ECONOMIC OUTLOOK

Slow Growth Sets Foundations For Economic Revival

BMI View: *Economic growth in Ghana in 2016 will improve on 2015, but will remain below its 10-year average due to tight monetary and fiscal policy. The tighter reins on the economy will build a solid platform for more sustainable growth from 2017 onwards, when we expect Ghana will become a regional success story once more.*

We envisage real GDP growth in Ghana will come in at 4.2% in 2016, compared to our previous expectation that the country would enjoy a more robust 4.9% expansion this year – following a tepid 4.0% in 2014 and 3.4% in 2015.

Our growth downgrade has come largely on the back of the deleterious effects of oil prices which will be lower than we had previously envisaged and the impact this will have on government spending in particular. However, while growth might come in lower than the 5.4% expected by Ghanaian finance minister Seth Terkper, we believe the lower growth in 2016 is in part a product of responsible monetary and fiscal policy, which will lay the foundations for renewed investor confidence in Ghana.

This renewed investor confidence, in tandem with higher oil prices and decreasing inflation, will lead to growth of 6.7% in 2017 and 2018.

We believe lower revenues will feed through to slower growth in government expenditure in 2016. Our Oil & Gas team forecasts Brent crude will average USD46.5 per barrel (/bbl), compared to USD53.6/bbl in 2015 and USD99.5/bbl in 2014. The Ghanaian budget was originally drafted with an assumption of oil averaging USD53.0/bbl, and Seth Terkper said in February the lower prices would likely mean a budget revision, without giving details.

This reaffirms Ghana's commitment to living within its means, abiding by the stipulations laid out in its IMF programme and reducing the fiscal deficit. Ghana has successfully passed both its reviews under the programme so far.

Despite salient fears by investors that the November elections will lead to a ramp-up in government spending in 2015, we believe the government remains heavily committed to maintaining its relationship with the IMF, and a blow-out, the like of which was seen in 2012, is highly unlikely. A massive increase in government wages that year, promptly followed by a commodity price slump – oil, gold and cocoa are Ghana's major exports – resulted in widening twin deficits, a rapidly depreciating currency, high inflation and negative investor sentiment, with a concomitant impact on growth.

This is how Ghana found itself on an IMF programme today. Although the risk of this pattern repeating itself is a frequent topic of conversation between **BMI** and clients, we believe the government's attempts to now portray itself as the party that can turn the ship around through economic prudence will preclude any repetition of such fiscal profligacy; President John Mahama has been defending his economic record from opposition attacks by pointing to the reduction in the budget deficit since 2012. This will mean slower real GDP growth in 2016, but faster growth in 2017 thanks to the improved investor sentiment and backlog of government projects pushed back from this year.

High inflation and tight monetary policy will also keep real GDP growth down in 2016. Persistently high inflation in Ghana – 19.2% in March – has led us to the conclusion that the long-delayed end to the country's rate-hiking cycle will not come in 2016, as we had previously anticipated.

We now expect the Bank of Ghana's Monetary Policy Committee (MPC) will enact a further 100 basis points (bps) hike to the key policy rate, taking it from 26.00% to 27.00%, second only to Argentina globally. The authorities remain committed to curbing the rapid inflation in the country, even if this comes at the expense of real GDP growth and increases in non-performing loans. Again, we believe this tight policy in 2016 will set the groundwork for moderating price growth, looser monetary policy and improved private consumption and investor sentiment in 2017. From 2017 onwards we expect Ghana will once again be considered a regional outperformer. The launch of the TEN oilfields in H216, coupled with higher oil prices will lead to a further improvement in the fiscal and external positions.

DATA & FORECASTS

	2012	2013	2014	2015e	2016f	2017f	2018f
Population, mn	25.5	26.2	26.8	27.4	28.0	28.7	29.3
Nominal GDP, USDbn	39.4	40.0	35.4	36.2	39.7	46.2	53.1
GDP per capita, USD	1,570	1,543	1,340	1,343	1,442	1,646	1,853
Real GDP growth, % y-o-y	8.8	7.1	4.0	3.4	4.2	6.7	6.7
Consumer price inflation, % y-o-y, ave	9.2	11.6	15.5	17.1	16.9	14.8	13.3
Consumer price inflation, % y-o-y, eop	8.8	13.5	17.0	17.7	16.0	13.6	12.9
Central bank policy rate, % eop	15.00	16.00	21.00	26.00	27.00	24.00	20.00
Exchange rate GHS/USD, ave	1.85	2.07	3.07	3.78	4.02	4.34	4.57
Exchange rate GHS/USD, eop	1.90	2.38	3.22	3.81	4.23	4.46	4.69
Budget balance, GHSbn	-8.7	-9.5	-7.2	-10.0	-10.8	-10.4	-10.9
Budget balance, % of GDP	-11.5	-10.0	-6.3	-7.2	-6.4	-5.0	-4.4
Goods and services exports, USDbn	16.8	16.2	15.3	16.7	17.6	21.5	24.8
Goods and services imports, USDbn	22.0	22.5	18.9	18.3	19.6	23.8	27.8
Current account balance, USDbn	-4.9	-5.7	-3.3	-3.0	-3.0	-3.2	-2.8
Current account balance, % of GDP	-12.5	-14.3	-9.4	-8.4	-7.5	-7.0	-5.2
Foreign reserves ex gold, USDbn	3.9	2.7	3.0	3.3	3.7	4.1	4.6
Total external debt stock, USDbn	12.6	15.8	17.6	14.8	15.1	18.0	19.8
Total external debt stock, % of GDP	31.9	39.5	49.7	40.8	38.1	38.8	37.3

e/f = BMI estimate/forecast. Source: BMI, National sources