer its largest share-price drop in two and a half months.

Ghana hopes to simultaneously increase oil sector revenue and reduce its dependence on oil by diversifying the economy. Ofori-Atta stated during his 2020 budget that oil is not the primary driver of the country's fastest-growing economy status. He announced that flagship programmes are causing non-oil GDP to increase from 4.6% in 2016 to 6.5% in 2018 and that it is projected to reach 6.0% in 2019 and 6.7% in 2020.¹⁰ That said, there is still a long way to go before the country is no longer reliant on its main export commodities – oil, gold and cocoa.

Escalating trade war with Nigeria

The **Ghana Union of Traders Association (GUTA)** shut down 70 **Nigerian**-owned businesses, mostly in **Accra**, on 11 November as the tit-for-tat trade dispute with Ghana's key regional neighbour intensifies.¹¹ The GUTA claimed that foreign retailers violated section 27 of the **Ghana Investment Promotion Centre (GIPC) Act 865**, which stipulates that the sale of goods in the market must be reserved for Ghanaian citizens. In reality the actions are a response to the decision of the Nigerian government to close its borders. The border closure has meant that 100 Ghanaian trucks have been locked up in Nigeria for over two months, and the GUTA claims that this is costing Ghanaian traders.

Nigerian Union of Traders Association in Ghana (NUTAG) president **Chukwuemeka Nnaji** recommended that members of the association close their shops to avoid the potential destruction of their businesses and goods following the GUTA's actions. Police officers and the **Nigerian Mission in Ghana** prevented a clash between GUTA and NUTAG members on the 11 November.

The dispute has cast a shadow on the **African Continental Free Trade Agreement (AfCFTA)** less than five months after it was launched. Nigeria's willingness to violate an **Economic Community of West African States (ECOWAS)** treaty puts to the question how effective the AfCFTA will be.

Ghanaian and Nigerian government cabinet members met on 8 November during the ECOWAS summit to discuss Nigeria's decision to close its land borders for trade until at least the end of January. The officials want ECOWAS to engage with Nigeria to protect the **West African Economic Integration Project** and the viability of the AfCFTA. There has been no sign of progress since the meeting.

Nigeria's President **Muhammadu Buhari** (2015-present) ordered the border with **Benin** closed at **Seme (Lagos State)** on 21 August in a reported bid to curb rice and wheat smuggling (see *ARC Briefing Nigeria September 2019*). Nigeria has since closed land borders to stop the movement of all goods from Benin, **Niger** and **Cameroon**, effectively banning trade flows with its neighbours. Buhari has prioritised agricultural independence and requested that the **Central Bank of Nigeria** halt the provision of foreign exchange for food imports.

Planner

20-22 Nov 2019 **Accra (Ghana) Bank of Ghana Monetary Policy Committee** meets;
 25 Nov 2019 **Accra (Ghana) Bank of Ghana Monetary Policy Committee** press release;
 2020 **(Ghana)** Presidential elections;

Chronology

13 Nov 2019 **Accra (Ghana) Pulse**. Finance minister **Ken Ofori-Atta** presents the 2020 budget to parliament;
 13 Nov 2019 **Accra (Ghana) Tullow Oil**. **United Kingdom**-based **Tullow Oil** says its oil

⁹ Reuters, 31 Oct 2019

¹⁰ GhanaWeb, 13 Nov 2019

¹¹ MyJoyOnline, 11 Nov 2019

production in Ghana has underperformed this year;

13 Nov 2019 **Accra (Ghana)** *MyJoyOnline*. **China's** vice-premier **Sun Chunlan** says China has written off \$36m debt Ghana owes it as part of efforts to deepen bilateral ties;

12 Nov 2019 **Accra (Ghana)** *GhanaWeb*. Ghana signs a \$2.3 billion concession agreement for the **SkyTrain Project** in **Accra**;

12 Nov 2019 **Accra (Ghana)** *GhanaWeb*. Cocoa regulator **Cocobod** says it sold nearly 200,000 tonnes of cocoa for the 2020/21 season with a new farmer premium;

11 Nov 2019 **Accra (Ghana)** *GhanaWeb*. Cocobod seeks to finalise a \$600m loan to finance new warehouses, rehabilitate plantations and support the processing sector;

11 Nov 2019 **Accra (Ghana)** *Pulse*. **Securities and Exchange Commission** revokes the licences of 53 fund management companies citing several regulatory breaches;

11 Nov 2019 **Accra (Ghana)** *MyJoyOnline*. **Ghana Union of Traders Association** shuts down 70 **Nigerian**-owned businesses;

6 Nov 2019 **Accra (Ghana)** *Reuters*. Deputy energy minister **Mohammed Amin Adam** announces plans to change oil and gas licence laws to boost production and will revoke licences from four companies that have not developed their assets;

31 Oct 2019 **Accra (Ghana)** *Reuters*. Local oil company **Aker Energy** will delay the development of the \$4.4 billion **Pecan** oilfield due to a disagreement with authorities over regulations;

30 Oct 2019 **Antananarivo (Madagascar)** *Xinhua*. **China's** vice-premier, **Sun Chunlan**, will visit **Madagascar**, as well as **Namibia** and **Ghana**, on an official visit from 4-13 November;

25 Oct 2019 **Accra (Ghana)** *EWN*. The **International Monetary Fund** forecasts **Ghana's** economy to grow 7% in 2019;

23 Oct 2019 **Accra (Ghana)** *Punch*. The **United States** cancels \$190m in grants under the **Power Africa** initiative after the government terminated a contract with **Ghana Power Distribution Services** consortium, led by **Philippines**-based **Meralco**;

23 Oct 2019 **Accra (Ghana)** *Business World*. The government terminates **Philippines**-based company, **Manila Electric Co's** concession to operate and maintain **Electricity Company of Ghana** assets due to alleged material breaches;

14 Oct 2019 **Accra (Ghana)** *CNBC Africa*. The **World Bank** forecasts **Ghana's** economy to grow 7.5% in 2019;

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