KPMG

Ghana Economic Snapshot H2, 2017

Trade & Investment SWOT

Strengths	Weaknesses
Foreign companies benefit from equal treatment under the law, providing an attractive environment for investors.	Limited access to international financial markets poses a risk to raising capital.
A relatively competitive and clearly defined taxation system reduces operating costs.	Extensive red tape hinders business start-ups.
Strong contract enforcement reduces the likelihood of costly legal disputes.	Weak protection of intellectual property rights increases risks for businesses that may be exposed to counterfeits and piracy.
Ghana's media enjoys a reasonable amount of freedom, allowing businesses to use the internet without restrictions.	Time-consuming tax procedures increase administration costs.
Opportunities	**Threats**
The government fervently supports foreign direct investment, as demonstrated by its track record of pro-investment legislation.	Limited consumer credit could impact import growth.
E-governance is slowly improving meaning businesses are better protected against cybercrime.	Corruption remains a concern in all aspects of governance, driving up the cost of doing business in Ghana.
Ghana is rich in natural resources such as oil and gold and continues to attract investment.	An immigration quota for foreign workers limits employment options for businesses wanting to import skilled labour.
Ghana is open to foreign direct investment (FDI), and as such, barriers to entry are relatively low.	Despite recent investments, electricity remains a concern in terms of both access and reliability.

Source: Business Monitor International (BMI), KPMG research

Economic structure - The primary sector comprises both small-scale and commercial agriculture. The country produces a variety of food crops, and exports its production of cocoa, coconuts and other fruits. Timber is also produced and exported. The secondary sector counts construction as its largest contributor to gross domestic product (GDP) while oil production from the Jubilee field is still limited - new output from the Tweneboa, Enyenra, Ntome (TEN) and Sankofa oilfields will increase output by 2020. Construction activity is stimulated by government spending on infrastructure, including ongoing expansion of port facilities in order to build the country's profile as a premier logistics provider in West Africa. In this regard, the services sector has a large transport component. At present, the underdeveloped state of roads result in high costs of moving goods. Public administration plays a small role in terms of overall GDP.

Recent economic developments – The Ghana Investment Promotion Centre (GIPC) recorded 95 new foreign investments in the first half of 2017 with a total estimated value of $3.25 billion, a more than 90% y-o-y increase. Activity in the oil sector is expected to rise by more than 40% in 2017 owing to stepped-up production in the TEN oilfield. Ghana has an ongoing $918 million credit programme with the International Monetary Fund (IMF) that aims to restore fiscal balance: this comes after there was an unreported gap in the former administration's budget. However, financing conditions have recently eased, and Ghana's external credit spreads have continued to decline from their peak in February 2016. Headline inflation declined from 12.2% y-o-y in September 2017 to 11.6% y-o-y in October: lower utility prices, exchange rate stability and earlier increases in the monetary policy rate all contributed to this decline.

Mega trends

Population	2017	Total: 28.66 million; female: 14.38 million; male: 14.28 million; age 0-14: 38.67% of total; age 15+: 61.33% of total; age 65+: 3.38% of total
Population growth rate	2015	2.24%
Life expectancy at birth	2015	Total: 62.41 years; female: 63.43 years; male: 61.44 years
HIV/AIDS	2016	Total number of people living with HIV: 0.29 million; total adult prevalence: 1.6%; HIV AIDS orphans (age 0-17): 0.16 million
Adult literacy rate	2015	Total population: 76.58%; female: 71.35%; male: 82.03%
Urbanisation	2016	Urban population: 54.68% of total; annual urban population growth: 3.41%; rural population: 45.32% of total
Population below $1.90/day poverty line	2005	25.19%
Unemployment rate	2017	Total: 5.9%; female: 6.3%; male: 5.5%; youth (15 - 24): 11.8%
Employment	2017	Agriculture: 41.9% of total; industry: 14.2% of total; services: 43.8% of total
Labour participation rate	2017	Total (ages 15+): 77.21% of total population
Business languages	n/a	English
Telephone & internet users	2012; 2016	Fixed telephone subscriptions: 0.25 million (2016); wired internet subscriptions: 0.07 million (2012); cell phone subscriptions: 38.31 million (2016)
Quality of infrastructure (1 = underdeveloped, 7 = developed)	2017	3.69

Sources: UNESCO Institute for Statistics, World Telecommunication/ICT indicator database, World Bank, UNAIDS, International Labour Organisation, Analyse Africa

Business Environment									
Human Development Index (HDI) 2015		Index of Economic Freedom 2017		Global Competitiveness Index (GCI) 2017-18		Doing Business 2018		Corruption Perceptions Index 2016	
139th	out of 188 countries	118th	out of 180 countries	111th	out of 137 countries	120th	out of 190 countries	70th	out of 176 countries

Source: World Bank, The Heritage Foundation, World Economic Forum (WEF), Transparency International

Economic policy – The Long-Term National Development Plan (LTNDP) 2018-2057 provides a common national development vision for the transformation of Ghanaian economy and society in a single generation. It also provides the public with a transparent basis for measuring the performance of the government. The government sees it as an innovative approach to blending continuity and change in an evolving democratic environment. The process is guided by ten, four-year plans which will be translated into annual plans linked to a relevant fiscal budget. The LTNDP has five strategic goals, namely: 1) to build an industrialised, inclusive and resilient economy; 2) create an equitable, healthy and disciplined society; 3) build safe, well-planned and sustainable communities; 4) build effective, efficient, and dynamic institutions for development; and 5) strengthen the country's role in international affairs. The reforms needed for this includes changes to competition policy, industrial policy, consumer protection laws and land use laws.

Sovereign Risk Ratings		
S&P Global Ratings	Fitch Ratings	Moody's Investors Service
B-/Stable	B/Stable	B3/Stable

Source: Trading Economics

S&P Global Ratings affirmed Ghana's "B-" long-term foreign sovereign credit rating in October 2017 but revised its outlook to positive on the possibility of an upgrade to "B" over the ensuing 12 months. This could materialise if the country "implements and adheres to measures that should sustainably alleviate the still substantial pressure on public finances, if external weaknesses start to abate, and if monetary policy transmission materially improves." The positive perspective is supported by the new administration tackling the above issues head-on: the country's struggling economy was the focus point of campaigning leading up to the December 2016 presidential elections. The new leadership is seen by S&P as being "keen to establish a firm fiscal consolidation path" alongside "an ambitious economic reform program". The outlook on Ghana's rating could be returned to stable if economic growth disappoints – this would result in slower fiscal consolidation.

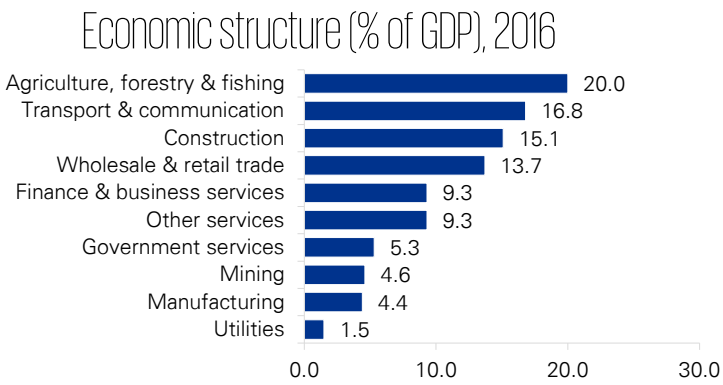
Fitch Ratings affirmed Ghana's long-term foreign Issuer Default Ratings (IDR) at "B" in September 2017 and retained the stable outlook on this assessment. The rating is based on the assumption of increased oil production in 2017-2018 as new fields come on stream and a rise in international oil prices towards 2019. In the non-oil economy, activity is expected to be supported by improved electricity supply, declining inflation and greater credit provision to the private sector by local banks. According to Fitch, the main factors that individually or collectively could trigger negative rating action include a failure to narrow the fiscal deficit, and inability to reduce the government debt-to-GDP ratio, and decrease in macroeconomic instability and a decline in international reserves. Conversely, factors that could lead to positive rating action include a smaller fiscal deficit, marked decline in government debt, an improved external position (e.g. increase foreign reserves or narrowing the current account deficit) and a sustained improvement in macroeconomic stability.

Moody's Investors Services affirmed Ghana's issuer rating at "B3" and changed the outlook from negative to stable in September 2016, and has since maintained this assessment. In a report published in July 2017, the agency commented that the stable outlook reflects a strong economic growth outlook and recent reduction in external imbalances, though balanced with challenges like a significant fiscal overrun in 2016 as well as high levels of government debt accompanied with very low debt affordability. The country's debt has increased substantially over the past five years due to fiscal overruns, resulting in a large volume of borrowing in the domestic market. Moody's warned that downward pressure on Ghana's rating "would arise from emerging funding constraints in the domestic debt market." It also said that an adverse ruling on the country's dispute with the Ivory Coast over ownership of the TEN oil fields would also be credit negative; the maritime border dispute was resolved in September by an international tribunal in favour of Ghana.

Finance & Banking				
Central bank	Number of commercial banks	Bank branches per 100 000 adults	ATMs per 100 000 adults	Deposit accounts per 1 000 adults
Bank of Ghana (BoG)	35	7.17	5.27	599.33
Stock market	**Listed companies**	**Market capitalisation***	**Largest sectors**	**Weekly trading value***
Ghana Stock Exchange (GSE)	40 primary listings	$13.5 billion	Banking	$0.1 million
Capital market	**Level of development**	**Maturity range**	**Municipal bonds**	**Corporate bonds**
Yes	Developed in an African context	91 days to 7 years	No	Limited

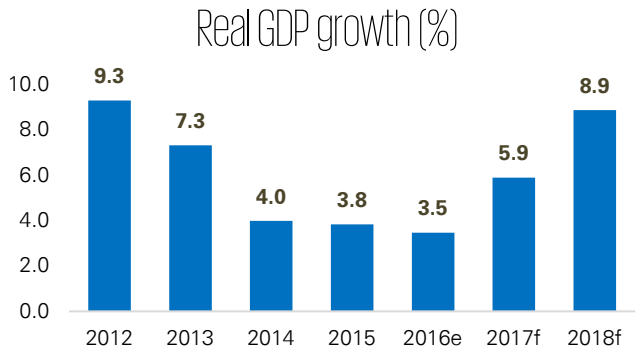
Sources: World Bank, African Alliance, Analyse Africa, KPMG research
**Week ending 27 October 2017*

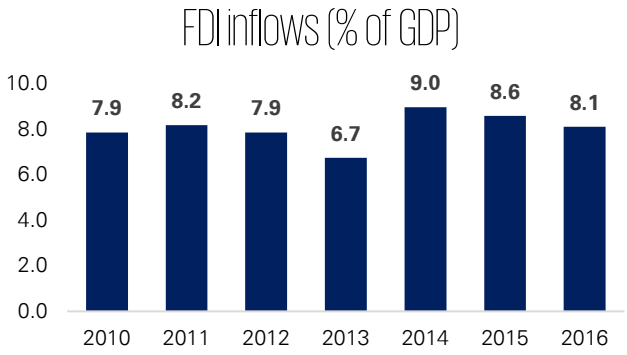
Macroeconomic overview



Source: African Economic Outlook (AEO)

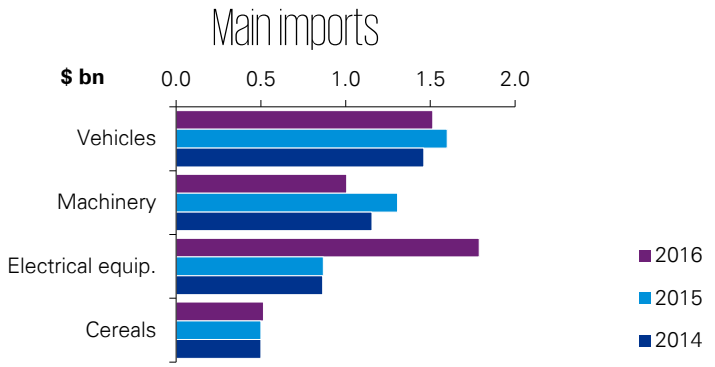
Economic growth - Following several years of below-trend economic growth, the Ghanaian economy has recovered some momentum in 2017, particularly due to stronger growth in the hydrocarbon, mining, infrastructure and retail sectors. Activity in the oil sector is expected to rise by more than 40% in 2017 owing to stepped-up production in the new TEN oilfield. Non-oil economic sectors will experience modest growth in 2017-2018, with improving access to credit enabling a gradual acceleration. The IMF forecasts real GDP growth to strengthen to 5.9% in 2017 and 8.9% in 2018, from less than 4% in 2015-2016.

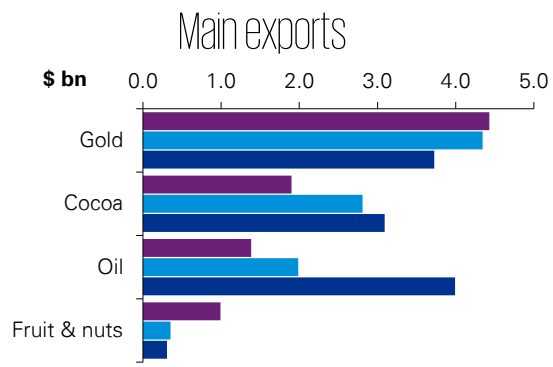




Sources: IMF, United Nations Conference on Trade and Development (UNCTAD)

Foreign investment – During 2016, strong FDI receipts and inflows to the domestic debt market allowed the Bank of Ghana (BoG) to boast net international reserves (NIR) for the first time in six years The Ghana Investment Promotion Centre (GIPC) is on track to achieve its set target of attracting $5 billion worth of FDI by the end of 2017. In the first half of 2017, the GIPC recorded 95 new investments with a total estimated value of $3.25 billion, a more than 90% increase over the $1.7 billion estimated value recorded in the corresponding period of 2016. GIPC CEO Reginald Yofi Grant said he is highly optimistic of the targets considering the numerous investment decisions embarked on by the New Patriotic Party (NPP) administration.

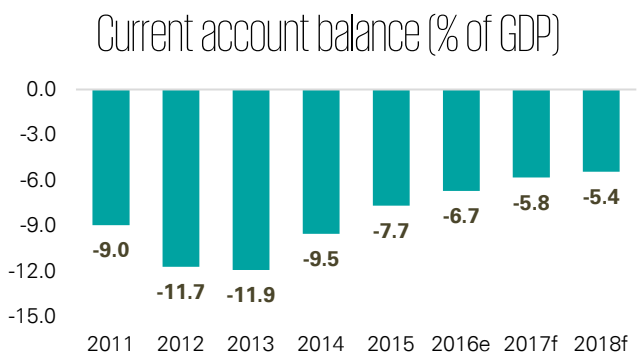


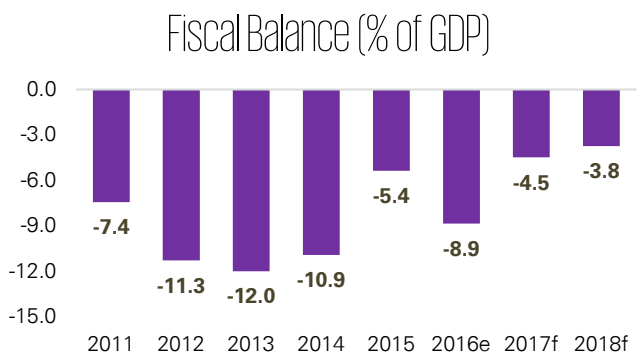


Main Imports: % share of total	2014	2015	2016	Main Exports: % share of total	2014	2015	2016
Vehicles	15.0%	9.4%	11.4%	Gold	42.6%	27.9%	39.3%
Machinery	7.4%	7.4%	9.3%	Cocoa	11.5%	23.2%	25.4%
Electrical equipment	16.8%	5.5%	6.2%	Oil	24.7%	29.9%	17.9%
Cereals	4.2%	3.2%	3.6%	Fruit & nuts	3.5%	2.3%	3.2%

Source: Trade Map

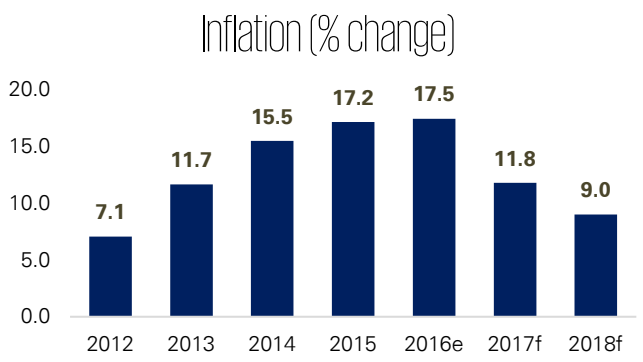
External trade – Ghana has in recent history seen sustained current account deficits in spite of significant cocoa, gold and oil exports, as the country is dependent on imported refined fuels. Also, the development of oil refineries required the government to import capital goods, which widened and sustained the current account deficit over the past decade. However, Ghana's structural current account deficit is on a narrowing trend on the back of the launch of the TEN oilfield in 2016 and growing gold exports. The boost in foreign currency earnings from the TEN oilfield and moderate import growth will narrow Ghana's current account deficit. The IMF forecasts the deficit to narrow to 5.8% of GDP in 2017 and 5.4% of GDP in 2018. Adverse terms of trade shocks can affect the country adversely: a decline in the price of exports translate into a weaker exchange rate which, in turn, fuels inflation. Import cover - the number of months of imports covered by a country's foreign reserves - is projected by BMI to equal 5.1 months in 2018, compared to a global benchmark of at least three months.

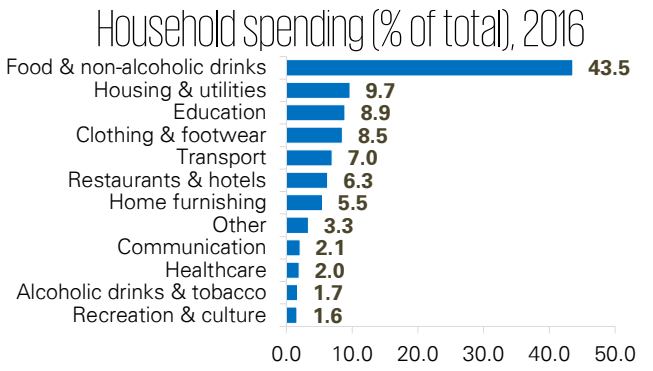




Source: IMF

Fiscal policy – Ghana has experienced large fiscal deficits over the last decade, leading to significant increases in public debt and eroding the fiscal buffers created by earlier debt relief. Fiscal slippages have been particularly pronounced in election years, setting in motion an increase in external and domestic imbalances from which Ghana has only partially recovered. The IMF forecasts that Ghana's fiscal deficit will be equivalent to 4.5% of GDP in 2017, a substantial improvement compared to the level experienced in 2013 where the deficit was equal to 12% of GDP. Ghana has an ongoing $918 million credit programme with the IMF that aims to restore fiscal balance: this comes after there was an unreported gap in the former administration's budget. However, financing conditions have recently eased, and Ghana's external credit spreads have continued to decline from their peak in February 2016. The government had a record bond issuance of over GHc9 billion (net basis) in April 2017, mostly acquired by non-resident investors.





Source: IMF, BMI, country statistics agencies

Monetary policy - The inflation rate in Ghana has been volatile over the past decade, where there were periods of rapid price growth leading to sharp monetary policy tightening phases. The BoG target range for inflation is 8%y-o-y with a margin of 2 percentage points either side of this level. Inflation has frequently exceeded the BoG's target, but disinflation seems to be taking hold. Since the second half of 2016, inflation has been decreasing, with a rate of 11.6% y-o-y recorded in October from 12.2% y-o-y recorded in September. Lower utility prices, exchange rate stability and earlier increases in the monetary policy rate all contributed to this decline. The IMF expects Ghana to return to within-band inflation levels during 2018, with a forecast average level of 9% due to the fading effects of the 2015-2016 drought, a more stable exchange rate, and benefits obtained from the IMF Extended Credit Facility (ECF) agreement.

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