KPMG

Economic Snapshot H1, 2017

Ghana

Inflation overview – Headline inflation in Ghana increased from 12.8% year-on-year (y-o-y) in March to 13% y-o-y in April. Inflation is however expected to decline gradually in the coming quarters, allowing the Bank of Ghana (BoG) to continue monetary policy easing. The central bank's target range for inflation is 8%y-o-y with a margin of 2% on either side of this level.

Growth summary – Following a few years of below-trend economic growth, the Ghanaian economy is expected to recover from 2017 onwards, particularly due to stronger growth in the hydrocarbon, mining, infrastructure and retail sectors. The IMF forecast real GDP growth to strengthen to 5.8% in 2017, from an estimated 4% in 2016.

Economic policy – The International Monetary Fund (IMF) said in April 2017 that Ghana had made promising progress under its Extended Credit Facility (ECF). However, the country needs to resolve longstanding challenges which, in turn, requires ambitious and sustained reforms across key policy areas. The immediate priority is to ensure fiscal discipline.

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.
Ghana is still rich in natural resources such as oil and gold and continues to attract investment.	Businesses are at risk of higher costs as taxes may rise in order to raise additional revenues needed to stave off a fiscal crisis.
Ghana is open to foreign direct investment, 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)

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	2.3%
Life expectancy at birth	2014	Total: 61.31 years; female: 62.31 years; male: 60.36 years
HIV/AIDS	2015	Total number of people living with HIV: 0.27 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: 60.36%
Urbanisation	2015	Urban population: 54.04% of total; annual urban population growth: 3.51%; rural population: 45.96% of total
Population below $1.90 per day poverty line	2005	8.41%
Unemployment rate	2017	Total: 5.9%; female: 6.3%; male: 5.5%; youth (15 - 24): 11.8%
Employment	2013	Agriculture: 44.7% of total; industry: 14.4% of total; services: 40.9% of total
Labour participation rate	2017	Total (ages 15+): 77.21% of total population
Business languages	n/a	English, Akan
Telephone & Internet users	2012	Fixed telephone subscriptions: 0.28 million; wired internet subscriptions: 0.07 million; cell phone subscriptions: 39.2 million (2017)

Sources: UNESCO Institute for Statistics, World Telecommunication/ICT indicator database, World Development Indicators, UNAIDS, International Labour Organisation

Human Development Index (HDI) 2015		Index of Economic Freedom 2016		Global Competitiveness Index (GCI) 2016		Doing Business 2017		Corruption Perceptions Index 2016	
139th	out of 188 countries	72nd	out of 179 countries	114th	out of 148 countries	108th	out of 189 countries	70th	out of 177 countries

Source: Transparency International, Doing Business, World Economic Forum, UN Human Development Report, The Heritage Foundation

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

S&P Global Ratings affirmed Ghana's "B-" long-term foreign sovereign credit rating in April 2017, with a stable outlook. The rating is constrained by the sovereign's weak public finances and a vulnerable external position. Ghana's fiscal performance worsened during 2016, leading to large increases in expenditures and revenue underperformance. The slow economic growth in 2016 reflects the technical difficulties in Ghana's oil industry and power supply shortages. The December 2016 elections took place without major incidents, reaffirming Ghana's position with regards to democratic transition. S&P could lower Ghana's ratings if growth is substantially lower than expected and if domestic or external debt financing conditions worsen further. S&P could, however, raise its ratings if Ghana improves its fiscal position and the Bank of Ghana (BoG) succeeds in bolstering the country's external position.

Fitch Ratings affirmed Ghana's long-term foreign Issuer Default Ratings (IDR) at "B" in May 2017, but revised its outlook from negative to stable. The rating agency indicated that the outlook revision reflects progress in stabilising the economy after a recent crisis period, with Fitch expecting a revival in economic growth, easing inflation, a more stable exchange rate, increasing foreign exchange reserves and progress in reducing the budget deficit after the election-related slippage in 2016. Factors that could individually or collectively translate into positive ratings action include a reduction in the fiscal deficit and a marked decline in government debt ratios, an improvement in the country's external position (e.g. narrowing of the current account deficit) and a sustained improvement in macroeconomic stability.

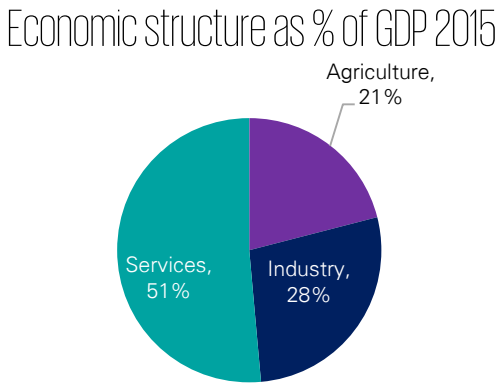
Moody's Investors Services affirmed Ghana's issuer rating at "B3" and changed the outlook from negative to stable in September 2016. The key drivers of this rating action includes a significant fiscal deficit reduction and institutional reform implementation under the IMF programme which commenced in April 2015, reduced government liquidity risk on the external side after the successful issuance of a $750 million Eurobond, improved balance of payments dynamics amid continued development of oil and gas resources via higher foreign direct investment (FDI) inflows, and supporting reserve buffers and reduced currency volatility. If Ghana continues with the fiscal consolidation beyond the election in December 2016 as well as the implementation of the structural reform programme agreed with the IMF it would be beneficial to future credit ratings. Ghana could return to a negative outlook, according to Moody's, if "*unanticipated and significant expenditures overruns which could halt or reverse the fiscal and external consolidation progress achieved thus far, undermine access to funding sources and jeopardize the continuity of the IMF programme*".

Quality of infrastructure	Economic diversity	Banking sector	Continuity of economic policy	GDP growth	Fiscal / current account balances	Foreign investment	Socio-economic development	Forex reserves
Weak although improving	Diverse	Small and under-developed	Improvements being made under IMF ECF	Rising	Twin deficits	Robust	Low	Upward trend since Sept. 2016

Stock market	Listed companies	Liquidity	Market capitalisation	Largest sector	Weekly trading volume
Ghana Stock Exchange (GSE)	39 primary listings	Low	$14 billion Source: GSE	Banking	$1.3 million Source: African Alliance
Capital market	**Level of development**	**Liquidity**	**Maturity range**	**Municipal bonds**	**Corporate bonds**
Yes	Developed in an African context	Low	91 days to 7 years	No	Limited

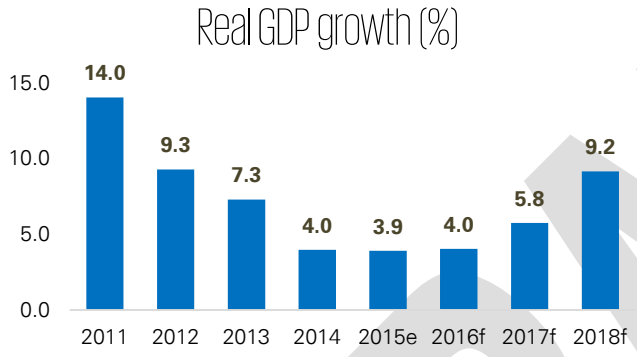
Macroeconomic overview

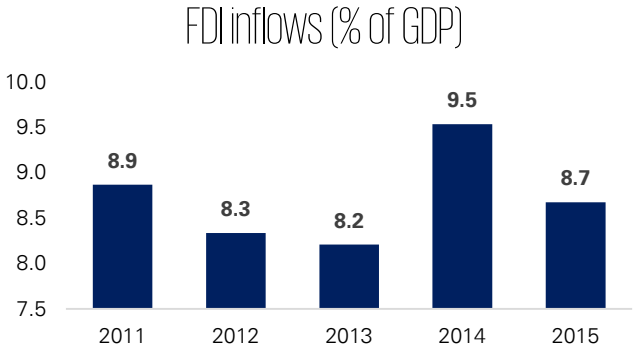
Economic structure – The primary sector comprises both small-scale and commercial agriculture. The country produces a variety of food crops, and exports its production of cocoa, coconuts and other fruits. Timber is also produced and exported. The secondary sector counts construction as its largest contributor to 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.



Source: World Bank: World Development Indicators

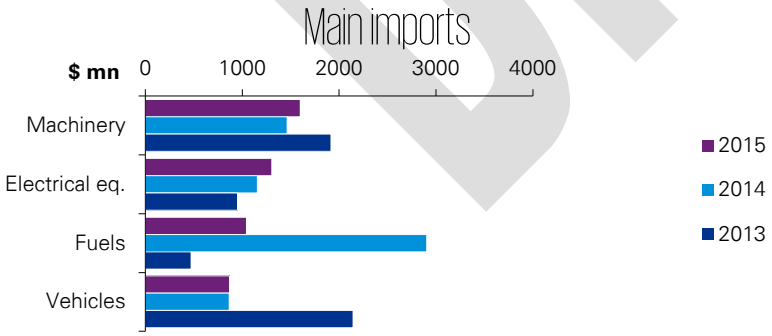
Economic growth – A severe drought in 2015 contributed to low real GDP growth that year. Following a few years of below-trend economic growth, the Ghanaian economy is expected to recover from 2017 onwards, particularly due to stronger growth in the hydrocarbon, mining, infrastructure and retail sectors. The IMF forecast real GDP growth to strengthen to 5.8% in 2017, from an estimated 4% in 2016. This will be the strongest growth rate for the country since 2013. Commercial production began at the Wassa Underground Gold Mine in January 2017, which will allow the country's gold mining sector to help drive growth in 2017 and 2018. Gold is the country's largest export product, accounting for almost 40% of exports in 2015. The IMF predicts that 2018 will have economic growth levels similar to that of 2012, at approximately 9.2%.

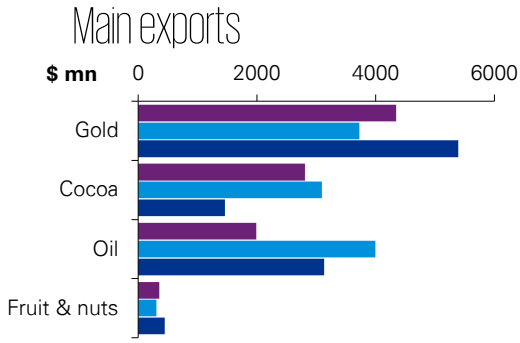




Sources: IMF, United Nations Conference on Trade and Development (UNCTAD)

Foreign investment – The Ghana Investment Promotion Centre (GIPC) has set an ambitious $5 billion target for FDI into Ghana during 2017. 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. In January 2017, the Minister-nominee for Agriculture, Dr. Owusu Afriyie-Akoto, assured that the NPP government will invest heavily in infrastructure development to attract foreign direct investments (FDI) into the sector.



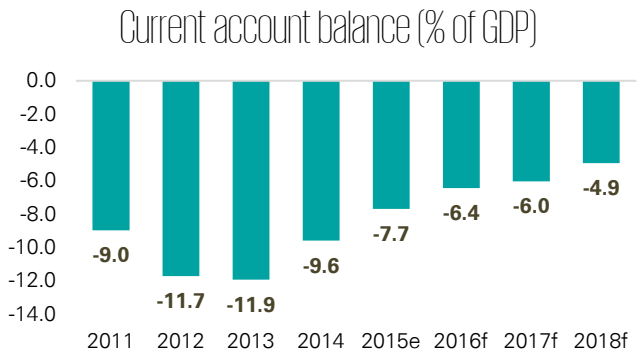


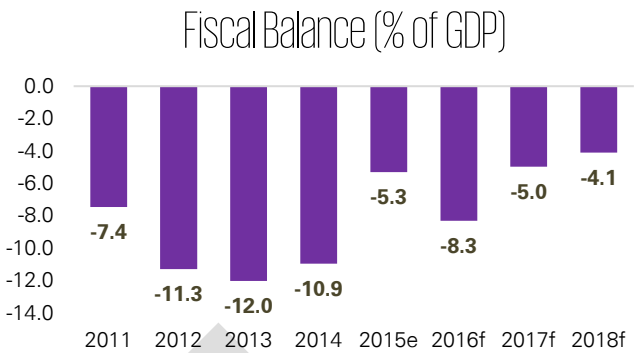
Main Imports: % share of total	2013	2014	2015
Machinery	15.0%	9.4%	11.4%
Electrical eq.	7.4%	7.4%	9.3%
Fuels	3.7%	18.6%	7.4%
Vehicles	16.8%	5.5%	6.2%

Main Exports: % share of total	2013	2014	2015
Gold	42.6%	27.9%	39.3%
Cocoa	11.5%	23.2%	25.4%
Oil	24.7%	29.9%	17.9%
Fruit & nuts	3.5%	2.3%	3.2%

Source: Trade Map

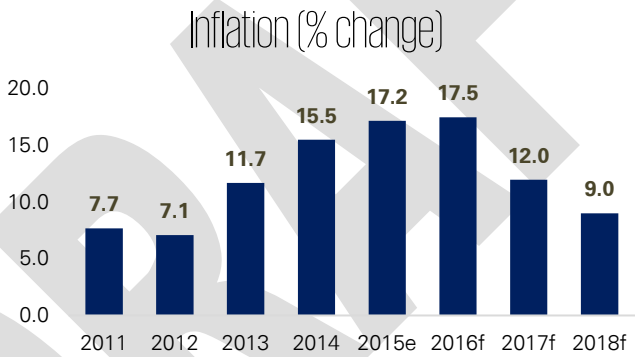
External trade – Ghana's structural current account deficit will narrow over the coming years due to the launch of the Tweneboa, Enyenra, Ntome (TEN) oilfield in 2016 and furthermore growing gold exports. The sustained deficit exists despite the significant cocoa, gold and oil exports, since the costs of imported refined fuels have increased considerably. Also, the development of the oil refineries required the government to import capital goods, which widened and sustained the current account deficit over the past decade. The TEN oilfield will boost the inflows of foreign currency in 2017, helping Ghana reduce its current account deficit. The IMF forecasts the deficit to narrow to 6% of GDP in 2017. In 2018, the deficit could reduce to 4.9% of GDP, and will continue to fall over the following few of years.





Source: IMF

Fiscal policy – The sustained fiscal deficit in Ghana has restrained investor sentiment. However, it is expected that investor sentiment will recover in line with the improving macroeconomic and fiscal situation in the country and that investment inflows will increase over the course of this year. The IMF forecasts that Ghana's fiscal deficit will be equivalent to 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 ECF agreement with the IMF that limits government spending by the newly elected government, which will seemingly contain fiscal spending growth and temper demand-side growth projections. This comes after there was an unreported gap in the former administration's budget.



Source: IMF

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. Most recently, headline inflation in Ghana increased from 12.8% y-o-y in March to 13% y-o-y in April. Inflation is however expected to decline gradually in the coming quarters, allowing the Bank of Ghana (BoG) to continue monetary policy easing. The central bank's target range for inflation is 8%y-o-y with a margin of 2% on either side of this level. The IMF expects Ghana to return to within-band inflation by 2018, with a forecasted average level of 9%.The decline will be supported by the fading effects of the 2015-2016 drought, a more stable exchange rate, and benefits obtained from the IMF ECF agreement.

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