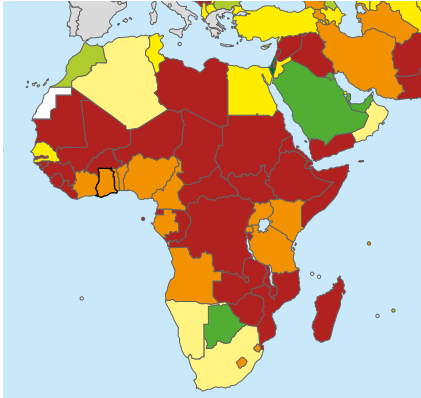




The country risk categories are arranged on a scale from 0 to 7.

The lower the figure, the better the country's creditworthiness.



#### CONTACT

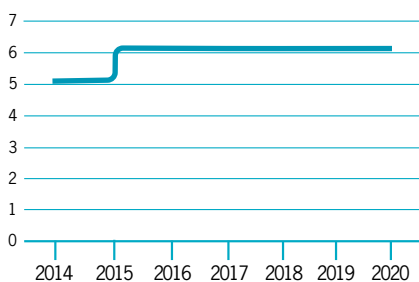
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Name: Martin Sturinge  
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#### BASIC FACTS

Population: 30.2 million (2019)  
GDP, nominal: USD 67.1 billion (2019)  
GDP/capita: USD 2,229 (2019)

Source: IMF WEO

#### COUNTRY CLASSIFICATION HISTORY



Source: EKN

## Negative outlook for Ghana's public finances

Ghana's position in Country Risk Category 6 is based on the high level of government debt and weaknesses in its external position, which on the other hand is balanced by high average growth and strong democratic tradition. In 2020, the corona crisis will negatively impact public finances and growth, which is projected to decline from seven percent in 2019 to a bit over one percent this year. The corona crisis is a major disruption to the budgetary austerity and refinancing of loans that began prior to the crisis, which will make the long-term recovery and prospects for the consolidation of public finances more difficult. Due to the high level of government debt and poorer conditions for debt refinancing, EKN sees a negative outlook for Ghana within Country Risk Category 6. The main threat to public finances and the economy is a protracted global corona crisis and a possible large-scale outbreak of infection within the country, which until now has been relatively spared. In terms of internal policy, there is currently no sign of changes in the underlying political stability. Incumbent President Nana Akufo-Addo is assessed to have a good chance of winning the next elections, which are scheduled to place in December 2020 and is anticipated to go smoothly.

#### THE COUNTRY'S STRENGTHS AND WEAKNESSES

##### STRENGTHS

- + High average growth rate.
- + Politically stable country with democratic tradition.
- + Significant gold, oil and gas assets that the State has successfully managed to commercialise.

##### WEAKNESSES

- High level of indebtedness and debt service ratio.
- Weak external balance and generally limited export base.
- Low rate of savings, which results in a significant need for external financing .

## SWEDISH GOODS EXPORTS TO GHANA, MSEK

	MSEK
2019	730
2018	835
2017	822
2016	934
2015	1 079

Source: SCB

## EKN:S EXPOSURE

	MSEK
Guarantees	980
Pledges	1,364

## EKN:S POLICY

EKN places Ghana in Country Risk Category 6 – an assessment which was made in joint collaboration with other OECD countries. Normal risk assessment applies to sovereign risks, banks and companies, which means that there are no predetermined restrictions or limitations in the issuance of guarantees. For other public risks, such as government agencies, a letter of credit, bank or State guarantee is required.

## EKN:S EXPOSURE AND EXPERIENCE

EKN's commitments have increased significantly in spring 2020, to just over SEK 2.3 billion, due to a large transaction in the construction industry. In terms of guarantee volume, transport is the largest sector, followed by the mining industry. During the period 2015 - 2019, EKN guaranteed 239 transactions for a total amount of SEK 2.4 billion. Of the transactions classified for sustainability, the vast majority have Environmental Risk Category B, i.e. the middle category of EKN's environmental risk categories.

EKN's payment experience is generally good, and so far no increase in delays Q1-Q2 has been observed, compared to the same period last year. Late payments notifications in 2019 amounted to just under SEK 139 million, which is slightly higher than the average for the past five years, while claims settlements amounted to approximately SEK 11 million in the same year. EKN has outstanding receivables of approximately SEK 200 million, primarily for commercial damages from 2012 onwards. Claims are more than 80 percent from guarantees to the mining and transport sectors.

## WHAT MIGHT CAUSE A CHANGE IN THE COUNTRY POLICY

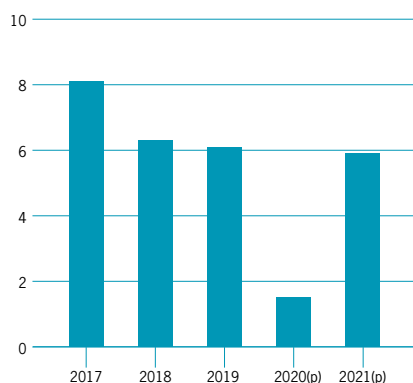
### THE EASING OF RESTRICTIONS, IN THE EVENT OF:

- Budget discipline maintained, debt burden reduced, and tax revenues increased leading to a long-term sustainable government debt situation.
- A strengthened external position, for example via broadening the export base and declining interest payments, which reduces sensitivity to external shocks.

### THE TIGHTENING OF RESTRICTIONS, IN THE EVENT OF:

- Ghana fails to renegotiate costly energy sector contracts, causing debt ratios and financing costs to skyrocket..
- Ghana deviates from the long-established path of high growth and an entrenched democratic tradition..

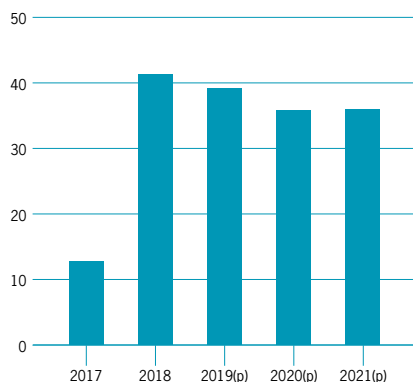
## GDP-GROWTH (% PER ANNUM)



Sharp slowdown in growth in 2020

Source: IMF WEO

## PUBLIC DEBT (% OF GDP)



The debt ratio is increasing further from an already high level.

Källa: IMF WEO

## COUNTRY ANALYSIS

### BACKGROUND

In the 2000s, Ghana has experienced an average GDP growth rate of 6.2 percent per year. Historically, gold and cocoa exports have been an important part of growth, while oil exports have increased in importance, particularly over the past decade. Agriculture still makes up a large part of the economy – about one-fifth of GDP.

Since the reintroduction of the multi-party system in 1992, the country has regularly implemented peaceful transitions of power and violence is rare in connection with them. This creates a transparency and predictability, something that is seldom seen in the region. Unlike the authoritarianly governed sham democracies that dominate the African continent, the power of the President in Ghana is more clearly defined, even in reality. This means a relatively high level of respect for laws and regulations, even if corruption and abuse of power undoubtedly occur.

Ghana's weaknesses include high government debt and recurring current account deficits. Exports are 80 percent raw materials, which is why the country is exposed to fluctuations in commodity prices, which in turn leads to instability in the Cedi (GHS) and the current account via the trade balance. Fluctuations on the revenue side also have the consequence of substantial debt financing. Due to lower commodity prices, government debt increased from 43 percent of GDP in 2013 to 63 percent of GDP in 2019<sup>1</sup>. The increase in debt also has its explanation in large-scale capital injections into the ailing banking sector in 2017 and large loans to mismanaged State enterprises in the energy sector.

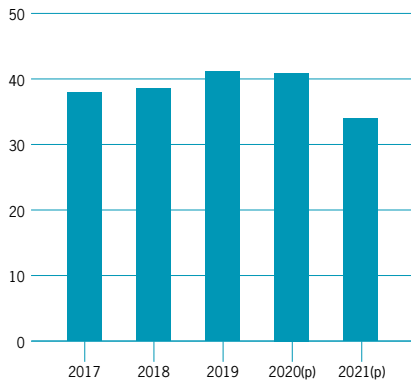
### RECENT DEVELOPMENTS

A sharp decline in domestic and global demand, falling income from tourism and remittances, and lower gold and oil production due to COVID-19, mean that growth is expected to slow down in 2020. The latest forecast from the IMF is growth of approximately 1.5 percent, which is the slowest pace since the mid-1980s. Cyclical industries such as restaurants, bars, hotels and other parts of the hospitality industry are hit the hardest. Small businesses and enterprises in the informal sector are particularly struggling. As regards the spread of COVID-19 domestically, at the end of May it was still limited with 34 deaths and the government has lifted the lockdown of the country's financial hubs (Accra, Kumasi). Meanwhile however there is no indication that the spread of infection is on the way down. The country's national borders, schools and universities remain closed and the healthcare system's capability to deal with a major outbreak of infection is low.

The fall in oil prices and a decline in net capital inflows are also adversely affecting the current account, where the deficit is expected to rise to

1. The increase occurred despite the fact that two years ago, Ghana changed the base year for calculating GDP from 2006 to 2013, included additional sectors and thus wrote up GDP by 24 percent. After the revision, government debt, but also tax revenues, is significantly lower in relation to GDP than previously thought.

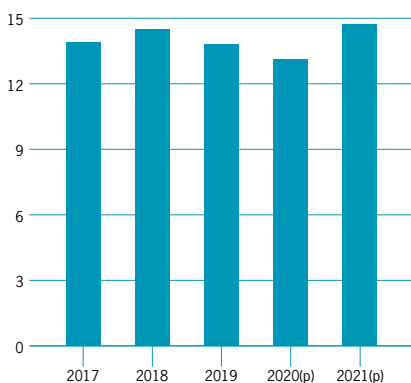
### INTEREST EXPENSES ON PUBLIC DEBT (% OF REVENUES)



The high interest payments on public debt stands out within Country Risk Category 6.

Källa: IMF

### GOVERNMENT REVENUE (% OF GDP)



Low revenues are an important explanation for the sovereign's liquidity problems.

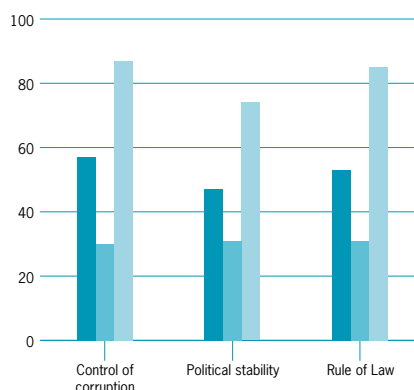
Källa: IMF

-4.5 percent of GDP in 2020, i.e. a near doubling. The effect is somewhat dampened by the positive price trend of gold, which is Ghana's most important export product, and the long-term trend in the current account is positive. The primary reason is the contribution of oil extraction to exports, which has meant a structural shift in the current account where past trade balance deficits have been turned into surpluses. During the crisis, Ghana's central bank cut its key interest rate by 1.5 percentage points, while using foreign exchange reserves to defend the Cedi, which has lost approximately seven percent of its value since early March. The sale of Eurobonds at a value of USD 3 billion in February 2020 and a USD 1 billion loan granted from the IMF Rapid Credit Facility gave support to the foreign exchange reserves. Thereby the risk of a balance of payments crisis was reduced, even though the reserves are expected to decrease in 2020 to approximately 2.7 months of import coverage. Ghana benefits from having only limited external debt, equivalent to approximately 40 percent of GDP, which consists almost exclusively of long-term loans and is largely concessional<sup>2</sup>. Thus, the external debt service ratio is relatively low, around 12 percent, which is considered manageable for the sovereign.

There has been some improvement in public finances in recent years, largely due to a recent IMF programme which has i.a. imposed a debt ceiling of USD 750 million for non-concessional loans, a requirement for a positive primary budget balance, and a 5 percent reduction in the budget deficit. Moreover, the previously turbulent banking sector is much stronger today and means a lower risk on the sovereign's balance sheet. The corona crisis, however, is causing a severe blow in the fiscal consolidation, with the most recent forecast being a budget deficit of at least 10 percent of GDP in 2020. The deficit is rising primarily due to loss of revenue – the planned fiscal stimulus measures resulting from COVID-19 represent only about 0.4 percent of GDP. High indebtedness, high interest rates on domestic loans and low tax revenues mean that interest payments on public debt exceed 40 percent of revenues in 2020, which is a very high level for Country Risk Category 6. Due to soaring interest rates on Eurobonds, Ghana no longer has access to the international capital markets, which has resulted in that the sovereign's refinancing risk has increased. The central government plans to finance the additional borrowing needs arising due to the crisis via the above-mentioned billion dollar loan from the IMF, the use of a quarter of the country's stability fund, emergency loans from the central bank, and possibly a loan from the World Bank. Over and above the corona crisis, the government must deal with a protracted crisis in the country's energy sector. The government has established a strategy to achieve financial balance in the energy sector, The Energy Sector Recovery Program (ESRP), which includes renegotiation of costly take-or-pay contracts.

2. The fact that interest payments to external lenders leaving the country are nevertheless so large is explained by the fact that a significant part of the domestic debt has foreign owners. When they repatriate their profits, this represents a significant negative contribution to the current account.

## BUSINESS ENVIRONMENT



■ Ghana  
■ Sub-Saharan Africa  
■ High Income Countries (OECD)

Ranking from 0 (worst) to 100 (best)

Source: The World Bank

## LONG-TERM TREND

Ghana's credit profile will continue to be supported by high economic growth and strong democratic tradition. Most forecasts indicate a relatively rapid recovery in 2021, even though they are currently subject to considerable uncertainty. Future growth will occur within all sectors, however the continued expansion of the extraction of oil and gas will be particularly important in keeping the high growth rate and debt ratio in check. In terms of internal policy, there is currently no sign of changes in the underlying political stability. Incumbent President Nana Akufo-Addo is assessed to have a good chance of winning the next elections, which are scheduled to place in December 2020 and is anticipated to go smoothly.

Over the long term, the corona crisis is expected to negatively impact the already weak public finances, which represent a significant weakness compared to other countries in Country Risk Category 6. As a result of the crisis, sovereign debt is expected to rise to almost 70 percent of GDP in 2020 and then decline slightly in the following year. After the crisis has passed, the government must quickly return to tight fiscal policy, but doing so will be made more difficult due to high levels of indebtedness and a history of weak budgetary discipline in connection with elections. Several additional factors also suggest that public finances will continue to be weak in the long term. The plan for the clean-up of the energy sector as established by the central government is ambitious and there is reason to believe that the government will not fully succeed with the plan, which includes a difficult renegotiation of contracts, increases in tariffs, and investments in infrastructure for energy exports. The target is full cost recovery and a sustainable debt situation, by 2023. If nothing is done, the outstanding net debt will amount to approximately USD 12 billion at that time, three times the amount as today, according to estimates from the Ghanaian Ministry of Energy. Tax reform and loan refinancing are also crucial to Ghana's ability to cope with high levels of debt in the future and avoid new IMF programmes. In the area of taxation, there are excellent possibilities for reforms where the low tax burden is primarily due to the fact that too few of those who can afford to pay tax actually do so in reality. At present, no major changes are being made in the field of taxes and therefore the tax burden is expected to remain low for an extended period of time. Finally, the negative developments in the capital and commodity price markets risk hampering the Ghanaian Ministry of Finance's ability to issue bonds with longer maturities and lower interest rates to strengthen sovereign liquidity. For example, loan refinancing was partially halted in 2018 due to massive capital outflows from foreign investors who divested assets when the crises broke out in Argentina and Turkey in 2019. If factors outside the country continue to deteriorate over a prolonged period, there is a risk that the current financial austerity and reforms will be suspended. Against the backdrop of weaker public finances, poorer conditions for reforms, and the risk that a protracted corona crisis would entail, EKN sees a negative outlook for Ghana within Country Risk Category 6.

## BUSINESS ENVIRONMENT

Ghana was placed 118th out of 190 in the World Bank's Ease of Doing Business Survey of 2020, which is among the top 20 countries in sub-Saharan Africa. However, it is significantly behind countries such as

Kenya, South Africa and Zambia. In an African perspective, corruption is at a relatively low level; the country is ranked 78/180 in Transparency International's 2019 Corruption Perception Index, i.e. a middle position in a global perspective. One contributing factor is the relatively free news media that exists in the country. Normally companies have access hard currency, even if the access has been tightened during the crisis. Permits and licences are also normally not an obstacle, even though the bureaucracy can be difficult, waiting times long, and an active follow-up of the application is necessary. Litigation and bankruptcy proceedings can be time-consuming and outcomes uncertain. According to the World Bank, the recovery rate in the event of company bankruptcies is approximately 23 percent in Ghana, compared with almost 80 percent in Sweden.

The lockdown of economies and the closure of borders in the wake of COVID-19 will mean a deterioration in the business environment with implications for international business transactions. One example is border controls that lead to major delays in transport of goods (although the controls primarily concern the transport of passengers). Difficulties in obtaining input commodities constitutes a further problem. The crisis also means that governmental decisions have become even more unpredictable, making business planning and decision-making even more difficult. The fiscal policy support measures instituted by Ghana are modest, which means that 2020 is likely to be a highly challenging year for domestic companies.