

AFRICA RISK CONSULTING

Ghana Monthly Briefing July 2020

Ghana Summary 24 July 2020

Finance minister Ken Ofori-Atta presents the 2020 Mid-Year Budget to parliament, in which he asks for an additional 11.89 billion Ghanaian cedi (\$2.05 billion). The budget is dominated by the damage caused by the drop in oil prices and the coronavirus pandemic, which has set Ghana off its 7% growth rate average over the past three years. National medical groups warn of a potential covid-19 calamity caused by the high rate of coronavirus contraction in the country's health sector, and urge government to provide health workers have sufficient protective gear. Ghanaian independent power producers (IPPs) say they could stop supply over government debt to their members, which amounted to \$1.4 billion as of 30 June. This is a major operational concern given that IPPs produce almost half of Ghana's electricity.

Further downgrades in mid-year budget

Finance minister **Ken Ofori-Atta** presented the **2020 Mid-Year Budget** to parliament on 23 July, in which he said government will seek approval from parliament to spend an additional 11.89 billion Ghanaian cedi (GHS) (\$2.05 billion) to support its expenditure for the rest of the year. Ofori-Atta said Ghana's budget deficit will be more than double the initial forecast, as the drop in oil prices and the **coronavirus** pandemic have taken a major toll on state income and economic growth. Election years in Ghana have been characterised by spending boosts and fiscal slippages, and this year will be no exception. The concern is that the finance ministry is sacrificing Ghana's impressive medium- to long-term prospects (pre-coronavirus) for short-term pandemic-mitigating measures.

Ofori-Atta was expected to provide to parliament a clear plan on how the government intends to pay back GHS10 billion (\$1.73 billion) it borrowed from the **Bank of Ghana (BoG)** (central bank) and the \$219m it transferred from the **Stabilization Fund** to the **Contingency Fund** to help deal with the impact of the **covid-19** pandemic. Instead, his speech focused on how the finance ministry has missed many of its macroeconomic targets, set in March, as a result of the shortfall in petroleum receipts and the coronavirus pandemic.¹

Total expenditure for the year is now estimated at 25.4% of GDP, about 13.7% higher than the 2020 budget estimate of 21.6% of GDP. The substantial increase in spending is largely influenced by provision for coronavirus programmes. By the end of 2020, Ghana's public debt is forecast to be over 72% of GDP. Ofori-Atta's speech made it clear that Ghana did not avoid the devastating impact of coronavirus:

*"Ghana has not been spared the painful economic and social impact that covid-19 has visited on peoples in nations big and small, all over the world."*²

Ofori-Atta said economic growth is now projected at 0.9% for this year, compared with 6.8% forecast in November 2019 and 1.5% estimated in March 2020. Government revenue is now forecast to suffer a shortfall of 11.4% of GDP, compared to a projection of 4.7% at the end of last year. Petroleum receipts are forecast to be GHS5.3 billion (\$915m) less than expected.

¹ B&FT Online, 23 Jul 2020. Targets: overall real GDP growth of 6.8%; non-oil real GDP growth of 6.7%; inflation of 8%; fiscal deficit of 4.7% of GDP; primary surplus of 0.7% of GDP; and, gross international reserves to cover not less than 3.5 months of imports of goods and services.

² B&FT Online, 23 Jul 2020

The Ghanaian cedi was fairly stable following the mid-year budget, at 5.7925 against the dollar at close of business on 23 July. The cedi has weakened 2.3% against the dollar so far this year. Renewed large BoG deficit financing could risk further depreciation of the cedi. **United Kingdom**-based **Standard Chartered Bank's Africa** strategy head, **Samir Gadio**, does not expect a new **Eurobond**³ issuance before April 2021 given that next year's full budget will only be presented in March 2021 since 2020 is an election year.⁴

The global oil price drop coupled with the global pandemic has knocked Ghana's economy off its tracks. Ghana was on track to keep its budget deficit below 5% for a third year pre-coronavirus, in line with legislation passed in 2018. The virus has also ended a three-year streak of GDP growth over 6%. Official figures show economic growth slowed in Q1 2020 to 4.9% year-on-year versus 6.7% in the same period last year.⁵

How long will it take for the Ghanaian economy to return to pre-coronavirus growth? Economists are divided on whether countries globally will experience a 'U' or 'V' shaped recovery after the coronavirus pandemic. Ofori-Atta opined in an interview with **Joy FM** that it will take up to three years to fully recover. Reputable Ghanaian economist analyst **Emmanuel Amoah-Darkwah** said "*it is safe to predict*" that Ghana's recovery will be 'U' shaped.⁶ This is based on Ghana's reliance on commodities and external financial flows, such as remittances. Soft commodities such as coffee and cocoa, two of Ghana's major exports, are suffering due to subdued **Chinese** demand.

The economy will be a key issue on 7 December, when President Akufo-Addo will seek to renew his mandate for another four years, facing off against his predecessor, **John Dramani Mahama** (2012-2017), of the **National Democratic Congress**.

Health sector hit by covid-19

National medical groups on 9 July warned of a potential covid-19 calamity caused by the high rate of coronavirus contraction in Ghana's health sector, and urged government to provide health workers with sufficient protective gear.⁷ The warning raised concerns of a potential sharp rise in covid-19 fatalities in Ghana – which currently has one of the lowest fatality rates in Africa – and prompted President Akufo-Addo to respond with a promise that each frontline health care worker will receive an additional 50% allowance added to their basic salary for the next three months.

The group said a shortage of protective gear for health workers, difficulties enforcing infection prevention protocols in health facilities and the slow processing of test results, among other issues, have caused the high contraction rate. The groups said the problem has the "*potential to over-stretch the already fragile health system*".⁸

A significantly higher proportion of health workers are contracting covid-19 in Ghana (7.1%) compared to its regional neighbours (e.g. **Nigeria** 2.6%, **Cote d'Ivoire** 1.3%) and **South Africa**, 1.3%.⁹ **Ghana Health Service** says over 2,000 health care workers have tested positive for covid-19 since the beginning of the outbreak in March, six of whom have died. Education minister **Matthew Prempeh** said on 10 July that about 90% of health ministry staff have tested positive for covid-19.¹⁰

Akufo-Addo's government began a phased approach in June to kick-start the economy after a three-week lockdown and months of a strict public gathering ban, indicating the government's strong motivation to keep businesses running. The relaxation of lockdown restrictions, including the reopening of religious institutions, schools and restaurants, was followed by a sharp rise in covid-19

³ Ghana became the first country in Africa to issue a 41-year bond and a second tri-tranche bond, successfully raising \$3 billion in the international capital markets in three tranches on 4 February 2020

⁴ Standard Chartered Bank Africa strategy head Samir Gadio quoted in Into Africa, May-Jun 2020

⁵ MyJoyOnline, 17 Jun 2020

⁶ Emmanuel Amoah-Darkwah quoted in Modern Ghana, 23 Jul 2020

⁷ MyJoyOnline, 9 Jul 2020

⁸ MyJoyOnline, 9 Jul 2020

⁹ External Situation Report 21, World Health Organisation, 22 Jul 2020

¹⁰ MyJoyOnline, 10 Jul 2020

cases, leading some critics to argue that the easing of restrictions came too soon (see *ARC Briefing Ghana May 2020*).

Ghana Health Services had recorded around 30,000 coronavirus cases as at 23 July, with over 350,000 covid-19 tests conducted.¹¹ A total of 153 people have died from the virus, while 26,090 patients have recovered. The five most impacted regions are as follows: **Greater Accra Region** (15,519); **Ashanti Region** (6,264); **Western Region** (2,310); **Central Region** (1,236) and **Eastern Region** (1,091).

Ghana is the third worst affected country in Africa, after South Africa and Nigeria.¹² That said, Ghana's fatality rate remains relatively low: Ghana 1.5% (153), **Algeria** 12% (1,100), Nigeria 8.0% (805), **Democratic Republic of the Congo** 2.0% (195), **Ethiopia** 1.8% (180) and **Senegal** 1.7% (174).¹³ This is due to Ghana's relatively better health system and government's response to the pandemic. Ghana has conducted the most comprehensive testing campaign in **West Africa** (see *ARC Briefing Ghana June 2020*).

All land, air and sea borders have been closed since March and will remain closed until further notice.

Energy firms threat to shut power plants

Ghana's independent power producer (IPP) representative body, the **Chamber of Independent Power Producers, Distributors and Bulk Consumers**, said on 21 July that it could stop supply over government debt to its members, which was \$1.4 billion as of 30 June.¹⁴ This is a major operational concern given that IPPs produce almost half of Ghana's electricity.

The 12-member group said it wanted finance minister Ken Ofori-Atta to outline how government intends to repay its debt in the 2020 Mid-Year Budget, which he presented to parliament on 23 July (see above). However, Ofori-Atta did not mention the IPPs' concern specifically in the speech. The IPP group said government should also include measures to enable the state-run **Electricity Company of Ghana** to pay suppliers on time. The IPPs said the debt continues "to accumulate, compelling the IPPs to contract costly loans to sustain their generations" and that the "situation is grim and there is a real danger of IPPs shutting their plants" if government does not resolve the issue in the immediate term.¹⁵

The government's failure to address this concern is having an impact on the country's path to cheaper and cleaner energy sources. **Switzerland**-based **NEK Umwelttechnik AG's** 1,000MW wind power project, which has secured \$2 billion in capital funding and all the technical permits from the relevant government and district agencies, has stalled due to government's decision to put a freeze on discussions and issuance of licences for new IPPs.¹⁶

The finance ministry says it is engaging in bilateral talks with the producers. Government said last year that it intends to review power-procurement deals in which Ghana pays about GHS2.5 billion (\$431m) per year for power it doesn't use. These costs have exacerbated the public debt problem. Government is pushing to switch to "take-and-pay" contracts to save money, but when this will happen is unclear.

While Ofori-Atta provided no clarity on the issue in his latest budget speech, he did remark on his disdain for the current energy contracts, and said that government intends to spend \$1 billion on restructuring the energy sector.¹⁷

"It is clear to our fellow Ghanaians by now that we have enjoyed three and half years of reliable and cheaper power. We have spent in excess of GHS4.7 billion [\$811m] on capacity payments, not

¹¹ Covid tracker, World Health Organisation Africa region (last accessed 23 Jul 2020)

¹² Covid tracker, World Health Organisation Africa region (last accessed 23 Jul 2020)

¹³ 'External Situation Report 21, World Health Organisation, 22 Jul 2020

¹⁴ Bloomberg, 21 Jul 2020

¹⁵ Bloomberg, 21 Jul 2020

¹⁶ GhanaWeb, 23 Jul 2020

¹⁷ MyJoyOnline, 23 Jul 2020

only to ensure that we keep the lights on, but also to pay for power we do not use under very questionable contractual obligations we inherited.”¹⁸

Planner

Dec 2020 **(Ghana)** General elections;

Postponed **(Africa)** African Continental Free Trade Area deadline for 90% tariff liberalisation.

Chronology

23 Jul 2020 **Accra (Ghana)** *MyJoyOnline*. Finance minister **Ken Ofori-Atta** announces the mid-year budget review, saying the budget deficit will be more than double the initial forecast and the economy will grow just 0.9% in 2020 versus an earlier forecast of 6.8% due to the drop in oil prices and the **coronavirus** pandemic;

21 Jul 2020 **Accra (Ghana)** *MyJoyOnline*. **Ghana Interbank Payment and Settlement Systems** half year performance report shows the volume of Mobile Money Interoperability transactions jumped over 444% in the first half of this year compared to the same period last year;

21 Jul 2020 **Accra (Ghana)** *Bloomberg*. **Bloomberg’s** sources say **Ghana’s** fund managers, unable to access deposits tied-up in failed banks, will receive bonds directly from the government to boost liquidity;

21 Jul 2020 **Accra (Ghana)** *Bloomberg*. Independent power producer representative body, the **Chamber of Independent Power Producers, Distributors and Bulk Consumers**, which produces almost half the country’s electricity, say they could stop supply over government debt that amounted to \$1.4 billion as of 30 June;

10 Jul 2020 **Accra (Ghana)** *MyJoyOnline*. Education minister **Matthew Prempeh** says about 90% of staff in his ministry have tested positive for **covid-19**;

9 July 2020 **Accra (Ghana)** *MyJoyOnline*. National medical groups warn that the **coronavirus** pandemic risks overwhelming the health sector if government does not take urgent action such as guaranteeing health workers have sufficient protective gear;

6 Jul 2020 **Accra (Ghana)** *Bloomberg*. Opposition leader and immediate past president **John Mahama** chooses former education minister **Jane Naana Opoku Agyemang** as his running mate in 7 December presidential elections;

6 Jul 2020 **Accra (Ghana)** *Bloomberg*. Finance minister **Ken Ofori-Atta** says **Ghana’s** budget deficit for 2020 is forecast to widen beyond 10% of GDP – more than double the legal limit – from an adjusted outlook in March of 7.8% of GDP, due to the **coronavirus** pandemic;

4 Jul 2020 **Accra (Ghana)** *MyJoyOnline*. President **Nana Akufo-Addo** enters 14-day precautionary self-isolation and deputy minister for trade resigns after admitting he breached **covid-19** protocols;

27 Jun 2020 **Accra (Ghana)** *Reuters*. **South Africa**-based **MTN’s** unit in **Ghana** says it will challenge in court moves by national telecommunications regulator **National Communications Authority** aimed at exposing it to greater competition;

23 Jun 2020 **Accra (Ghana)** *Bloomberg*. **High Court** rules that **Vodafone** and **MTN’s Ghanaian** units are allowed to share subscriber data with the government to help it track down the contacts of **coronavirus** cases;

18 Jun 2020 **Accra (Ghana)** *Reuters*. Sources says **Ghana Cocoa Board’s (Cocobod)** annual pre-

¹⁸ MyJoyOnline, 23 Jul 2020

export financing will be raised by a club of banks, as lenders declined to underwrite the risk amid the uncertainty of the **coronavirus** pandemic;

17 Jun 2020 **Accra (Ghana)** *MyJoyOnline*. Official figures show economic growth slowed in Q1 to 4.9% year-on-year versus 6.7% in the same period last year;

14 Jun 2020 **Accra (Ghana)** *MyJoyOnline*. Health minister **Kwaku Agyeman Manu** tests positive for the **coronavirus** and is reportedly recovering in hospital;

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