

Republic of Ghana

July 2010

CREDIT GUARANTEE COUNTRY PROFILE:

IES/02: ATTACHMENT N

<u>Country</u> <u>Rating</u>	<u>S/T Business</u> <u>Cycle</u> <u>Indicator</u>	<u>S/T</u> <u>Political</u> <u>Indicator</u>	<u>Debt Recovery</u> The use of a collection agent is recommended.
3C	↑	→	

Credit Guarantee Experience

Cover is offered on an open basis and we have a growing amount of exposure. This is not a claim-free market.

Political Highlights:

- President John Evans Atta Mills has been chief of state since 7 January 2009.
- The president and vice president are elected by popular vote for four-year terms and can run for a second term. The last elections were held on 7 and 28 December 2008, with the next election due on 7 December 2012.
- According to African Economic Outlook, the smooth and peaceful transfer of power to President Mills, despite his party winning by a narrow margin, has been praised as a model for Africa. They stated this as one of the reasons President Obama chose to visit Ghana on his first African visit.

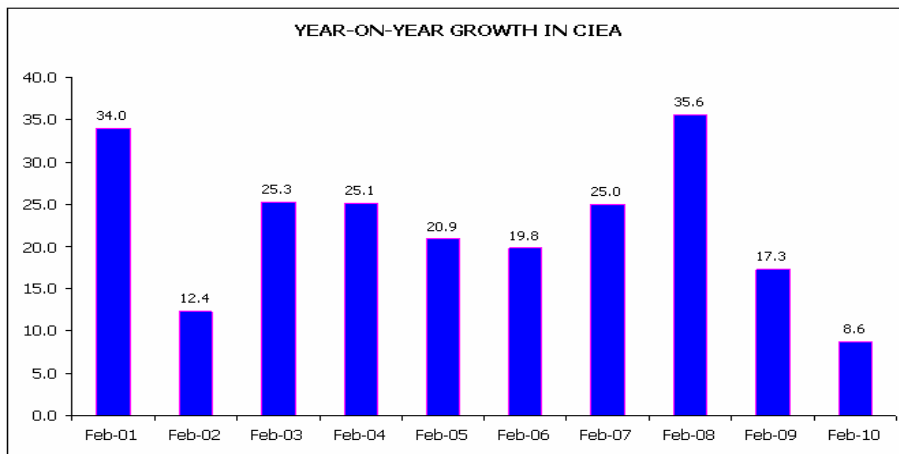
Economic Developments:

- Ghana's population is estimated at ±24 339 838. The effect of AIDS contributed to the lower life expectancy, lower population growth rate and higher death rates, with 1.9% of adults (between 15-49 years) living with AIDS.
- The economy is rich in natural resources including: gold, timber, industrial diamonds, bauxite, manganese, fish, rubber, hydropower, petroleum, silver, salt and limestone.
- Ghana's economic growth is hampered by structural challenges. Agriculture accounts for more than a third of GDP and employs more than half of the work force, while the industrial sector contributes 28%. The country is overly dependent on a few primary commodities.
- Gold, cocoa production and remittances are major sources of foreign exchange, with oil production expected to increase in late 2010 and early 2011. Ghana is the world's second largest producer of cocoa and contains the second largest area of gold deposits in Africa after SA.
- The country is still heavily dependent on international financial aid. Ghana opted for debt relief under the Heavily Indebted Poor Country (HIPC) program in 2002 and is also benefitting from the Multilateral Debt Relief Initiative that took effect in 2006.
- In July 2009, Ghana secured a \$600m 3-year loan from the IMF amid concerns about the impact of the global recession on poorer countries.
- The World Development Bank approved \$70m for the Electricity Company of Ghana. This will help with the repair of ageing substations and supply lines with the aim to reduce technical losses, improve supply quality to clients and connect more customers.
- The government is currently implementing measures to ensure that ±85% of rural residents have access to drinkable water by 2015. Currently only 59% of the rural communities have access to clean drinking water.
- The high gold and cocoa prices as well as sound macroeconomic management sustained the economy against the global financial crisis, although real GDP growth slowed from 7.3% in 2008 to 4.7% in 2009. With the run-up to the national elections, 2008 was noted as a year of highly expansionary fiscal policies that destabilised the economy.
- The Jubilee offshore oilfield was discovered in 2007 with a minimum estimated reserve of 800m barrels. This is expected to boost GDP growth from the government's projected 6% in 2010 to 20% in 2011 according to Ghana's deputy finance minister. Ghana will start with oil production by the end of 2010 and is expected to reach a peak of 120 000 barrels per day, 4-6 months after production starts. This is expected to generate public revenue of ± \$800m per year over the next ten years and boost consumer spending by creating jobs.

- This will be partly offset by the limited fiscal space for new development projects in the near term as the government will need to fully repay their domestic debt estimated at 4% of GDP in 2009.
- The IMF expects an economic growth rate of between 4-5% in 2010, mainly linked to the oil industry.
- Inflation eased from 19.3% in 2009 to 13.3% in March 2010 with a further decline to single digits expected by end-2010.
- The IMF identified fiscal management as one of Ghana's main challenges. The government managed to reduce the budget deficit to 9.7% of GDP in 2009 and aims to further reduce it to 8% of GDP in 2010 and between 3-5% of GDP in 2011-12. This will be supported by increased income from oil-related activities. Reducing the budget deficit will require tight controls over spending, including public administration costs and strengthening revenue collection.
- The IMF stated that Ghana's government will need to ensure the transparent management of oil revenues and related spending. This will be necessary for the government to gain control over the budget and ensure the effective use of future oil resources.
- According to Standard Bank's May 2010 report, there are no restrictions on capital flows. Investors are assured of unconditional transferability through authorised dealer banks.

The Bank of Ghana:

- Data from the Bank of Ghana's Composite Index of Economic Activity (CIEA), which is used in measuring the pulse of the economy, declined during January 2010 and February 2010, implying a slowdown in the rate of economic activity. Factors that contributed to the decline include: imports, tourist spending, consumer spending (derived from VAT collections) and commercial banks' credit to the private sector.
- At the Monetary Policy Committee meeting held in April, the Bank of Ghana stated that the overall business confidence indicator declined by 3.5 points as a result of the high lending rates adversely affecting business confidence for the next 6 months.
- Inflation is expected to continue to decrease towards the target range of 7.2% - 11.2% for 2010 due to the impact of the appreciating currency on import prices and stable monetary aggregates.
- Commercial banks tightened the overall credit market conditions in Q110 with the overall access to financing remaining tight which supports a decline in consumer demand.



Source: Bank of Ghana

African Economic Outlook 2010:

- Real economic growth is expected to increase to 6.4% in 2010 and 8.3% in 2011. This will be based on a global recovery, public investment in the rising oil sector and the anticipated revenues from the new oil discoveries.
- 2010 economic growth is expected to be linked to investments in oil-related infrastructure, with 2011 growth expected to be influenced by oil revenues from oil exports.
- The government wants to improve the tax administration system to increase tax revenues as Ghana's tax base remains small as most people operate in the informal sector outside the tax net.

Table 1: Macroeconomic indicators

	2008	2009	2010	2011
Real GDP growth	7.0	4.7	6.4	8.3
CPI inflation	18.1	18.8	12.2	10.1
Budget balance % GDP	-14.0	-10.0	-6.4	-3.1
Current account % GDP	-15.8	-23.4	-19.7	-9.4

Sources: African Economic Outlook

Trade Developments:

- Total exports increased from \$5.2bn in 2008 to \$5.7bn in 2009. Export commodities include: gold, cocoa, timber, bauxite and diamonds.
- Exports are not diversified in terms of products and destinations.
- 90% of Ghana's total mineral exports are derived from gold mining. Ghana is also rated as one of the top five producers of manganese ore in the world.
- Gold and cocoa exports accounted for 42% and 30% of exports respectively in 2009, making up 72% of exports with manufacturing accounting for only 9% of exports.
- Total imports declined from \$10.2bn in 2008 to \$8.4bn in 2009. Import commodities include: capital equipment, petroleum and foodstuffs.
- Ghana's main trading partners include: US, France, UK, Netherlands, China, Nigeria and Ukraine.
- IMF data indicates that the international reserve cover rose from 2 months of import cover at the end of 2008 to 3 months of import cover at the end of 2009.
- Equatorial Guinea agreed to supply Ghana with 2m barrels of crude oil per year in a deal meant to enable Ghana's debt-ridden refinery continue to operate. Equatorial Guinea will sell the oil to Ghana under a 90-day credit agreement.
- Ghana is looking for a total of \$9bn of investments over the next five years to boost their refining capacity and their gas industry.
- Standard Bank's May 2010 report stated that the International Finance Corporation (IFC) is currently looking to invest \$100m in Vodafone as part of their commitments to Ghana. The IFC is also helping to convert televisions from analogue to digital as part of the IFC's information and communications technology (ICT) sector.

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