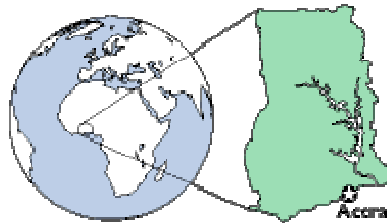


# COUNTRY REVIEW

## Ghana



15 November 2010

**ANALYST: Andrew Atkinson**

**EULER HERMES COUNTRY RISK GRADE: C**

Country Risk Grades are on a scale of AA, A, BB, B, C, D  
where AA is the lowest and D the highest risk.

## Strengths

- Ghana has now established a track record of good governance, with a functioning democratic system and peaceful transfer of power among political parties
- Existing natural resource base (cocoa, gold, forestry etc.) and oil reserves scheduled to become commercially-exploitable in 2011
- Market-oriented policy framework is well-established
- Positive relations with IFIs (PRGF and completion of HIPC Initiative) and the international community

## Weaknesses

- Fiscal deficits, although forecast to reduce as oil comes on-stream, have been unsustainable without international assistance and continuation of the latter is likely to be required in the ST
- Dependence for export earnings on commodities
- Output is subject to periodic power shortages
- Regional instability (Côte d'Ivoire is Ghana's western neighbour)
- Although nominal GDP per capita has improved because of recent high economic growth rates and major data revisions, poverty remains pervasive, particularly in some rural areas
- Poor data provision

## Key Risks

- A sustained period of weak global economic growth and world trade may increase domestic social tensions and lead to a breakdown in the democratic processes and/or adoption of inappropriate economic management, leading to a downward spiral in economic data and further dependence on international aid
- As elsewhere in West Africa, an oil boom may lead to heightened wealth disparities and increased tribal/ethnic tensions in the medium- to longer-terms

## Country Risk Assessment

Ratings	Ghana		Median Grade C	Median Grade B	Angola	Senegal
	Latest	Previous				
<b>Systemic Political Risk:</b>	<b>P2+</b>	<b>P2+</b>	<b>P3+</b>	<b>P3+</b>	<b>P3-</b>	<b>P3-</b>
<b>Systemic Economic Risk:</b>	<b>E5</b>	<b>E5</b>	<b>E5</b>	<b>E5</b>	<b>E5</b>	<b>E5</b>
ME rating:	ME5	ME5	ME5	ME5	ME4	ME5
<i>Structure</i>	6.0	6.0	5.9	4.7	5.7	6.0
<i>Policy</i>	6.0	5.6	5.2	4.5	5.2	6.0
<i>Solvency</i>	2.5	3.0	3.0	2.3	2.0	2.5
<i>External Liquidity</i>	2.3	5.6	4.3	3.3	2.8	4.6
SBE rating:	SBE4	SBE4	SBE4	SBE4	SBE5	SBE5
<b>COUNTRY GRADE:</b>	<b>C</b>	<b>C</b>	<b>C</b>	<b>B</b>	<b>C</b>	<b>C</b>

**Nomenclature:**

Political Risk Ratings are on a scale of P1 (lowest risk), P2+, P2-, P3+, P3-, P4 (highest risk).

Economic Risk Ratings are on a scale of E1 (lowest risk), E2, E3, E4, E5, E6 (highest risk).

ME (Macro-Economic) ratings are on a scale of ME1 (lowest risk), ME2, ME3, ME4, ME5, ME6 (highest risk).

The constituent parts of the ME rating are on a scale of 1.0 (best) to 6.0 (worst).

SBE (Structural Business Environment) ratings are on a scale of SBE1 (best), SBE2, SBE3, SBE4, SBE5, SBE6 (worst).

Country Grades are on a scale of AA, A, BB, B, C, D where AA is the lowest and D the highest country risk.

Source: Euler Hermes Country Risk Unit

## ECONOMIC STRUCTURE

<b>Country Profile</b>	
Capital city:	Accra
Population:	23.84 mn (2009)
GDP:	USD 25505 mn (2009)
Currency:	Cedi (GHS)
Form of state:	Republic
Head of government:	President John Atta Mills
Next elections:	Parliamentary and presidential by December 2012

Major Industries (% of GDP at market prices, 2009)	Global Assumptions	2010f	2011f
Agriculture 31.7%	World GDP growth (% yr)	3.8	2.9
Industry 18.9%	World trade growth (% yr)	12.6	8.2
Services 49.4%	Oil prices: Brent (USD/b)	80.0	80.0

Main Exports (% of total, 2009)	Main Imports (% of total, 2009)
Gold 43.7%	Oil 18.5%
Cocoa and products 32.0%	
Timber 3.1%	
Lead Export Markets (% of total exports, 2009e)	Lead Import Markets (% of total imports, 2009e)
Netherlands 13.5%	China 17.0%
UK 8.0%	Nigeria 11.0%
France 6.0%	US 7.0%
Ukraine 6.0%	Côte d'Ivoire 6.0%

## Basic indicators

Selected economic indicators	2007	2008	2009	2010f	2011f
Nominal GDP (USD mn)	23,262	27,095	25,505	30,173	40,714
Population (mn)	22.87	23.35	23.84	24.34	24.85
GDP per capita (USD)	1,017	1,160	1,070	1,240	1,638
Real GDP growth (% yr/yr)	6.5	8.4	4.7	6.6	12.0
Inflation (% , average)	10.7	16.5	19.3	11.0	10.0
Fiscal balance (% of GDP)	-5.1	-7.7	-8.3	-5.8	-4.0
Current account balance (% of GDP)	-9.2	-13.1	-4.7	-6.3	-3.7
External debt/GDP (%)	19.2	18.3	21.2	21.5	17.2
External debt/Exports of goods & services (%)	73.3	69.5	68.3	76.5	57.4
Debt-service ratio (%)	3.0	3.3	3.2	3.5	2.9
Foreign exchange reserves (USD mn)	2,200	1,783	2,856	3,000	4,000
Import cover (months)	2.6	1.7	3.1	2.7	3.3
Exchange rate assumption, GHS:USD (av)	0.94	1.06	1.41	1.43	1.40
f: CRU central forecast					

Sources: Central Bank, Ghana Statistical Service, IMF, World Bank, Euler Hermes Country Risk Unit

## Political Stability

Parliamentary and presidential elections at end-2008 were successfully and peacefully completed, despite concerns that democracy in Africa was faltering, notably after political and social failures in Kenya's own electoral process. Under Ghana's constitution, President John Agyekum Kufuor of the ruling New Patriotic Party (NPP) had to step down after two terms and the election for head of state was between the NPP's Nana Akufo-Addo and the National Democratic Congress' John Atta Mills. After a run-off, the latter was declared the winner, despite a very close ballot. **Transfer of power was conducted without undue disturbance**, partly because it was perceived that there would be policy continuity under either the NPP or NDC. **A relatively stable domestic political and economic environment will continue to be underpinned by the international donor community.** Ghana is likely to remain an example of how IFI-supported reforms can aid national development. Indeed, a sound track record in recent years should ensure that the IMF and other agencies provide support, in need, as they did in 2009 to lessen the local impact of the deterioration in global economic conditions.

While the political system has provided evidence of being robust, weaker global conditions in 2009 engendered some strains through economic management and heightened social pressures because of income and job losses. The political opposition has therefore gained some support and anti-government debate become more strident. The National Democratic Congress (NDC) administration may counter that forthcoming oil revenues will herald a period of wealth and prosperity, although it **remains to be seen whether Ghana will be able to avoid the "resource curse" that has prevailed elsewhere in West Africa**, with export earnings being squandered and most citizens not benefiting from a wealth effect and improved standards of living at a disaggregated level. **As elsewhere in West Africa, ethnic and tribal balances are imperative for stability and preservation of national integration. Local chiefs wield considerable power within their fiefdoms** and are sometimes willing to condone or promote violence to protect their interests. In some areas in the north, ethnic conflict has led to periodic violence and imposition of a state of emergency.

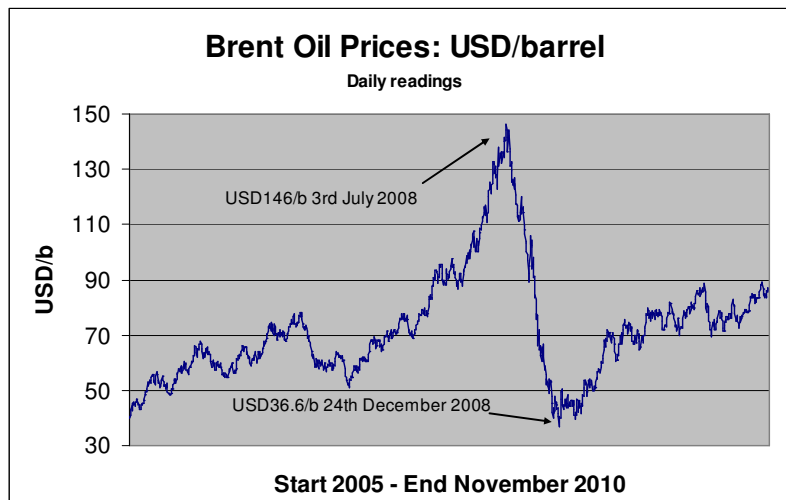
Despite some progress in Liberia and Sierra Leone—and more recently in bordering Côte d'Ivoire—**regional instability remains high**, although this has not spilled over into Ghana. Along with Nigeria, Ghana is a significant contributor to the peacekeeping activities of the Economic Community of West African States (ECOWAS) and the African Union (AU). Ghana is a leading proponent of the New Partnership for Africa's Development (NEPAD) initiative and its principle tenet of good governance. The local authorities have also pledged their support—and the country's future membership—for a proposed West African Monetary Zone (WAMZ), although targets for establishing a single common currency (eco) are likely to be revised as participants have yet to achieve convergence criteria. **Relations with the IFIs are good, despite occasional lapses in performance measurements**, largely reflecting adoption of market-oriented reforms. Ghana successfully completed an IMF PRGF (Poverty Reduction and Growth Facility) programme and was granted significant debt cancellation and other relief under the HIPC (Heavily Indebted Poor Countries) initiative and G8 programme. However, continuing support from the IFIs and the bilateral donor community will be required, thereby ensuring that sound economic policies will prevail in the short to medium term.

## Economic Stability

The economy is dependent on output and prices of primary commodities—**gold and cocoa together account for around 75% of the earnings from exports of merchandise goods**—and is vulnerable to exogenous shocks. **Agriculture still accounts for over 30% of GDP**, while industry contributes almost 19%, although manufacturing (7%) remains relatively under-developed. In June 2007, it was announced that an offshore oil field appeared to have commercially-viable reserves. Indeed, Ghana is likely to become **a relatively significant (but minor in global terms) oil producer from 2011**, with the first commercial output potentially available by end-2010, and **a burgeoning hydrocarbons sector is likely to have profound effects on the structure and performance of the economy.** International oil prices have recovered after falling by around USD100/barrel after peaking in mid-2008 (see chart) and, at a current USD85/barrel, investment in the sector is ongoing, with particular interest from China, which also provides concessional finance for infrastructure projects. Investment in hydrocarbons will maintain the positive momentum to **annual GDP growth** and we forecast economic expansion of **6.6% in 2010 and at least 12% in 2011**, after the global recession restricted Ghana's growth to 4.7% in 2009, compared with a recent annual average of 6% (2002-08).

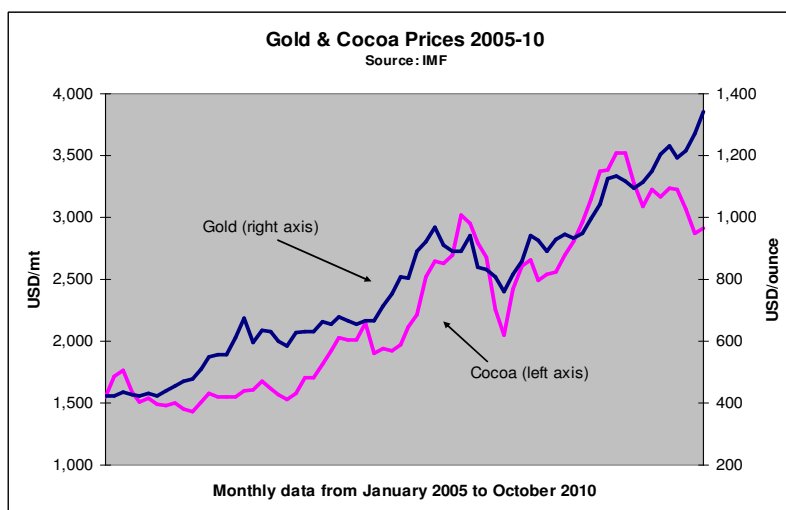
Although politicians across the party spectrum were quick to claim that effective management procedures will be installed in the nascent oil sector, **West Africa has a track record of largely squandering oil wealth.** When the oil sector becomes a significant FX generator (scheduled for 2011),

some difficulties are likely to emerge in adjusting policies but the country's relative stability will attract further investment and it could emerge as a more significant regional economy and an investment and trade hub. **Ghana has a proven track record of pro-market structural reforms** and real GDP per capita has increased by an annual average 2.6% in the last ten years. Recent data revisions now indicate that per capita annual incomes have increased to around USD1,500 and the country is now classified by the World Bank as "lower-middle income".



Against this promising but lowly background the country relies on international agencies (IFIs and NGOs). Despite the imminent increase in foreign exchange earnings as oil production intensifies, this dependence will remain evident in the ST and it will impinge on the freedom of action in policy development of governments. The latter will be aware that commitment to pro-market reforms will appease the international donor community and maintain financial, technical and moral support. Without international backing, however, it would be difficult for governments to push through reforms. Accordingly, continuation of existing policies is expected.

**Recent high GDP growth rates in the pre-oil era were supported by solid contributions from the twin pillars of gold and cocoa.** Gold prices averaged over USD870/ounce and over USD970/oz in 2008 and 2009, respectively, (USD696 in 2007 and compared with below USD300 in most of 2002), thereby supporting continued strong hard currency earnings. In 2010, concerns relating to the international economic and financial position have given a further spur to gold prices, with a 2010 average forecast at USD1,200/oz. The cocoa harvest year is October-September and the total crop for 2009/10 is now estimated at just below 700,000 tonnes. With financial incentives, improvements in cropping techniques and more effective disease and pest control programmes, there is a target of one million tonnes by 2012. Moreover, with the largest global supplier, Côte d'Ivoire, still experiencing political uncertainties, cocoa prices are likely to remain supported through into 2011, maintaining high revenues for Ghana.



Fuels currently account for around 18.5% of the total import bill and have a major impact on inflationary pressures, particularly when international oil prices are high. While crude oil production will enhance export revenues in 2011, Ghana will remain a fuel importer for the foreseeable future and oil-related liquidity will maintain price pressures. We therefore do not expect inflation to fall sharply next year. Indeed, we **forecast average inflation of around 10% in 2011**, although this will be an improvement from over 19% in 2009. Some flexibility in monetary policy is afforded by the exchange rate system as the cedi operates in a managed float without pre-announced targets. Favourable inflows of hard currency through sales of gold and cocoa and through remittances will be augmented in 2011 by earnings from sales of crude oil and these will provide support for the cedi. However, while oil earnings will boost trade-related inflows in 2011, the current account deficit will still be over 3.5% of GDP next year, so any strengthening in the cedi will be modest and we forecast an average exchange rate against the dollar of GHS1.4:USD1 in 2011, compared with GHS1.43 in 2010.

FDI inflows into the hydrocarbons sector have been strong but remain modest outside the oil and mining industries and access to other forms of international finance from the private sector are limited. Consequently, adequate external financing in the ST will depend almost entirely on multilateral support. Ghana received **significant debt relief under both the HIPC initiative and G8 programme and foreign debt ratios have therefore improved**. Moreover, GDP data revisions in November 2010 also enhanced some ratios and external debt is now equivalent to around 20% of GDP (101% in 2003), while debt to export earnings is around 60-70% (231%) and scheduled repayments expressed through the debt service ratio now represent only around 3% of export earnings. Foreign debt obligations are therefore now less of a restraint on economic development. Nevertheless, **economic management requires that favourable relations are maintained with the IMF and this further underlines the likelihood of sound economic policies** over the coming 18 months. This is particularly so as FX reserves still provide only three months of import cover.

### Structural Business Environment

**The structural business environment is well below the average of the countries we monitor.** However, the Heritage Foundation 2010 Index of Economic Freedom (IEF) now categorises Ghana as "Moderately Free" (previously Mostly Unfree) and ranks it 87 out of 179 countries assessed, above Mongolia, Lebanon and Burkina Faso but below Paraguay, Kazakhstan and Dominican Republic. Under the IEF methodology, Ghana's economic freedom is adversely affected by an ineffective judicial system that remains vulnerable to political interference and corruption further undermines perceptions of investor safety. Ghana ranks 69= with Montenegro out of 180 in Transparency International's 2009 Corruption Perceptions Index (above Bulgaria, Greece and Romania but below Tunisia, Croatia and Kuwait). **Infrastructure (including power supply) is generally weak** and is a major impediment to commercial transactions outside the capital, Accra, and thereby to stronger overall economic growth.

The commercial banking sector includes a significant contribution from foreign, as well as domestic, organisations and rural banks provide a thriving micro-finance sector. Nevertheless, the government owns a majority share in the largest domestic bank and controls other banks. The stock exchange is small but foreign investors can deal in securities without exchange control restrictions. The IMF reports that banks appear well capitalised and profitable, although NPL ratios remain high. The authorities are making progress with financial reform, including bank privatisation and rationalisation.

**Andrew Atkinson**

**London: +44 (0)20 7860 2577**

## Charts

