Ghana

COUNTRY ANALYST

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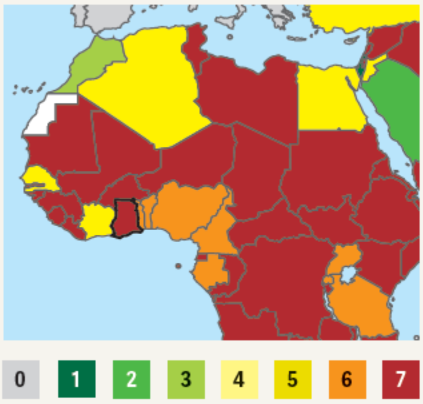
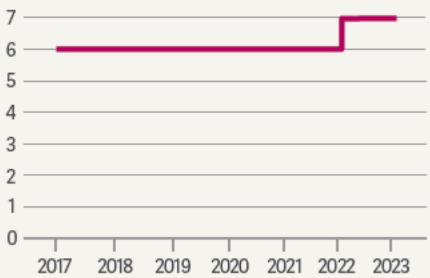
Basic facts (2021)

Population: 32 million
GDP, nominal: USD 76 billion
GDP/capita: USD 2 369



The country risk categories are arranged on a scale from 0 to 7. The lower the figure, the better the country's creditworthiness

Country classification history



Source: EKN

Strengths

+ High historical growth rate.
+ Politically stable country with democratic traditions.
+ Significant raw material resources, which generates government revenues and hard currency.

Weaknesses

– High level of sovereign debt.
– Refinancing-related risk at elevated levels.
– High risk for liquidity problems.

Dynamic economy, weak public finances

Ghana has experienced average GDP growth of five per cent per year over the past ten years. Historically gold and cocoa exports have been important contributors to growth, while in recent years oil exports have increased in importance. Agriculture accounts for a significant proportion of the economy, however gold accounts for 40 per cent and oil accounts for 30 per cent of export revenues. Cocoa exports account for around 10 per cent. Overall, the economy is relatively dynamic, which in combination with relatively strong institutions, constitutes the country's core strengths. Since the reintroduction of the multi-party system in 1992, Ghana has regularly implemented peaceful transitions of power, and violence in connection with these transitions is rare. This facilitates transparency and predictability, something that is seldom seen in the West African region. The Ghanaian President's powers are limited and the Parliament has relatively strong decisive powers, not only in the Constitution but also in practice. This means a relatively high level of respect for statutes and regulations, even if corruption and abuse of power undoubtedly occur. In the World Bank's Worldwide Governance Indicators, the country's economic institutions rank roughly in the middle of the world's countries. Ghana's weaknesses include its public finances. Difficulties in increasing the revenues and keeping costs down have led to recurrent fiscal deficits and unsustainable debt financing. Substantial capital injections into the ailing banking sector in 2017 and large loans made to mismanaged state-owned enterprises in the energy sector have also pushed up debt levels. Ghana benefited from substantial debt write-offs in the early 2000s via the Heavily Indebted Poor Countries (HIPC) Initiative.

Ghana has suspended external debt payments

The Ghanaian economy continues to face severe pressures. Growth has slowed to just under 3%, inflation is over 50%, and the currency is highly volatile vis-à-vis the US dollar. Since January 2022, the Ghanaian Cedi has lost close to 50% of its value against the US dollar, with wide fluctuations over the period. As a result, Ghana's foreign exchange reserves are rapidly declining, from some USD 10 billion in December 2021 to approximately USD 6 billion in December 2022 and are approaching a critical level. In gross terms, the foreign exchange reserve is equivalent to about three months of import coverage, but in net terms the reserve only covers about one month of the country's import needs. Over the past year, in order to defend the currency, the central bank's benchmark interest rate has been raised from 14.5% to 28.0%. This results in a significant increase in borrowing costs for the central government as well as for commercial enterprises.

On the fiscal side, official debt is approaching 100% of GDP and debt service amounted to close to 60% of fiscal revenues in 2022. High levels of domestic borrowing are the primary reason for the high borrowing costs. Ghana failed to turn the fiscal deficit to surplus in the years before the coronavirus pandemic, making central government finances unsustainable when the crisis and later the military conflict in Ukraine arose. As external financing disappeared, the government was forced to seek more and more financing on the domestic

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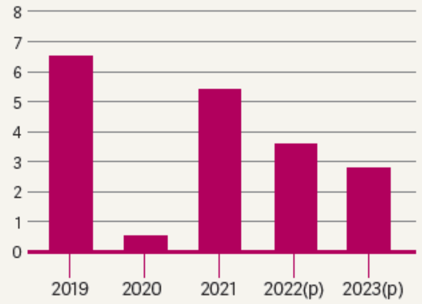
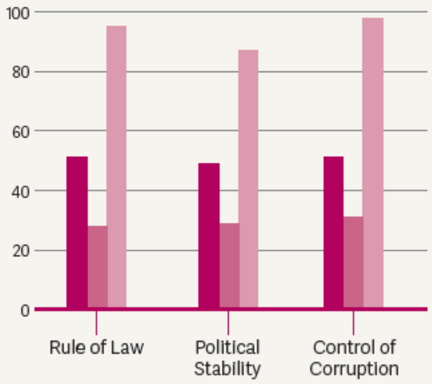
Real GDP growth (constant prices, % per annum)



Source: IMF WEO, Macrobond

Business environment



Ranking from 0 (worst) to 100 (best)

Source: The World Bank, Macrobond

market and via the central bank. Domestic debt accounts for about one-third of the central government debt and about 75% of interest costs. The remainder is denominated in foreign currency, which means that the negative trend in sovereign debt is reinforced by the weaker Cedi.

In the autumn of 2022 the government initiated a restructuring of internal debt, in an effort to stabilize the public finances, and on 19 December of the same year, debt service on the external debt was suspended. At staff level, Ghana has been granted an IMF programme amounting to USD 3 billion, which will provide a short-term liquidity boost. The government wants a programme in place by Q1 2023, but this seems optimistic. The current level of Ghana's indebtedness is unsustainable, which is why a renegotiation of sovereign debt to foreign creditors will also be required. Ghana has communicated to the Paris Club that it seeks to renegotiate its sovereign debt under the Common Framework, where, among other things, the outstanding debts to Sweden will be addressed. In the short term, extended repayment terms are most likely, but in the long term, write-offs cannot be ruled out.

Despite Ghana's favourable economic potential and relatively strong institutions, the government will struggle to consolidate public finances and restore confidence in the economy among domestic and foreign investors and creditors. Ghana effectively lost access to international capital markets several years ago, due to high-risk premiums, and will not be able to borrow in the coming years. Due to the lack of fiscal resources, the country's institutions risk being weakened in the coming years. By renegotiating the government's internal debt, the present administration hopes to reduce central government indebtedness by the equivalent of ten percentage points of GDP (in present value terms) and reduce the cost of sovereign debt. Regarding external debt, the government hopes for a quick debt workout in the Common Framework that will allow it to secure an IMF arrangement and stabilise its currency. With 23% of the sovereign debt in Eurobonds and about 6% in bilateral loans to China, the debt mix is complicated. However, the relatively lower share of Chinese bilateral loans compared to Zambia and Ethiopia (whose Common Framework negotiations have stagnated) could speed up negotiations. With the IMF programme in focus, the government's fiscal framework and projections for the period 2023 to 2026 includes significant tax increases/reductions in spending, and in the short term the government seems keen to address its fiscal problems. The target of the IMF programme is a level of official debt of 55% of GDP in present value terms by 2028.

In the longer term, however, the country's government has much to prove. Since gaining independence, Ghana has received IMF support on 16 occasions and, with tax revenues equivalent to just under 15% of GDP, central government revenues are among the lowest in the region. In June 2022, EKN downgraded Ghana to country risk category 7 and in early September of the same year, EKN closed for new sovereign risks. In December 2022, elevated premium rates were introduced for bank- and company risks due to the increasingly challenging business environment. Most likely the economy will continue to struggle in 2023, with significant currency volatility. EKN's outlook for Ghana's credit risk therefore remains negative.

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Swedish export to Ghana

	MSEK
2021	760
2020	809
2019	730
2018	835
2017	822

Source: SCB

EKN:s exposure

	MSEK
Guarantees	10 530
Offers	3 850

Business environment

Strong growth, relatively strong institutions, and a focus on openness/ international trade have made Ghana a preferred destination for businesses in the West African region. Under normal circumstances, hard currency liquidity is relatively good, which means that commercial enterprises generally have access to hard currency given the proper documentation. From an African perspective, corruption is at a relatively low level; Ghana is ranked 73rd out of 180 countries in Transparency International's Corruption Perceptions Index. One contributory factor is the relatively free and investigative news media that exists in the country which actively engages in monitoring and scrutinising. From a global perspective, however, the business environment is challenging. The country's bureaucracy is extensive, with clear deficiencies in the way the public authorities carry out their functions and responsibilities. Transparency and predictability of government directives and regulations are not up to international standards. Litigating in court and bankruptcy proceedings can be fraught with delays, and outcomes unpredictable.

Due to increasing hard currency shortages, soaring inflation, rising interest rates, falling currency and weaker growth, the business environment has deteriorated sharply in 2022. It is currently unusually difficult for commercial enterprises to source hard currency, as EKN has noted in several transactions. Since November 2022, the central bank no longer allocates hard currency to imports of"non-essential goods," meaning goods that can be produced domestically. In these sectors, transfer risk is thus considered to be particularly high. In addition, due to the fiscal challenges, the risk of delayed payments from governmental entities is currently particularly high. Transactions with companies that depend on governmental entities for their revenues are therefore considered to be particularly risky. Also in Ghana's banking sector, the scope and extent of the risks have increased. About one-third of the banking sector's assets are government securities, which means that the banking sector is likely to be particularly hard hit when the government restructures its debts. The average capital adequacy ratio in the banking sector declined in 2022. However, with some support from the government, and most likely the IMF, Ghana seems to be able to avoid a systemic banking crisis.

EKN:s policy

As of September 2022, EKN is closed for sovereign risks. Since December 2022, elevated premiums apply to bank- and company risks, i.e., a higher starting point for premiums than normal.

EKN:s commitment and experience

Sovereign risks account for more than SEK 8 billion of EKN's exposure after reinsurance and consists almost exclusively of guarantees. In December 2022, loan disbursements under existing offers were suspended. As a result of Ghana's debt service suspension, payment arrears have started to accumulate, but no claims have been submitted to date. The central government's payment arrears currently amount to some SEK 60 million. Most of the transactions in the country are however with non-governmental purchasers, about 30 per year, mostly to the mining and transport sectors. Payment experience is generally good given the large exposure. However, payment delays occur regularly and claims are continuously being settled. Current claims are primarily in the mining and transport sectors. Due to the deteriorating business environment, payment delays from private debtors are also likely to increase in 2023, but as of yet such a trend is not visible.