

AFRICA RISK CONSULTING

Ghana Monthly Briefing February 2018

Ghana Summary 13 February 2018

United States-based ExxonMobil Corp signs an oil and gas exploration agreement with the government for the Deepwater Cape Three Point (DWCTP) offshore oilfield. Energy minister Boakye Agyarko announces that the government plans to build a \$4 billion oil refinery to replace the Tema Oil Refinery (TOR). Finance minister Ken Ofori-Atta begins a government delegation tour to study the Asian financial sectors in Hong Kong (People's Republic of China) and Singapore. The Bank of Ghana (BoG) (central bank) holds its benchmark interest rate at 20%.

ExxonMobil signs offshore exploration deal for 80% majority ownership

United States (US)-based ExxonMobil Corp signed an oil and gas exploration agreement with the government for the **Deepwater Cape Three Point (DWCTP)** offshore oilfield on 18 January.¹ The exploration agreement is the first in **Ghana** since the **International Tribunal for the Law of the Sea (ITLOS)** ruled in favour of Ghana in the maritime boundary delineation case with **Côte d'Ivoire** in September (see *ARC Briefing Ghana September 2017*). ExxonMobil will hold an 80% majority share in the field, while state-owned **Ghana National Petroleum Corp** will hold a 15% share, and the government may offer the remaining 5% to another Ghanaian company.² The exploration area is approximately 1,482km², while water depth is 1,550-2,850m.³ Reportedly, the agreement is still subject to approval from the **Parliament of Ghana**.⁴ ExxonMobil expects to begin exploration in 2018 but did not specify a start date.⁵ There are currently no estimates of possible oil discoveries at DWCTP, although the interest from ExxonMobil, ranked 5th company worldwide for market value, profit and revenue,⁶ would suggest there could be significant oil reserves. According to a local source familiar with the matter,

*"We understand that the decision to acquire the licence was based on the belief that the deeper sections of the basin may provide even larger discoveries. The simple description being that the upper sections of the basin reflect the upper to mid layers of a river regime, the discoveries made to date are the narrower parts of that layered system. As you go into deeper water the river widens and the potential depositions of hydrocarbons become wider and larger in size. But with deeper water comes greater technical challenges. Exxon Mobil's experience in operating in such ultra-deepwater environments was a major reason behind government's decision to award the licence."*⁷

The involvement of Exxon Mobil in the oilfield, so soon after the ITLOS ruling, would appear a positive sign for oil discovery. However, as is often the case for early-stage oil resource prospection, it is impossible to estimate the likelihood of oil discovery.

¹ GNA, 18 Jan 2018.

² ExxonMobil Press Release, 18 Jan 2018.

³ ExxonMobil Press Release, 18 Jan 2018.

⁴ ExxonMobil Press Release, 18 Jan 2018.

⁵ Reuters, 18 Jan 2018.

⁶ Forbes, 22 Jan 2018.

⁷ Source, journalist, Accra.

... as Agyarko announces plans to build a \$4 billion oil refinery within three to four years

The energy minister, **Boakye Agyarko**, announced at the **National Petroleum Authority (NPA)**-organised **Downstream Petroleum Colloquium** on 31 January in **Accra** that the government plans to build a \$4 billion oil refinery to replace the **Tema Oil Refinery (TOR)**.⁸ The proposed project would improve domestic industrial production and reduce dependence on foreign oil product imports.⁹ It is not clear at the time of writing how committed Agyarko and the government are to meeting this objective.¹⁰ However, Agyarko claimed that the energy ministry has “*put in place an implementation committee*”¹¹ that would look at the legal obstacles to launching such an initiative.¹² Agyarko said in an interview with Ghanaian press that he intends to establish the so-called ‘new TOR’ in **Takoradi (Western Region)** rather than in **Tema (Greater Accra)**, where it is currently based:¹³

“The idea, therefore, is to create a hub in the Western Region where you have the refining, storage, transportation and trading all happening within an enclave. It will be largely export-oriented... We’ve sent out the various teams to look at all the other hubs that operate in the world. I believe that in the not too distant future – two, three years – you will begin to see the actual manifestations of these developments.”¹⁴

Agyarko said that a new refinery would increase crude oil refinery from 20,000 to 150,000 barrels per day, or a 650% increase.¹⁵ After the launch of recent large oil blocks, such as the ENI-operated **Sankofa** offshore oil field in July 2017 and the **United Kingdom (UK)**-based **Tweneboa-Ntomme-Enyenra (TEN)** offshore oil field in August 2016, domestic oil production has increased by 125,000 barrels per day. However, before Ofori-Atta’s statement, the government had not publicly expressed the idea of building the \$4 billion refinery. The **New Patriotic Party (NPP)** did not mention the plan in its manifesto, ahead of the December 2016 presidential elections (see *ARC Briefing Ghana September 2016*). Local sources believe that Agyarko’s announcement was reactionary to investor demand,

“You are right to call it unplanned. This came up on the assumption of office because of so-called ‘interest from private players’. The government has bought into the idea, thinks the focus should be regional and believes it is the way to go since TOR is not sustainable. You need a capacity of 100,000 barrels or more to be at the bottom of [regional] competition. TOR is currently on 20,000 barrels or so, and cannot expand beyond 40,000 barrels.”¹⁶

Moreover, there is little expectation that the government can find the funds in order to launch such an operation independently,

“It will never be state-led. If the state gets involved don’t expect more than 30% stake at best and it won’t be cash.”¹⁷

The plan to develop a larger oil refinery appears to be in its infancy. It is equally unclear how serious Agyarko and the government are about finding a willing investor to support the project. If, as Agyarko says, the energy ministry has sent teams to study oil refineries around the world, it is possible that there will be progress on the issue within the next few months.

⁸ Citi FM, 31 Jan 2018.

⁹ Source, Ghana analyst, London

¹⁰ Source, Ghana analyst, London

¹¹ Citi FM, 31 Jan 2018.

¹² Citi FM, 31 Jan 2018.

¹³ My Joy Online, 31 Jan 2018.

¹⁴ My Joy Online, 31 Jan 2018.

¹⁵ Citi FM, 31 Jan 2018.

¹⁶ Source, journalist, Accra.

¹⁷ Source, energy ministry employee, Accra.

Ofori-Atta leads delegation to study Asian financial sector ahead of \$1 billion Eurobond

Finance minister **Ken Ofori-Atta** on 9 February began a government delegation tour to study the Asian financial sectors in **Hong Kong (People's Republic of China)** and **Singapore**.¹⁸ The objective of the tour is to gauge investor interest for a planned \$1 billion **Eurobond** sale, which is scheduled for April according to the 2018 government budget (see *ARC Briefing Ghana November 2017*).¹⁹ The visit was reportedly not an official roadshow, however, as the government has not yet appointed deal advisers.²⁰ The Ghanaian government delegation will complete its tour on 14 February, and will reportedly be accompanied by representatives from UK-based **Standard Chartered Plc** and Ghana-based **Fidelity Bank Ghana Ltd** and **Ghana Commercial Bank Ltd**.²¹ Ofori-Atta said that the roadshow's aim was to raise awareness among Asian investors with regard to Ghanaian bonds.²² The Ghanaian government will reportedly seek to allay fears that a US **Federal Reserve** (central bank) interest rate increase could reduce the attractiveness of **sub-Saharan African** sovereign debt.²³ Ofori-Atta said that the Asian tour was in line with the government's 'Ghana Beyond Aid' programme, seeking to move away from bilateral and multilateral international development financing by broadening debt issuance options in Asian capital markets,

*"Ghana Beyond Aid calls for a rethink of our trajectory, our systems, and our aspirations. We are looking at creating awareness of business opportunities in Ghana as well as whipping up interest in our future bonds for a possible Samurai or Panda bond issuance. This requires us to begin onshore education of Ghana and sell a compelling narrative of our growing fiscal strength and budget sobriety."*²⁴

Previous Ghanaian sovereign bond issuances have been geared towards US and UK capital market investors, leading some anonymous analysts quoted in international press reports to deem the move to appeal to Asian investors as *"an odd choice"*.²⁵ There is reportedly little interest in **African** bonds from Asian capital market investors, as these traditionally opt for higher quality – lower risk and yield – sovereign bonds.²⁶ The government has equally focused on increasing domestic bond issuances, after selling 1.99 billion cedis (¢) (\$448m) in five-year local currency treasury bonds, with a yield of 16.5%, on 8 February.²⁷ Total bids for the bond were ¢2.01 billion (\$447.8m), with an initial guidance of 15-16.5%.²⁸ The bond is reportedly part of a planned total of ¢11.13 billion (\$2.47 billion) issuances, which the government expects to issue within the first three months of 2018.²⁹ The bond was marketed to resident investors, listed on the **Ghana Stock Exchange (GSE)**, but is equally open to non-resident investors.³⁰

The government has set itself an ambitious target for the first few months of 2018. Although the targeting of Asian capital market investors may appear unusual, it could provide a meaningful alternative to habitual foreign currency bond issuances in the US and UK. So far, there is no indication that the tour could be successful. In the meantime, it would appear that the domestic bond market has proven a reliable source of funding.

¹⁸ Ghana News Agency, 9 Feb 2018.

¹⁹ Reuters, 9 Feb 2018.

²⁰ Bloomberg, 8 Feb 2018.

²¹ Bloomberg, 8 Feb 2018.

²² Ghana News Agency, 9 Feb 2018.

²³ Ghana News Agency, 9 Feb 2018.

²⁴ Ghana News Agency, 9 Feb 2018.

²⁵ Reuters, 9 Feb 2018.

²⁶ Reuters, 9 Feb 2018.

²⁷ Reuters, 8 Feb 2018.

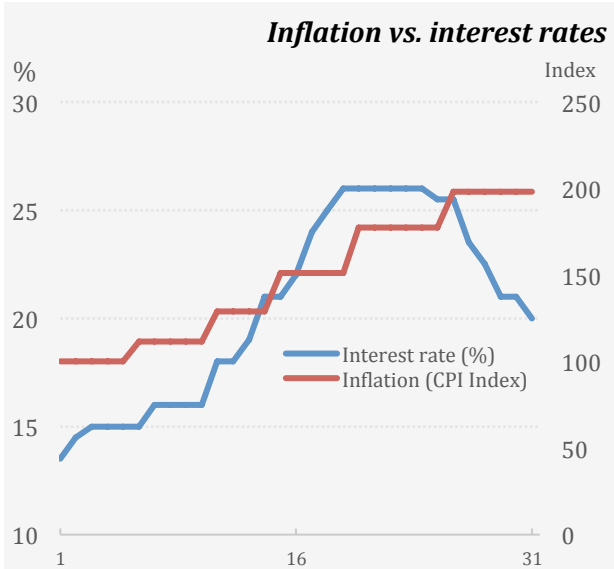
²⁸ Reuters, 8 Feb 2018.

²⁹ Reuters, 8 Feb 2018.

³⁰ Bank of Ghana, 7 Feb 2018.

Central bank holds its benchmark interest rate at 20%

The **Bank of Ghana (BoG)** (central bank) on 22 January held its benchmark interest rate at 20%, following a meeting of its monetary policy committee (MPC).³¹ The expectation was that the BoG would continue to cut its benchmark interest rate. A median taken from 10 economists cited in international press reports had predicted that the BoG would reduce the interest rate by at least 25 basis points, due to a perception that inflation had plateaued at around 12%.³² The BoG has announced that it will target inflation of 8±2% by the end of 2018.



The BoG has cut its benchmark interest rates 450 basis points since January 2017. Interbank rates have followed the BoG’s policy decisions, at 19.3% in December 2017 compared to 25.4% in December 2016.³³ The non-performing loans (NPLs) ratio increased to 22.7% in December 2017, up from 21.6% in October 2017, over half of which are within the loan loss category.³⁴ The treasury’s 91-day bills’ interest rate has also decreased to 13.3% in December 2017 from a year previous, while the 182-day rate decreased to 13.8% from 18.5%, and the one-year rate decreased to 15% from 21.5%.³⁵ The BoG’s monetary policy direction has also caused a decrease in headline inflation – consumer price index (CPI) – from 15.4% in December 2016 to 11.8% in December 2017.³⁶

Gross domestic product (GDP) growth reached 9.3% in the third quarter of 2017, up from 9% and 6.6% respectively in the first and second quarters of 2017.³⁷ The BoG also upheld its projected end-of-year 2017 GDP growth rate of 7.9%.³⁸ The BoG cited mixed performance of Ghana’s main commodity exports and their contribution to Ghana’s economic performance.³⁹ Crude oil increased to \$60 per barrel, but both gold and cocoa prices failed to recover in the last year.⁴⁰ The BoG also indicated a mixed picture with regard to the government’s debt situation. Total public debt increased to ₵138.8 billion (\$30.7 billion) in November 2017 in gross terms, or a 13.2% increase from ₵122.6 billion (\$27.2 billion) in December 2016.⁴¹ However as a share of GDP, debt decreased from 73.3% of GDP to 68.7% of GDP over the same period.⁴² Domestic debt increased 20.1% from December 2016 to November 2017, while external debt increased 7.9% over the same period.⁴³

The overall reaction to the BoG’s policy in 2017-2018 has been very positive. The expectation for continued drops in interest rates may be pre-emptive at the moment, as the BoG transitions to a more accurate interest rate in comparison to the perceived market interest rate.

³¹ Bank of Ghana 22 Jan 2018.
³² Bloomberg, 22 Jan 2018.
³³ Bank of Ghana, 22 Jan 2018.
³⁴ Bank of Ghana, 22 Jan 2018.
³⁵ Bank of Ghana, 22 Jan 2018.
³⁶ Bank of Ghana, 22 Jan 2018.
³⁷ Bank of Ghana, 22 Jan 2018.
³⁸ Bank of Ghana, 22 Jan 2018.
³⁹ Bank of Ghana, 22 Jan 2018.
⁴⁰ Bank of Ghana, 22 Jan 2018.
⁴¹ Bank of Ghana, 22 Jan 2018.
⁴² Bank of Ghana, 22 Jan 2018.
⁴³ Bank of Ghana, 22 Jan 2018.

Planner

30 May 2018 **Accra (Ghana)** *Press Release*. The **West Africa Mining & Power Exhibition & Conference** begins;

Apr 2018 **(Ghana)** *Press Release*. The government completes its extended credit facility programme with the **International Monetary Fund**;

19 Mar 2018 **Accra (Ghana)** *10 Times*. The **Coastal and Maritime Surveillance Summit** begins;

Chronology

9 Feb 2018 **(Ghana)** *GNA*. Finance minister **Ken Ofori-Atta** begins a government delegation tour to study the **Asian** financial sectors in **Hong Kong (People's Republic of China)** and **Singapore**;

8 Feb 2018 **Accra (Ghana)** *Reuters*. The government sells 1.99 billion cedis (¢) (\$448m) in local currency five-year bonds, with a yield of 16.5%;

31 Jan 2018 **Accra (Ghana)** *Citi FM*. Energy minister **Boakye Agyarko** announces that the government will seek to build a \$4 billion oil refinery to replace the **Tema Oil Refinery** within the next three to four years;

22 Jan 2018 **Accra (Ghana)** *Reuters*. The **Bank of Ghana** (central bank) holds its benchmark interest rate at 20%;

18 Jan 2018 **Accra (Ghana)** *GhanaWeb*. **United States**-based **Exxon Mobil Corp** signs an oil exploration deal with the government for the **Deepwater Cape Three Point** offshore oilfield;

15 Jan 2018 **Accra (Ghana)** *Xinhua*. President **Nana Addo Dankwa Akufo-Addo** announces an average 14% reduction in electricity tariffs for non-residential users across Ghana;

11 Jan 2018 **Accra (Ghana)** *Citi FM*. President **Nana Addo Dankwa Akufo-Addo** names **Martin Amidu** as special prosecutor, to head a new anti-graft unit;

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

ARC's core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

www.africariskconsulting.com

About ARC Briefing:

ARC Briefing is ARC's essential online business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

ARC Briefing is an online information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

www.briefing.africariskconsulting.com

Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)