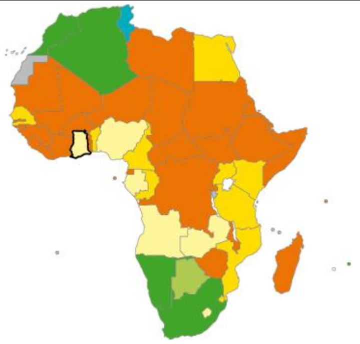
COUNTRY RISK ANALYSIS

Ghana

DIN SÄKERHET I EXPORTAFFÄRER



COUNTRY RISK CATEGORY

5/7

The country risk categories range from 0 to 7. The lower the number the better the credit rating the country has.

0 1 2 3 4 5 6 7

EKN'S OUTSTANDING GUARANTEES TO THE COUNTRY

SHORT-TERM TRANSACTIONS SEK 20 MILLION

MEDIUM AND LONG-TERM TRANSACTIONS SEK 538 MILLION

DATE

8/12/2014

Economy facing a political crossroads

Ghana is one of the better functioning democracies in sub-Saharan Africa and its political system is often brought up as an example of success. The country surpasses many of its African neighbours in terms of its business climate and institutional maturity. A lack of budgetary discipline has however weakened the public finances and substantially increased government debt in recent years. As a result, a crisis of confidence has emerged for the country with extensive capital outflows, sharp currency depreciation and rapidly falling international reserves. In August 2014, the government was eventually forced to seek financial assistance from the IMF. Ongoing discussions with the IMF together with the successful issue of a bond loan has eased the pressure on the country's currency in the short term. A political commitment to make sweeping reforms is however required to avoid additional weakening of the economy. The most likely result is that the agreement for financial assistance, which is contingent upon a political plan of action, will be adopted in the coming months and the situation will thus stabilise.

THE COUNTRY'S STRENGTHS AND WEAKNESSES

Strengths

- Stable growth driven by foreign investment in the oil and gas sector.
- A long history of democracy and relative political stability.
- Good business climate from a regional perspective.

Weaknesses

- Weak public finances with a substantial budget deficit.
- Vulnerable external position with a sizable current account deficit and a weakened currency.
- The economy is largely dependent on raw material exports.
- High inflation pressure and widespread poverty.

EKN'S POLICY

Restrictive policy for sovereign risk

EKN has placed Ghana in country risk category 5, for both short and long guarantees – an assessment made in collaboration with the other OECD countries. Some form of restrictiveness applies to all buyer categories in Ghana. EKN has introduced increased restrictiveness with respect to the government on account of the weak public finances. A guarantee from the ministry of finance is required for other public buyers. As a result of the country previously having received debt relief, there may be restrictions with respect to commercial lending by the government or government-owned counterparties.
For transactions with banks, we recommend a number of banks that EKN has good experience with, otherwise EKN conducts a restrictive risk assessment. For private companies, great importance is placed on there being complete and audited financial statements and EKN's guarantee holder having prior business experience of the country.

WHAT MIGHT CAUSE A CHANGE N THE COUNTRY POLICY?

The policy may be made less restrictive in the event of

- A significant improvement in the external balance, with shrinking deficit, an increase in the international reserves and a stable exchange rate.
- A long-term political commitment to cut public spending and reduce government debt.

The policy may be made more restrictive in the event of

- An inability to achieve and implement an agreement with the IMF for financial assistance.
- The further deterioration of the current account balance and public finances and an increase in debt.
- A permanent decrease in commodity prices with a negative impact on Ghana's export revenues.

EKN'S EXPOSURE AND EXPERIENCE

Increased exposure

EKN's exposure in Ghana totals approximately SEK 1.5 billion, with over SEK 0.5 billion comprising guarantees and the remaining amount offers. The majority of the outstanding guarantees are for the telecom sector, but other industries such as mining and transport are also represented. EKN issued around 80 offers and guarantees in 2014. EKN has good payment experience, although there have been individual cases of delays where local banks have cited limited allocation of foreign currency as the reason. The level of claims in Ghana is low.

COUNTRY ANALYST

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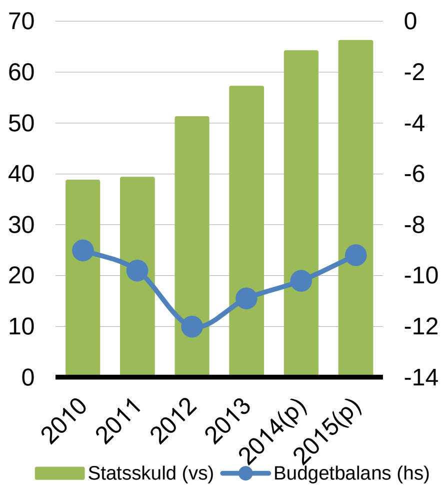
RISK DEVELOPMENT

Stable democracy, but a weaker economy

Ghana underwent a rapid process of democratisation in the 1990s and is now considered one of the most politically stable countries in the region. Two political parties have alternated between being in power for a long time – the social democratic NDC and the right wing, liberal market NPP. The current president is from the NDC and has a term of office until the next elections in 2016. The largest political risk is related to uncertainty concerning the government's willingness to take necessary measures to consolidate the public finances and rising government debt. There is a historically strong correlation between the national elections and an increase in public spending. The national budget deficit increased sharply in the run-up to the 2012 elections as well, mainly driven by increased public wages and salaries, energy subsidies and rising debt costs. Due to low tax revenues, the government has been forced to finance promised investments via new loans. Ghana was reclassified from a low-income country to a lower middle income country several years ago and thus lost its entitlement to development assistance loans. Combined with good borrowing opportunities, this has resulted in the government seeking financing elsewhere, via China on the one hand and via the local and international capital market on the other. This change in the country's debt profile has not only shortened its maturity structure from 40 to 25 years, but also rapidly doubled interest costs, which are now equal to nearly one fourth of public revenues. An inability to stave off soaring expenses, along with far too slow

PUBLIC FINANCES (% OF GDP)



Source: IMF

Kommentar [DF1]: Government debt (left) Budget balance (right) implementation of a tax reform, will aggravate the situation with additional, more expensive debt.

Increased external imbalance

Given that Ghana is one of the world's largest cocoa exporters and is also a significant producer of gold, these two raw materials have been a key source of foreign currency for a long time. The country began extracting oil from the Jubilee field in 2010, bringing the country's growth up to among the highest in the world. Ghana's economy grew by an average of 8.5% from 2009 to 2013 annually. Additional gas energy deposits are being prospected and are expected to come into operation in 2015. The country is heavily dependent on natural resources, and limited diversification is making the country's exports volatile and vulnerable to external events. The country's export revenues have stagnated as the world market price for oil and gold has fallen. Falling export revenues combined with an increase in imports have brought an already substantial current account deficit up to over 10% of GDP. The local currency, the cedi, which is under heavy pressure, fell by nearly 40% over the first nine months of the year, while the international reserves dropped to alarming levels. At their lowest, the reserves only covered 1.5 months of imports. Ghana was eventually forced to turn to the IMF for financial assistance to break this downward spiral.

The depreciation of the currency has temporarily subsided due to the prospects of an IMF agreement, a major syndicated loan from the Ghana Cocoa Board and the successful issue of an international bond loan. The IMF agreement is crucial for the country's international reputation, since financial assistance from the IMF is a first step toward ending the acute lack of liquidity in the short term. The political will to implement a plan of action that consolidates public spending is however crucial in order to reduce government debt and external imbalances in the long-term.

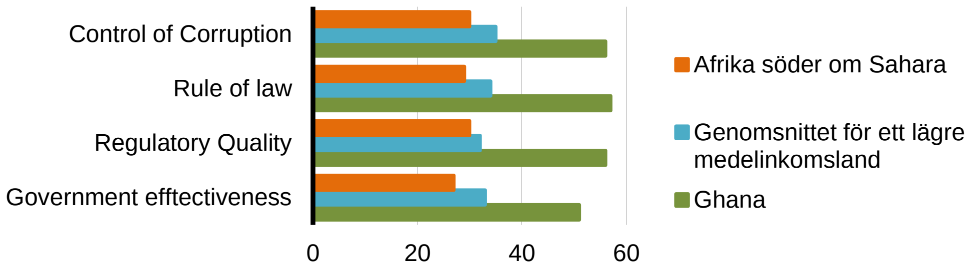
The baseline scenario is that Ghana will get an IMF agreement in place by Q1 2015 at the latest, with a package of assistance contingent upon a commitment by the government to take cost-cutting measures and undertake structural reforms. On the basis of this scenario, Ghana has great potential to strengthen its economy in the long term. Driven by a favourable business climate, a young population and new deposits of oil and gas, it is estimated that international investments will flock to sectors such as energy, telecom and infrastructure.

BUS NESS ENVIRONMENT

Favourable business environment

The overall regulatory environment and the institutional capacity of Ghana is strong from a regional perspective. The World Bank ranks Ghana in 4th place (out of 47 countries) in sub-Saharan Africa in its Doing Business Index and in 70th place out of 189 countries globally. In comparison to other countries in the region, Ghana is on the cutting edge in terms of the government's administrative capacity as well. This is the case regardless of which indicator you measure, whether it be Regulatory quality, Rule of law, Government effectiveness or Control of corruption.

INSTITUTIONAL CAPACITY (SCALE OF 0 TO 100)



Source: Governance Indicators 2013, World Bank

The country's business environment has improved significantly over the past years, but there are still shortcomings, especially in relation to the state apparatus and extensive bureaucracy. Red tape, long proceedings and state corruption may serve as impediments for foreign investors, but our experience shows that transactions with the private sector are often all right. The accounting standard in Ghana has flaws, but is considered sufficient to serve as a basis for credit risk assessments. The legal system is relatively well developed and is based on English law. The authorities have issued a number of laws and incentives to attract foreign direct investment, such as opening the door for investments in certain sectors and allowing foreign ownership of local companies.

Ghana has thus far been spared from Ebola and no instances of the disease have been reported. The risk of an uncontrolled epidemic is considered limited, since the country is prepared and has good prospects of being able to manage contagion. However, an indirect spill-over effect in the form of disruptions of certain economic activity will probably impact the entire West African region if the outbreak escalates and continues over a long period of time.

Kommentar [DF2]: Sub-Saharan Africa
Average for a lower middle income country
Ghana