Ecobank Country Profile

Ghana

Ghana's importance has grown in the region, as well as globally, given its status as one of Africa's leading gold producer, its recent discovery of oil, strengthening domestic institutions and its large market size, which provides businesses with opportunities to take advantage of economies of scale and scope. Specifically, Ghana's oil and gas sector is of growing importance. As a largely untapped market, it stands to gain from the best practice experience of other small oil-producing countries. West Africa's emerging regional oil and gas market means that Ghana can tap into future growth in demand in the regional petroleum products market. Moreover, the success of any gas-to-power projects would stimulate other sectors of the economy.

April 2014

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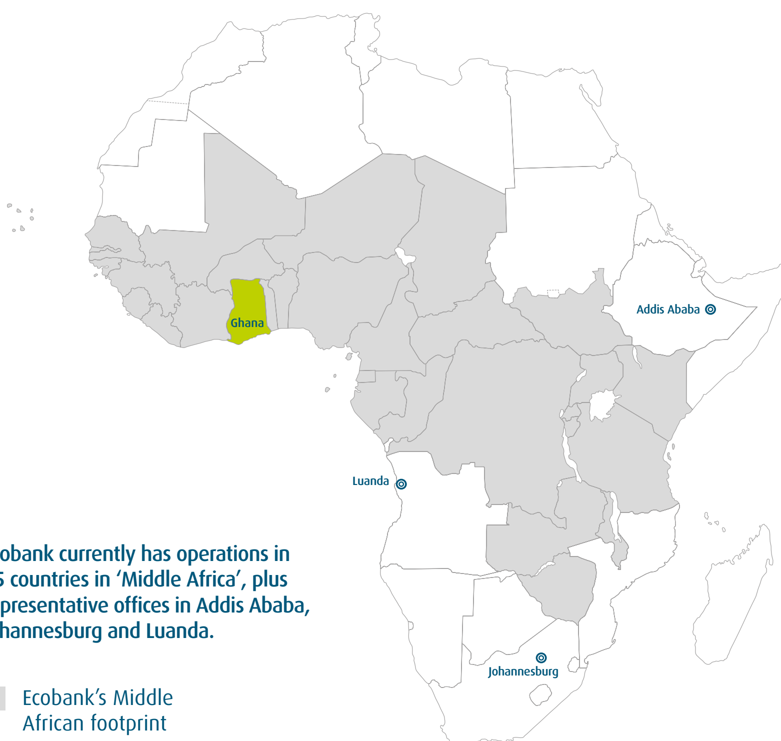
The Pan African Bank

Ghana – our insight

- After facing several setbacks in the first 30 years of independence, **Ghana is now one of the most business-friendly environments in Middle Africa**[1]. The country has transformed from a low-income to a lower middle-income economy, thanks to recent acceleration in its reform programme and its growing resource base, which have underpinned growth in the middle class. As a result, domestic demand has grown strongly for consumer goods and services.
- **Ghana's importance has grown in the region**, as well as globally, given its status as Middle Africa's leading gold producer (albeit second in sub-Saharan Africa), its recent discovery of oil, significant progress towards promoting democracy and strengthening domestic institutions (even though these are still weak by global standards) and its large market size, which provides businesses with opportunities to take advantage of economies of scale and scope.
- **Ghana's oil and gas sector is of growing importance**. As a largely untapped market, it stands to gain from the best practice experience of other small oil-producing countries. Strategically located in the West African sub-region, at the nexus between Anglophone and Francophone West Africa, it is also in an ideal location to access both US and European markets. West Africa's emerging regional oil and gas market means that Ghana can tap into future growth in demand in the regional petroleum products market. Moreover, the success of any gas-to-power projects would stimulate other sectors of the economy.
- **Regulatory reforms will continue** to underpin the country's position as one of the region's top reformers and exploitation of the country's natural resources will continue to dominate the country's export profile, generating tens of billions of dollars in revenue each year.
- However, the **government faces the challenge of promoting macroeconomic stability**, strengthening institutions, and addressing the country's huge physical and power infrastructure deficits if it is to create an environment in which the private sector can thrive. This creates a need for the government and the private sector to work together to remove barriers to investment. Reliable power supplies, improved security, and enhanced transport infrastructure would boost synergies that would support a higher growth trajectory.
- While external headwinds will continue to pose a risk to the economy (as will domestic pressures), **Ghana will remain an attractive investment destination** and will continue to benefit from its strong relations with international donors. The latter is despite government efforts to move away from reliance on donor funding towards commercial borrowing, as demonstrated by the debut Eurobond issued in 2007 followed by a second Eurobond issued in July 2013.

[1]Middle Africa is sub-Saharan Africa excluding members of the Southern African Customs Union: Botswana, Lesotho, Namibia, South Africa and Swaziland.



Ecobank currently has operations in 35 countries in 'Middle Africa', plus representative offices in Addis Ababa, Johannesburg and Luanda.

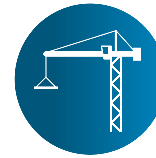
Ecobank's Middle African footprint

Ecobank representative offices

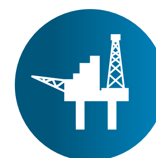
Key economic sectors in Ghana

Agriculture

Transport


Construction

Mining


Oil and Gas

FMCG's

Real Estate and Hospitality

Trade

Financial Services

Information and Comms Technology

Wholesale and Retail

Contents

Executive summary
Page 2

Global and regional outlook
Page 4

Macroeconomic policy environment
Economic Outlook Page 7
Credit Outlook Page 11
Currency Outlook Page 20

Key economic sectors
The Hydrocarbons Sector Page 24
The Mining Sector Page 28
The Agricultural Sector Page 31
The Banking Sector Page 34

Business operating environment
Investment Environment Page 40
Legal and Regulatory Environment Page 42
Oil Sector's Legal and Regulatory Environment Page 45
Corruption Page 46
Customs Procedures Page 47
Infrastructure Page 47
Business Environment Page 50
Business Protection Page 52
Trade Environment Page 54

Executive summary

Table 1: Key Socio-Economic Indicators*

Total population (mn)	25.6	Capital	Accra
Total area size (square km)	238,533	Time zone of capital	GMT
Official language(s)	English	Last election	Presidential and Parliamentary: 2012
Head of state	President John Mahama	Next election	Presidential and Parliamentary: 2016
Nominal GDP (USD bn)[1]	46	Agriculture, value added (% of GDP)	22.7
Income per capita (USD)[1]	1,782	Industry, value added (% of GDP)	27.3
Adult literacy rate (% of population aged 15 and over)	67.3	Services, value added (% of GDP)	50.0
Internet penetration (% of total population)	14.1	Main exports	Precious metals, mineral fuels, cocoa, timber
Average export time (days); import time (days)	19; 42	Main export markets	South Africa, EU, India, UAE
Export cover	Full public and limited private cover available	Minimum payment terms	Letter of credit
Export cover providers: US Eximbank; Euler Hermes, UK; Atradius		Sovereign foreign-currency L-T ratings: below investment grade[3]	
Import cover	2.8 months	Sovereign credit ratings by S&P; Moody's; Fitch:	Bn; B1n; B
FDI stock [2]	USD16.6bn	Ratings outlook by Moody's; S&P:	Negative

Sources: World Bank; IMF; BP Statistical Review; International Trade Finance; Ecobank Research
Notes: [1]Data are for 2013; [2]Data are for 2012; [3]See Sovereign Credit Ratings Definitions

Macroeconomic Policy Environment

- Ghana's economic outlook appears good, despite renewed headwinds originating in the EU and the US, and continued imbalances in the country's fiscal and external sectors.
- We expect real GDP to continue on its strong growth trajectory over the short term, boosted by robust activity in the oil and gas, agriculture (mainly cocoa), and services sectors (mainly retail, telecoms, and financial services).
- Amid efforts to promote macroeconomic stability, economic policy will focus on reducing discretionary recurrent expenditure, but high public-sector wages and off-budget expenses will continue to pose challenges to improving public financial management.
- Inflation is likely to remain above the Bank of Ghana's (BoG) inflation target of 9% within a band of +/-2% in the near term, fuelled by high government spending and rising utility tariffs, sustaining business uncertainty. This reduces the scope for an interest rate cut and we expect the monetary policy stance to remain tight for the foreseeable future.
- The short-term outlook for the cedi (GHS) is for a continued weakening trend despite recent tightening in FX regulations and strong FX inflows driven by rising export receipts (mainly oil).
- Nominal yields on government securities are likely to remain high, reflecting the BoG's tight policy stance, investors' concerns over the outlook for the GHS and inflation and the impact of the US Federal Reserve's tapering of quantitative easing (QE), which began in January 2014.

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- The authorities have begun partial opening up of the sub-3-year fixed income market to non-residents; this will increase capital inflows, thus supporting the GHS and indirectly helping to contain the fiscal deficit, as well as to deepen the fixed income market.
- The US Federal Reserve’s tapering of QE could lead to lower capital inflows into Ghana (as US investments become more attractive) and higher import costs as a result of a stronger US dollar.
- Transfer risk will remain modest, given continued capital account restrictions and low (albeit rising) FX reserves.

Key Economic Sectors

- Exports will continue to be dominated by basic commodities (mainly gold, cocoa and oil), sustaining the country’s vulnerability to terms-of-trade shocks.
- Gold exports account for the majority of the country’s exports, but oil has the potential to overtake the gold-mining sector as the country’s mainstay.
- Gold-mining dominates the mining sector, but gold-mining firms face a number of challenges, including government plans to introduce a mining windfall tax, falling global gold prices and high fuel and labour costs.
- Cocoa production is likely to weaken on the back of lower fertiliser usage, unfavourable weather and illicit trading, providing some support for cocoa prices.
- Prospects for both upstream and downstream oil sectors appear positive, although extensive financing will be required.
- The financial sector will remain a major area of growth; local banks remain well capitalised, thus ensuring that the system is resilient and cushioned against any potential shocks.

Business Operating Environment

- Ghana is one of the most open countries to foreign ownership in the region and offers a number of incentives in the Free Zone enterprises and the mining and petroleum sectors.
- Huge infrastructure deficits (both physical and power) exist, sustaining a high inflationary environment and distribution costs.
- Despite prudent fiscal policy, the government aims to accelerate its efforts to promote infrastructure development with a view to strengthening the productive base and facilitating private-sector investment.
- Power supply reforms are underway and are aimed at more than doubling the country’s electricity generation capacity over the medium term.
- However, the government’s infrastructure drive is likely to lead to an increase in utility tariffs, increasing business costs.
- Ghana has one of the lowest corporate tax rates in the region, which helps to boost the country’s competitiveness.
- All foreign workers or investors looking to launch a company in Ghana are required to obtain work permits or business licences from the Ghana Investment Promotion Centre (GIPC), a body set up to promote investment in the country, and the process is less time-consuming than in previous years.

Global and regional outlook

1.1 Global Growth

US recovery will drive global growth

We expect global real growth to average just above 3% per year over the short term (Chart 1) despite ongoing structural weaknesses in major world markets, such as the US, the eurozone and Japan, and new cyclical vulnerabilities in emerging markets. Growth will be supported by modest recovery in key emerging markets (despite softening activity in China, the IMF projects a still strong growth of 7.3% in 2014, albeit down from 7.6% in 2013) and, to a lesser extent, the US. Although the US government's sequestration programme has imposed fiscal cuts of up to USD1.2trn over the next decade, the December agreement in Congress on government spending over the next two years along with strengthening private-sector activity in the US should help support global economic confidence. This is all the more likely given the Federal Reserve's decision in December 2013 to gradually taper its quantitative easing (QE) programme (which commenced with a modest USD10bn reduction per month from January 2014 and an additional USD10bn reduction in February). Assuming US growth continues to improve, interest rates could be raised from late-2014 onwards, signalling a return to a normal economic setting. However, the temporary nature of the US government's recent debt ceiling agreement (that expires in March 2015) underlines the fragility of the US recovery, posing a risk to global markets. In the eurozone, sluggish activity (albeit improving) is set to continue over the short term, reflecting unsustainably large fiscal deficits and debt stocks in most member states and difficulties in gaining consensus on sharing fiscal revenues, even though there has been modest progress on bank supervision and resolution. Until eurozone leaders agree to the creation of a fiscal union (which is fraught with difficulties), and debt stocks have been reduced, the region will remain a major concern to many investors, sustaining volatility in capital markets. While another global recession remains possible, the probability of it occurring in 2014 currently remains low.

1.2 Global FX

USD outlook: steady but moderate strengthening against the euro through 2014

In light of the most recent decision by the European Central Bank (ECB) to leave its main refinancing rate unchanged at 0.25% following a cut of 25 basis points (bp) on 7 November 2013, we believe that the outlook for the euro (EUR) against the US dollar (USD) remains weak. EUR strengthening towards the end of 2013 was driven by tighter liquidity, caused by a surge in funds returning to the ECB from banks that borrowed emergency three-year Long-Term Refinancing Operation (LTRO) funds. This supported the continuing weakening trend of the USD since early July 2013, which has been partly driven by accelerated LTRO repayments since August 2013 as eurozone banks seek to strengthen their balance sheets ahead of stress tests by European Banking Authority regulators early in 2014. Given the ECB cut to its main policy interest rate in early November 2013, the EUR is likely to weaken owing to the fundamental weakness of many eurozone members and positive developments in the US. Recent strengthening of the USD is being driven by US economic growth, which in turn is underpinned by the following key forces, which cumulatively are all pushing the USD up against the EUR:

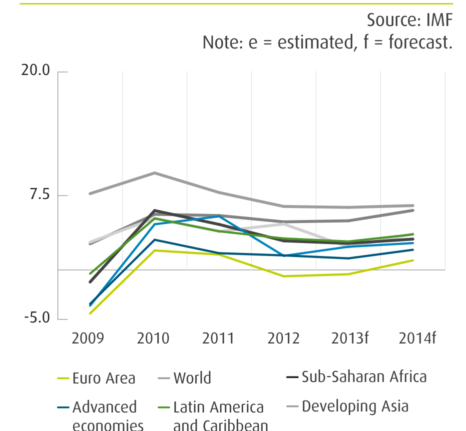
- the housing market is continuing to recover;
- unemployment is falling;
- the fiscal deficit is being reduced in line with the agreement reached in Congress in 2013;
- and the Federal Reserve is reducing – tapering – its assets purchase programme by USD10bn per month, with an additional USD10bn to USD65bn in February;
- shale oil and gas are reducing demand for oil imports – helping to narrow the current account deficit.

The US economy was the first into the crisis but is the first out and is well ahead of correcting its internal imbalances compared to the eurozone. Moreover, the US economy is more competitive, flexible, and dynamic than the eurozone. Overall, the US continues to impress us with its dynamism and reforms, despite political wrangling on debt and spending, which in turn leads us to see the USD strengthening over the medium term.

"In light of the most recent decision by the European Central Bank (ECB) to leave its main refinancing rate unchanged at 0.25% following a cut of 25 basis points (bp) on 7 November 2013, we believe that the outlook for the euro (EUR) against the US dollar (USD) remains weak."

Chart 1: Global Real GDP (percent change)

Source: IMF
Note: e = estimated, f = forecast.



"The BoG is likely to maintain its policy with regard to FX regulations and liquidity management efforts in order to help attain exchange rate stability, but with only moderate success."

1.3 Regional FX

Mixed trends across major currencies in Middle Africa

CFA Franc: XOF and XAF

Most of the EUR commentary above applies to the XOF and XAF. EUR volatility remains elevated and will be amplified by the Federal Reserve's scaling down of its asset purchase programme from January 2014 onwards and the decision to keep interest rates low until US unemployment falls to 6.5%. These developments will continue to be reflected in pronounced changes in risk-on/risk-off sentiment. As long as the eurozone crisis continues and the US recovery remains weak, EUR:USD volatility will remain pronounced.

Ghanaian Cedi: GHS

The GHS short-term outlook remains weak despite the expectation of robust exports and continued capital inflows into government securities (including the most recent Eurobond). Foreign portfolio inflows are likely to remain high given the tight monetary policy stance of the Bank of Ghana (BoG); meanwhile, increased oil production will complement cocoa and gold export revenues. In addition to renewed inflationary pressures (with inflation having moved from single to double figures since March 2013), exchange rate pressures remain a major challenge that the authorities continue to struggle with. Strong import demand and the large current account and fiscal deficits continue to undermine the GHS and will pose significant risks to currency stability. As a result, the BoG is likely to maintain its policy with regard to FX regulations (see Currency Outlook) and liquidity management efforts in order to help attain exchange rate stability, but with only moderate success.

Kenyan Shilling: KES

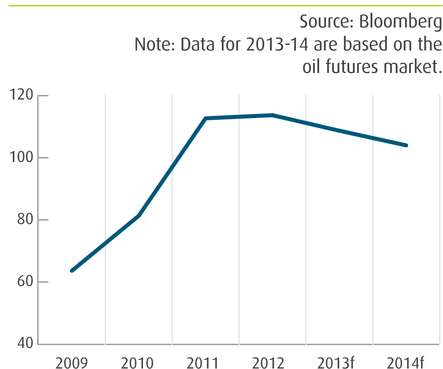
Amid lower coffee export receipts (down 26% to USD0.2bn in the first nine months of 2013 compared with the same period in 2012) but higher tea and horticulture receipts (the former up 11% to USD1.3bn and the latter 7% to USD0.7bn over the same period) and robust portfolio inflows, the KES has fluctuated in value against the USD throughout 2013. The recent weakening trend builds on an earlier period of depreciation in mid-October 2013. Foreign investors' confidence in the KES remains reasonably strong, however, underpinned by the successful elections in March and the positive outlook for the economy. Aggressive liquidity management by the Central Bank of Kenya (CBK) is also a significant factor in helping the KES pare losses, which could continue for the foreseeable future. However, the CBK's decision to cut the central bank rate (CBR) by 100bp to 8.5% in early May (where it still stands) has undermined some of the gains achieved to date. Moreover, the KES remains under pressure from accelerating inflation, trade account and fiscal weaknesses, and relatively low FX reserves (equivalent to four months of imports). As a result, the CBK might need to introduce other FX control measures, while still maintaining aggressive liquidity management to regain positive real interest (which have fallen close to zero) in order to attract capital inflows. Although recent growth in capital inflows has helped to achieve some level of equilibrium in the balance of payments, reserves are not rising fast enough to underpin a sustained strengthening of the KES.

Nigerian Naira: NGN

The NGN weakened on the interbank market from January to the end of September 2013 before appreciating until mid-December following the 26 September circular from the Central Bank of Nigeria (CBN) suspending its twice-weekly Wholesale Dutch Auction System (WDAS), and replacing it with a twice-weekly Retail Dutch Auction System (RDAS) in order to manage currency volatility in the interbank market. Under the RDAS, the CBN allocates FX (on a twice-weekly basis) to banks (on behalf of their customers) based on the actual demand of FX by end-users, rather than by random bids from authorised dealers, who would then sell on to customers; in turn, the RDAS helps to prevent currency speculators from buying excessive amounts of FX and inflating demand. This has helped reduce currency volatility in the market, along with the CBN's decision to hold the Monetary Policy Rate (MPR) unchanged at 12.0% since October 2011, which has helped attract foreign inflows. In addition, month-end USD inflows from parastatals and oil companies, coupled with robust export earnings and capital inflows linked to government securities (following Nigeria's inclusions into the JP Morgan and Barclays Emerging

Chart 2: Brent Oil Prices (USD/b)

Source: Bloomberg
Note: Data for 2013-14 are based on the oil futures market.



Global and regional outlook

Market government bond indices in 2013), helped support the NGN, and reduced the rate of depreciation seen through most of 2013. However, the CBN's supply of FX remains inadequate to meet market demand – there is a structural imbalance between USD supply and demand, which reflects strong import demand driven by high levels of government spending, robust domestic demand, and weak product markets. As such, the NGN will remain under pressure in the short term. Despite this, the probability of the CBN increasing the central rate of NGN155:USD1 (the NGN can fluctuate +/-3% either side of this central rate) to NGN160 in the coming months is low, given its growing commitment to promoting price stability, and the stepping down, in June 2014, of the CBN Governor, Lamido Sanusi (who will be keen not to introduce any major policy changes in his remaining months in office). In the post-Sanusi period, a one-off devaluation of the NGN by around 10 – 15% is possible to help realign the nominal exchange rate with the real effective exchange rate.

1.4 Commodity Prices

Weaker trend in the short term

Recent trends in the global commodity market show little prospect of a return to the commodity boom seen in early 2008. However, global trade will be supported by the recent resurgence in trade financing following its collapse during the 2008-09 global crisis. Although prospects of a commodity boom remain slim, modest growth in key emerging markets, alongside ongoing inventory restocking, will help to sustain high commodity prices over the short term (although volatility will remain high). Oil prices in particular are likely to average just above the USD100 per barrel (/b) mark over the forecast period (Chart 2), although this would be below the 2012 average of USD112/b. Nonetheless, continued high prices will help to support growth in oil-exporting countries, although this will increase import costs for non-oil producers.

1.5 Regional Outlook

Varying degrees of growth across the region

The Middle African region continues to manage the delayed knock-on effects of the 2008-09 global crisis relatively well and is likely to remain resilient in the wake of cyclical and structural problems in the US and the EU in 2014. The region will remain one of the fastest-growing regions in the world in 2014, with real GDP expected to grow by around 6% during the year (Chart 1), although growth prospects will vary across the region. West and East Africa will grow faster than Central and Southern Africa, buoyed by strong external demand for their resources, increased agricultural output, and strong public investment, particularly in Ghana, Nigeria, Rwanda, Senegal, Sierra Leone and Uganda. Formerly unstable markets in Southern Africa, such as Angola, will contribute to regional growth, reflecting increased foreign appetite for investment in new resource areas (mining, oil, and gas). Strong public infrastructure spending will also lend some support to this scenario; indeed, growth in cross-border lending continues to rise, particularly in Angola, Côte d'Ivoire, Kenya and Uganda. Moreover, we expect Africa to continue to benefit from the search for higher yields (albeit to a lesser extent than in previous years), despite the prospect of US interest rate rises in late 2014, however, ongoing global uncertainties will sustain volatility in capital and currency markets.

Meanwhile, exports from the region, which is still focused heavily on trade with the EU, will suffer, particularly in countries with strong links with the eurozone, undermining macroeconomic stability. The fragile security situation in the Central African Republic, Guinea-Bissau, and Mali will also undermine growth prospects for these countries and for the region, as will the threat of renewed instability in Mozambique – one of the region's main aluminium producers.

Inflation will remain lowest in Francophone West Africa, helped by the monetary policy anchor provided by the exchange rate peg. Despite lower price pressures in the region, monetary policy easing is limited by concerns over externally induced energy and food price inflation, together with the possibility of a stronger US dollar, which will make the region's imports more expensive; this is particularly the case in non-oil-producing countries. Despite a largely positive scenario, our outlook for the region is subject to a number of downside risks, including an escalation in the EU crisis and/or a sharp downturn in China or the US, which could increase investor risk aversion towards African assets.

"The Middle African region continues to manage the delayed knock-on effects of the 2008-09 global crisis relatively well and is likely to remain resilient in the wake of cyclical and structural problems in the US and the EU in 2014. The region will remain one of the fastest-growing regions in the world in 2014, with real GDP expected to grow by around 6% during the year."

Macroeconomic policy environment

2.1 Economic Outlook

The economy has shown resilience, and the positive growth trajectory is set to continue

The Ghanaian economy has shown resilience in the wake of strong headwinds from the US, the EU, and China as well as domestic challenges. The country grew by nearly 8% in 2012 (Table 2), although this was down from 15% in 2011, reflecting high base effects following the commencement of oil exports from the country that year. Growth was driven by strong activity in the services sector (accounting for half of the country's GDP), which grew by 10.2% in real terms during the year thanks to robust activity in the information and communications sector (which grew by 23.4% over the previous year), the financial sector (23.0%), real estate (13.1%), and hotels and restaurants (13.0%). Growth was also buoyed by strong activity in the industrial sector, specifically construction, which grew by 11.2%, the electricity sector (11.0%) and the nascent oil sector (9.1%). However, agriculture continued to post weak growth (1.3%), mainly reflecting challenges facing Ghana's most important cash crop, cocoa (see The Agricultural Sector). The cocoa sector continued to deteriorate, contracting by nearly 7.0% during the year after posting growth rates of 27% and 14% in 2010 and 2011 respectively.

Table 2: Key Macroeconomic Indicators

	2009	2010	2011	2012	2013e	2014f
Real Sector						
Real GDP (% change)	4.0	8.0	15.0	7.9	7.0	6.1
Non-oil GDP (% change)	5.8	7.9	8.1	7.1	5.6	5.7
Nominal GDP (GHS bn)	37	46	60	73	89	106
Nominal GDP (USD bn)	26	32	39	40	46	50
GDP per capita (USD)	1,116	1,358	1,594	1,622	1,782	1,903
Consumer prices (year-average, % change)	19.3	10.7	8.7	9.2	11.7	12.0
Population (year-end, mn)	23.1	23.7	24.3	24.9	25.6	26.2
Fiscal Sector						
Government fiscal balance (% of GDP)	-7.0	-9.4	-5.5	-11.9	-10.0	-9.0
Government domestic debt (% of GDP)	16.6	26.3	23.0	29.4	30.7	31.6
Monetary Sector						
Domestic credit (year-end, % change)	26.7	33.8	-24.5	51.9	57.1	59.9
Credit to the private sector (year-end, % change)	15.4	25.7	29.0	32.9	36.2	38.0
BoG Monetary Policy Rate (% per annum)	18.00	13.50	13.50	15.00	16.00	18.00
Exchange rate (year-average, GHS:USD)	1.41	1.43	1.51	1.80	2.07	2.45
External Account (% change)						
Merchandise exports, goods	10.8	36.3	60.6	5.9	6.2	6.4
Merchandise exports, cocoa beans and products	25.5	18.9	29.3	-1.5	0.8	0.7
Merchandise exports, gold	13.6	49.1	29.4	14.7	12.2	10.0
Merchandise imports	-21.6	35.7	45.0	12.2	15.0	17.0
Current account (% of GDP)	-5.4	-8.6	-9.1	-12.2	-13.1	-10.7
FX Liquidity						
FX reserves (year-end, USD bn)	3.4	4.8	5.5	5.4	5.7	6.3
Import cover (months)	3.7	4.1	3.4	2.9	2.8	2.9
External debt						
External debt (year-end, USD bn)	9.0	9.9	12.5	16.0	20.2	25.2
External debt (year-end, % of GDP)	19.4	20.1	21.2	22.7	23.9	25.6

Sources: BoG; IMF; World Bank; Ecobank Research

Executive summary
Global and regional outlook
Macroeconomic policy environment
Key economic sectors
Business operating environment

Macroeconomic policy environment

Over the short term, we expect Ghana's economic outlook to remain positive, boosting business prospects. Growth will continue to be driven by robust activity in the oil and gold-mining sectors and continued high oil prices, which will sustain strong oil revenue that will be injected into the economy via government spending. In turn, this will create a multiplier for the non-oil sector, supported by ongoing reforms and expansion in the following sectors: notably agriculture; building and construction; and services (mainly banking and financial services, wholesale and retail trade, transport, communication and real estate). Overall, we estimate real GDP will grow by 7.0% in 2013, which is below the government's 8.0% target for the year and slower than 2012's 7.9% growth rate. The reasons for our prognosis are the government's growing efforts to improve fiscal discipline (following robust spending which led to a significant deterioration in the budget deficit in 2012), and weaker private consumption levels; the latter is a result of the complete removal of petroleum subsidies in early 2013 and the continued high cost of credit to the private sector, fuelled by the government's excessive domestic borrowing to finance its still robust spending (see Yield Outlook).

"We expect Ghana's economic outlook to remain positive, boosting business prospects. Growth will continue to be driven by robust activity in the oil and gold-mining sectors and continued high oil prices, which will sustain strong oil revenue that will be injected into the economy via government spending."

Chart 3: Inward Stock of FDI (USD bn)

Source: UNCTAD

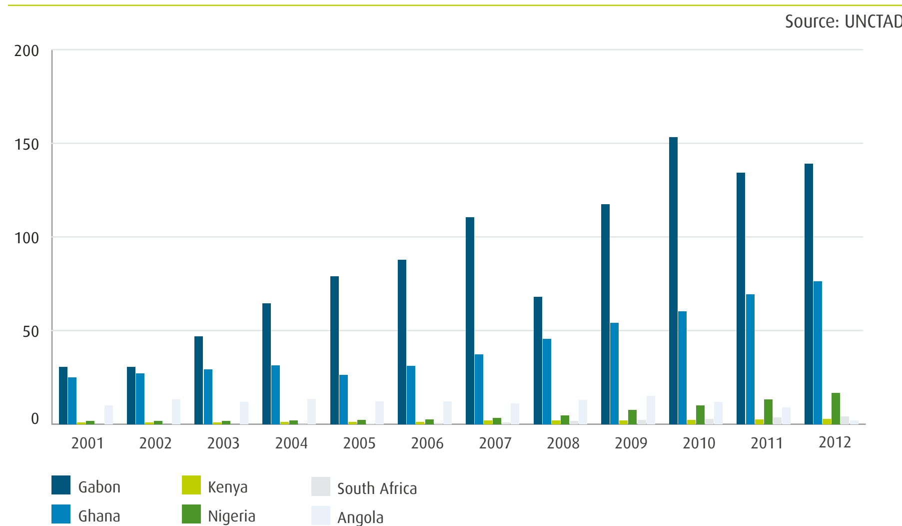
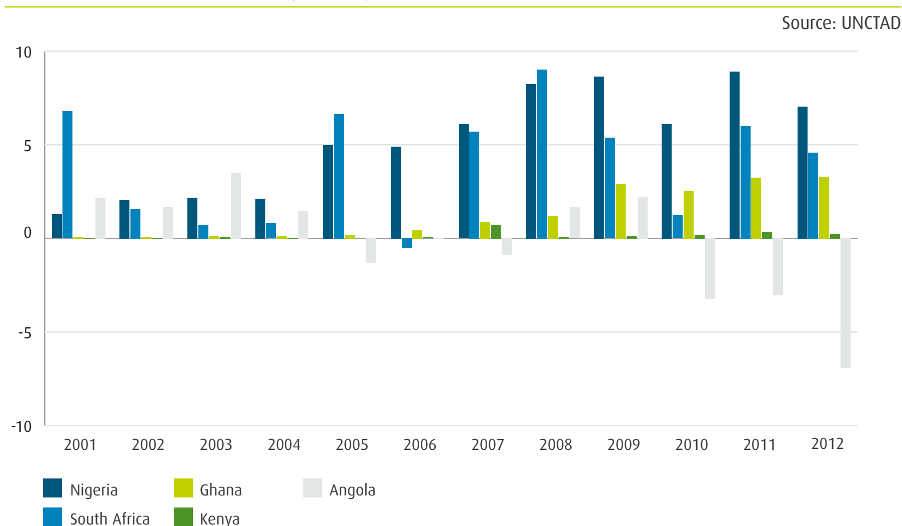


Chart 4: Inward Flows of FDI (USD bn)

Source: UNCTAD



Although the effects of the fuel price adjustment on domestic consumption should tail off by early 2014, the government's recent move to hike utility prices, more specifically the price of water by 52% and that of electricity by 79%, effective from 1 October 2013, and raise the VAT rate (by 2.5% to 15%, effective from November 2013, see Corporation Tax), will exert downward pressure on household income and hence consumption in the near term; consequently, this will weaken consumer demand for goods and services. However, real GDP is likely to remain in positive territory in 2014 thanks to favourable oil and gas prospects and also improving government reforms, which have helped to increase the country's attraction to foreign direct investment (FDI). Already, the latest official data show that the stock of inward FDI has expanded robustly since 2006-07 (Chart 3), mainly reflecting the discovery of commercial oil deposits in the country since then. In turn, growth of inward stock of FDI has been in double figures since 2006, reaching 24.7% in 2012, compared with 3.4% in sub-Saharan Africa's main economic giant, South Africa. However, growth of Ghana's inward stock of FDI is down from 32.2% in 2011 amid high base effects.

FDI flows into Ghana have also remained strong in recent years, although growth slowed sharply to 1.4% in 2012, down from 28.5% in 2011; this was owing largely to a winding down of projects initially established following the commencement of oil production in 2010 (Chart 4). Nonetheless, continuing strong FDI inflows have led to positive spillover effects in the country; this is specifically in the mining and quarrying sector, accounting for 8.8% of GDP (of which 6.8% is crude oil). With prospects for inward FDI into the extractive industry (mainly the oil sector) appearing good, we expect growth in the mining and quarrying sub-sector to remain strong over the short term, boosting employment and household income and hence consumer-driven sectors such as wholesale and retail.

Table 3: Sectoral Distribution and Growth

		Real change (y/y percent change)		
	Percentage Share of Real GDP, 2012	Q1 2011	Q1 2012	Q1 2013
Agriculture	22.7	-0.1	0.2	1.1
Crops including cocoa	16.9	0.8	-0.7	-1.3
Livestock	1.7	11.0	5.0	3.2
Forestry and Logging	2.5	-5.3	-3.0	-8.8
Fishing	1.6	-12.4	6.8	36.4
Industry	27.3	19.2	28.1	-0.8
Mining and Quarrying	8.8	205.7	56.3	4.1
Manufacturing	6.9	-16.1	37.9	-7.6
Electricity	0.5	-5.8	13.7	6.6
Water and Sewage	0.7	4.4	2.1	-3.7
Construction	10.5	16.5	6.1	1.2
Services	50.0	5.8	4.1	12.0
Trade, Repair of Vehicles, Household Goods	5.6	27.9	-12.2	12.1
Hotels and Restaurants	5.3	-5.4	9.2	3.9
Transport and Storage	11.3	-1.0	6.5	4.4
Information and Communications	1.8	33.1	0.7	23.1
Financial and Insurance activities	5.0	0.9	14.4	30.1
Real estate, Professional, Administrative and Support Services activities	4.8	28.3	-11.1	23.7
Public Administration and Defence; Social Security	7.2	13.7	-0.9	21.8
Education	4.0	4.2	9.0	8.6
Health	1.3	8.4	4.7	14.1
Other Personal Service activities	3.7	-37.5	56.7	-1.6
GDP at constant prices	100.0	11.2	10.3	6.7

Sources: BoG; IMF; World Bank; Ecobank Research

Macroeconomic policy environment

Similarly, growth in the services sector, accounting for half of the country's productivity (Table 3) is likely to remain strong and will continue to drive GDP growth over the short term; the sector has grown robustly in recent quarters owing mainly to continued robust activity in the information and communications and real estate sectors. In part, this development reflects the government's increased diversification efforts, which have helped to transform Ghana's development status from a low-income to a lower middle-income country.

However, despite Ghana's recent transition to lower middle-income status, the country's agriculture and natural resources remain the main source of employment and the informal sector remains large, constraining the country's ability to grow more rapidly; moreover, Ghana remains reliant on three main commodities – gold, cocoa and oil – which makes it vulnerable to shocks in the global commodity market. Other downside risks include the country's huge infrastructure deficits and the government's robust spending (albeit weakening), which continues to act as a drag on the fiscal and current accounts as well as on the currency. The gradual tapering of the US Federal Reserve's quantitative easing (which began in January 2014) also poses a threat to the economy; this will see US interest rates rise later in the year, possibly resulting in a wave of capital outflows from emerging and frontier markets such as Ghana (see The Yield Curve and Outlook).

Reflecting these risks, the government's policy focus over the short to medium term is to promote economic diversification, social inclusion, and macroeconomic stability and debt sustainability. With regard to diversification, the government plans to leverage developments in the oil and gas sector with a view to creating jobs in labour-intensive sectors such as manufacturing and agro-processing in order to tackle the country's high levels of youth unemployment. Undoubtedly, such plans will require significant infrastructure investment to sustain long-term growth. This is particularly true in the area of energy provision and access to finance. While reforms are underway to achieve such an objective, growing pressure on the government to implement fiscal discipline, following significant wage increases awarded in 2012, and continuing high subsidies (albeit being removed gradually) are likely to pose some problems. This is despite favourable oil and gas prospects. As such, project delays are likely to occur, sustaining the country's weak level of competitiveness (see Investment Environment).

Government policy will also focus on reducing poverty and improving the welfare of the Ghanaian people - in particular, building a workforce of highly-skilled people and strengthening investment in utilities, health, and education. While these measures will help to promote growth and increase per capita income, they will continue to sustain pressure on the fiscal position. However, another focus would be to promote macroeconomic stability and debt sustainability. While Ghana's debt levels remain modest (with domestic debt registering an estimated 30.7% of GDP in 2013 and external debt 23.9%of GDP), sustaining a low risk of default, the country's fiscal problems remain a major challenge, increasing inflationary pressures and undermining confidence in the market and the currency. Amid the deterioration in the budget position and the current account, the currency has depreciated by around 26% since a year ago, reaching GHS2.4:USD1 in late January 2014 (see Currency Outlook). However, plans are underway to restore fiscal discipline and reduce the budget deficit, albeit to a rather ambitious target of 6% of GDP by 2015; in June 2013 the government attempted to reduce expenditure by removing energy subsidies, and there are also plans to strengthen the tax administration system and improve the debt management framework (see Fiscal Policy). While progress is likely in some areas, overall, these challenges will continue to be the main difficulties that the economy will face over the short to medium term.

"Despite Ghana's recent transition to lower middle-income status, the country's agriculture and natural resources remain the main source of employment, and the informal sector remains large, constraining the country's ability to grow more rapidly; moreover, Ghana remains reliant on three main commodities – gold, cocoa and oil – which makes it vulnerable to shocks in the global commodity market."

2.2 Credit Outlook

2.2.1 Fiscal Policy

Fiscal policy is set to become prudent, but challenges will remain

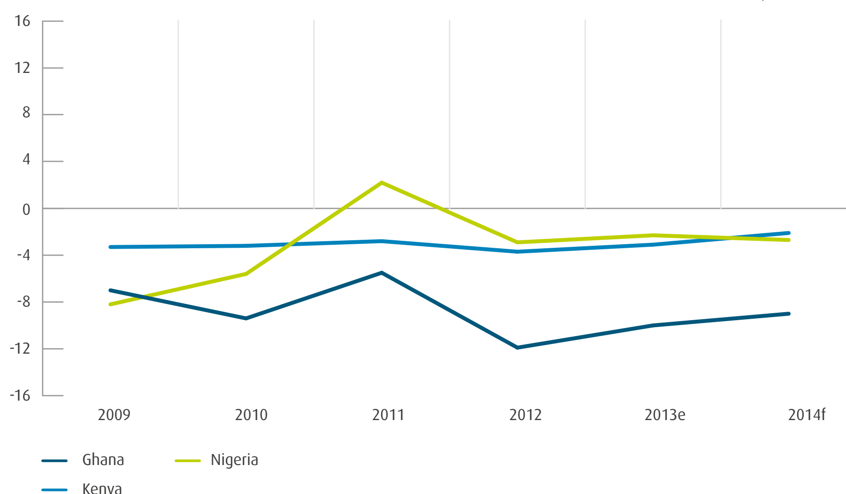
Fiscal policy is likely to be prudent over the short term as the government increases its effort to improve its budget position, which for many years has been in deficit, reflecting the country's weak public financial management, expenditure over-runs and a narrow tax base. In 2012 the budget deficit deteriorated sharply to nearly 12.0% of GDP, compared with 5.5% of GDP in 2011 (Chart 5), owing to higher-than-budgeted expenditure; specifically, election-related expenses in the run-up to the December 2012 elections, an 18% rise in public-sector wages, higher energy subsidies, and interest costs related to domestic debt. An accumulation of net government arrears (equal to 2.8% of GDP, of which half was to state-owned enterprises, linked to the underpricing of fuel and utilities), which pushed domestic debt to 29.4% of GDP (up from 23.0% of GDP in 2011; Chart 6) and a shortfall in revenue and grants also contributed to the deterioration in the budget position. Fiscal deterioration continued into 2013, with budget operations for the first nine months of the year resulting in an overall deficit equal to 8.4% of GDP, against a target of 7.2%. For the year as a whole, we estimate a budget deficit of 10% of GDP, far worse than other key countries in sub-Saharan Africa, such as Nigeria and Kenya.

However, in a bid to tackle the country's deep fiscal problems, the government's 2014 budget proposes a 17.7% rise in total expenditure (including provisions made for the clearance of arrears and outstanding commitments) over the 2013 outturn, compared with a 20.6% rise over the outturn for 2012. However, plans to curb spending will undermine prospects for firms that are heavily reliant on state procurement, and possibly pull real GDP down from the 6.1% projected growth for 2014. By slowing the growth in spending, the government aims to reduce the budget deficit to 8.5% in 2014, with further gradual consolidation over the medium term, reaching 6.0% of GDP by 2016. The government plans to control spending in several ways:

- improve domestic revenue mobilisation through the implementation of tax policy measures and improvements in revenue administration;
- eliminate energy subsidies, and refinance and extend tenors on debt (although this would require spending funds, as evidenced by the partial use of recent Eurobond proceeds towards amortising government debt, see The Yield Curve and Outlook);
- complete the pipeline projects to reduce fiscal risks;
- review capital expenditures and the strategy for financing them;

Chart 5: Government Balance (% of GDP)

Sources: IMF; Ecobank Research



Macroeconomic policy environment

- rationalise public-sector wages by controlling public-sector hiring, limiting wage increases to inflation, and reviewing overruns following the recent introduction of a deferred single spine salary payments structure;
- rationalise subsidies to state-owned enterprises, particularly in the energy sector; and
- strengthen spending controls through the full rollout of the Ghana Integrated Financial Management Information System (GIFMIS) and the implementation of new budget and accounting systems.

While some progress is likely to be made in curbing spending and improving the revenue position, we do not expect the government to meet its budget target in 2014. We expect the deficit to narrow to around 9.0% of GDP (above the government's projected deficit of 8.5% of GDP), based mainly on further revenue improvements.

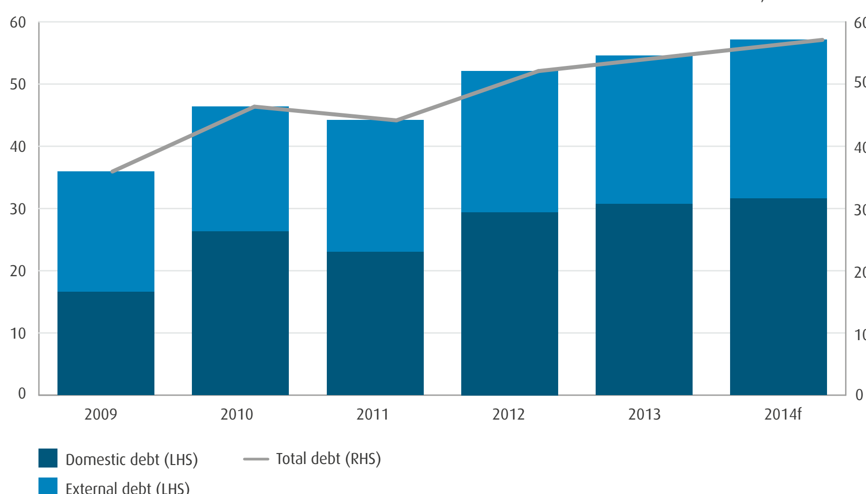
Our views are based on the assumption that the government's commitment to reducing spending will continue to be undermined by still high recurrent expenditure, estimated to rise by 31% to GHS17.6bn in 2013, albeit down from 61% in 2012; in 2014 it is projected to rise by 15%. Growth in recurrent expenditure would be driven by strong spending on goods and services and a continuing high wage bill. Efforts to reduce the latter significantly will be limited, given the politically sensitive nature of cutting public-sector pay. As a result, we expect the wage bill to remain high, close to the 2012 ratio of 9.1% of GDP. Domestic debt arrears (accounting for an estimated 3.1% of GDP) will also apply pressure on recurrent spending.

Similarly, capital spending will rise (from 34.2% in 2012 to an estimated 48.4% in 2013) as the government realigns spending away from wages and subsidies towards infrastructure, and as strong domestic activity puts pressure on the government to boost Ghana's productive capacities and increase the country's competitiveness. As part of its expenditure reducing approach, the government aims to strengthen its public-private partnership framework to meet its infrastructure development needs, but contributions from the private sector are likely to be limited in the short term given investor concerns over ongoing weak economic fundamentals. Moreover, capital outlays would be exacerbated by potential project delays (caused by weak implementation capacity and/or high levels of bureaucracy) in executing planned public works programmes as the cost of time and raw materials (exacerbated by a weaker currency) adds to the initial capital budget.

"While some progress is likely to be made in curbing spending and improving the revenue position, we do not expect the government to meet its budget target in 2014."

Chart 6: Domestic vs. External Debt Levels (% of GDP)

Sources: IMF; Ecobank Research



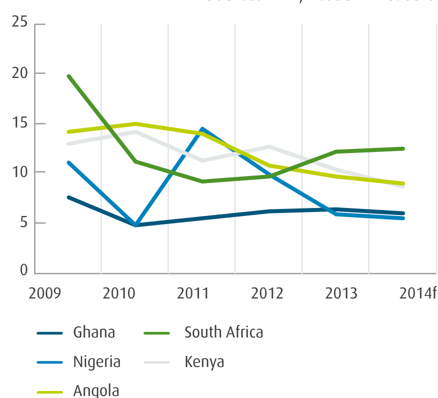
On the revenue side, tax revenue will be boosted by the forecasted rise in oil and gas production in the short term and ongoing and planned tax reforms; the latter include the recent hike in the VAT threshold (from 12.5% to 15.0%), a removal of unwarranted import tax exemptions and a restructuring of tax holidays for the real estate sector and hospitality industry. The government also plans to re-introduce a 10% mining windfall tax bill to parliament in the short term, which, once passed, will increase revenue (although it will undermine mining firms' operating income). However, despite this, tax revenue will continue to grow at a slower pace than expenditure, undermined by weaker gold prices and cocoa production. In light of these developments, and given still inadequate levels of FX reserves (albeit rising), domestic borrowing will remain high, sustaining high-risk premiums associated with the country's fiscal situation. Currently, yields for 1-year T-bills are hovering in double figures at around 17%, undermining the sustainability of government borrowing. However, efforts to promote fiscal prudence and increased revenue collection should provide some respite for domestic borrowing over the short to medium term and the risk of debt distress should remain moderate.

Amid efforts to exercise fiscal prudence, we expect the fiscal space for new development programmes and projects to improve modestly over the short term. As domestic arrears continue to be settled, and oil-related revenues gather momentum (possibly amounting to an estimated 0.5% of GDP or more per year, from 0.4% of GDP in 2012), we expect the budget deficit to narrow further in 2015–16, creating more fiscal space, which should help support efforts to increase FX reserves and help stabilise the GHS. However, as Ghana's oil prospects improve, the government faces the challenge of using oil revenues effectively, while preserving the democratic and governance gains made in the past 15 years and reducing inflationary pressures.

Meanwhile, the anticipated reduction in budget deficits should limit the government's domestic borrowing needs, thereby allowing the crowding in of the private sector, while providing a boost to consumer-driven sectors. However, sustained budget deficits will continue to apply pressure on domestic financing and, to some extent, on foreign financing. In this context, the government has issued a number of T-bills and other short-tenured instruments in order to meet its liquidity requirements (while supporting monetary policy) and we expect this trend to continue over the short term. The government has also issued a longer-tenured local currency bond (see Fixed Income Market). However, the government's cost of accessing the international market is expected to rise over the short term amid rising interest rates in the US, which have increased investor risk aversion towards Emerging and Frontier Markets' assets as investor appetite for more creditworthy US federal government securities increases.

Chart 7: Inflation (percent)

Sources: IMF; Ecobank Research

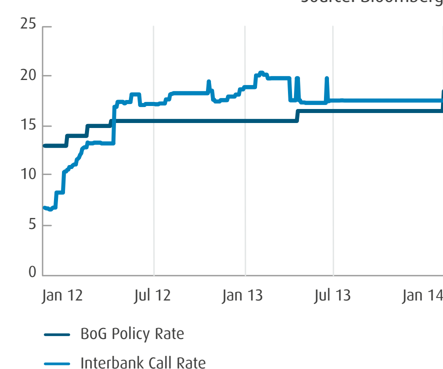


2.2.2 Monetary Regime

Price stability has been the key objective of the Bank of Ghana (BoG) since it formally adopted an inflation-targeting framework in May 2007 to manage liquidity via the use of market-based instruments. Over the short term, the BoG aims to control inflation and maintain an inflation target of 9% within a band of +/-2%. However, meeting this target will prove quite challenging given recent weakening of the GHS alongside rising utility tariffs and a number of institutional weaknesses.

Chart 8: Interest Rates (percent)

Source: Bloomberg



2.2.3 Inflation

Inflation is likely to remain high, sustaining high business uncertainty

The cost of living in Ghana has risen sharply in recent months despite ongoing efforts made by the BOG since May 2013 to maintain a tight policy stance. After averaging single figures for the second consecutive year in 2012 (at 9.2%) and ending the year at 8.9% (thanks to aggressive use of monetary policy instruments and lower food-price inflation), inflation has been in double figures since March 2013, reaching 14% y/y in February 2014. For 2013 as a whole, it averaged 11.7% (Chart 7).

Renewed inflationary pressures have resulted from higher fiscal spending (which has increased excess liquidity in the system), from recent increases in petroleum prices (following a complete removal of petroleum subsidy in early 2013), and from GHS weakness (via cost-push pressures that have increased the prices of imported goods).

Macroeconomic policy environment

Inflationary pressures have also been driven by additional liquidity (largely unsterilised) stemming from strong capital inflows linked to the government's high-yielding securities and oil export proceeds.

The BOG is aiming to reduce inflation to single figures over the short term: within +/-2% of the central inflation target rate of 9%, but this is unlikely to happen. Continued high yields on government securities (albeit dropping slightly), and favourable oil and gas prospects are likely to sustain high FX inflows into the economy, boosting liquidity. Although the BoG is likely to continue with its tight policy stance in an attempt to manage liquidity effectively, its ability to fully sterilise capital inflows into the country will be constrained by the weak monetary policy transmission mechanism and institutional capacity. Inflationary pressures will also stem from the following factors: the recent hike in utility prices, higher gasoline prices following the complete removal of petroleum subsidies in early 2013, a continued lack of competition in many product markets, a high import dependency, the cost of which would be exacerbated by continued weakness of the GHS, and poor transport infrastructure, which exerts upward pressure on distribution costs (despite ongoing efforts to reduce supply-side bottlenecks). The government's high spending commitments will also sustain high levels of excess liquidity in the economy despite plans to consolidate spending (see Fiscal Policy). Therefore, we expect annual inflation to remain in double figures for the foreseeable future, in contrast to other key countries in the region, sustaining business uncertainty and the country's weak level of competitiveness.

2.2.4 Interest Rates

The scope for a policy rate cut in the short term is low, and credit conditions will remain tight

Amid high inflationary pressures, the BoG has pursued an aggressive monetary policy stance in recent years, although this has done little to reduce inflation and support the GHS. The BoG hiked its policy rates four times by a total of 350 basis points (bp) to 16.00%, where it remained from May 2013 till January 2014, reflecting the BoG's determination to reduce inflation (Chart 8). Other measures taken by the BoG include reducing its maximum net open position (from 15% to 10% on single currency, and from 30% to 20% on aggregate exposures) and shifting the currency in which banks hold mandatory reserves on FX deposits from foreign currency to local currency in order to increase the supply of FX in the market and thus provide support for the currency to help drive down inflation. However, these factors did little to strengthen the currency, which has depreciated by around 26% since a year ago, while inflation continues to rise, reaching 13.8% y/y in January 2014. In response, the BoG hiked its policy rate by a further 200bp to 18.00% in early February 2014, where it remains to date. It also tightened FX regulations in order to reduce demand conditions for USD and thus support the currency (see Currency Outlook). Meanwhile, the interbank call rate has risen, reflecting tighter credit conditions, which tend to reduce the availability of credit for loans.

With inflation expectations remaining high, we believe that the scope for a policy cut in the near term is low. Monetary authorities will remain concerned about inflation risks in the near to medium term because of continued weakness of the GHS, high utility costs, high food-import prices, economic uncertainties associated with the US and the EU and a

Table 4a: Issuance Calendar for Government of Ghana Securities July – December 2013

Months July – December '13	91-day GHS mn	182-day GHS mn	1-yr note GHS mn	2-yr note GHS mn	5-yr GHS mn	7-yr GHS mn	Total GHS mn
July	440	440	380	400	n/a	n/a	1,660.0
August	440	440	380	400	n/a	100	1,760.0
September	550	550	475	500	600	n/a	2,675.0
October	440	440	380	400	n/a	n/a	1,660.0
November	440	440	380	400	n/a	100	1,760.0
December	550	550	475	500	n/a	n/a	2,075.0

Source: Bank of Ghana

"With inflation expectations remaining high, we believe that the scope for a policy cut in the near term is low."

potential rise in unsterilised inflows linked to the local bond market. Amid these factors, we expect monetary policy to remain tight in 2014 and, if inflation continues to accelerate, we cannot discount the possibility of another rate hike in the foreseeable future. Meanwhile, continued tight monetary policy, along with the government's robust spending stance (albeit set to become prudent) will sustain high debt-servicing costs while discouraging private investment by potential borrowers. As such, lending rates will remain high, although given the country's large informal sector, which has little access to bank credit, sustained highs in lending rates are likely to have only very limited effects on private consumption.

2.2.5 Fixed Income (FI) Market

The FI market is concentrated on the short end of the yield curve, but there are plans to deepen the market

Ghana's fixed income market is largely concentrated at the short end of the yield curve, with infrequent issuance of 3-year and 5-year bonds to support infrastructure projects. Unlike Nigeria, Ghana's bond market is relatively limited both in terms of volume and trading activities, with sub-3-year bonds open to domestic residents only. However, at its Monetary Policy Committee (MPC) meeting held in November 2013, the BoG announced plans to introduce foreign participation in 1-year and 2-year government securities in order to ensure competitive pricing in the market. This plan was implemented in early January 2014, when policy makers decided to allow foreign participation in the auctions of 2-year notes for the first time, while preparing to launch a maiden 10-year local currency bond. Partially opening the market up to non-residents is welcome given the expectation of increased capital inflows that would go some way to supporting the GHS and to indirectly helping contain the fiscal deficit (see Fiscal Policy). Meanwhile, tenors of 3-years and above remain open to both domestic and foreign residents.

Table 4a shows that the Ghanaian government has issued a number of short-term securities in recent months. In August 2013 it decided to deepen the bond market by issuing its first-ever 7-year local currency bond, worth GHS100mn, with a 17.5% coupon. Overall, the auction was 2.7 times oversubscribed, reflecting investors' strong interest in

Table 4b: Issuance Calendar for Government of Ghana Securities January – June 2014

Months January – June '14	91-day GHS mn	182-day GHS mn	1-yr note GHS mn	2-yr note GHS mn	5-yr GHS mn	7-yr GHS mn	Total GHS mn
January	550	550	500	500	n/a	n/a	2,100.0
February	440	440	400	400	n/a	n/a	1,680.0
March	440	440	400	400	300	n/a	1,980.0
April	440	440	400	400	n/a	n/a	1,680.0
May	550	550	500	500	n/a	300	2,400.0
June	440	440	400	400	n/a	n/a	1,680.0

Source: Bank of Ghana

Table 5: Yields on Ghana's Securities

	91day	182day	364day	2yrs	3yrs	5yrs	7yrs
Q1 12	13.20	13.50	12.90	12.50	12.50	–	–
Q2 12	22.40	22.73	22.50	23.00	12.70	–	–
Q3 12	23.10	22.90	22.50	23.00	14.39	–	–
Q4 12	23.10	22.90	22.90	23.00	21.00	–	–
Q1 13	22.90	23.20	22.50	22.70	16.90	–	–
Q2 13	23.00	22.90	22.00	22.30	16.90	–	–
Q3 13	20.80	21.10	20.40	20.50	16.90	19.04	17.50
Q4 13	19.22	18.66	17.00	16.80	19.24	19.04	18.00
January '14	19.61	19.43	17.00	16.00	19.24	19.04	18.00

Source: Bank of Ghana

Macroeconomic policy environment

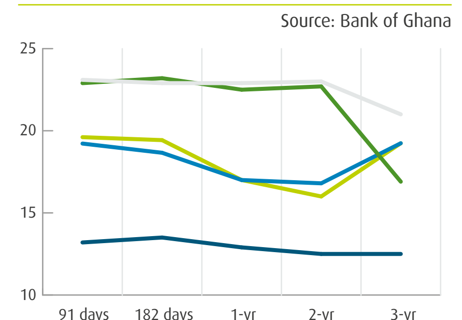
government securities despite the government's weak budget position and a weakening short-term outlook for the GHS (see Currency Outlook). Another 7-year local currency bond (worth GHS100mn) was issued in late November 2013 and was priced slightly higher than the previous 7-year bond issued (yielding 18.0%), reflecting increased concerns over the outlook for inflation and the GHS. Nonetheless, the successful issuances of the 7-year bonds have signalled growing interest from portfolio investors with a long-term investment outlook and this is likely to change the dynamics of Ghana's fixed income market space.

Against this background, we expect the government to issue more long-tenured bonds in the foreseeable future (Table 4b), especially given its high financing needs and the country's weak levels of reserves. This is in addition to other short-term instruments – the authorities have maintained a steady, weekly supply of T-bills and 2-year bond issuances and, in September, the government issued a rare 5-year bond with the yield falling to 19.04%, down from 26.00% in January 2013, driven by bids accepted by the BoG worth USD300mn (97% of bids accepted were non-resident; Table 5).

While money market instruments such as 91-day and 182-day T-bills have been used to support government liquidity needs and realign the short end of the yield curve with monetary policy expectations, the recent issuance of long-tenured bonds should also help to stimulate secondary market trading, which should undoubtedly provide liquidity and ensure price discovery. Additionally, the bond proceeds will help to support the government's debt-restructuring programme, while promoting infrastructure projects. Against this background, in July 2013 Ghana decided to tap the international capital market for a second time since 2007 when it issued its first 10-year Eurobond, maturing in 2017. The authorities raised USD750mn (which was about three-times oversubscribed) from Ghana's second 10-year Eurobond issuance with a 7.875% coupon (a further USD250mn was raised concurrently and has been used to partly settle existing arrears to government contractors). Of the Eurobond proceeds, the government has allocated 25% towards amortising part of the USD750mn Eurobond issued in 2007, with the remainder allocated to financing infrastructure projects (which will draw in more imports, thereby adding pressure to the GHS).

Chart 9: Government Yield Curve (T-bills and Bonds)

Source: Bank of Ghana



2.2.5.1 The Yield Curve and Outlook

Yields are likely to remain high, reflecting concerns over domestic imbalances and global uncertainties

Yield curve: Ghana's yield curve has shifted upwards in recent quarters, particularly at the short end of the yield curve. As of Q3 2013, yields had risen sharply, with sub-3-year money market rates rising to 20.4-21.1%, up from around 12.5-13.5% in Q1 2012, marking an average increase of nearly 8 percentage points (Table 5; Chart 9).

However, by end-January 2014, yields had broadly declined, despite the BoG's continued tight monetary stance and rising inflation. The downward shift appears to be a result of official intervention aimed at reducing yields to around 15% (and thus reducing government borrowing costs) after which the government will switch to long-term instruments and tie investors to relatively low rates. In doing so, the BoG provides banks with cheap funds through the discount window at Monetary Policy Rate (MPR) +200 bp, which the banks then on-lend to the government.

So far, interest rates remain above 15%, with weekly T-bills and 1-year and 2-year bonds yields being much higher than a year ago; 5-year bonds are currently at around 19.04% after dropping around 7 percentage points (pp) from 26.00% in July 2013. High rates reflect the significant risk premium associated with Ghana's government securities, especially given continued uncertainty over the short-term outlook of the GHS (which continues to weaken despite recent robust capital inflows) and inflation caused in part by high government spending that has increased liquidity.

Meanwhile, yields on Ghana's long-term bond (10-years) on the international market have risen: although Ghana's 10-year Eurobond issued in July 2013 was oversubscribed, the 7.875% yield was higher than a low of 4.24% traded on Ghana's 2017 Eurobond in April 2013, signalling that Ghana's cost of accessing the international capital market has increased.

"Over the short term, primary market yields will continue to remain strongly influenced by the monetary policy stance, BoG liquidity management efforts, and exchange rate developments."

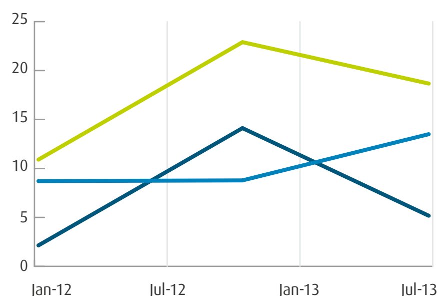
The upward shift has been due partly to a sell-off of emerging market assets in late Q2/early-Q3 2013 following the US Federal Reserve's announcement in May 2013 that tapering of QE could start soon. This has been exacerbated by the greater need for long-term financing and the BoG's improved efforts at tightening credit conditions in the market.

Yield curve outlook: Over the short term, primary market yields will continue to remain strongly influenced by the monetary policy stance, BoG liquidity management efforts, and exchange rate developments. With the likelihood that the managed float exchange rate regime will remain in place for the foreseeable future, the policy interest rate will be maintained around the current level in the months ahead because of inflationary pressures arising from the fiscal and external sectors. As a result, yields are not expected to change significantly over the short term.

However, we cannot discount the impact from potential shocks arising from domestic and external factors. On the domestic front, the authorities' gradual liberalisation of foreign participation in sub-3-year securities will help provide FX liquidity, ensure competitive pricing, and deepen the fixed income market while putting downward pressure on primary market yields. However, the downward pressure would be tempered any further hikes in the policy rates and the new FX market regulations, which could see subscription levels fall below recent successful auctions (as foreign investors react with caution in forthcoming bond auctions). On the external front, the US Federal Reserve's QE tapering, which began in January 2014, could possibly result in interest rate rises in the US in late 2014/early 2015, which in turn would increase upward pressure on Ghana's yields as capital flows out to less risky US investment opportunities. This could lead to an interest rate rise in Ghana to underpin GHS weakening. Additionally, any change to the exchange rate regime (such as moving to a free float, although this is unlikely in the foreseeable future) is likely to push up the policy interest rate by 100-200 bp, assuming some immediate depreciation from the change in regime.

Chart 10: 91-day T-bills and Inflation Rates

Source: Bank of Ghana



Based on our view, nominal yields will remain high and the following rates are likely to hold in the near term:

Inter-bank money market:

- Daily rate around: 19-20%

Treasury bill rates:

- 91-day: 23-34%
- 182-day: 22-23%
- Yields on 1-year and 2-year securities would be influenced by a potential rise in foreign participation in 1-year and 2-year government securities, and an assumption of a clarification over the new FX regulations, in terms of capital control, GHS stability an outlook; in view of these factors, we expect the following rates to hold over the short-term:
- 1-year: 20-22%
- 2-year: 20-22%
- Sovereign bond marginal rates for 3- and 5-years: 21-23%
- Sovereign bond marginal rates for 7-years: 20-22%

Meanwhile, real T-bills remain in positive territory, despite higher inflation in recent months, reflecting the fact that nominal T-bills have risen faster than inflation (Chart 10).

Table 6: Gross Government Debt

USDbn	2009	2010	2011	2012	2013e	2014f
Domestic	26.7	27.6	9.0	11.5	11.8	13.0
External	6.4	6.9	8.3	8.9	9.2	10.5
Total	33.1	34.6	17.3	20.4	21.0	23.5

Source: IMF

Macroeconomic policy environment

FI primary market information:

- Market size (central government debt stock):

Types of securities on offer (T-bills and bonds as well as BoG bills):

- T-bills: 30-; 60-; 91-; 182-; 270- and 364-day T-bills
- Bank of Ghana bills: 14-; 28- and 56-day bills
- Government bonds: 3-; 5-; 7-; 10- and 20-year bonds (7-, 10-, and 20-year bonds are rarely issued)
- The authorities issued a maiden 8.50% 10-year USD750mn Eurobond in December 2007 and are considering the benefits of reissuing, in part to take advantage of lower rates in order to refinance the current Eurobond.

Auctions

- Timetable/frequency
  - T-bills: Weekly
  - BoG bills/Open Market Operations (OMOs): Based on BoG's daily market liquidity assessment for price stability
  - Bonds: Weekly
- Type of auction: Competitive and non-competitive: most transactions are undertaken competitively.
- Primary dealers: Yes
- Bid size limits:
  - T-bills: Average of GHS300mn in all instruments
  - Bonds: GHS200-300mn in each instrument
- Allotment: Based on cut-off price for T-bills and bonds
- Auction calendar: Weekly for T-bills and quarterly for bonds
- Reopening of existing bonds: N/A

FI secondary market information

- Daily turnover (volume/value)
  - T-bills: No secondary market
  - Bonds: Limited trading volumes and values
- Country ranking on MABI (Ecobank Middle Africa Bond Index) criteria
  - 26.9% out of 100%

Ecobank trading capabilities per country (FX and FI)

- Primary market auction – T-bills and bonds
- Weekly average: GHS70mn per auction
- Secondary market trading (monthly average)
- T-bills: Weekly average: GHS0.5-1.0mn
- Bonds: Weekly average: GHS0.5mn

"On the external front, the US Federal Reserve's QE tapering, which began in January 2014, could possibly result in interest rate rises in the US in late 2014/early 2015, which in turn would increase upward pressure on Ghana's yields as capital flows out to less risky US investment opportunities. This could lead to an interest rate rise in Ghana to underpin GHS weakening."

Table 7: Gross Government Debt (% of GDP)

USDbn	2009	2010	2011	2012	2013e	2014f
Domestic	102.6	85.8	23.0	29.4	30.7	31.6
External	24.7	21.6	21.2	22.7	23.9	25.6
Total	127.3	107.4	44.2	52.1	54.6	57.1

Source: IMF

- FX: Net open position limit is 10% of shareholders' funds. FX forward rates available up to one year
- Project trade financing: 15% of shareholders' funds
- Cash management: Yes
- Payment capabilities (e.g. payroll, SWIFT): Yes

2.2.6 Debt Profile

Debt levels are set to rise, although the risk of debt distress is to remain moderate

Ghana's risk of debt distress has reduced considerably in the past decade thanks to debt relief provided under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Instrument (MDRI) initiatives. The risk of external debt distress is moderate, according to the most recent IMF-World Bank Debt Sustainability Analysis (DSA), published in November 2011; the analysis shows that Ghana's external debt burden indicators remain below their respective indicative thresholds, provided the programmed fiscal consolidation is achieved.

External debt levels have dropped significantly, reducing the risk of a sovereign debt default. However, while considered to be at moderate levels, the stock of external debt has been on an upward trajectory since 2012, reflecting greater financing needs against a background of widening fiscal and current account deficits. By the end of 2013, we believe external debt stock is likely to have risen to an estimated USD9.2bn (23.9% of GDP; Tables 6 and 7). Of this total, commercial debt will account for the majority (55.4%), followed by multilateral debt, accounting for nearly 40%, and bilateral debt, accounting for the remainder. The high level of commercial debt is fuelled by the loans from China's Development Bank to finance the government's robust investment plan, together with domestic private-sector expansion, particularly in the extractive industry.

External debt is likely to rise further in 2014 as private-sector expansion accelerates and as the public works programme continues warranting the need for more foreign capital via bond issuances. Already, the government has issued its second 10-year Eurobond (with a coupon of 7.875%), and it is likely to issue more in the short to medium term. However, growth in external debt will be constrained by the government's commitment to contracting external debt on a concessional basis and by its efforts to strengthen the public-private partnership framework for development in order to limit borrowing and reduce debt service costs. There are also plans to replace costly short-term borrowing in the domestic capital market with medium-term external borrowing.

Meanwhile, domestic debt, which fell to USD9.0bn in 2011 (23% of GDP), down from USD27.6bn (85.8% of GDP) in 2010, has been on an upward trajectory since 2012, even surpassing external debt levels. The rise in domestic debt reflects the government's robust spending, alongside its weak tax base (see Fiscal Policy) and low FX reserves. Against this background, short-term market yields are high, hovering around 18-20% and undermining the sustainability of government finances. However, efforts to promote fiscal prudence and increased revenue collection should provide some respite for domestic borrowing over the short to medium term, and the risk of debt distress should remain moderate. The main vulnerabilities relate to a high debt service-to-revenue ratio and continuing risks to the fiscal outlook.

Table 8: Sovereign Foreign Currency Long-Term Ratings

Sovereigns	Moody's	S&P	Fitch
Ghana	**B1 with negative outlook**	**B with negative outlook**	**B**
Nigeria	Ba1	BB- with stable outlook	BB-
Angola	Ba1	BB-	BB-
Gabon	n/a	BB- with stable outlook	BBB-
Kenya	Ba2	B+ with stable outlook	BB-
South Africa	A2	BBB with stable outlook	A-

Source: IMF

Macroeconomic policy environment

Indeed, while overall public-sector debt is not projected to rise significantly in relation to GDP, a ratio of 55-57% does not provide strong buffers against shocks, suggesting a case for further gradual consolidation and additional revenue mobilisation over the medium term. In the meantime, Ghana's debt situation will remain vulnerable to any unexpected large drop in oil prices or other macroeconomic shock to the economy; this could lead to renewed debt distress. This factor will continue to weigh on the country's sovereign credit rating. Already, amid the country's weak fiscal position and increased external imbalances, the global ratings agency Fitch has downgraded Ghana's sovereign debt rating by one notch to B, while Moody's ratings denote B1 with a negative outlook (Table 8 and Sovereign Credit Rating Definitions).

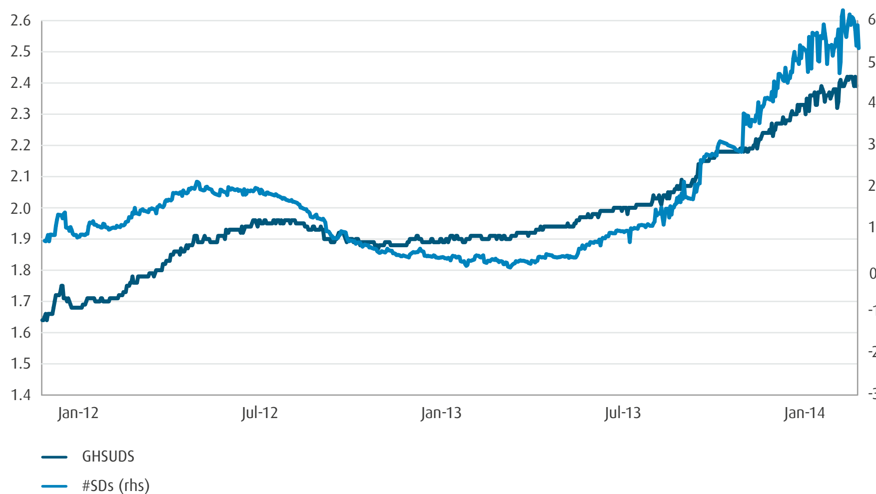
Sovereign Credit Rating Definitions

Countries that have a sovereign credit rating tend to make an effort to engage with investors, which in turn would suggest a greater level of willingness to create a business-friendly environment compared to countries that are not rated. Moreover, most countries that are rated retain their rating through ongoing consultations with ratings agencies, thereby displaying a commitment to upholding a business-friendly operating environment. Overall, the range of ratings for Middle African countries is relatively low.

Standard & Poor's	Moody's	Fitch	Range
AAA	Aaa	AAA	Prime
AA+	Aa1	AA+	
AA	Aa2	AA	High grade
AA-	Aa3	AA-	
A+	A1	A+	
A	A2	A	Upper medium grade
A-	A3	A-	
BBB+	Baa1	BBB+	
BBB	Baa2	BBB	Lower medium grade
BBB-	Baa3	BBB-	
BB+	Ba1	BB+	
BB	Ba2	BB	Non-investment grade speculative
BB-	Ba3	BB-	
B+	B1	B+	
CCC+	Caa1	CCC	Substantial risks
CCC	Caa2		Extremely speculative
CCC-	Caa3		
CC	Ca		In default with little prospect for recovery
C			
D	C	DDD	
	/	DD	In default
	/	D	

Chart 11: GHS Performance and Volatility*

Source: Bloomberg
Note: *GHS volatility measured by standard deviations



"With government spending set to remain high in the short term, sustaining deficit on the current account, we expect the currency to weaken further in the short term. However, the rate of depreciation should be limited. The prospect of higher hydrocarbon export revenue and robust capital inflows attracted to high-yielding government securities will provide support for the GHS."

2.3 Currency Outlook

2.3.1 Exchange Rate Regime

Downward pressure will remain on the GHS

The exchange rate regime is classified as a managed float with no predetermined path. As a result, there are minimal interventions to limit excessive volatility. However, the BoG has increased its interventions since 2012 owing to the sustained depreciation of the GHS.

The currency has weakened sharply since a year ago, depreciating by around 26% to GHS2.4:USD1 in late January 2014, which has been reflected in heightened volatility (Chart 11). The weakening of the currency is a result of strong import demand fuelled by the government's robust recurrent spending and comes despite a rising level of capital inflows and export receipts. Higher inflationary pressures driven by the fiscal expansion and higher fuel and utility prices have also gone some way towards weakening the GHS by eroding the real value of the currency.

With government spending set to remain high in the short term, sustaining deficit on the current account (which in turn increases demand for foreign currency and thus weakens the value of the GHS), we expect the currency to weaken further in the short term; already, as of 28 January 2014, forward rates (which generally prove weak indicators of trends) stood at:

Table 9: Forward Rates on GHS

GHS forward rates bid (to USD1)	3 months	6 months	9 months	12 months
28-Jan-14	2.532	2.625	2.705	2.799

Source: Bloomberg

However, the rate of depreciation should be limited. The prospect of higher hydrocarbon export revenue (given the recent discovery of 16 new oilfields following the Jubilee field) and robust capital inflows attracted to high-yielding government securities will provide support for the GHS. Moreover, the BoG's decision in early February 2014 to issue new FX regulations should go some way towards supporting the GHS following sustained weakness over recent years. The new regulations aim to increase FX market transparency and reduce leakages by the following: (i) streamlining the operations of foreign exchange accounts (FEAs) and foreign currency accounts (FCAs) – FEAs are operated and managed by residents earning FX, and FCAs are operated to manage FX inflows; (ii) streamlining the collection and repatriation of export proceeds; (iii) restricting FX loans; and (iv) tightening operating procedures on Bureaux de Change.

Tightening the demand conditions for USD while making no changes to how FX is supplied is expected to lower pressure on the GHS in the weeks ahead given that the informal/parallel sector, which is made up of small and medium-sized enterprises, is effectively shut out of the formal FX market. Tighter regulations are also likely to support the GHS as they will complement the BoG's recent decision to hike the policy rate hike by 200bp, as well as other recent changes, such as provision of GHS cover for vostro accounts and streamlined collection/repatriation of export proceeds. However, in the longer term, increased regulation is generally counterproductive to market-based FX systems. USD demand could return to normal levels as the informal sector finds ways to circumvent the regulations. Overall, we expect the GHS to average GHS2.45:USD1 during the year, ending the year at USD1:GHS2.70. While this would boost the price-competitiveness of exports in local currency terms, the downside is that it would increase inflationary pressures via imported inflation.

2.3.2 Current and Capital Account Flows

The current account is likely to deteriorate, putting downward pressure on the GHS

Movements in Ghana's current account are dominated by the trade account, which is habitually in deficit, reflecting excess demand for foreign goods and services. Exports are dominated by the natural resources sectors, such as gold, cocoa and, more recently, the hydrocarbons sector, which altogether account for around 73% of Ghana's total exports; this highlights the country's dependence on the extractive industry and its vulnerability to terms-of-trade shocks.

Macroeconomic policy environment

Notwithstanding a 15% rise in exports in 2012, the current account deficit widened to 12.2% of GDP during the year (compared with 9.1% of GDP in 2011) as higher fiscal spending increased demand for imports and as gold and cocoa prices weakened, resulting in a deterioration in the terms of trade. Gold prices grew by 6.4%, compared with 28.1% in 2011, as the global economic recovery gathered pace, weakening demand for flight-to-safety investment assets. At the same time, cocoa prices fell by 20.1%, compared with 4.9% the previous year, undermining export receipts. Although market uncertainties over the US Federal Reserve's tapering of quantitative easing (QE) and the US' fiscal and debt problems will continue to undermine prospects for a global recovery, it is unlikely that the price of gold will reach the levels last seen in late September 2012, when gold prices reached USD1,780 per ounce (/oz); already, gold prices have dropped around 27% y/y, reaching USD1,197/oz in mid-December 2013. However, cocoa prices, which fell to a low of USD2,153 per metric tonne (/t) in March 2013, have since recovered, reaching USD2,841/t in mid-December. The higher price of cocoa reflects excess cocoa demand over supply. Production of cocoa has dropped as a result of a lower use of insecticides and anti-fungal treatments (which has increased output losses from fungus, pests, and disease) alongside a recovery in global grindings and demand for chocolate. Already, latest official data show that earnings from gold fell 12% to USD4.2bn in the first 10 months of 2013, while those from exports of cocoa beans fell 33.5% to USD1.3bn during the same period.

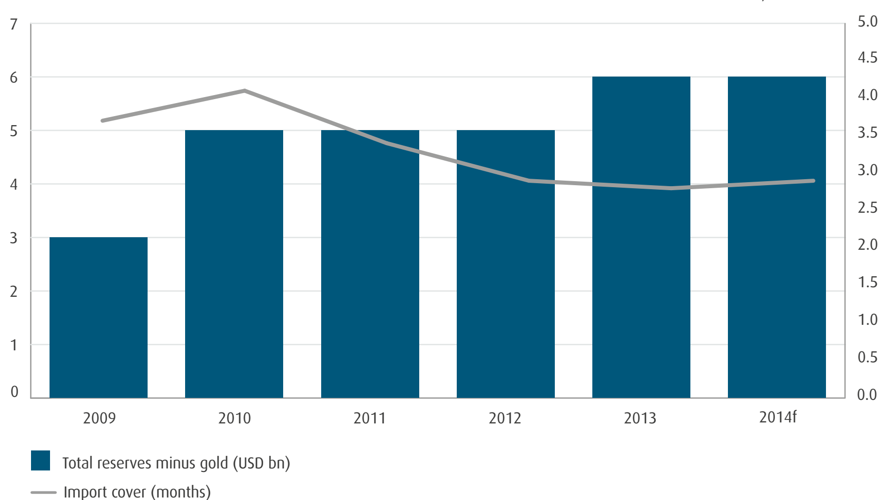
"The outlook for the current account remains weak despite favourable oil and gas prospects."

The outlook for the current account remains weak despite favourable oil and gas prospects. We expect the current tightness in Ghana's cocoa sector to continue over the short term, with cocoa production for the 2013/14 season falling below the 830,000 metric tonne (t) target of the Ghana Cocoa Board (Cocobod); this is despite Cocobod's securing USD1.2bn for the purchase of 2013/14 crops in recent months. The anticipated reduction in cocoa output is due to dry weather conditions ahead of the current agriculture season, which have hindered pod development, in addition to the lower use of insecticides and anti-fungal treatments (following a recent decision by Cocobod to wind up its free pest-spraying programme and to reduce the provision of subsidised fertiliser to 300,000 bags in 2013/14, compared with 2mn bags in 2012/13). While lower cocoa production alongside continued high demand for chocolate will help to support cocoa prices, such gains will be offset fully by a potential rise in government-fuelled imports and weaker prices for gold (accounting for around 27% of FX earnings), resulting in further deterioration in the terms of trade.

The current account position will also be undermined by large payments to non-residents for insurance and transportation services, the repatriation of funds by foreign firms operating in Ghana, and payments to international creditors. Overall, we expect the current account deficit to widen to 13.1% of GDP (from 12.2% of GDP in 2012), sustaining the country's status as a net debtor to the rest of the world, putting downward pressure on the GHS.

Chart 12: FX Liquidity

Sources: IMF; Ecobank Research



"Despite this improvement, the level of import cover is likely to fall as a result of the increased public capital outlays needed to boost the country's infrastructure, and high import content associated with rising domestic demand."

In 2014, we expect the current account position to improve (while still remaining weak) on the back of an anticipated improvement in fiscal discipline. The capital and financial account will be dominated by FDI inflows (predominantly into the extractive sectors) and by capital loans from foreign creditors and will continue to record net inflows, which will then be used to finance the large current account deficit; in turn, this will lead to a rise in FX reserves (see below), which will go some way towards supporting the currency.

2.3.3 FX Liquidity

FX liquidity is likely to rise, but high import dependency will undermine import cover

Ghana's international liquidity position has improved in recent months, with gross FX reserves rising to USD5.6bn (equivalent to around 2.9 months of import cover) in December 2013, up from USD5.3bn (equivalent to around 3.0 months of import cover) at end-2012 (Chart 12). This improvement has been due largely to increased capital inflows and export receipts, which have boosted FX supply. The surge in capital inflows stems from two main sources: (i) a USD1.2bn cocoa-backed syndicated loan from international banks to Ghana's cocoa regulator, Cocobod (for cocoa crop purchases ahead of the 2013/14 cocoa season commencing in October); and (ii) USD750mn raised from Ghana's second 10-year Eurobond, with a 7.875% coupon, issued in late-July 2013 (a further USD250mn was raised concurrently and has been used to partly settle existing arrears to government contractors). Meanwhile, export receipts have been buoyed by significant increases in oil exports, owing to increased oil production and an improving recovery in key export markets such as India and the EU. Oil receipts rose 30.9% to USD3.2bn during the first 10 months of 2013. Exports of cocoa beans have also remained strong, although earnings declined 33.5% to USD1.3bn during the same period for reasons alluded to earlier. The positive export picture has also been tempered by the steady fall in gold outlook for cocoa production.

We expect Ghana's FX reserves to rise further in the short term, boosted by strong oil and gas export earnings, increased remittances from the Ghanaian diaspora, and strong capital inflows linked to investment in government securities (albeit likely to slow down) and loans geared towards infrastructure development. Despite this improvement, the level of import cover is likely to fall as a result of the increased public capital outlays needed to boost the country's infrastructure; this will increase capital import requirements and hence import costs. The level of import cover will also be undermined by high import content associated with the government's robust spending, the public works programme and increasing demand for foreign luxury goods by Ghana's growing middle class. As a result, we estimate the import cover to fall slightly to 2.8 months at end-2013; at end-2014, we expect it to rise to 2.9. At these levels, Ghana's level of import cover will remain below the IMF-minimum recommended level of 3.0 months required to cushion the economy against external shocks, putting downward pressure on the currency.

2.3.4 Export and Import Profiles

Gold dominates the export profile, while capital goods dominate the import profile

Ghana remains dependent on commodities (mainly precious metals, mineral fuels, and cocoa products) for most of its export earnings, making it vulnerable to price fluctuations (see Trade Flows). Gold remains its key export, and crude oil has emerged as the country's second main export since 2011, amounting to USD3.7bn in 2012, rising by 29% over the previous year. Imports comprise mainly capital and intermediate goods, reflecting the result of liberalising policies, an expanding economy, and an increase in development projects.

Key economic sectors

3.1 The Hydrocarbons Sector

3.1.1 The Oil and Gas Sector

Risk appetite in the upstream sector remains strong

The oil sector has emerged as a key sector in the Ghanaian economy, accounting for around 6.5% of GDP. In 2010 Ghana began commercial oil and gas production with the start of production from the 2bn-barrel (in reserves) offshore Jubilee oilfield, discovered in 2007. Production began at 55,000 barrels per day (b/d) and had grown to just over 100,000 b/d in 2013. At least USD3bn has been invested in Ghana's upstream oil and gas sector since 2001, and these figures are likely to rise with incremental increases to Tullow-operated Jubilee and the coming on line of other oil and gas fields in the short term. Output from Ghana could help underpin the diversification of West African crude sources to the world, although Ghana would still account for an extremely small percentage of global oil supplies. Jubilee crude has a sulphur content of 0.25% and is very similar to North Sea crude. It is part of the West African crude oil streams from Nigeria and, like its light and sweet crude oil cousins (such as Nigeria's Bonny Light), most of it can be refined by almost every global refinery.

There have been at least 11 offshore discoveries in Ghana since 2009, and more than 90% of these discoveries have been made in the Deepwater Tano Basin while the rest were made in the Cape Three Points Basin, both of which straddle the Jubilee oilfield. Several oil and gas companies hold exploration licences for Ghana's offshore region (Table 10). The development plan for another prolific oilfield, the Tweneboa, Enyenra and Ntomme fields (TEN), estimated to cost USD4.9bn, was approved in May 2013 and will see the development of 24 wells connected to Floating, Production and Storage Offtake vessels (FPSOs). The first oil from TEN is likely to come on stream in 2016, and TEN is expected eventually to produce around 80,000 b/d. Overall, this could take Ghana's total production levels to closer to 200,000 b/d within the next three years, up from its current average of just over 100,000 b/d (Chart 13). In 2013, Tullow Oil received approval from the government to sell up to a 20% stake in the TEN oilfield, which is estimated to hold around 400mn barrels of crude oil reserves.

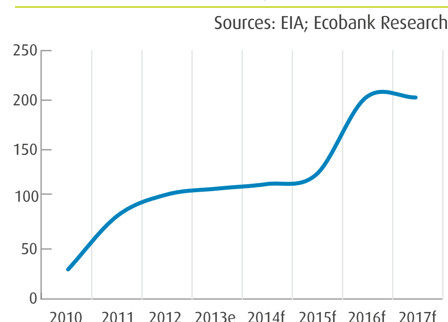
Table 10: Offshore Exploration Assets, 2012

Operator	Block Name	Start Year
Pan Andean Resources Limited	Offshore/Onshore Tano 2A	2008
Eni S.p.A.	Keta Block	2002
Vanco Energy Company	Cape Three Points Deep Water (Vanco)	2002
Aker ASA	South Deep Water Tano Block (Aker)	2008
Hess Corporation	Deepwater Tano/Cape Three Points Block (Hess)	2006
Gasop Oil Limited	Offshore Saltpond Block (Gasop)	2007
Tap Oil Limited	Offshore Accra Contract Area	2010
Oranto Petroleum International Ltd	Offshore Saltpond Block (Oranto)	2008
Interoil Exploration And Production	Tano Shallow Water Block	2006
Tullow Oil Plc	Deepwater Tano (Tullow)	2006
Eni S.p.A.	South Cape Three Points	2008
Kosmos Energy Ltd.	West Cape Three Points (Kosmos)	2004
Eni S.p.A.	Offshore Cape Three Points	2006

Source: Oil and Gas E-track

Chart 13: Ghana Oil Production, Historic and Forecast, 2010-17, '000 b/d

Sources: EIA; Ecobank Research



“Ghana has significant gas resources and the pioneering Jubilee field could have 800mn cubic feet in gas reserves with potential upside of up to 1.2 trillion cubic feet.”

Production from the Jubilee oilfield is likely to rise, peaking in 2016, but other fields should compensate for the subsequent slowdown

As a whole, oil production in Ghana is likely to increase from 27mn barrels for 2012 to at least 115mn barrels by 2020 at an average annual growth rate (AAGR) of 15.8%. Production from the Jubilee oilfield will continue to grow until 2016, when it is expected to peak, and then begin a decline until 2020. However, production from the TEN field will help to compensate for the slowdown in Jubilee's production beyond 2016. UK Independent Ophir Energy has commenced the drilling of the Starfish-1 well in its Ghanaian licence, the Offshore Accra Contract Area. The well is being drilled to a depth of 4,600 metres at a cost of USD10.6mn. The block, which also has Australian independent Tap Oil Ltd among the stakeholders, is believed to hold over 400 million barrels of oil equivalent (mnboe) resources. Ophir has estimated that the well has a 20% chance of discovering about 292 mnboe by the completion of drilling.

Up to 41 companies have made oil and gas licence applications since the 2007 discovery, but no new licences are being awarded until after the passage of the Ghana petroleum exploration bill, currently being reviewed in parliament (see Oil Sector's Legal and Regulatory Environment). The Jubilee field is owned by US independent Anadarko, US Kosmos Energy, Anglo-Irish Tullow Oil, the Ghana National Petroleum Corporation (GNPC), and two smaller local companies, EO Group and Sabre Oil and Gas. However, in 2011 Tullow acquired EO Group's 3.5% stake for USD305mn while, in 2012 South Africa's PetroSA acquired Sabre Oil and Gas's 1.85% stake. GNPC has stakes in a total of nine offshore blocks.

Ghana's gas potential is also good, but there are major funding constraints

Ghana also has significant gas resources, and the pioneering Jubilee field could have 800mn cubic feet in gas reserves with potential upside of up to 1.2 trillion cubic feet (tcf). The Jubilee field gas-to-oil ratio is 1,000,000 standard cubic feet (scf) to 1000 barrels (bbl), underlining high gas content for every 1,000 barrels of oil produced. It is anticipated that Ghana's natural gas projects will generate employment and create new infrastructure which will be capable of processing natural gas from Jubilee and other nearby fields and delivering about 300mn scf per day (/d) of gas in one or more phases to existing power plants. Gas infrastructure will enable natural gas liquids to be sold in Ghana as well as on the international market through storage, liquefied petroleum gas (LPG) buoys and export pipeline facilities, all of which would require extensive financing to develop. In the first phase of gas monetisation in Ghana, around 20mn scf/d of associated gas is likely to be used as fuel on the FPSOs, while another 120mn scf/d could be exported. While up to 30% of the gas produced can be re-injected for oil production, and 70% can be supplied to GNPC at the flange of the FPSOs, the government wishes to avoid the environmentally damaging practice of flaring but faces a challenge to ensure the adequate use of Ghana's gas resources.

Work began in 2011 on the construction of gas pipelines, processing facilities and storage to transport Jubilee's gas onshore. However, funding challenges have hampered the rapid development of Ghana's gas infrastructure. The Chinese Development Bank (CDB) had made a USD3bn loan promise to Ghana for gas infrastructure development but had only released USD200mn of the loan by May 2013, and another USD188mn in July 2013. The Ghanaian government will provide 15% of the project cost. As the Chinese loan is oil-backed, repayment prospects have been improved by the increase in Ghana's oil production in recent months, which would enable export of more oil to China. However, talks with the CDB are progressing slowly and could prompt the government to consider other funding sources.

Meanwhile, domestic gas consumption for residential, commercial and industrial customers will continue to grow at a steep rate, to around 280mn scf by 2015 (Chart 14). The West African Gas Pipeline (WAGP) missed an April deadline for resumption of operations. The pipeline, which had suffered some disruption in October 2012, was to be fully repaired by April 2013, with gas exports expected to resume to Ghana from Nigeria. However, the pipeline is still unable to resume gas exports owing to issues to do with contractors and the cleaning of debris already in the pipeline. These issues are set to delay the resumption

Key economic sectors

of pipeline operations in early 2014. Ghana had borne the major brunt of the delay in the WAGP repair as the halt in gas supplies had kept the 200MW Sunon Asogli power plant offline since 2012. Ghana has had to resort to power rationing and load-shedding to cope with the drop in gas supply amid rising power demand. However, several gas projects are due to begin soon; in March 2011 Trinidad and Tobago's state-owned Natural Gas Company (NGC) won a bid to transport, process, and distribute gas in Ghana, while Italian IOC ENI is also looking to begin development of its Sankofa gas field by end-2014. In addition, the value of oilfield service needs in Ghana's hydrocarbons industry is estimated at USD5bn annually, roughly one-tenth of GDP. Financing opportunities will arise as prospects for both foreign and indigenous oilfield service contractors grow with the ramping up of production and the commencement of new drilling and exploration projects.

3.1.2 Midstream and Downstream Oil Sector Outlook

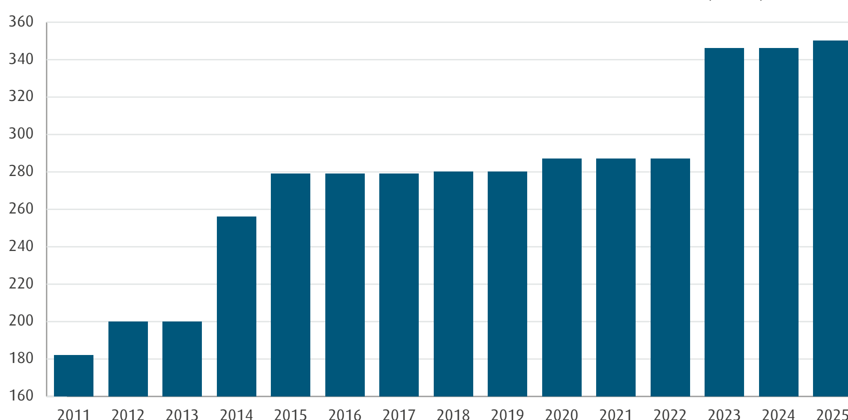
Capacity is set to rise in the downstream oil sector, but financing challenges exist

Ghana's downstream oil sector is evolving. Prior to 2005, all downstream activity was carried out by the Tema Oil Refinery (TOR) and the Bulk Oil Storage and Transportation Company (BOST). A total of 57 oil-marketing companies are registered in Ghana, 38 of which are licensed to market refined products – liquefied petroleum gas (LPG), kerosene, premium motor spirit (PMS), aviation gas oil (AGO), and others. However, the demand and consumption continually exceed TOR's capacity in particular for gasoline, diesel and LPG. The shortfall for these three products ranges between 40% and 50%. Product imports to Ghana annually exceed 1mn tonnes (t), and the transport sector accounts for more than 50% of petroleum consumption in Ghana, followed by the industrial sector. In February 2013 the government of Ghana cut fuel subsidies, which resulted in a rise in fuel prices across the country. Kerosene, marine diesel, and residual fuel oil rose 15%; premium gasoline and diesel rose 20%; while LPG rose the most: 50%. The price hikes were considered necessary after the country recorded a budget deficit to GDP ratio of nearly 12% in 2012 against a target of 6.7% (see Fiscal Policy).

Meanwhile, the Tema Oil Refinery (TOR) is set to replace old equipment at the refinery over the next 18 months as part of a major exercise that is expected to raise available capacity to 60,000 b/d from 45,000 b/d, of which only 27,000 b/d is available. The exercise will see a new furnace installed, while some other parts of the refinery are scheduled for upgrade. The exercise could transform the fortunes of the downstream segment in Ghana, which has had to depend on imports for over 90% of its fuel needs (Chart 15). The government is likely to require funding support to meet the bill of over USD80mn required to complete the exercise within the expected time frame. However, following the TOR's history with similar projects in the past, the refinery could experience some difficulty in raising the requisite financing for the exercise.

Chart 14: Ghana Gas Demand, Historic and Forecast, 2011-2025 (mn scf)

Sources: US EIA; GNPC; Ecobank Research



"A major short-term growth area for petroleum products in Ghana is likely to be LPG. Following the installation of a debutaniser at the Atuabo gas plant project site in Ghana in July, the gas plant is nearing completion and could help Ghana tackle its LPG supply gap."

An expansion in Ghana's refining capacity would allow it to take advantage of inadequate refinery capacity in West Africa. Consumption in non-refinery countries to which Ghana could supply in the future (Benin, Burkina Faso, The Gambia, Guinea-Bissau, Equatorial Guinea, Liberia, Niger, Mali, Mauritania) exceeds 80,000 b/d (4mn tonnes/year). Thus Ghana would need to expand its refinery capacity rapidly over the next decade in order to meet local demand and play an active regional role. It is well positioned to become a regional petroleum-product trade-flow hub, and could potentially capture 50% of the non-refining West African regional market as a products supplier. The biggest flows of petroleum products from Ghana to the sub-region are to Burkina Faso.

The 100% state-owned Bulk Oil Storage and Transportation Company (BOSTC) needs to expand its depot network while increasing its strategic stock of petroleum products. However, it currently has limited scope to do so, and will require financing for new projects. Given BOSTC's gradually dwindling monopoly, storage and distribution opportunities have risen for private-sector bulk distribution companies (BDCs) in Ghana. There is a need for operational storage depots for white products further inland of Ghana. Meanwhile, as LPG consumption is on the rise, LPG infrastructure (such as bullets and jetties) will be needed across the country; Ghana's LPG storage facilities are limited to one terminal at Tema, even though up to 70 companies in Ghana deal in LPG. Virgin LPG demand will grow in northern Ghana as a result of the Savannah Accelerated Development Authority (SADA) programme. There is currently an erratic supply of products, resulting in low-volume sales, and more stable transport and distribution networks are required. Several BDCs in Ghana are considering or have begun the implementation of plans to construct tank farms for the storage and distribution of petroleum products across the country.

Liquefied petroleum gas is likely to be the key growth area for petroleum products

A major short-term growth area for petroleum products in Ghana is likely to be LPG. Following the installation of a debutaniser at the Atuabo gas plant project site in Ghana in July, the gas plant is nearing completion and could help Ghana tackle its LPG supply gap. The news has boosted hopes of seeing the frequent LPG shortages in the country come to an end. Ghana has the highest LPG consumption among Middle African countries, including Nigeria. The country's LPG consumption, which stood at 274,400 t in 2012 (Chart 16), has risen by an average of 22% in the last five years. Ghana's high LPG consumption is driven largely by commercial cab operators, who have found the fuel to be cheaper and more profitable than gasoline. Despite the removal of the 17% subsidy on LPG in March, LPG remains the main fuel for the transport sector. More importantly, owing to the poor state of the Tema Oil Refinery (TOR), the country is dependent on imports for 90% of its LPG needs.

Chart 16: Ghana LPG Consumption, 2000-15, '000 tonnes

Sources: US EIA; GNPC; Ecobank Research

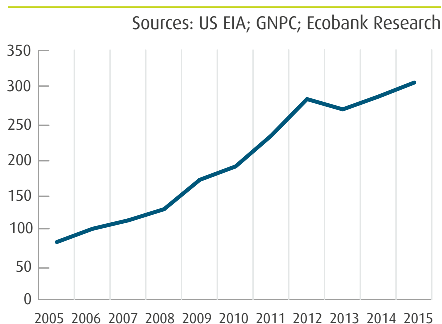
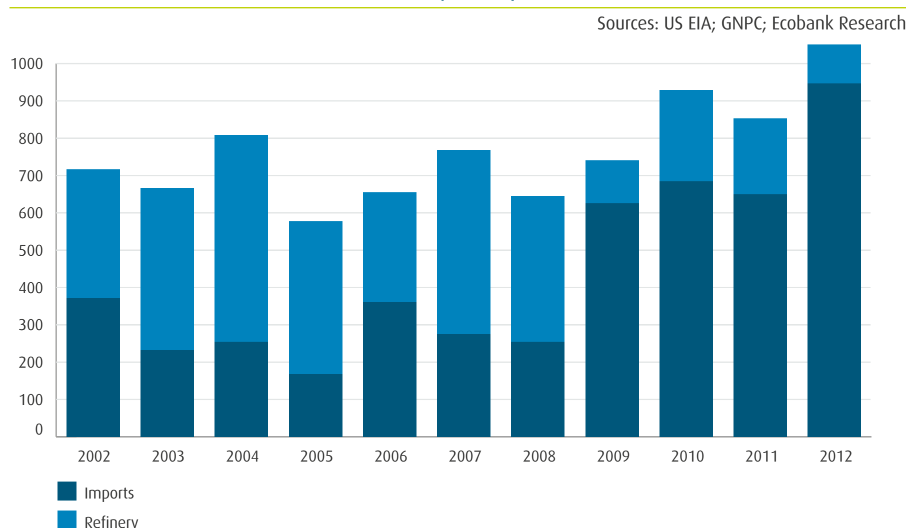


Chart 15: Ghana Petroleum Product Consumption by Source

Sources: US EIA; GNPC; Ecobank Research

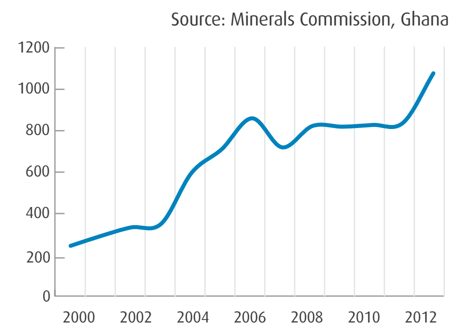


Key economic sectors

On the retail and marketing side, Vivo Energy, a partnership between UK-based private equity firm Helios Investment Partners (40%), global oil trader Vitol (40%) and Royal Dutch Shell (20%), completed the acquisition in August 2013 of Shell Ghana. Vivo is likely to invest in several new fuel stations. As part of plans to snap up market share from the market leader, Total, which operates over 3,500 retail fuel stations in Africa, Vivo plans to spend USD250mn over the next three years building 50 new fuel stations every year. Ghana is one of the countries in which the new stations will be built as the company looks to increase its market share despite strong competition from other market leaders. Vivo Energy has also initiated steps to strengthen its aviation business, a major growth segment. However, it will face strong competition from peers Total Ghana and Ghana Oil (GOIL). In June Total Ghana set in motion plans to rebrand its existing fuel stations and open 200 new retail stations in all 10 regions of the country over the next few years. Indigenous petroleum marketer GOIL completed a rebranding exercise in 2012 and has also stepped up efforts to expand its network and sales.

Chart 17: Investment Flows into Ghana's Mining Industry, 2000-12, USD mn

Source: Minerals Commission, Ghana



3.2 The Mining Sector

The mining sector is a major player in the Ghanaian economy

Ghana's upstream mining sector operators are primarily exploring for and producing gold, but the country produces other minerals such as bauxite, manganese, and diamonds. According to Ghana's Minerals Commission, Ghana attracted mining sector investment worth USD1bn in 2012 (Chart 17), while the sector's contribution to exports stood at an estimated 43% of total exports (gold exports alone accounted for 38% of total exports in 2012). While a similar level of mining sector investment is likely to be recorded for 2013, the rate of growth could slow as a result of the recent fall in gold prices. The government anticipates that it could receive revenues totalling USD35bn from the country's mining sector by end-2014. However, given the slump in gold prices in 2013, such a high revenue target appears ambitious and total revenues could fall short of USD35bn.

A large proportion of mining in Ghana is large-scale mining by mining multinationals and the government has issued more than 200 reconnaissance prospecting licences to both local and foreign companies in the sector. However, Ghana also has up to 300,000 artisanal miners more commonly referred to as 'galamsey' miners. A large proportion of these small-scale miners, however, operate independently and are often illegal and there have been successive government attempts to regulate and legalise their activities.

Ghana is Africa's second largest gold producer after South Africa (Chart 18), and the country's mining sector has continued to attract buoyant levels of foreign direct investment (FDI). An average of 95% of all FDI in the mining sector goes towards gold mining. Revenues from gold mining have continued to outstrip revenues from manganese, diamonds, and bauxite, although among the non-gold minerals, manganese mining accounts for the bulk of mining revenues; in 2012, manganese mining brought in revenues worth USD98mn to the government, compared with USD11mn for diamonds and USD28mn for bauxite (Table 11).

Chart 18: Africa's Top Gold Producers, tonnes, 2012

Source: Africapedia

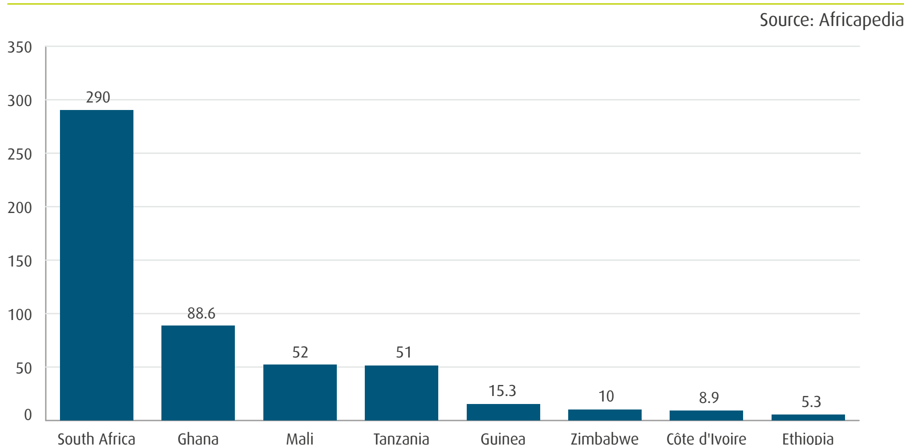


Table 11: Ghana's Mining Sector Revenues, USD mn

	2011	2012
Gold	4630	5309
Manganese	119	98
Diamonds	14	11
Bauxite	13	28

Source: Ghana Chamber of Mines

Chart 19: Ghana's Top Gold Export Markets, 2012

Source: Intracen

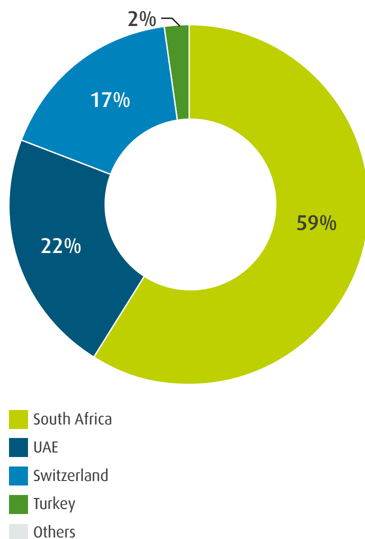
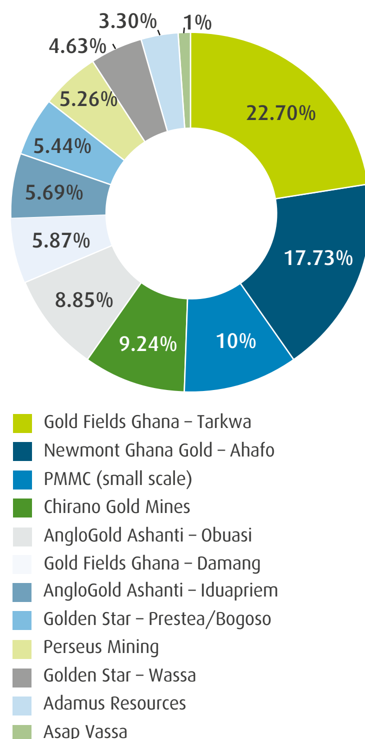


Chart 21: Percentage Share of Gold Production by Company, 2012

Source: Minerals Commission, Ghana



Since the mid-1980s, gold mining has underpinned increases in foreign investment and output and export volumes. In 2012, South Africa, the United Arab Emirates, Switzerland and Turkey were, in that order, Ghana's top gold export destinations (Chart 19). South Africa's top spot partly reflects the large representation of South African mining companies operating in Ghana, as well as South Africa's gold-processing capabilities. From 1980 to 2000, production increased by an estimated 700%, with a then record output of 74 t in 1999. The global rally in gold prices in the early 2000s has also benefitted Ghana, which took the opportunity in 2006 to revise its mining code, the Mineral and Mining Act (Act 703). Ghana is now the world's 10th largest gold producer, representing around 3.8% of total global production. The country is also the West African region's leading producer for the industry – others are Mali, Guinea, Burkina Faso, Mauritania and Côte d'Ivoire – the output of which has risen by almost 70% in the region over the past five years to a current total of 190 t or around 8% of the global total.

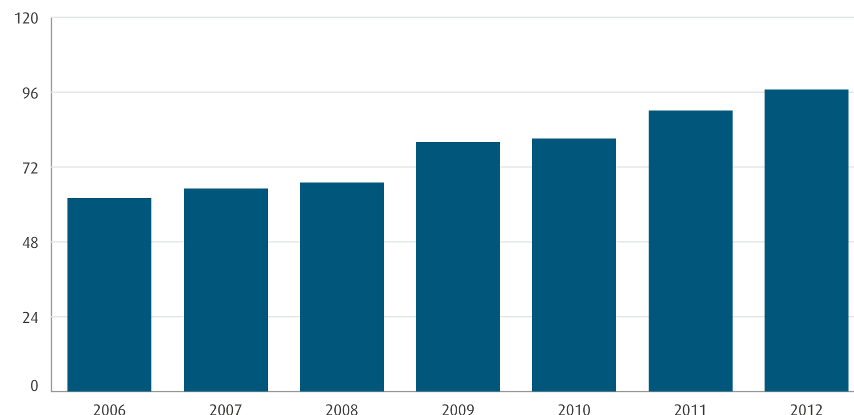
Ghana boasts 23 large mining companies that mine gold, diamond, bauxite and manganese, with over 300 registered small-scale mining groups and almost 100 mine-support service companies. There are at least eight large gold mines, which are owned by five large-scale international producers, a few smaller producers, and, finally, the registered semi-formal, small-scale producers, which generate around 10% of total output. The Ghanaian government has between 10% and 30% ownership in the top ten mining companies in the country. In 2012, Ghana was the 10th largest producer of gold globally, with 88.6 t, representing a 6% increase on its 2011 production level (Chart 20). Furthermore, Ghana's mining sector grew by 23.5% in 2012, compared with 18.8% in 2011. In 2011, 102 t of gold production (30%) came from small-scale mines, up from less than 25% in the previous year.

Most of Ghana's major mines are located in the Western Region, with the exception of AngloGold Ashanti's Obuasi mine, located in the Ashanti Region. Tarkwa mine, owned by a local mining company, Goldfields Ghana, accounted for 22.7% of total gold production in the country in 2012 (Chart 21). Meanwhile, the country's second largest gold producer in 2012, Newmont Ghana, plans to boost production from its key Akyem mine in Eastern Ghana in 2014. Akyem is estimated to have 7,400 t of gold reserves and began commercial gold production in early November 2013. Both Gold Fields and Newmont accounted for the bulk of gold production in Ghana in 2012. Under the country's mining law, the government of Ghana holds 10% equity in each mining property.

In 2013, however, the slump in gold prices impacted on many mining operators in Ghana, with two of the country's largest producing mines, AngloGold Ashanti's Obuasi mine and Gold Field's Damang mine, recording operating losses. Up to 4,000 workers could also be laid off in the next quarter in planned cost-cutting measures by operators. According to the Ghana Chamber of Mines (GCM), the cash cost of producing gold in Ghana increased to USD962/oz in the first half of 2013, up by 25% on the same period in 2012.

Chart 20: Gold Production in Ghana, tonnes

Source: US Geological Survey



Key economic sectors

Higher fuel and labour costs accounted for the bulk of the increase in costs, while profit margins have been undermined by a 25% slump in gold prices since November 2012. As a result, Ghana's mining sector cost profile has also recently struggled to remain competitive. For instance, the cost of producing an ounce of gold in Ghana is already comparatively higher than in other West African countries. Average production costs in Ghana were estimated to be 71% higher than in Sierra Leone and 48% higher than in Côte d'Ivoire in 2012.

While Ghana offers a stable operating environment for most mining investors, its regulatory and fiscal framework has seen some major changes in the past decade. The Minerals and Mining act of 2006 (Act 703) governs all aspects of the mining sector, including ownership structures and fiscal structures. Ghana's mining act also makes provision for local content policies to encourage the participation of locals in the industry. Thus, apart from the state's mandated 10% equity participation, all small-scale mining in Ghana is reserved for locals, while gold-mining companies are also mandated to prefer Ghanaians in jobs and other contracted services. In addition, companies are also required to submit detailed recruitment and training programmes for Ghanaians as part of their business plans.

Since 2010 Ghana's government has introduced a range of taxes and royalties into the sector. Royalties were revised from a previous scale of 3-6% to a flat 5%-rate, while capital allowances, which were previously applied on a scale starting at 80% in year 1 to 50% thereafter and declining annually, are now applied on a straight-line basis over a 5-year period at 20% annually. Corporate tax for mining operators was also increased to 35% from 25%; the corporate tax rate of 25% is still payable across other sectors (though all companies now pay a national 5% stabilisation levy). Exploration permits for mining companies have also increased by 900%. Meanwhile, stool fees (traditional lands) per 50 square (sq.) km of mining licence have also increased by 1800% and per 100 sq. km of exploration licence. Overall, all of these changes have increased mining operators' tax liabilities.

In November 2013, the government announced plans to introduce a mining windfall tax amid efforts to raise revenue and improve the weak public financial position (see Fiscal Policy). As part of the new mining tax plans, the government has set up a committee to review stability agreements within mining contracts signed with investors. However, an earlier bill proposing the introduction of a mining windfall tax of 10% in 2012 never made it through parliament before it was withdrawn. The new tax plans are likely to increase uncertainty within the mining industry, which has faced a challenging year as a result of the slowdown in gold prices alongside high fuel and labour costs. Indeed, Ghana's mining industry has called on the government to slash corporate tax from 35% to 30% and to change the mining royalty regime to a sliding scale that correlates directly with a company's profits. Given the recent increase in value added tax (VAT) in Ghana by 2.5 percentage points to 15%, the plans for a mining windfall tax are not likely to be welcome. A decision is unlikely to be made before Q2 2014, sustaining uncertainty in the sector.

Meanwhile, despite lower gold prices, mining operations will continue to generate millions of US dollars for the sector; this will have positive spillover effects in other sectors, such as finance, transportation, and construction, while also benefiting private consumption. However, the mining sector, like the oil sector, is vulnerable to changes in global commodity prices. Moreover, the country's inadequate power supply will continue to undermine mining operations (among other things), sustaining mining companies' heavy reliance on diesel-operated power generators in order to limit disruptions to mining operations. In turn, operating costs will remain elevated, squeezing profit margins. Encouragingly, the government has made the provision of reliable electricity a major priority; it plans to increase the domestic power supply from around 2,000 megawatts (MW) to 5,000 MW over the medium term (see Investment Environment).

"Ghana's mining sector cost profile has recently struggled to remain competitive. However, despite lower gold prices, mining operations will continue to generate millions of US dollars for the sector; this will have positive spillover effects in other sectors, such as finance, transportation, and construction, while also benefiting private consumption."

3.3 The Agricultural Sector

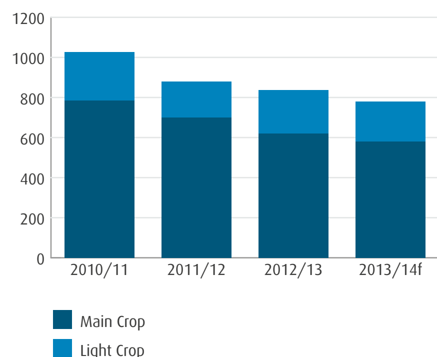
Agriculture plays a key role in the economy, although growth has weakened in recent years

Agriculture is the cornerstone of the Ghanaian economy. While agriculture's contributions to GDP have recently slumped on the back of offshore oil and gas discoveries and expansion of the mining sector, the sector remains the largest employer, providing jobs for 60% of the population. Agriculture accounted for around 23% of GDP in 2012, with most of the sector comprising smallholder subsistence farmers. Food crops make up 85% of agricultural output, with livestock, poultry, and fisheries representing 10%, and forestry around 1%. Cocoa is Ghana's most important cash crop, but the country also produces palm oil, cereals (maize, rice, millet, and sorghum), cassava, yams, cashew nuts, and natural rubber.

However, the growth of Ghana's agricultural sector has slowed in recent years, falling from 5.3% in 2010 to just 1.3% in 2012. Several factors are to blame, including periodic drought, low levels of productivity, high production costs, and underinvestment. In particular, government investment in agriculture (excluding cocoa) has dwindled from 12.2% of budgetary expenditure in 1980 to less than 2% by the end of the 1990s. The government is looking to reverse the sector's stagnation with its 2011-2015 Medium Term Agriculture Sector Investment Plan, which aims to raise the sector's annual growth to 6% and to allocate a minimum of 10% of annual budget expenditure to agricultural development (the government projects total expenditure to amount to around GHS35bn in 2014).

Chart 22: Ghana's Cocoa Production, tonnes

Sources: Cocobod; ICCO; Ecobank Research

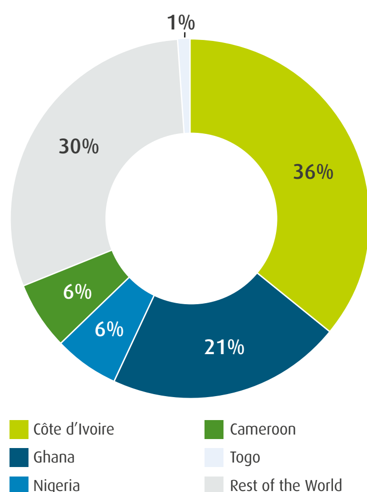


Ghana is the world's second largest cocoa producer, but yields are likely to fall

Ghana's cocoa sector is world class and the country is the second largest cocoa producer in the world after its neighbour Côte d'Ivoire. After gold mining, cocoa is the most important key source of government revenue and FX inflows. Export revenues from cocoa beans and semi-finished products totalled USD3.5bn in the first 10 months of 2013, accounting for around one-third of total merchandise exports during the period. This compared with USD4.2bn from gold receipts and USD3.2bn from oil receipts. The cocoa sector is regulated by the Ghana Cocoa Board (Cocobod), which has complete control of cocoa flows throughout the value chain. Cocobod outsources the in-country purchasing of cocoa beans from farmers to licensed buying companies (LBCs), which are required to pay a minimum price to producers, set at GHS3,392/t in both the 2012/13 and 2013/14 seasons (October-September). LBCs must sell all of their cocoa purchases for a set price to Cocobod, which exports them or sells them to local processors. Ghana's cocoa is known for its high quality and its rich and mild flavour, and as a result it typically commands a premium of USD50 per 100 t on the international market.

Chart 23: Ghana's Share of World Cocoa Production, 2012/13

Sources: Cocobod; ICCO; Ecobank Research



Following an extensive programme of replanting and improved provision of inputs, Ghana's cocoa crop has grown dramatically over the past decade, peaking at an all-time high of 1,025mn t in 2010/11. Output has since declined to an estimated 835,000 t in 2012/13, reflecting adverse weather conditions, smuggling to Côte d'Ivoire and a fall in the use of inputs (e.g. fertilisers). Cocobod has set a purchase target of 830,000 t for the 2013/14 season, but production is likely to fall short of this level and we forecast a total crop of around 800,000 t, primarily owing to a reduction in the provision of subsidised fertiliser (Chart 22). However, Ghana retains its status as the world's second largest cocoa producer after Côte d'Ivoire, accounting for 21% (Chart 23).

Aside from cocoa, Ghana produces a range of cash crops, including palm oil, groundnuts, and coconuts, most of which are consumed domestically. Cash crop production has been broadly stable over the past five years, averaging 2.9mn t per year. Ghana's most important commercial crop after cocoa is palm oil, although its output is dwarfed by its western neighbour, Côte d'Ivoire (Chart 24). Total production of palm oil reached 122,000 t in 2012, all of which was consumed locally. Production of oil palm fruit fell by 5% to 1.9mn t, while production of palm kernels rose slightly to 47,000 t. Groundnut production remains broadly stable, at around 500,000 t.

Key economic sectors

Ghana also produces significant amounts of local staple foods, including cassava, yams, maize, and taro (cocoyams). Production of these crops has risen strongly over the past five years, with output of 14.5mn t of cassava, 6.6mn t of yams, and 1.9mn t of maize in 2012 (Chart 25). The exception is taro/cocoyams, which fell by 25% over this period to 1.3mn t. Ghana's rice production has grown modestly in recent years, reaching 481,000 t in 2012, but it remains well short of domestic demand. Ghana also produces modest amounts of millet and sorghum, with output for the two crops reaching 180,000 t and 280,000 t respectively in 2012.

Plans for reform are underway, although the government's financial constraints will undermine prospects

With population growth outpacing the country's ability to produce food, Ghana has become dependent on food imports, which totalled USD1bn in 2012. Ghana imports large volumes of rice, wheat, sugar, poultry, and frozen fish. Rice is the second most consumed grain in the local diet after maize, and comprised 58% of cereal imports in 2012, with imports meeting 70% of the country's rice demand. In October 2013 the government limited rice imports to the ports of Takoradi and Tema in an effort to crack down on tariff evasion. The government has made boosting domestic rice production a priority of its food security strategy, but domestic production remains insufficient to meet demand, making the country vulnerable -to swings in global food prices.

Chart 24: Cash Crop Production, tonnes

Sources: FAO; Ecobank Research

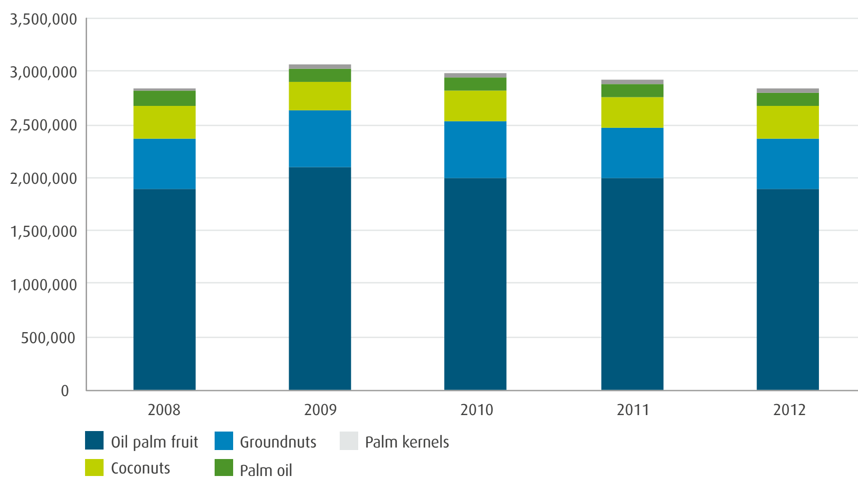


Chart 25: Food Crop Production, tonnes

Sources: FAO; Ecobank Research

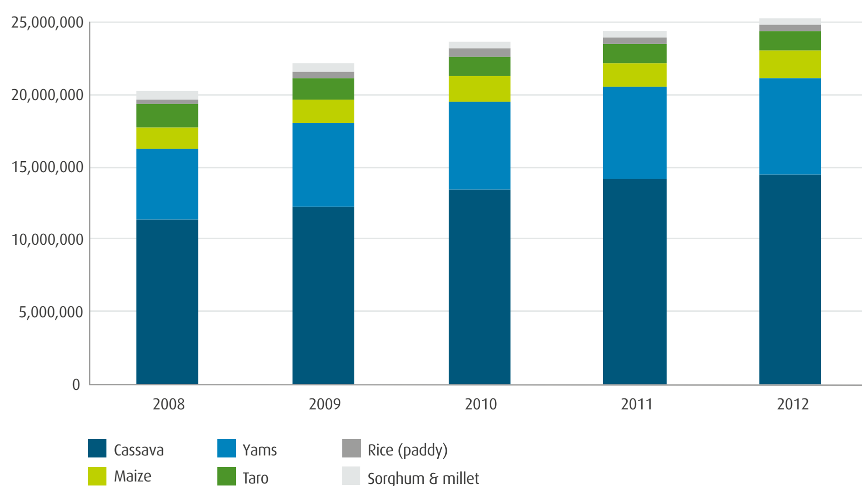


Chart 26: Share of Exports (percent), 2012

Source: Intracen

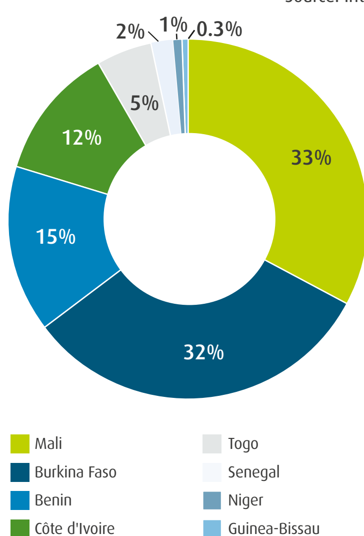
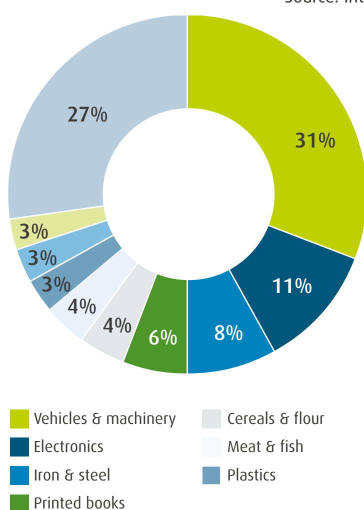


Chart 27: Share of Imports (percent), 2012

Source: Intracen



We expect Ghana's agricultural sector to continue to grow weakly in the short to medium term as a result of the government's mounting budgetary problems. Although the government has allocated funds for modernising the agricultural sector in the 2014 budget (constructing and rehabilitating existing irrigation schemes, scaling up agricultural insurance schemes, etc.), these are unlikely to be sufficient to stimulate significant growth in the sector. Ghana's agricultural sector requires massive investment to acquire new technology, lower production costs, and increase yields, and the government's financial constraints are likely to hobble its plans to transform the sector. In the meantime, the sector remains vulnerable to erratic weather (as most cultivation is rain-fed), a lack of inputs (notably of fertiliser, pesticides and fungicides), which could increase yields, a lack of expertise in commercial farming, and creeping desertification in the north of the country.

3.3.1 Trade Flows

Gold dominates the export profile, but there is potential for crude oil to surpass gold exports

Ghana's trade flows have been transformed by the first exports of crude oil and gas from its offshore oilfields in 2011, resulting in a significant rise in total export receipts, although imports remain high. Despite increased activity in the oil sector, gold remains Ghana's key export and in 2012, gold exports amounted to USD7.1bn, equivalent to 38% of the country's total exports (Chart 26). Nonetheless, crude oil is catching up with gold, accounting for 20% of exports in 2012. Cashews, cocoa, and cocoa products are Ghana's other significant export, accounting for 28% of export revenue in 2012. However, the value of each commodity export has been highly volatile, reflecting swings in international prices and only gold and crude oil have risen consistently over the past three years. In 2012, crude oil prices remained high (above USD100 per barrel) and crude oil production averaged around 99,300 barrels of oil per day (b/d) during the year, although this was well below the estimated peak of 120,000 b/d. However, production picked up in the first nine months of 2013, with the Jubilee oilfield producing an estimated average of just over 100,000 b/d during the period (see The Oil and Gas Sector). Oil has the potential to surpass gold and become the country's key export if production reaches the estimated peak of 120,000 b/d.

Capital and intermediate goods dominate the import profile, reflecting expanding activity

On the import front, Ghana is heavily dependent on imports of capital goods, reflecting the country's poorly developed manufacturing sector and an increase in development projects (particularly in the natural resources sector). Imports of vehicles, machinery, and electronics totalled USD5.9bn in 2012, the equivalent of 42% of imports (Chart 27). Industrial raw materials – including iron and steel, plastics, chemicals, and cement – made up a further 17% of imports, while food (cereals, flour, meat and fish) comprised 8% of imports.

South Africa and the EU account for nearly half of Ghana's exports

Ghana has a diverse range of trade partners, reflecting both historical relationships and the end users of the country's commodity exports. On the export front, South Africa and the EU take nearly half of Ghana's exports (Chart 28). Exports to South Africa are almost entirely of gold – worth USD4.2bn in 2012 – reflecting South Africa's highly developed gold and jewellery sector; gold also comprises most of the exports to the UAE (USD1.6bn) and Switzerland (USD1.2bn). In contrast, exports to the EU are a mixture of crude oil and raw cocoa beans, which feed Western Europe's refineries and chocolate manufacturers. Ghana's exports to India and Vietnam are almost entirely made up of raw cashew nuts (USD3.1bn in 2012), which are processed in these countries, reflecting Ghana's poorly developed processing sector.

Key economic sectors

The EU accounts for around one-third of all imports, which are mostly capital goods

On the import front, the EU accounts for around one-third of all imports (mostly capital goods; Chart 29), and the UK is the largest EU partner, making up 10% of Ghana's import bill. China accounts for 17% of imports, which are a mix of capital goods and industrial raw materials, and the USA, around 11%, nearly all of which are capital goods. Ghana's other significant import partners are India (mostly capital goods and pharmaceuticals), the UAE (capital goods) and South Korea (vehicles).

Ghana accounts for 10% of intra-regional trade flows

On a regional basis, Africa is an important trade partner for Ghana, although the country does not enjoy the same status as a regional trade hub as its western neighbour, Côte d'Ivoire. Africa accounts for 10% of Ghana's trade flows, with South Africa, Nigeria, and Togo dominating the flows. South Africa is the leading offtaker of Ghana's gold, in return exporting capital goods made in South Africa to Ghana. Nigeria is a key offtaker of Ghana's wood and palm oil, and exported USD228mn of crude oil to Ghana in 2012, which was refined at the Tema Oil Refinery (TOR). Togo acts as a trade hub for goods going into and out of Ghana, taking exports of petroleum gas and coffee and providing imports of cement (USD72mn in 2012) from the state-run phosphate company, the Société Nouvelle des Phosphates du Togo (SNPT). Burkina Faso is also a significant export market for cosmetics, most of them re-exports, while Morocco is an important supplier of phosphates and fish.

3.4 The Banking Sector

3.4.1 Market Structure

Ghana's financial sector comprises a number of financial institutions, dominated by banks in transaction terms. The sector comprises 26 universal banks (Chart 30), 137 rural and community banks, 138 microfinance institutions and 53 non-banking financial institutions, including savings and loans, and leasing and mortgage firms. The number of banks operating in Ghana has remained unchanged at 26 for the past five years despite two mergers (the Ecobank/Trust Bank merger and the Access Bank/Intercontinental Bank merger), which should have reduced it to 24 banks. The reason for this was the issuance of two new licences to new entrants Energy Bank, in 2011, and the Royal Bank, in 2012, which replaced the acquired banks.

3.4.2 Distribution

Banks are keen to grow their deposit franchise

The drive to strengthen deposit franchises is expected to lead to branch expansion over the next three years as banks execute their organic expansion models. At end-2012 the total number of bank branches stood at 859 (from 795 in 2011), reflecting an 8% y/y growth.

Chart 30: Number of Commercial Banks in Ghana

Sources: Bank of Ghana; Ecobank Research

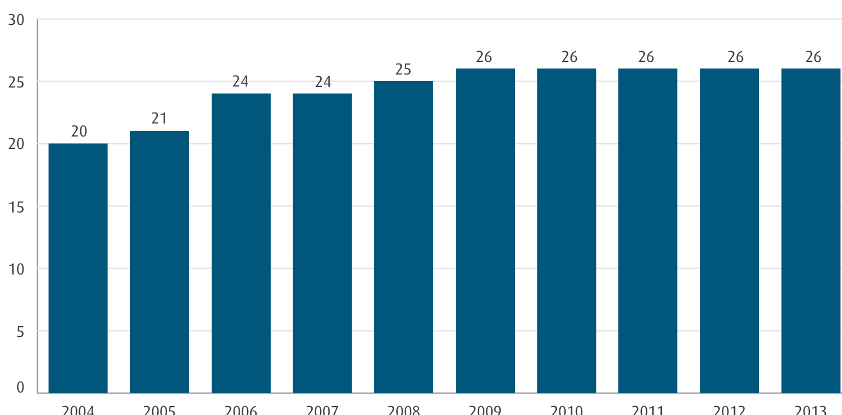


Chart 28: Key Export Partners, 2012

Source: Intracen

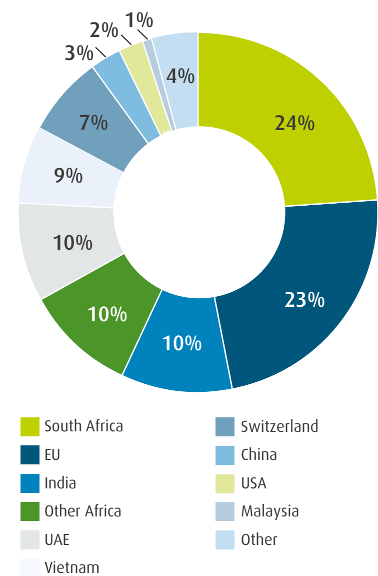
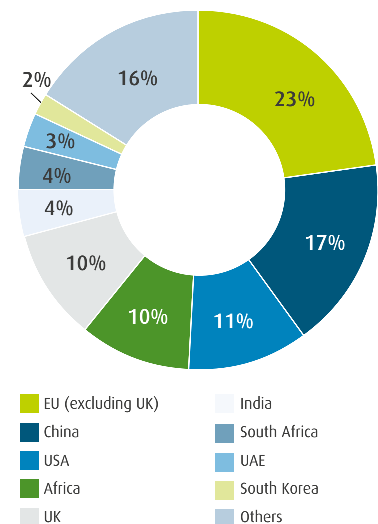


Chart 29: Key Import Partners, 2012

Source: Intracen



"The future of banking in Ghana, from a balance sheet perspective, lies in corporate and wholesale banking, and the oil and gas, cocoa and telecom sectors will remain the key drivers."

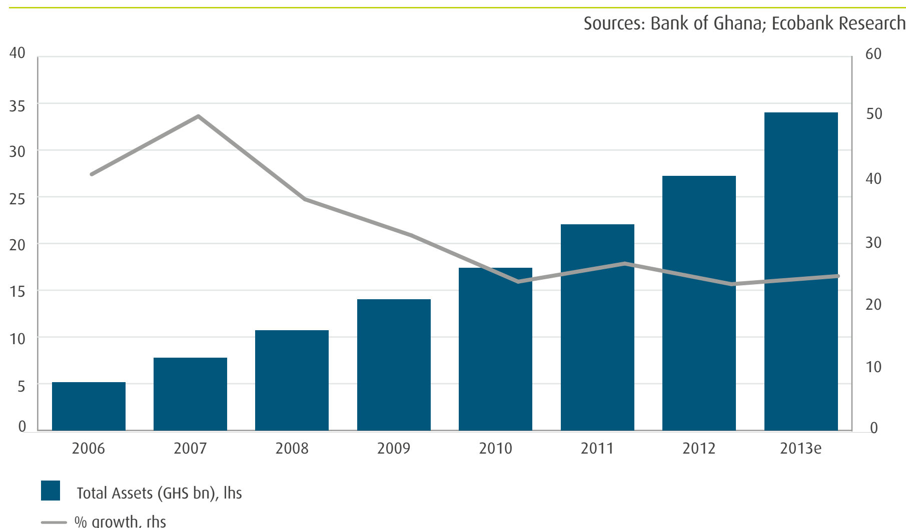
We expect the total number of bank branches to pass the 1,000 mark by the end of 2014. Specifically, we expect to see significant growth in the branch network of key names such as Standard Chartered, CAL Bank, UT Bank and the Royal Bank. CAL Bank is executing a three-year strategy aimed at increasing its branch network from 18 branches in 2012 to 30 branches by the end of 2015. Similarly, Standard Chartered aims to double its branch network from 21 branches in 2011 to 42 branches by the end of 2015 as part of a group strategy. We also expect to see new entrants, which include the Royal Bank and Energy Bank, expanding their footprints.

Influx of foreign banks accelerates asset growth

Ghana's banking sector is dominated by foreign banks; these include leading Nigerian and Asian banks, which have operated in the country over the past decade. Out of the 26 deposit money banks, 15 are foreign-owned and only 11 Ghanaian-owned. The foreign entrants were United Bank for Africa (2004), Guaranty Trust Bank (2004), Zenith Bank (2005), Fidelity Bank (2006), Bank of Baroda (2007), Sahel-Sahara Bank (2008), Access Bank (2008), Energy Bank (2011), and Royal Bank (2012). The influx of foreign banks was a primary factor in Ghana's lucrative emerging oil and gas sector, as well as its gold, cocoa, and telecoms sectors, which are often characterised by big-ticket transactions. A classic big-ticket transaction is the syndicated pre-export trade finance credit lines of the Ghana Cocoa Board (COCOBOD) (which remains the largest non-oil-sector deal) with foreign banks, some of which have a local presence in Ghana, for the purchase of cocoa from local farmers. Foreign banks, especially those with European-parentage, have continued to dominate some of the trademark big transactions in Ghana because of their access to the much-needed cheap foreign currency liabilities, especially the USD.

However, Nigerian banks have also continued to offer strong value propositions, especially from a pricing perspective. As a result, total assets of the Ghanaian banking industry grew strongly by a 7-year compound annual growth rate (CAGR) of 33.1% to GHS27.34bn (USD14.27bn) in 2012 on the back of these big-ticket transactions. Banking penetration, however, as measured by the ratio of assets-to-GDP, is still low at 39% in Ghana, an indication that there are still opportunities for further expansion of the banking sector balance sheet in Ghana, which grew by an estimated 24.8% y/y to GHS34.0bn (USD16.55bn) in 2013 (Chart 31). The future of banking in Ghana, from a balance sheet perspective, lies in corporate and wholesale banking and the oil and gas, cocoa and telecom sectors will remain the key drivers.

Chart 31: Trend in Total Assets



Executive summary | Global and regional outlook | Macroeconomic policy environment | **Key economic sectors** | Business operating environment

Key economic sectors

Still not much concentration risk

While the total industry loan book grew strongly by 39.2% y/y in 2012 compared to a growth of 17% y/y in 2011 (Chart 34), the top five banks by loans (Ecobank, Standard Chartered, Ghana Commercial Bank Ltd., Agricultural Development Bank and CAL Bank) collectively accounted for 36.3% of the total industry loan book; in our view, this does not present much concentration risk, especially when compared with Nigeria and Kenya, which had 50% and 53% respectively at the end of 2012.

On a sectoral basis, Ghana's commerce and finance sector accounts for the majority of credit extended by banks 26.5% (Chart 35); this is followed by the services sector, which accounts for 26.3%, and the manufacturing sector (11.0%); collectively, these three sectors accounted for the majority of outstanding credit in Ghana in 2012. However, this sectoral diversification does not present any concentration risks to the banking sector.

Over the short term, we expect a broad slowdown in balance sheet activities, with growth in the loan book slowing to 22.1% y/y in FY2013 primarily as a result of a combination of a high base in 2012 and an industry focus on tightening credit risk management to ensure sustained improvement in asset quality. We expect the commerce and finance, services, and manufacturing sectors to remain the leading recipients of credit extended by the banking sector, as these sectors are key drivers of Ghana's import-dependent economy. We also expect the allocation of credit to the construction sector to increase as a result of a significant ramp-up in infrastructure development and the planned creation of the Ghana Infrastructure Fund, which will be able to borrow on its own balance sheet from local and international investors to finance commercially viable infrastructure projects.

3.4.3 Funding

The future lies in self-funding assets

The Ghanaian banking sector is operating with a deposit-based funding strategy (Chart 34), which is reflected in the fact that the deposit-to-asset ratio has been kept within a 63-72% range in the past decade (Chart 35). Under this strategy, banks mobilise low-cost deposits from customers to fund the creation of assets, thereby maintaining a very high deposit-to-asset ratio. The deposit-to-asset ratio for Ghanaian banks fell slightly to 71.9% in 2012 from 72.5% in 2011 as some banks failed to mobilise deposits aggressively in 2012. In 2013 we have seen several banks executing aggressive deposit mobilisation promotions, opening new branches and adopting modern deposit mobilisation techniques such as mobile van banking.

As the battle for low-cost retail deposits from non-bank and microfinance institutions that are offering attractive rates to depositors rages on, banks will have to shift their strategies to booking more cash-flow-backed self-funding assets by targeting more high-quality clients in the corporate and small to medium-sized enterprise (SME) space.

Chart 32: Trends in Total Loans

Sources: Bank of Ghana; Ecobank Research

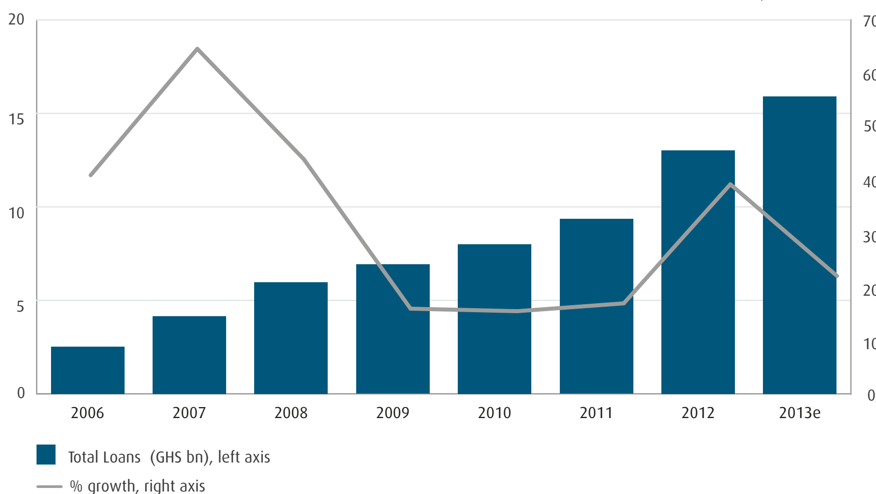


Chart 33: Distribution of Credit by Sector in 2012

Sources: Bank of Ghana; Ecobank Research

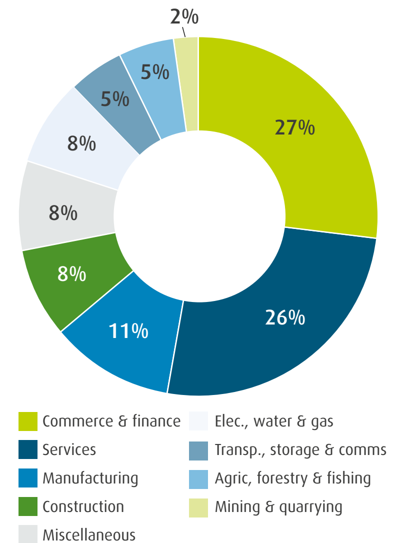


Chart 34: Trends in Total Deposits

Sources: Bank of Ghana; Ecobank Research

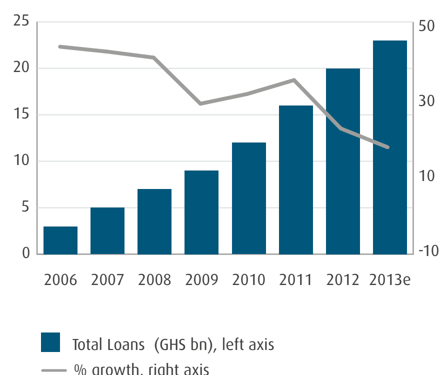
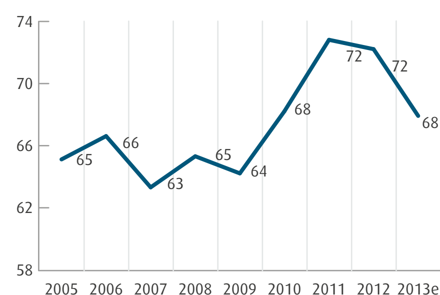


Chart 35: Deposit-to-Asset Ratio, percent

Sources: Bank of Ghana; Ecobank Research



This is because the current model of banks funding both their corporate and consumer asset books through retail deposit-raising outlets could become unsustainable because of the increasing non-stickiness of most of the deposits; more specifically, over 70% of existing funding liabilities have a contractual life of under 12 months, limiting banks' ability to create longer-tenured assets, especially in the retail segment of the market.

3.4.4 Capital Adequacy

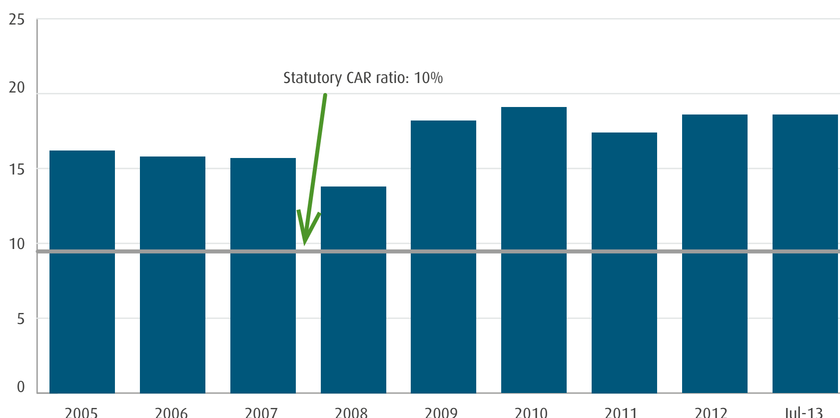
The banking sector is well capitalised, cushioning the banks against potential shocks

The Ghanaian banking sector is well capitalised, with the capital adequacy ratio (CAR) standing at 18.6% in July 2013 (Chart 36), well above the globally recommended minimum of 8% and Ghana's regulatory minimum of 10%. Significant capital has been injected into the Ghanaian banking sector in the past decade thanks to the entry of new players (such as Sahel-Sahara Bank, Access Bank, Energy Bank, and Royal Bank) and a central bank directive requiring all banks to increase their stated capital from GHS7mn in 2008 to GHS60mn (USD31.96mn) by the end of 2012. In turn, capital jumped from GHS126.4mn in 2005 to GHS2,168mn (USD1,135.67mn) in 2012 via capital injections by parent companies of foreign banks operating in Ghana, rights issues, and private placements as well as mergers and acquisitions (Access Bank/Intercontinental Bank deal in 2011 and Ecobank/TTB deal in 2012). The recapitalisation process that was executed between 2009 and 2012 boosted the capital adequacy ratio (CAR) of the Ghanaian banking sector from 13.8% in 2008 to a range of 17.4-19.1% over the past four years. We expect the CAR to be maintained at around 19% in the short term, but this could rise significantly in the medium term as existing banks raise capital to meet a new minimum capital requirement of GHS120mn.

In 2013, the Bank of Ghana doubled the minimum capital requirement for new entrants from GHS60mn to a new minimum capital of GHS120mn. Potential entrants into the Ghanaian banking sector must therefore provide a minimum stated capital of GHS120mn before being granted a licence to operate by the central bank. However, existing banks will not be pressured to raise their minimum capital to GHS120mn within a specified period; rather, they will be allowed to raise their minimum capital gradually, based on their financing needs and risks. Currently, only Ecobank's FY2012 stated capital of GHS226.64mn is above the GHS120mn level – an indication that almost all banks will need to raise capital (Chart 37). In our estimation, the banking sector will need to raise close to GHS1bn to be able to meet the new minimum capital of GHS120mn per bank. Although existing banks have been given the flexibility to raise their minimum capital gradually to GHS120mn within their own time frame and based on their financing needs, we expect banks planning to finance large transactions to seek approval from their shareholders to increase their capital within the next two years, thereby presenting opportunities to investors in the form of rights issues and private placements.

Chart 36: Capital Adequacy Ratio (percent)

Sources: Bank of Ghana; Ecobank Research



Key economic sectors

3.4.5 Asset Quality

Asset quality is improving

The asset quality of the Ghanaian banking industry has improved in recent years as a result of improved credit risk management. The non-performing loans (NPL) ratio of the Ghanaian banking sector reached a low of 6.9% in 2007 before rising to a nine-year high of 17.6% in 2010 on the back of increased business costs (amid high price pressures and a depreciation of the local currency, which increased import costs) and the inability of the Ghanaian government to settle arrears with contractors (Chart 38). However, by 2012, the quality of the loan book had improved, with the NPL ratio falling to 13.2% owing to the recovery of non-performing loans that had gone into the loan loss category and the implementation of prudent credit risk management techniques; we expect the latter to help reduce the NPL ratio further to around 12.5% in FY2013 and 12.0% in the first half of 2014. We expect to see a reduction in NPLs in some of the most affected sectors, such as commerce and finance, services, manufacturing, and construction. Loan recovery will be boosted by the government's plan to meet outstanding commitments and arrears, which is budgeted to amount to GHS2.82bn in the 2014 budget (around 3.1% of GDP). Furthermore, the ability of borrowers to repay their loans could be boosted by a gradual decline in lending rates, which is now tied partly to the 91-day T-bills in a new base rate formula for commercial banks that was introduced by the Bank of Ghana in 2013. Treasury yields in Ghana are currently on a downward trajectory (see The Yield Curve and Outlook).

However, the asset quality of the Ghanaian banking industry appears to be much better than current figures suggest. The Bank of Ghana has disclosed that the industry NPL ratio of 12.9% for July 2013 will drop to 5.3% if the loss portion of NPLs is deducted. The loss portion of NPLs accounts for over 60% of the total NPLs of the Ghanaian banking industry, as shown in Chart 39. Although most banks have fully provided for this loss portion and could have written it off, they are unable to write it off because of central bank prudential guidelines. Recent information from the central bank indicates that the regulator is planning to review the guideline to allow banks to write off the loss portion of NPLs that they have fully provided for. Upon execution, we expect our initial NPL ratio estimate of 12% (which includes the loss portion) to drop to 5.0% in the first half of 2014.

"We expect to see a reduction in NPLs in some of the most affected sectors, such as commerce and finance, services, manufacturing, and construction. Loan recovery will be boosted by the government's plan to meet outstanding commitments and arrears, which is budgeted to amount to GHS2.82bn in the 2014 budget (around 3.1% of GDP)."

Chart 37: Stated Capital for FY2012 (GHS mn)

Sources: Bank of Ghana; Ecobank Research

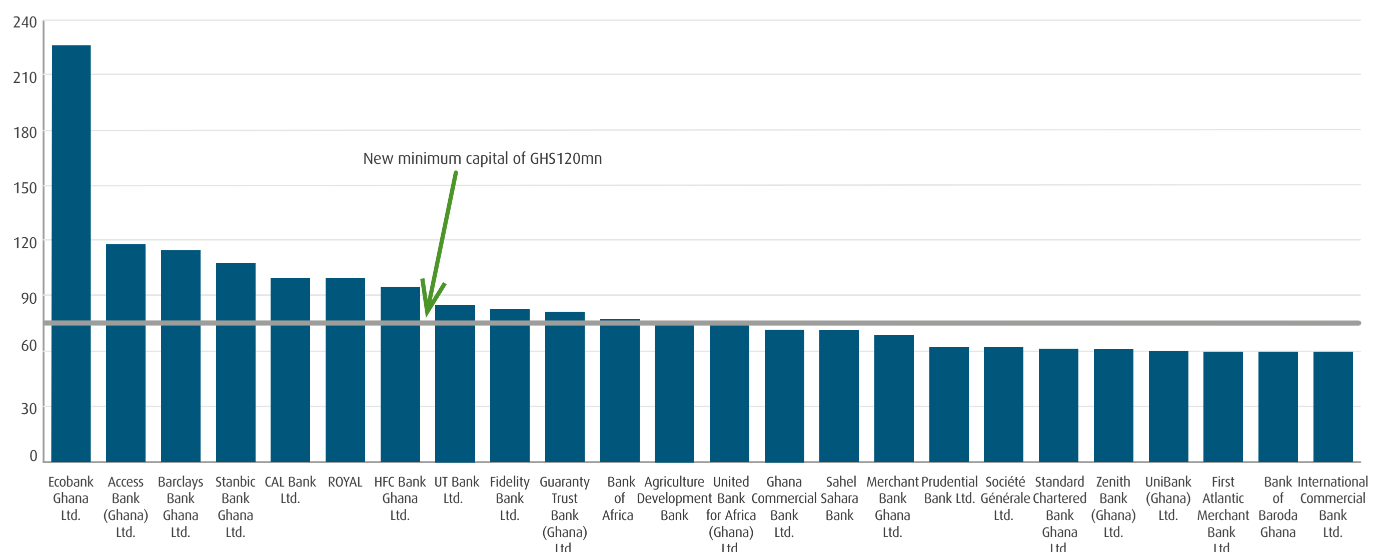
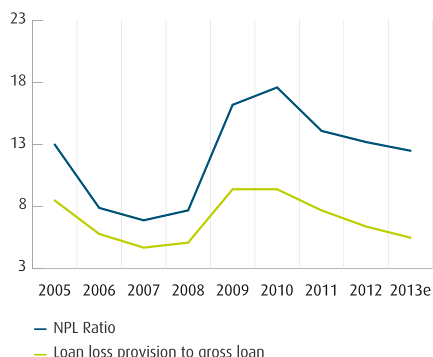


Chart 38: Ratios of Non-Performing Loans vs. Loan Loss Provisions (percent)

Sources: Bank of Ghana; Ecobank Research



3.4.6 Banks' Profitability

The banking sector is profitable

Banking sector profits have increased significantly in recent years thanks to expansion in the loan book, a low-cost deposit-funding strategy, improved efficiency, and emerging opportunities in a rapidly growing economy. Profit after tax grew by a 7-year CAGR of 36.2% to GHS902.3mn (USD472.66mn) in 2012. However, return on equity (ROE) dropped to about 18% from 2009 to 2011 primarily as a result of a significant growth in shareholders' funds as banks raised capital to meet a new minimum capital requirement. ROE recovered strongly in 2012 to 22.4% as revenues and profitability were buoyed by the deployment of the capital raised by the banks. Similarly, return on assets (ROA) also improved to a seven-year high of 4.1% in 2012 from 3.6% in 2011. We expect ROE to be maintained within a range of 23 25% in the next three years as banks continue to post robust growth in earnings, driven by a potential recapitalisation and attractive big-ticket transactions in the oil and gas, gold, telecoms, and cocoa sectors.

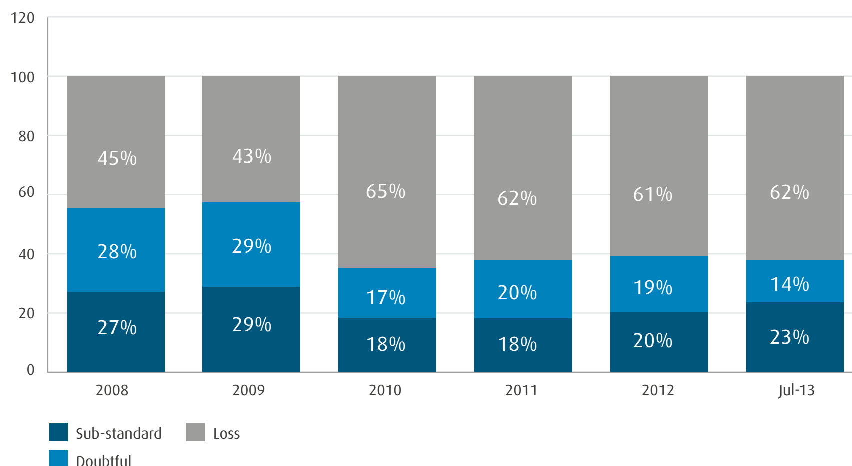
3.4.7 Potential stock market listings

Initial public offers are set to rise

The outlook for the stock market is also good. We expect emerging investment opportunities in the Ghanaian banking sector in the form of initial public offers (IPOs) as a few banks are planning to list on the Ghana Stock Exchange within the next three years. In 2011 the shareholders of Fidelity Bank approved the listing of the bank on the stock market by the end of 2015. In addition, the terms of a recent transaction that enabled Fortiz Private Equity Fund Limited to acquire a controlling stake in Merchant Bank stipulates that the bank should be listed on the Ghana Stock Exchange within the next three years. In our view, Fidelity Bank's IPO is likely to receive massive investor interest on the back of a remarkable transformation of the bank's operations in the past five years. Established in 2006, Fidelity Bank has become one of the fastest-growing banks in Ghana in the past five years. The bank grew its branch network from 12 branches in 2008 to 45 branches in 2012 while its asset base grew from GHS219.40mn to GHS1.35bn over the same period. The bank continued to enjoy improved profitability despite the rapid expansion of its operations, as evidenced by growth in net profit, which rose from GHS2.41mn in 2008 to GHS27.45mn in 2012. The bank's earnings per share also grew from GHS0.14 in 2009 to GHS1.68 in 2013, thereby triggering a growth in dividend per share from GHS0.05 in 2009 to GHS0.32 in 2012. However, Merchant Bank is currently not a profitable entity and investor interest in Merchant Bank's IPO will depend on whether the bank is able to return to a sustained level of profitability prior to the IPO. Successful IPOs for the two banks would increase the number of listed Ghanaian banks from seven to nine by 2016.

Chart 39: Composition of Non-Performing Loans

Sources: Bank of Ghana; Ecobank Research



Business operating environment

4.1 Investment Environment

Attractive investment destination, but infrastructure bottlenecks remain

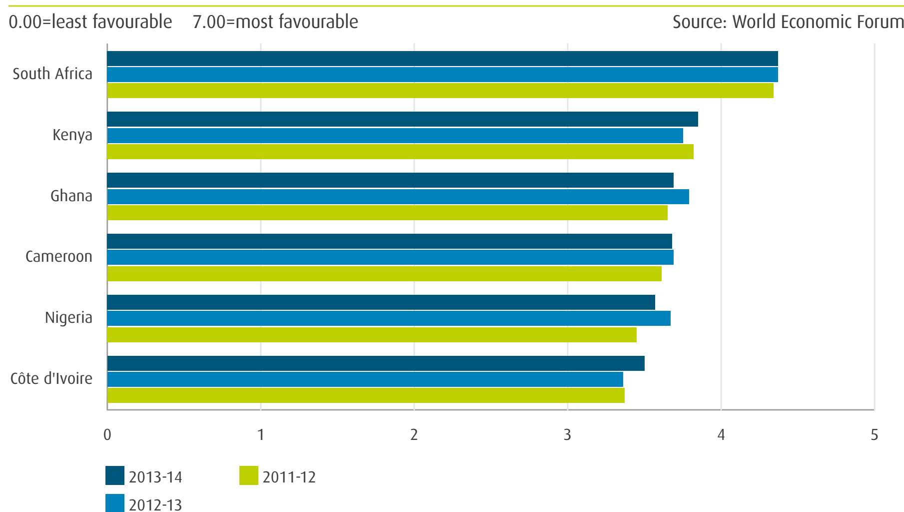
Ghana's investment environment has improved in recent years, thanks to ongoing reforms aimed at promoting good governance, providing access to education, healthcare and utilities, and strengthening the regulatory environment, including the banking sector. These factors, among other things, have increased the country's attraction for investment, which has underpinned strong growth in recent years. Amid the strong growth trajectory, Ghana has been able to attain lower middle-income status, with an estimated per capita income of USD1,782 in 2013, compared with a per capita income that was well below the World Bank's low-income category of sub-USD1,035 a decade ago. The country's market size has also increased (nominal GDP is estimated to grow by nearly 13% to about USD46bn in 2013), providing businesses with opportunities to take advantage of economies of scale and scope; the country also boasts a relatively fast-growing population (growing by 2.6% per annum) and relative political stability. As a result, the stock of inward FDI has grown robustly in recent years, from 9.9% in 2010 to 24.7% in 2012. However, growth is down from 32.2% in 2011, reflecting, in part, base effects following the commencement of oil exports from the country in 2010-11, as well as continued power outages, which remain a major constraint to doing business in the country.

Despite ongoing efforts to promote infrastructure development, Ghana has a huge infrastructure deficit, which continues to act as a drag on economic growth. Energy supply remains unreliable, forcing businesses and households to rely on private generators, increasing costs. This is particularly so in the manufacturing and agricultural sectors. The country's electricity problem has been exacerbated by technical difficulties in the West African Gas Pipeline Company (WAGPCo), which supplies gas to the country from Nigeria. The business environment is also hampered by high levels of bureaucracy and weak institutional capacity.

The weaknesses underlying Ghana's business operating environment were underlined in The Global Competitiveness Report 2013-2014 published by the World Economic Forum (WEF), which ranked the country in the bottom quartile (114th out of 148 countries surveyed) in terms of its global competitiveness; Ghana scored 3.69 (Chart 40), compared with 3.79 the previous year, where 0.0 represents the least competitive country and 7.0 the most competitive one, marking a slight deterioration in its level of competitiveness. This was because of deteriorations in the fiscal and current accounts (see Macroeconomic Environment), alongside a huge infrastructure deficit (which sustains high distribution costs) and continued power outages.

Chart 40: Global Competitiveness Score

0.00=least favourable 7.00=most favourable Source: World Economic Forum



"Despite ongoing efforts to promote infrastructure development, Ghana has a huge infrastructure deficit, which continues to act as a drag on economic growth. Energy supply remains unreliable, forcing businesses and households to rely on private generators, increasing costs. This is particularly so in the manufacturing and agricultural sectors."

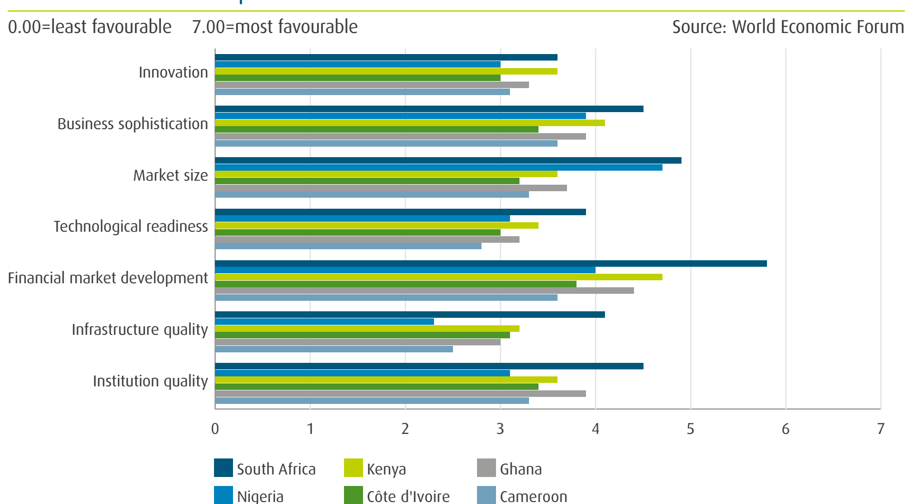
However, the report shows that Ghana ranks in the top three of the six major markets shown in Chart 41 in terms of the following business competiveness indicators: innovation, business sophistication, market size, technological readiness, financial market development, and institutional quality. Nonetheless, it continues to lag behind in terms of infrastructure quality. The government acknowledges the need to improve the country's competitiveness and, as such, there are plans to accelerate reforms to diversify the economy and reduce the country's heavy reliance on commodities as well as to strengthen the banking sector and improve its power electricity generation capacity. With regard to the latter, Ghana's electricity capacity currently stands at around 2,000 megawatts (MW), which is inadequate to meet domestic demand and, with economic activity set to expand over the short to medium term, the IMF estimates that the country will need to increase its supply by an estimated 200-250 MW per year to meet demand, with more needed to improve reliability.

The government plans to increase power generation capacity to 5,000MW by 2016, which we believe is achievable. In doing so, it has increased its efforts to promote joint ventures or public-private partnerships (PPPs) between the state-owned company, Ghana National Gas Company, and private companies such as AfGen, a UK-based affiliate of Gasol Plc., to import natural gas into the country and bridge the country's gas deficit for power generation. This move has been made possible by the government's recent decision to liberalise the sector through the introduction of a number of power sector reforms. Previously, the country had relied on low electricity tariffs, which created a barrier to entry into the country's electricity market for private companies. However, recent liberalisation of the market has attracted private-sector investments that will help to increase capacity and streamline management and distribution of electricity. Ghana is also a signatory to the West African Power Pool treaty, which aims to develop the energy capacity of each country in the region and link their transmissions to consolidate their power generation resources. In the medium term, the government plans to become a major exporter of electricity to West Africa, as the country shifts to gas-based power generation. However, this suggests higher electricity costs. Already, the government has increased electricity tariffs by nearly 80%, effective from 1 October 2013.

While progress is likely to take place, and although the government will continue to pursue policies that will focus on attracting high levels of investment, it will take a considerable time before Ghana's commercial environment becomes as sophisticated as South Africa's. This is because of weak public project implementation capacity, which causes delays in infrastructure development projects, as well as inadequate governance levels (albeit improving).

Chart 41: Business Competitiveness Indicators

0.00=least favourable 7.00=most favourable Source: World Economic Forum



Executive summary | Global and regional outlook | Macroeconomic policy environment | Key economic sectors | Business operating environment

Business operating environment

4.2 Legal and Regulatory Environment

Reforms have improved the regulatory environment, but the country still lacks a robust regulatory framework

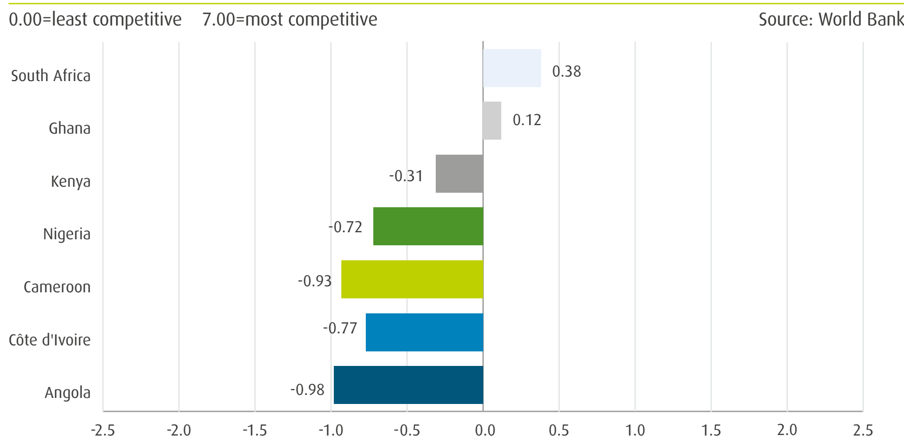
Ghana's global ranking in terms of intellectual property rights is moderate. According to the 2013 International Property Rights (IPR) Index report, Ghana scored 5.5 (where 0.0 represents the least favourable country in securing property rights and 10.0 the most favourable), ranking 57th out of 130 countries worldwide, broadly on a par with major emerging markets such as Brazil and India. On a regional basis, the country ranked 4th out of 23 countries in Africa, reflecting ongoing reform efforts to strengthen the regulatory environment. Key improvements have been in the areas of intellectual property rights (Ghana scored 5.6, ranking 52nd out of 130 countries worldwide and 2nd out of 23 regional countries) and the legal and political environment (Ghana scored 5.3, ranking 54th out of 130 countries worldwide and 4th out of 23 regional countries). This is owing to increased efforts to protect property rights, control corruption and strengthen the country's democracy. However, protection of physical property rights remains a challenge. It scored 5.5, ranking 85th out of 130 countries worldwide and 10th out of 23 regional countries. Although the judiciary generally functions properly, the country's unfavourable global ranking reflects the difficulties in registering and protecting physical property and enforcing contracts.

However, improved efforts to reform Ghana's regulatory environment have seen the country's overall level of governance move from negative to positive territory since 2009; this follows the recent establishment of regulatory bodies such as the National Communications Authority, the National Petroleum Authority, the Petroleum Commission, and the Public Utilities Regulatory Commission, which are mandated to oversee activities in the telecoms sector, the downstream and upstream petroleum sectors and the power and utilities sector. However, the World Bank's latest Governance Survey, released in 2013, shows that the country's regulatory quality deteriorated slightly in 2012, scoring 0.12 compared with 0.13 in 2011 on a scale of -2.50 to 2.50 (where 2.50 represents the highest quality and -2.50 the lowest, Chart 42). This deterioration reflects weaknesses in these bodies, including resource constraints, proneness to political interference, and lengthy procedures (albeit improving). Positively, the World Bank and a number of the bilateral donors are providing funds and expertise to strengthen these bodies as well as the judicial system.

"Improved efforts to reform Ghana's regulatory environment have seen the country's overall level of governance move from negative to positive territory since 2009."

Chart 42: Regulatory Quality, 2012

0.00=least competitive 7.00=most competitive Source: World Bank



Meanwhile, the World Bank's Doing Business 2014 report shows that Ghana has made significant progress in reducing the cost of doing business in the country. In fact, Ghana has moved up 20 places in the 2014 report to 67th position compared with 87th in 2009. This is a result of measures that have made it easier to start a business (it now takes an average of 14 days, compared with 30+ days in 2009) and to obtain credit following the establishment of a unified credit registry system in 2010 (which by 1 January 2013 had listed the credit history of 1,357,230 individuals and 170,141 firms from the previous five years). The improvement is also due to the government's establishment of a commercial court and 'fast track' courts (to expedite commercial cases within a six-month period), both of which have reduced the average time it takes to resolve cases. The government has also made progress in protecting investors.

However, in current overall rankings the country fell three places compared with the previous report (2013) as a result of deteriorations in some regulatory aspects relating to starting a business, enforcing contracts, obtaining construction permits, and trading across borders (Table 12). Although launching a business now requires fewer procedures and less cost and time compared with five years ago, such regulatory indicators have deteriorated in comparison with 2013 owing to recent requirements by the government for entrepreneurs to obtain a tax identification number prior to incorporating a company.

Table 12: Ease of Doing Business in Ghana*

	2009	2013	Change over 2009	2014	Change over 2013
Ease of doing business: ranking	87	**64**	↑	**67**	↓
Out of number of countries worldwide	183	185		189	156
Registering Property					
Number of procedures	5	5	–	5	–
Time (days)	34	34	–	34	–
Cost (% of property value)	1.2	1.2	–	1.2	–
Starting a Business					
Number of procedures	9	7	↑	8	↓
Time (days)	34	12	↑	14	↓
Cost (% of income per capita)	32.7	4.3	↑	15.7	↓
Enforcing Contracts					
Number of procedures	36	36	–	36	–
Time (days)	487	487	–	495	↓
Cost (% of claim)	23	23	–	23	↑
Paying Taxes					
Number of payments per year	33	32	↑	32	↓
Time (hours per year)	224	224	–	224	–
Total tax rate (% of profit)	32.7	33.5	↑	22.9	↓
Dealing with Construction Permits					
Number of procedures	18	16	↑	15	↓
Time (days)	220	218	↑	246.5	↓
Cost (% of income per capita)	1282.6	481.2	↑	259.6	↓
Getting Electricity					
Number of procedures	–	4	n/a	4	–
Time (days)	–	78	n/a	79	↓
Cost (% of income per capita)	–	78	n/a	79	↓

Source: World Bank

Note: *(↑) refers to a positive change; (↓) refers to a negative change; (–) refers to no change; n/a means not available.

Business operating environment

The cost associated with obtaining electricity has also increased significantly compared with 2013; this is despite ongoing power sector reforms. This deterioration is due to a number of factors including regulatory ones, such as poor sector planning, which increases the cost of providing electricity, limited project development resources and supply constraints following technical difficulties in the West Africa Gas Pipeline company, which supplies gas to the country from Nigeria for its gas-based power generation. While prospects for other gas projects appear positive (see The Oil and Gas Sector), we believe that Ghana will continue to experience power shortages for the foreseeable future, posing a challenge to businesses.

In comparison with the regional average, Ghana fares favourably in most of its regulatory aspects. The country ranks fourth (after Rwanda, South Africa and Botswana) in sub-Saharan African on the ease of doing business. On average, it fares better than Middle Africa's largest economy, Nigeria, as well as Kenya, in most regulatory aspects, including launching a business, registering a property and paying taxes (Table 13). It takes on average 14 days to launch a business in Ghana, costing 15.7% of income per capita, compared with 28 days in Nigeria, costing around 58.3% of income per capita and 32 days in Kenya, costing 38.2% of income per capita. The time and cost involved in registering property in Ghana are also less than in Nigeria and Kenya and even than in Côte d'Ivoire.

"While prospects for gas projects appear positive, we believe that Ghana will continue to experience power shortages for the foreseeable future, posing a challenge to businesses."

Table 13: Ease of Doing Business among Key Regional Countries, 2014

	Regional Average	Angola	Cameroon	Côte d'Ivoire	Ghana	Kenya	Nigeria	South Africa
Ease of doing business (ranking)		179	168	167	67	129	147	41
Starting a Business								
Number of procedures	8	8	5	5	8	10	8	5
Time (days)	29.7	66	15	8	14	32	28	19
Cost (% of income per capita)	67.4	130.1	36.2	44.4	15.7	38.2	58.3	0.3
Dealing with Construction Permits								
Number of procedures	15	12	13	16	15	9	18	16
Time (days)	171.1	204	139	364	246.5	125	116	78
Cost (% of income per capita)	736.8	28.6	1020.5	134.8	259.6	191.3	3504.8	9.9
Registering Property								
Number of procedures	6	7	5	6	5	9	13	7
Time (days)	58.9	191	86	42	34	73	77	23
Cost (% of property value)	9	3	19.1	10.8	1.2	4.3	20.8	6.1
Paying Taxes								
Number of payments per year	38	30	44	62	32	41	47	7
Time (hours per year)	314	282	630	270	224	308	956	200
Total tax rate (% of profit)	53.3	52.1	48.8	46.4	22.9	44.2	33.8	30.1
Enforcing Contracts								
Number of procedures	39	46	42	32	36	44	40	29
Time (days)	652	1296	800	585	495	465	447	600
Cost (% of claim)	51.1	44.4	46.6	41.7	23	47.2	92	33.2
Getting Electricity								
Number of procedures	5	7	4	8	4	6	8	5
Time (days)	141	145	64	55	79	158	260	226
Cost (% of income per capita)	4819.9	689.7	1831.8	3366.3	2295.3	1090.7	960.5	1432.1

Source: World Bank

However, while Ghana fares better than most countries in the region in terms of obtaining electricity (taking an average of 79 days at a cost of 2,295.3% of income per capita, compared with a regional average time of 141 days at a cost of 4,819.9% of income per capita), the average cost of obtaining electricity in the country is much higher than in key markets such as Angola, Cameroon, Kenya, Nigeria, and South Africa, where it costs respectively 689.7%, 1831.8%, 1090.7%, 960.5% and 1432.1% of their per capita incomes. With the exception of Cameroon, it takes less time to obtain electricity in Ghana than in these markets. To some extent, the high cost of obtaining electricity in Ghana reflects the slow pace in power sector reforms to increase the electricity supply in recent years. However, plans are underway to accelerate the power reform programme via PPPs (see Section 4.5) and improve the productive capacity of the country – a move that will help to ease supply bottlenecks and improve the country's competitiveness.

4.3 Oil Sector's Legal and Regulatory Environment

Indigenous participation to increase, but foreign investors are likely to be assured of a fair rate of return

Ghana's petroleum commission was established in 2011 and is charged with managing oil and gas sector activities in the country as well as liaising with the state-owned Ghana National Petroleum Corporation (GNPC) and promoting local content and participation in the oil and gas sector. The Petroleum Revenue Management Act was passed in 2011 and outlines the structure for management of the country's oil revenues. The law includes a process whereby all of Ghana's oil and gas revenues are first of all collected before they are then disbursed, a mechanism which is expected to facilitate monitoring and transparency.

Table 14: Ghana's Oil and Gas Fiscal Terms, 2012

Fiscal Term	Details
Contract Type	Royalty/Tax
Corporate Income Tax	35%
Cost Recovery	Negotiable
Deductions and Depreciation	40% for tangible assets
Exploration Area	Area covered by licence
Exploration Duration	10 years
Exploration obligation	Minimum seismic and an early well commitment
Exploration Relinquishment	Periodical relinquishment
Exploration Type of Right	Exploration licence
Import Duties	Goods imported for upstream activities are exempted
Licensing Authority	The Ministry Of Energy
Loss Carried Forward/Back	No limit
Production Duration	30 years
Production Type of Right	Production licence
Rentals	Based on the phase of operation
Ring Fence	Applicable, negotiable
Royalty	4%-12.5%
VAT*	12.5%
Withholding Tax	5%

Sources: US EIA; GNPC; Ecobank Research
Note: *The VAT rate has since increased to 15.0%.

Business operating environment

In November 2013, Ghana's parliament also passed the country's oil and gas sector local content law. The new law, the Petroleum (Local Content and Local Participation) Regulation, 2013 (LI 2204), aims to boost Ghanaian participation in the oil and gas industry while ensuring a fair return to foreign investors in the industry. The law seeks to capitalise on the increased level of exploration and development activity taking place offshore from Ghana as several fields go into development and production over the next few years. These and other fields, all of which are likely to be developed in the next 18 months, are expected to generate nearly USD20bn in revenue for various oil companies and service companies. The new law demands that Ghanaian energy firms, oilfield service companies, engineers and energy professionals be given first consideration in any related opportunities. The policy will require that Ghanaian nationals make up 50% of the management staff and 30% of the technical staff. The bill is expected to increase the level of training provided for staff by their employers, and to facilitate the transfer of managerial expertise. The law also gives Ghanaian insurance companies preference over foreign counterparts in oil and gas transactions.

Ghana's parliament has also begun the process of passing a new exploration law that will replace current regulation and will cover licence awards, local content, and transparency and governance issues. This bill is likely to be passed into law in 2014. For now, the existing PNDC (Provisional National Defence Council) law 64 and the Petroleum Exploration and Production Law (PNDC 84) continue to govern upstream activity in Ghana, as well as the fiscal terms in the industry, which are governed largely by a tax and royalty structure (Table 14).

"Ghana's parliament has begun the process of passing a new exploration law that will replace current regulation and will cover licence awards, local content, and transparency and governance issues."

4.4 Corruption

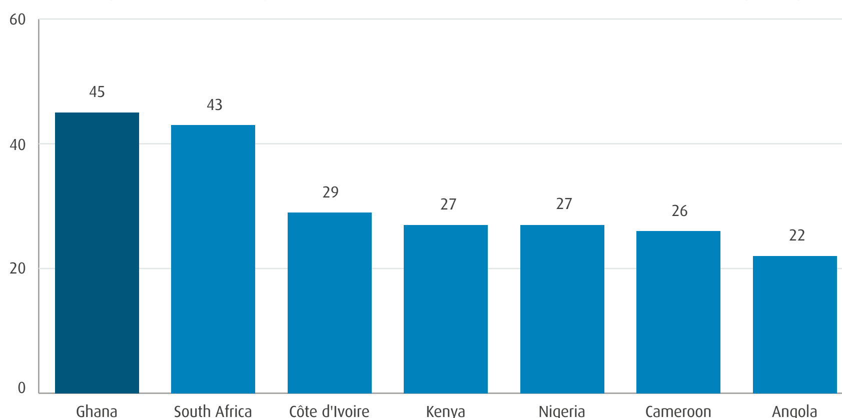
Corruption in Ghana is less prevalent than in some key countries globally and in the region, but it remains a problem

Ghana ranked in the second quartile of Transparency International's 2012 Corruption Perceptions Index (64th out of 176 countries surveyed), scoring 45, where 0 represents the most corrupt country and 100 the least corrupt (Chart 43). This level of perceived corruption in Ghana is lower than that of other key markets worldwide, such as Brazil (ranking 69th, with a score of 43) and Italy (72nd, with a score of 42), as well as key economies in Africa: South Africa (69th, scoring 43), Côte d'Ivoire (130th with 29), Kenya and Nigeria (in joint 139th position with 27).

However, the most recent World Bank Enterprise Survey (2007 report) shows that 38.8% of companies surveyed in Ghana expect to make informal payments to 'get things done', compared with a regional average of 34.9%; nonetheless, 9.9% see corruption as a major constraint to doing business in the country, accounting for only a quarter of the proportion in the region (37.1%). Despite this, commercial fraud, in the form of illicit-mining and trading, remains a problem in Ghana; mining commodities such as gold and diamonds can only be exported legally from Ghana through the Precious Minerals Marketing Company (PMMC), and prices are based only on daily export prices on the London Exchange. Moreover, the PMMC prohibits pricing discounts prior to export.

Chart 43: Corruption, 2012

0=most corrupt 100=least corrupt Source: Transparency International



4.5 Customs Procedures

Customs efficiency has deteriorated

Customs efficiency has deteriorated over recent years, reflecting the country's lack of adequate port infrastructure, and slow progress in reducing non-tariff barriers. Although it now costs less to export a container of goods than in 2009 (on average, it costs USD875, compared with USD1,003 in 2009), the average import cost is now USD1,360 per container, compared with USD1,130 in 2009 (Table 15); however, this is against a regional average of USD2,793. In addition, while the number of documents required for importing (see also Trade Documents Required) has remained unchanged at seven (as was the case in 2009), the average import time has risen to 42 days, up from 29 days in 2009 and above the regional average time of 38 days. The rise in import cost and time reflects years of neglect of the country's port infrastructure and slow progress in reducing non-tariff barriers. However, reforms are underway to expand the country's port capacity and reduce the cost of cross-border trade (see Infrastructure).

4.6 Infrastructure

4.6.1 Physical Infrastructure

A major barrier to investment, although progress is underway

Ghana has made progress in improving its infrastructure (roads, power, water, sanitation, seaports, and airports, for example) to an advanced level compared with other countries in the region. The country's coverage levels for rural water, electricity, and GSM (Global System for Mobile) signals have improved, and a number of roads have been paved in recent years. In addition, institutional reforms have been adopted in the Information Communications Technology (ICT), ports, roads, and water sectors. However, despite this, Ghana's level of infrastructure has not kept pace with its strong economic growth trajectory in recent years, creating supply bottlenecks and inflationary stresses in the country.

The key concern is the poor power generation capacity of the energy industry, where outdated transmission and distribution lines, alongside rapid demand growth and periodic hydro-electric shocks have left the country reliant on high-cost oil-based generation. Moreover, the benefits of the installation of the West Africa Gas Pipeline (designed to provide natural gas from Nigeria to neighbouring Benin, Togo and Ghana) in 2010 have not been fully realised owing to disruptions to supply. At present, the country's power generation capacity stands at around 2,000 megawatts (MW) for its population of about 25.6mn, compared with electricity generation in South Africa of around 44,260MW for its population of 50.1mn. However, the government acknowledges the urgent need to increase energy supply to meet rising demand and to accelerate infrastructure development to boost its current status as a lower middle-income country. Encouragingly, with the recent discovery of hydrocarbons in the country, the government plans to build a number of oil- and gas-fired power plants through public-private partnerships (PPPs) and to increase the country's power generation capacity to 5,000MW by 2016 (see Section 4.5) through the development of thermal-based plants.

Table 15: Customs Clearance

	2009	2014							
	Ghana	Regional Average	Angola	Cameroon	Côte d'Ivoire	Ghana	Kenya	Nigeria	South Africa
Trading Across Borders									
Documents required for export (number)	6	8	10	11	9	6	8	9	5
Time required for export (days)	19	31	40	23	25	19	26	22	16
Documents required for import (number)	7	9	9	11	10	7	9	13	6
Time required for import (days)	29	38	43	25	34	42	26	33	21
Cost to import (USD per container)	1130	2793	2700	2167	2710	1360	2350	1695	1980

Source: World Bank

Business operating environment

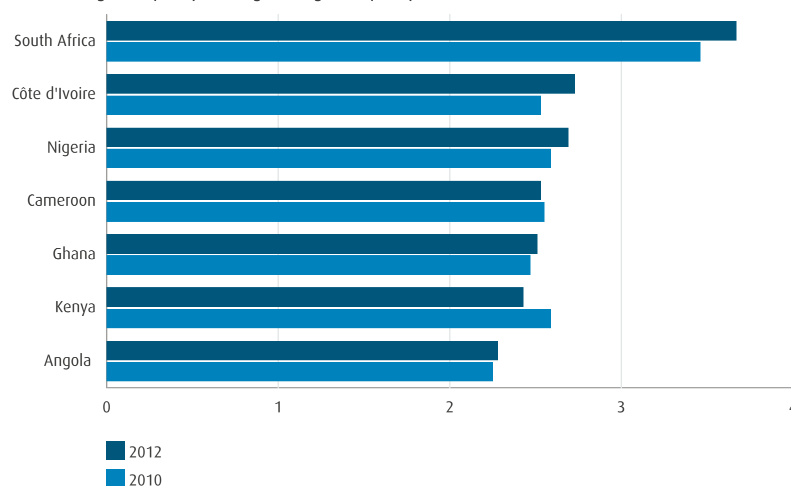
Ghana's other pressing challenges lie in the water, road, and railway sectors. The main waterways include the Volta, Ankobra, and Tano rivers together with Lake Volta, which provides around 1,125km of arterial and feeder waterways; however, despite this, water supply remains intermittent. At the same time, the country's road network (around 39,400km of roads) has suffered from a lack of maintenance over the years and most of the railway network is narrow gauge and single track and, despite substantial investment by foreign donors since the late 1990s, it is inefficient and has increasingly lost out to road transport. Amid these factors, the World Bank estimates that Ghana will need an annual expenditure of USD2.3bn to address its infrastructure deficit. The country already spends about USD1.2bn per annum (around 7.5% of GDP) on infrastructure, although poor planning and implementation capacity remain major problems.

The government has identified PPPs as one of the better options for narrowing the country's infrastructure deficit. Current PPPs in the pipeline include the following: the Accra-Takoradi road project, which will link the capital, Accra, to the Takoradi road (which is close to where a major oil discovery was made in 2007), facilitating trade and investment; the Korle-Bu teaching hospital and diagnostic centre, which, with a 2,000-bed capacity and 16 clinical and diagnostics departments, will be the third largest hospital in Africa; and the rehabilitation and expansion of the port of Takoradi, the second largest seaport in Ghana after Tema, serving about 31% of all sea freight into and out of Ghana (including exports of cocoa, timber and bauxite), with a potential to service the oil industry effectively. There are also plans to embark on an Accra-Tema motorway expansion and improvement project and to develop various airports in the country.

Communications infrastructure is improving. The country was one of the first in sub-Saharan Africa to introduce ADSL broadband services and, as with many other African countries, Ghana has enjoyed a rapid growth in internet connection and mobile phone coverage in recent years. As of mid-2013, it had launched its fifth international submarine fibre optic cable, which will help to boost internet connection and broadband affordability. Continued investment into this sector (including the privatisation of Ghana Telecom in 2009) should ensure future expansion and, although many rural communities are not yet connected, expansion of the services to these areas is underway.

Chart 44: Logistics Performance Index, 2012

1=lowest logistics quality 5=highest logistics quality Source: World Bank



"Logistical challenges remain high, increasing the cost of doing business in the country. Ghana's inadequate road network has resulted in slow and expensive long-distance road transport, which increases costs and congestion."

However, internet penetration, albeit improving, remains low in relation to the country's development and market size: only 14.1% of the population have internet access, although this compares well with regional peers such as Côte d'Ivoire (4.4%) and Cameroon (5.0%). Nonetheless, it compares unfavourably with countries such as Nigeria (28.4%), Kenya (28.0% and South Africa (17.4%). Overall, we expect the government's reform programme to go some way towards improving Ghana's infrastructure, although funding and capacity constraints will make it difficult for Ghana's level of infrastructure to reach South Africa's standards over the short to medium term, meaning that the high cost of doing business in the country will be sustained.

4.6.2 Logistics

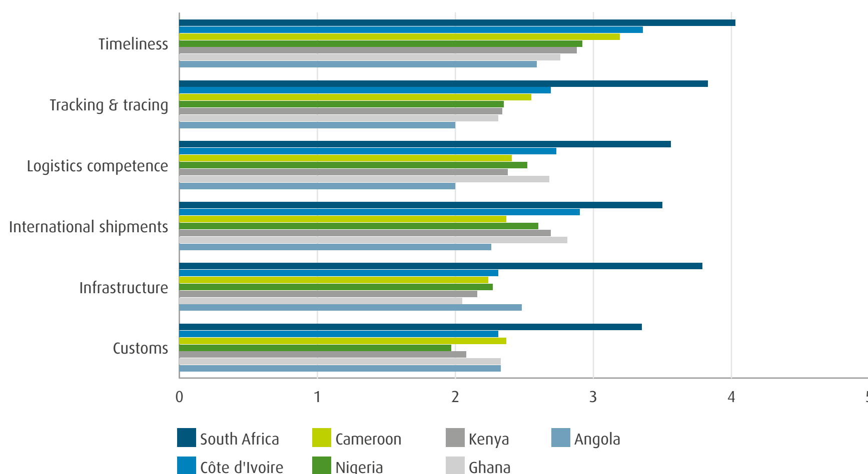
Logistics network is to expand and reduce bottlenecks

Logistical challenges remain high, increasing the cost of doing business in the country. Ghana's inadequate road network has resulted in slow and expensive long-distance road transport, which increases costs and congestion. Indicative of this, the World Bank's 2012 Logistics Performance Index report shows that Ghana continues to rank in the third quartile of the 155 countries surveyed, ranking 108th in 2012. However, this is up from 117th in 2010, reflecting increasing government efforts to promote PPPs and improve the country's logistics networks. In turn, the country's logistics quality has improved slightly, scoring 2.51, from 2.47 in 2010, where 1.00 represents the lowest level of logistics quality and 5.00 the highest (see Chart 44).

The improvement was due mainly to the ease of arranging competitively priced shipments, and the quality of logistics services (transport operators, customs officials etc.). However, the country still lags behind key regional peers such as South Africa, Côte d'Ivoire, Cameroon, Nigeria and Kenya in terms of timeliness, tracking and tracing shipments and trade and transport-related infrastructure (such as ports, railways, roads, and IT; Chart 45). Nonetheless, there are plans to rehabilitate and expand the port of Takoradi (Ghana's second largest seaport after Tema), which will increase the country's port capacity, providing facilities even for the oil and gas trade. Ghana has four main seaports, the largest of which is Tema, situated 25 km from Accra, the country's commercial capital; Tema has five major off-dock terminals that provide receipt, storage, and delivery services for containers discharged at the port. The next largest port is Takoradi, followed by two smaller ports, Saltpond and Elmina. In addition to increasing the capacity of the port of Takoradi, the government plans to transform the port of Tema into a container hub for the West African sub-region. However, capacity constraints will undermine progress.

Chart 45: : Logistics Performance Indicators, 2012

Source: World Bank



Business operating environment

4.7 Business Environment

4.7.1 Workforce

Ghana has a large labour force, although mainly unskilled, but improved prospects have spurred returns by the diaspora

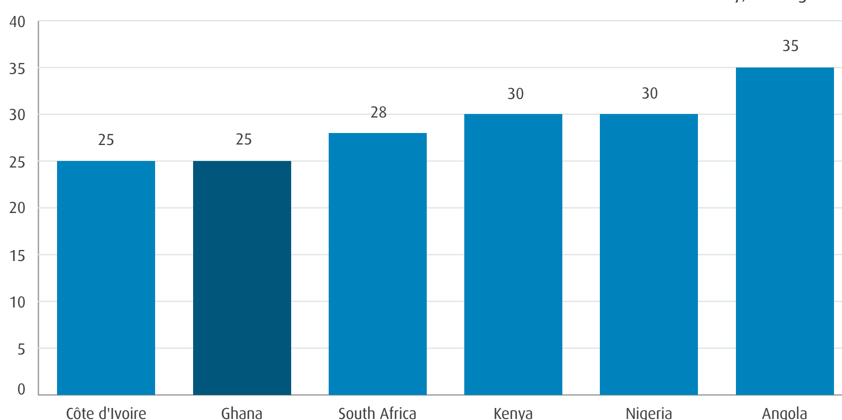
Ghana benefits from a relatively large workforce, thanks to the size of its population (25.6mn in 2013 according to an IMF estimate), which bodes well for investors looking to set up companies in the country. However, as with many developing countries, most of the workforce are unskilled. This is due largely to institutional weaknesses, years of instability, and a subsequent lack of investment in education. In addition, the pool of skilled workers declined sharply during years of instability (1966-1992) as Ghanaians emigrated to other countries, mainly the UK and the US, for better economic prospects. However, the transition to a multiparty state in 1992, along with improved economic prospects in recent years (including the discovery of oil in 2007), has spurred a wave of returns by the diaspora.

The working-age population (from age 15-64) is around 57.5% of total population, although this compares unfavourably with Equatorial Guinea (87%), the Democratic Republic of Congo (71%), Angola (70%) and Kenya and Côte d'Ivoire (67%). Nonetheless, the UN expects the population to expand by around 2.6% per year, reaching 57.2mn by 2100. Furthermore, the dependency ratio (the ratio of people aged 0-14 and over 64 to those aged between 15 and 64) is set to decrease from 74% in 2010 to 71% by 2015 and to 52% by 2050. This indicates that the economy is reasonably well positioned for strong growth.

Unemployment in Ghana is relatively high, and although there is a lack of reliable data, we estimate that unemployment is as high as 40% of the total labour workforce. As such, unemployment remains a major problem, reflecting the failure of economic growth over the past decade to translate into formal employment in the private sector. However, the government has made employment-generation one of its key priorities through the promotion of entrepreneurship, especially of small and medium-sized enterprises. Meanwhile, labour relations in Ghana are reasonably good and union militancy is not common.

Chart 46: Corporation Tax, 2013 (percent)

Sources: KPMG tax survey; Heritage Foundation



"Ghana has one of the lowest corporate tax rates in the region, which helps to boost the country's competitiveness. Corporation tax in Ghana is 25% (on a par with Côte d'Ivoire), compared with 30% in Kenya and Nigeria, 28% in South Africa and 35% in Angola."

4.7.2 Corporate Tax

Ghana has one of the lowest corporate tax rates among key regional countries boosting the country's competitiveness

Ghana has one of the lowest corporate tax rates in the region, which helps to boost the country's competitiveness. Corporation tax in Ghana is 25% (on a par with Côte d'Ivoire), compared with 30% in Kenya and Nigeria, 28% in South Africa and 35% in Angola (Chart 46). This rate applies to all sectors in the country except income from companies operating in non-traditional export sectors, where corporation tax is 8% and those operating in mining or oil and gas exploration, where it is 35%. The government also grants tax rebates and capital allowance is applicable to all sectors except banking, finance, insurance, mining and petroleum. The government also grants tax holidays for certain sectors. These include:

- free Zone enterprises (0% for the first 10 years and 8% thereafter);
- real estate sector and rentals (0% for the first five years, after which the tax rate rises to 25%);
- agro-processing companies (0% for the first five years, after which the tax rates range from 0 25%, based on the location of the company in Ghana; and
- water-processing companies (0% for the first seven years, after which the tax rate rises to 25%).

Other taxes include a standard value added tax (VAT) of 15% (following a 2.5% hike in the VAT rate in mid-November 2013), plus a 2.5% national health insurance levy on most imports, consumer purchases, services, advertising, and entertainment. Tax incentives vary depending on the sector in which a company is operating (see Investment Incentives). The government also plans to re-introduce a 10% mining windfall tax bill to parliament in the short term, although it will undermine mining firms' operating income.

Ghana also fares better than most countries in the region in terms of the administrative process involved in paying taxes. The World Bank's Doing Business 2014 report ranks Ghana 68th out of 189 countries worldwide in terms of the ease of paying taxes, moving it up 24 places over the previous year. This is because of reductions in the total number of taxes and contributions paid, the method of payment, the frequency of payments and the number of agencies involved in the payment of taxes. The share of total tax rate to profits of companies has also dropped in recent years, boosting firms' operating income. However, there are still high levels of bureaucracy involved in the time taken to make tax payments, although in that aspect the country fares better than most countries in the region (in Ghana it takes on average 224 hours per year in contrast to the sub-Saharan average of 314).

4.7.3 Business Licences

The cost of obtaining licences has reduced, but lengthy delays exist

The government welcomes foreign participation/investment in the country, in line with Ghana's Investment Promotion Centre Act, 1994. However, all foreign workers or investors looking to launch a company in Ghana are required to obtain a proper work permit or business licence from the Ghana Investment Promotion Centre (GIPC), which is a body set up to promote investment in the country. Obtaining licences now requires fewer procedures (down from 18 in 2009 to 15) and costs much less than in previous years (down from 1,282.6% of annual average income to 259.6%). Despite this, the process is still cumbersome: it takes on average 246.5 days to obtain a permit, and this compares unfavourably with the 220 days it took in 2009. Investors and employees in Free Zone enterprises have no restrictions on the issuance of work and residence permits.

Registering a business can take on average 34 working days, and would require compliance with regulations of five government agencies, including the GIPC, the Registrar General's Department, the Ghana Revenue Authority, the Ghana Immigration Service and the Social Security and National Insurance Trust.

Business operating environment

Under the GIPC Act 1994, the GIPC requires foreign companies to have a minimum capital of USD10,000 for joint ventures with Ghanaian counterparts or its equivalent in capital goods. By law, the GIPC does not stipulate a minimum shareholding ownership by Ghanaians in a joint venture, but in practice, it requires a minimum shareholding ownership by local counterparts of 5-10%. A minimum capital of USD50,000 is required for businesses wholly-owned by non-residents, while one of USD300,000 is required for trading companies either wholly or partly owned by non-residents (with a minimum employment of 10 local residents).

The GIPC Act does not apply to companies in the petroleum and mining sectors. These sectors are regulated by the Petroleum (Exploration and Production) Act, 1984 (see The Hydrocarbons Sector), and the Minerals and Mining Act, 2006 (Act 703) respectively.

Meanwhile, Ghana's Companies Code of 1963 is the law governing corporate entities in the country. The code applies to all companies established in Ghana and thus recognises sector-specific laws, including those on insurance, banking, and mining. Under the code, businesses can be launched in the following forms: unincorporated businesses/ sole proprietorships; incorporated partnerships; state-owned limited liability companies; company limited by shares; and unlimited companies. Both limited and unlimited companies may be private or public and external companies (which are incorporated businesses established overseas, with an affiliate company operating in Ghana). The law provides for model regulations for the various types of permissible companies, the number of directors, the shareholding structure, the minimum capital requirements, company secretary, auditors and the nature/business of the company. However, enforcement of the provisions of the law can be weak and among the many problems are capacity constraints and weak corporate governance issues.

4.8 Business Protection

4.8.1 Investment Restrictions

Very open to foreign investment, but there are restrictions in some sectors

Ghana is one of the most open countries to foreign ownership in the region. According to the World Bank's most recent Investing Across Borders report (2010), all major sectors are fully open to foreign participation, except the following ones: fishing, insurance, and the extractive industry. In the tuna-fishing industry, a foreign company can own no more than a 75% interest in the company while in the insurance industry, a foreign company can own no more than a 60% interest. The government requires local participation in the extractive industry and, by law, it acquires a 10% equity in mining as well as in oil and gas ventures. In addition, based on the 2006 Minerals and Mining law, there is no fixed arrangement in public-private partnerships in the mining industry, and the government can negotiate any form of participation. The government is keen to promote PPP in the short to medium term as one of its options to boost infrastructure development in the country.

4.8.2 Capital Account Regulations

There are no restrictions on current international transactions, but restrictions exist on the capital account

Ghana operates a managed float exchange rate system, which is free of restrictions on payments and transfers for current international transactions. Under the Foreign Exchange Act of 2006, the Bank of Ghana (BoG) no longer has to approve all offshore loan agreements. In addition, all FX transactions by the private sector are approved and transacted by authorised banks without permission from the BoG and any person or institution licensed by the BoG can operate a FX bureau.

However, there are some restrictions on the capital account. While non-residents are guaranteed free movement of their capital and income, they are precluded from investing in securities with a tenor below three years (i.e. 91-day to 2-year notes; although this could change in the short term; see The Yield Curve and Outlook). This is to limit the risk of capital flight and the currency collapsing in the event of a major economic shock. However, foreign investors are free to invest in government securities with a tenor of three years and above.

"Ghana is one of the most open countries to foreign ownership in the region. However, the government requires local participation in the extractive industry and, by law, it acquires a 10% equity in mining as well as in oil and gas ventures."

Meanwhile, the trading floor is open to foreign stockbroking companies; foreign brokers have access to the market either by opening their subsidiaries in Ghana (e.g. African Alliance, Stanbic) or by entering into partnerships with a local broker to carry out their operations. However, while there is free movement of foreign capital, investors (both residents and non-residents) who want to acquire 10% or more of banking stocks of a listed bank would need approval from the central bank. No approval is required for the acquisition of banking stocks of less than 10% of a listed bank.

"The government provides a number of investment incentives to foreign companies investing in Ghana."

4.8.3 Investment Incentives

A number of investment incentives are available, even in the petroleum and mining sectors

The government provides a number of investment incentives to foreign companies investing in Ghana. Under the GIPC Act of 1994, the government may grant a capital allowance to all companies setting up a business in Ghana, depending on the type of business. This includes the write-off of new or second-hand machinery and equipment, and a depreciation allowance on the cost of buildings used in the manufacturing process. The Act also provides for customs duty exemptions and income tax incentives. There are also investment guarantees including the following:

- free transferability of dividends and profits;
- double taxation agreements: Ghana has double taxation agreements (DTAs) with France, Germany, and the UK. Such agreements rationalise the tax obligations of investors who come from global tax-sourced jurisdictions with a view to saving the investors from double taxation; and
- insurance against non-commercial risks such as expropriation: Ghana is a signatory to the World Bank's Multilateral Investment Guarantee Agency (MIGA), which guarantees coverage (insurance) against non-commercial risks such as transfer restrictions, breach of contract, expropriation, war and civil disobedience.

The government also provides incentives in Free Zone enterprises, in line with the Free Zone Act 1995. These include investment guarantees; the freedom to operate in any sector including financial services; unconditional transfer of profits; guarantees against expropriation; exemption from taxes and duties on imports into a free zone or single-factory zone, albeit subject to parliamentary approval; and exemption from payment of income tax on profits for the first 10 years of operation.

Incentives in the petroleum sector are governed by the Petroleum Exploration and Production Act 1984 and the Petroleum Income Tax Act 1987, although the recent discovery of oil in the country has prompted parliament to introduce a Petroleum Exploration and Production bill, which, when passed into law, will replace the Petroleum Act 1984 (see Section 3.1.3 in The Hydrocarbons Sector). The passage of the bill has been delayed, and consultations with industry stakeholders are ongoing, but it is likely to be passed in 2014. Meanwhile, parliament has passed a number of laws to regulate the oil industry. This includes the Ghana National Petroleum Authority Act 2005, under which the Ghana National Petroleum Corporation (GNPC) was established to oversee activities in the petroleum downstream industry and related issues, and to establish a Unified Petroleum Price Fund. The government has also introduced the country's oil and gas sector local content law, which seeks to boost Ghanaian participation (see Section 3.1.3). The authorities have also established a Petroleum Commission (under the Petroleum Commission Act 2011), which serves to complement the work of the GNPC by managing the utilisation of petroleum resources and coordinating policies relating to the industry. The Petroleum Revenue Management Act 2011 serves to regulate the collection, allocation, and management by government of petroleum revenue in a transparent, accountable and sustainable manner. Under the Petroleum Act, contracts can be between the government, the GNPC, and a company for the exploration, development, and production of petroleum products. A petroleum contract is valid for a total of 30 years and petroleum rights cannot be granted to a company without the consent of the Minister for Energy and Petroleum. The petroleum contract may specify special taxes applicable to the petroleum industry.

Business operating environment

Incentives in the mining sector are governed by the Minerals and Mining Act 2006. Under this Act, the minister for Mines is responsible for granting mineral rights on behalf of the president and on the recommendation of the Minerals Commission. Incentives include exemptions from payment of customs duty on imports of plant, machinery, equipment and accessories used exclusively for mineral operations.

4.8.4 Land Rights

Land can be leased to foreigners

Land is regulated by both statutory and customary laws in Ghana, although, in practice, the latter is predominant in the country. The government has the power to appropriate land in any part of the country for development purposes, but it will need to pay compensation to the traditional owners. According to the World Bank's most recent Investing Across Borders report (2010), a foreign company cannot buy publicly-held or privately-held land, but it can lease publicly-held or privately-held land for industrial or commercial purposes for a maximum of 50 years. There are no restrictions on the amount of land that can be leased, but the land registry may not contain information on all privately-held land registered in the country, making it difficult to ascertain the landowner. The process of leasing private land is also onerous. However, a Land Administration Project is underway that seeks to create a database of decisions from land disputes and to centralise all relevant land-related information.

4.8.5 Expropriation Risk

Expropriation risk is low

The government's investment laws provide for protection against expropriation and nationalisation (see Investment Incentives), although the government can expropriate a property if it deems it to be in the interest of the public, as prescribed by the law – e.g. for safety reasons. However, there has been no case of expropriation or nationalisation of foreign assets in recent years. Moreover, Ghana offers protection to foreign investors on trade and investment issues through bilateral investment treaties (BITs) ratified with seven countries – China, Denmark, Germany, Malaysia, the Netherlands, Switzerland, and the UK; the country has also concluded BITs with 19 other countries, although these are yet to be ratified. Ghana also offers protection to foreign investors by virtue of being a signatory to the International Centre for Settlement of Investment Disputes (ICSID) convention and to the UN Convention on the Recognition and Enforcement of Foreign Arbitral Awards (known as the New York Convention). For disputes in the energy sector, the government has shown a preference for handling these under the UN Commission on International Trade Law (UNCITRAL).

> "The government's investment laws provide for protection against expropriation and nationalisation."

4.9 Trade Environment

4.9.1 Trade Blocs/Agreements

Trade policy is liberal

Ghana has adopted a liberal trade regime and the country plays an important role in international and regional trade agreements. Ghana is a member of the World Trade Organisation (WTO). It is also a member of the Economic Community of West African States (ECOWAS) and on 1 October 2005, ECOWAS implemented the common external tariff (CET). The CET is the basis for the formation of an economic and monetary union, with plans to introduce a single currency for the West African Monetary Zone by end-2015 and for all ECOWAS nations by 2020. However, these targets are currently unrealistic, especially given the different levels of economic development and structure in member countries. In addition, Nigeria is unlikely to relinquish control over its oil-backed currency.

The country's trade tariff has reduced but remains high, undermining trade. According to the World Bank's World Development Indicators 2013 report, Ghana's simple average most favoured nation (MFN) tariff fell to only 13.0% in 2009, down from 14.6% in 2000. Meanwhile, there are five tariff bands under the CET: zero duty on capital goods, machinery, and essential drugs not produced locally; 5% on imported raw materials; 10% on intermediate goods; 20% on finished goods; and 35% on imported goods deemed to be harmful to nascent domestic industry. Non-tariff barriers, such as customs-administration procedures, pose major challenges to the country's trade environment, although efforts are underway to reduce port congestion and clearance times.

The government has implemented a Gateway Programme, which aims to make the country the gateway for trade and investment in the West African region. As part of this, the government has reduced subsidies to public-sector companies and embarked on a widespread privatisation programme, which will help to boost the country's competitiveness. Plans are also underway to develop the free-trade zone close to the port of Tema; expand the port of Takoradi (the second largest seaport in Ghana after Tema), which will provide facilities for even oil and gas trade; rehabilitate the port of Tema and strengthen government institutions that regulate and administer trade and investment, including the Customs, Excise and Preventive Services, the Ports and Harbour Authorities, the Civil Aviation Authorities, the Immigration Services, the Free-Trade Zones Board and the Ghana Investment Promotion Centre. However, illicit trading remains a challenge for the government. Ghana's trade sector continues to be undermined by illicit trading over the border from Togo and Côte d'Ivoire. Huge volumes of goods tend to be smuggled, resulting in tax evasion and distortions to the official trade data.

"The government has implemented a Gateway Programme, which aims to make the country the gateway for trade and investment in the West African region."

In terms of preferential trade agreements, Ghana has signed an interim Economic Partnership Agreement (EPA) with the EU. The EPA is a reciprocal preferential trade arrangement between the EU and African, Caribbean and Pacific (ACP) countries, which aims to fully replace the previous Cotonou Agreement with the EU. However, the Cotonou Agreement was labelled as illegal by the WTO because it was not reciprocal and did not allow tariff-free access for EU goods in the signatory countries. Under the interim EPA regime, Ghana (along with other ACP nations) will gradually open up its markets to 80% of EU products over a period of 15-20 years and in return the EU will offer 100% quota-free and duty-free access to Ghanaian goods, except sugar and rice. The interim EPA covering goods will remain in place until a full EPA (which is compatible with WTO principles) is signed, which will also cover services and investment.

4.9.2 Trade Documents Required

Export and import documents vary. The World Bank's Doing Business 2014 report indicates that the following documents are required for exports from Ghana: bill of lading; Bank of Ghana Foreign Declaration Form (FXD Form 4A); Ghana Cocoa Marketing Board (Cocobod) Quality Assurance Certificate; commercial invoice; customs' export declaration; and packing list.

The following documents are required for import into Ghana: bill of lading; commercial invoice; delivery order; Final Classification and Valuation Report (FCVR); customs' import declaration (Form IDF); packing list and proof of payments of customs duties.

Business operating environment

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