Euler Hermes Economic Research

Country Report

Ghana

Frontier market fragility, but strong growth

General Information

GDP	USD40.71bn (World ranking 85, World Bank 2012)
Population	25.37 million (World ranking 47, World Bank 2012)
Form of state	Constitutional Democracy
Head of government	John Dramani MAHAMA
Next elections	2016, presidential and legislative

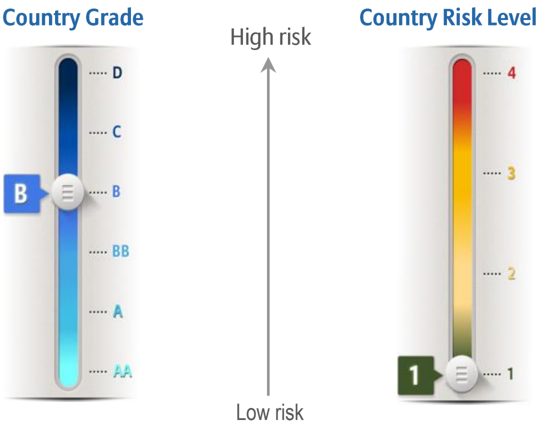
Strengths

- Established track record of good governance, with a functioning democratic system and peaceful transfer of power among political parties.
- Natural resource base (cocoa, gold, forestry etc.) now supplemented by discovery of commercially-exploitable oil reserves – output from 2011.
- Strong GDP growth in recent years.
- Market-oriented policy framework.
- Positive relations with the IFIs.

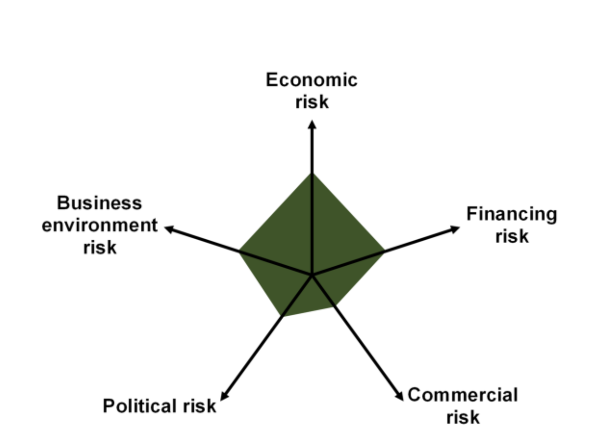
Weaknesses

- While some safeguards are established, the ability and capacity to manage oil wealth is yet to be tested fully.
- Continuing twin deficits (fiscal and current account) require careful management.
- Frontier markets, including Ghana and Nigeria, are not immune from sell-off pressures in emerging economies. There is therefore periodic risk of currency depreciation, FX reserve depletion and capital flight.
- Although per capita incomes have improved, poverty remains pervasive in some rural areas.
- Regional instability and uncertainties, including in Côte d'Ivoire, Nigeria and Mali.

Country Rating B1



Risk Dimensions



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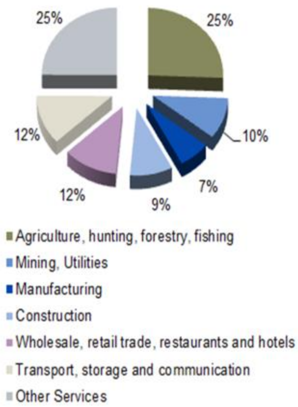
Economic Structure

GDP breakdown (2011)



Sources: Chelem, UnctadStat, IHS Global Insight, Euler Hermes

Trade structure (% of total, 2011)

By destination/origin

Exports		Rank		Imports
France	19%	1	20%	China
Netherlands	10%	2	12%	Nigeria
Italy	8%	3	8%	United States
United States	8%	4	5%	Netherlands
United Kingdom	5%	5	5%	India

By product

Exports		Rank		Imports
Coffee, tea, cocoa, spices, and manufactures thereof	33%	1	12%	Road vehicles
Petroleum, petroleum products and related materials	30%	2	7%	Miscellaneous manufactured articles, n.e.s.
Gold, non-monetary (excluding gold ores and concentrates)	6%	3	6%	Specialised machinery
Vegetables and fruits	5%	4	5%	Iron and steel
Metalliferous ores and metal scrap	5%	5	4.6%	Cereals and cereal preparations

Economic Forecast

	2009	2010	2011	2012	2013e	2014f
GDP growth (% change)	4.7	8.0	15.0	7.9	7.5	7.0
Inflation (%, end-year)	16.0	8.6	8.6	8.8	13.2	10.7
Fiscal balance (% of GDP)	-7.0	-9.6	-5.5	-5.6	-5.6	-5.7
Public debt (% of GDP)	36.2	29.0	25.1	24.6	22.0	24.9
Current account (% of GDP)	-6.4	-8.6	-9.0	-12.0	-12.6	-15.2
External debt (% of GDP)	27.5	29.8	28.8	29.8	30.0	39.6

Sources: IHS Global Insight, national sources, Euler Hermes

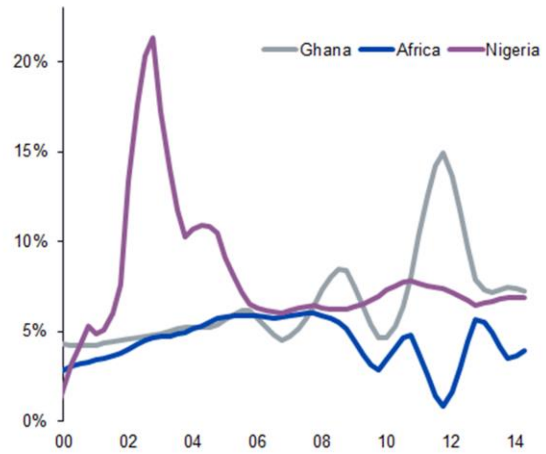
Economic Overview

Annual GDP growth will slow but remain strong

Annual average GDP growth was above +5% in 2000-08, a relatively good rate of expansion but around the pace required to make positive advances in socio-economic development for a country like Ghana. In that period, growth largely reflected the performances in the gold, cocoa and forestry industries and associated exports. However, growth of GDP accelerated in 2011, boosted by the energy sector as oil output came on stream at the Jubilee oilfield in that year, when GDP expanded by almost 15%. The impetus from that significant economic development was not maintained in 2012 and 2013 but GDP growth still registered over +7% in those two years.

EH forecasts GDP growth will slow but, at +7% in 2014 and +6% in 2015, it will remain above the average for Sub-Saharan Africa. While the Jubilee oilfield is now producing crude oil, other fields have yet to be developed fully and natural gas output holds further potential. Output of crude oil is on track to achieve peak output of 120,000 barrels per day in 2014 and the Atuabo gas processing plant is likely to come on stream later this year or in 2015. Accordingly, high GDP growth rates could be maintained into the medium term, at least.

GDP growth (%)



Sources: IHS Global Insight, Euler Hermes

Twin fiscal and current account deficits provide vulnerability but the investor and donor communities will remain supportive

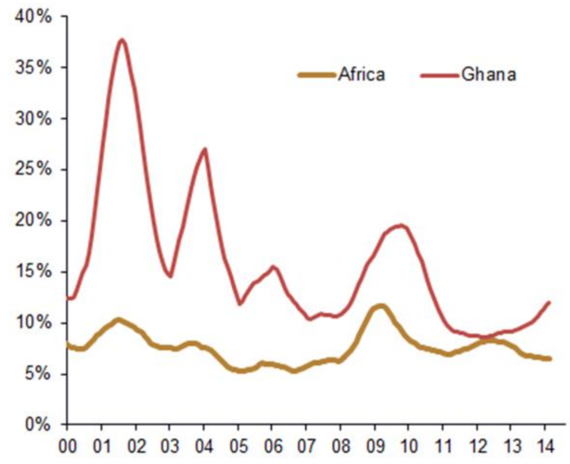
Economic management appears relatively sound, partly reflecting consistency in recent years of pro-market policy formulation adopted by governments of varying political allegiance. Even so, twin deficits on the fiscal and current accounts (see below) require careful management. In early 2014, a general sell-off in emerging markets spread to some frontier markets, including Ghana. The GHS depreciated by 7.8% against the USD in January, FX reserves were partially depleted and the stock market lost ground as capital outflows were recorded. Some rebound has now been staged. In recent years, governments have opened the economy further to bilateral assistance, as well as multilateral support, and this is most noticeable in the involvement in the country of China. The lending programme with the China Development Bank includes large infrastructure projects, including in the energy, transport (road, rail and ports) and agriculture sectors.

Relative to other countries in Sub-Saharan Africa, Ghana consistently ranks highly in the World Bank's Ease of Doing Business surveys, with only Mauritius, Rwanda, South Africa and Botswana ranked higher in 2014.

Current account deficits will remain large but decline in the medium term

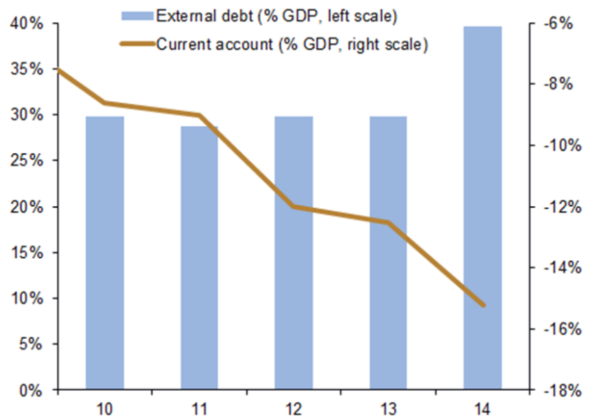
Large current account deficits (annual average -8.6% of GDP in 2000-08) were recorded before oil output came on stream and exports of crude oil have now boosted the trade balance. However, imports of energy-related capital goods will maintain large current account deficits in 2014 and 2015. EH expects deficits of around -15% of GDP in both years. After that, with machinery and other oil-industry inputs largely in place and export earnings increasing, current account deficits should be lower. Before then deficits will be covered largely by significant inflows of FDI. Foreign exchange reserves provide a current import cover of three months but FX levels will increase into the medium term. Foreign debt levels and repayment obligations are comfortable.

Inflation (%)



Sources: IHS Global Insight, Euler Hermes

External debt and current account balance (% of GDP)



Sources: IHS Global Insight, Euler Hermes

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