



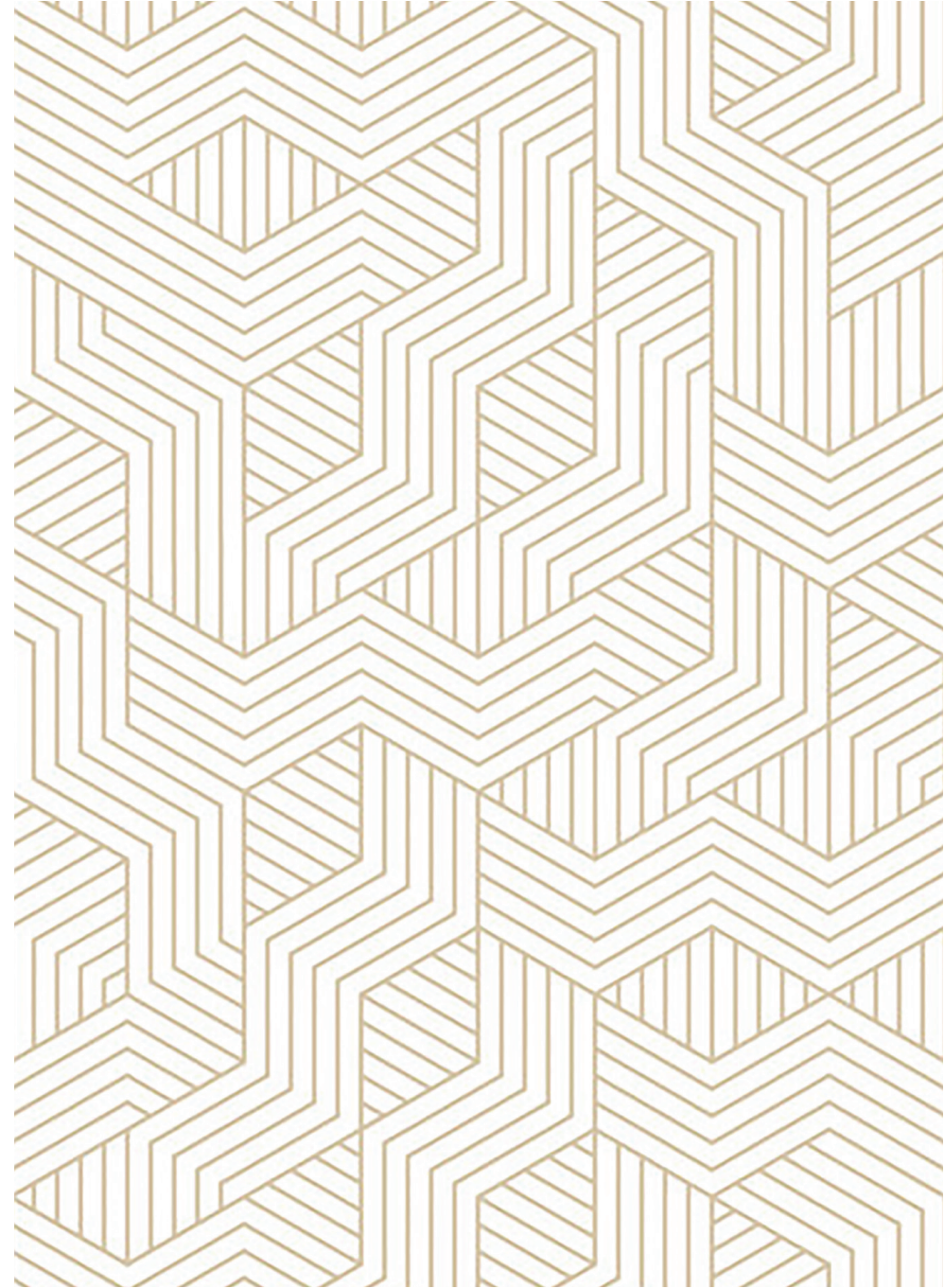
Ghana's Medium-Term Outlook:

Navigating through Economic
Uncertainties amid an
IMF Program

Presented by PROF. ERIC OSEI-ASSIBEY

At DBG_GAB Economic forum

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Monetary, External and Fiscal Outlook



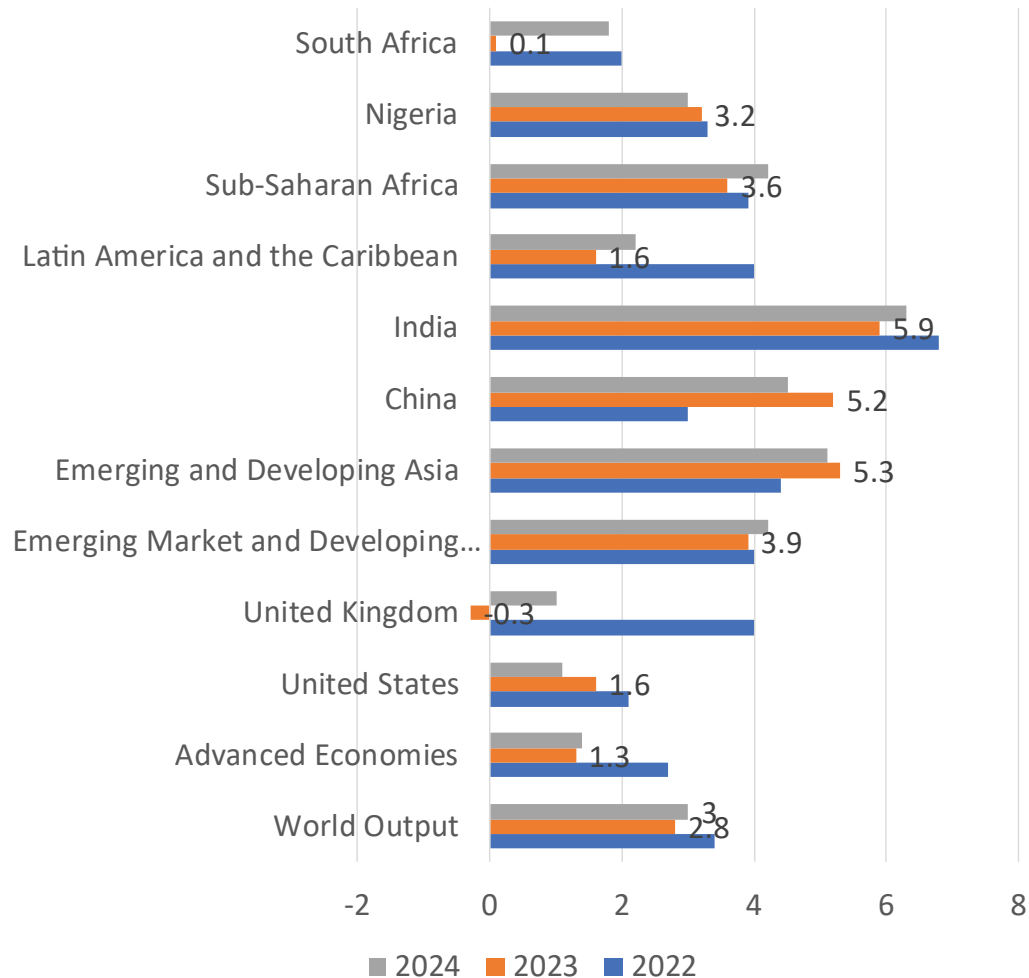
The IMF Programme: Key Milestone



Pitfalls and Opportunities Ahead, and the Role of DBG

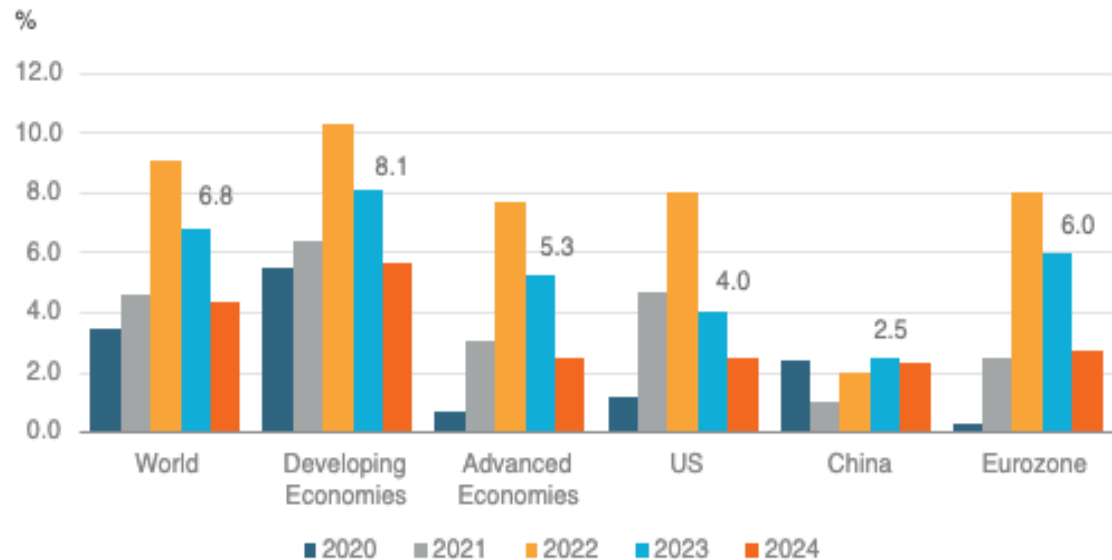


GLOBAL Growth Outlook: Feeble and Uneven



- The global economy's gradual recovery from both the pandemic and Russia's invasion of Ukraine remains on track.
- China's reopened economy is rebounding strongly.
- Supply chain disruptions are unwinding, while dislocations to energy and food markets caused by the war are receding
- The latest IMF forecast indicates growth to fall from 3.4 percent in 2022 to 2.8 percent in 2023, before rising slowly and settling at 3.0 percent five years out--the lowest medium-term forecast in decades.
- But growth in advanced countries remains weak, especially in Europe, and lingering recession

GLOBAL Inflation: Still high but falling



Source: Euromonitor International Macro Model



Figure 3: Share of economies with rising headline inflation

- Inflationary pressures have begun to abate, reflecting softening demand and easing commodity prices, and inflation is rising in fewer countries.
- Though more slowly than initially anticipated, global inflation will fall from 8.7 percent last year to 7 percent this year and 4.9 percent in 2024.
- Despite easing, emerging and developing economies will continue to record highly elevated inflation at 8.1% in 2023 amid persistent energy and food price pressures.
- In advanced economies, inflation will remain significantly above the trend at 5.2% as price pressures move from energy, food and goods to become increasingly entrenched in the services sectors.

Risk to the Outlook: Downside Risks Dominate



Stress and Vulnerability in the Financial System

There is a significant risk that the recent banking system turbulence will result in a sharper and more persistent tightening of global financial conditions than anticipated.



Inflation proofing stickier than expected

This may prompt further monetary tightening than currently anticipated.



Escalation of the war in Ukraine and heightening Geopolitical tensions

Intensifying War in Ukraine could cause further supply disruptions in the context of the and growing tension between the US and China.

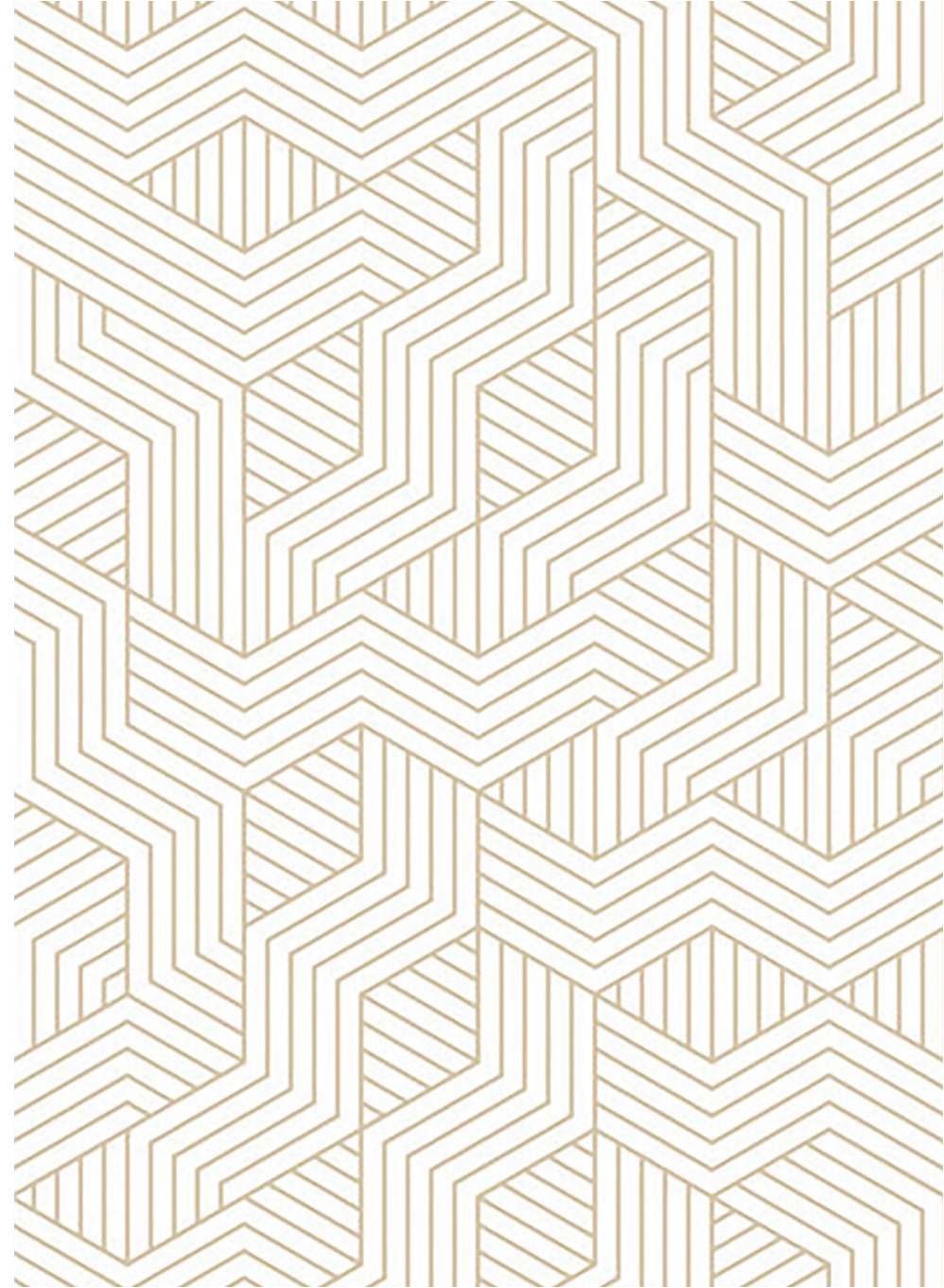


Systemic Debt Distress

The combination of higher borrowing costs and lower growth could cause systemic debt distress in emerging market and developing economies.

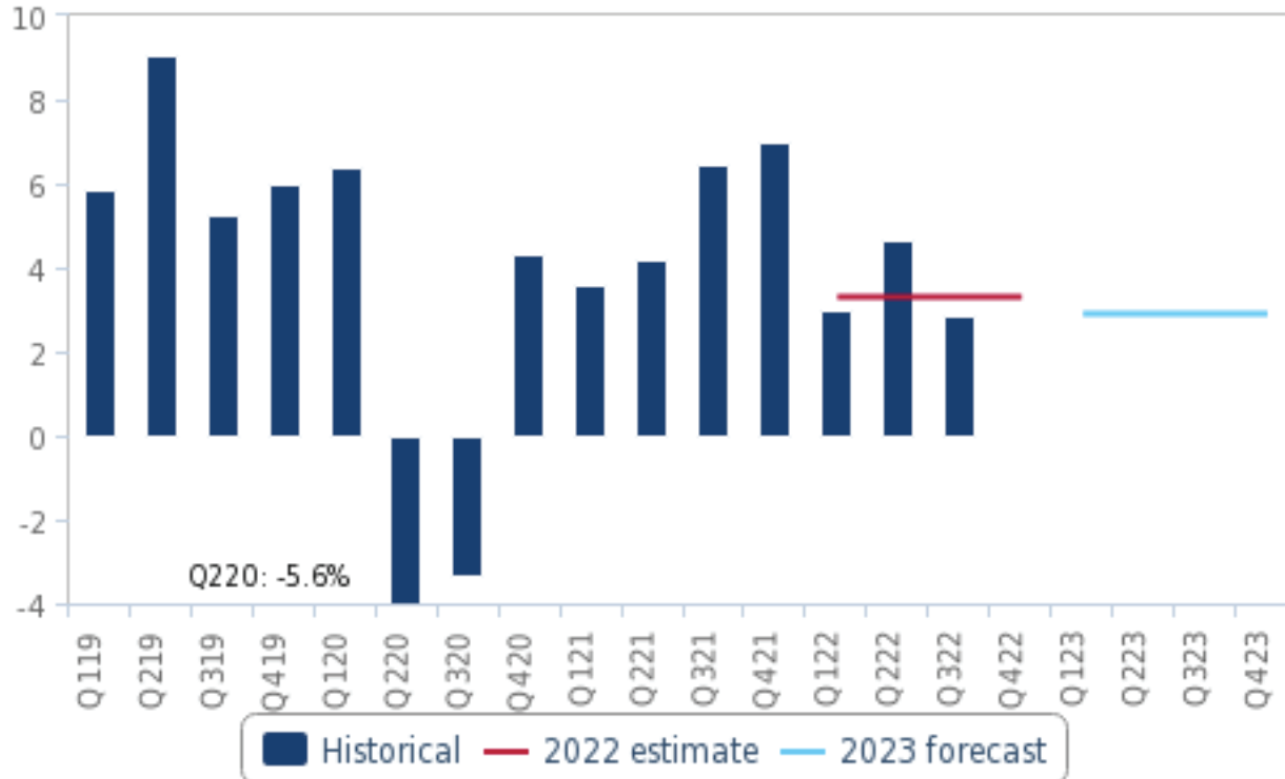


Domestic Economic Outlook



Ghana - Real GDP Growth

Economic Activity Will Slow In Coming Quarters
Ghana - Real GDP Growth, % y-o-y

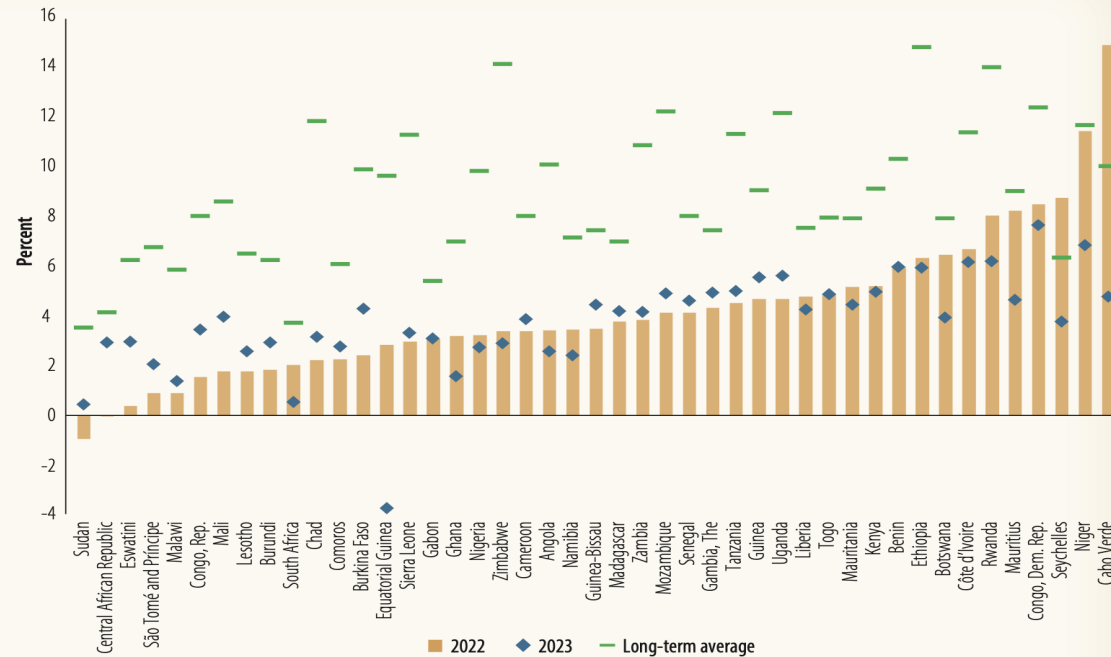


- While GOG and Fitch expect the economy to grow by 2.8% in 2023, the IMF and the World Bank have lowered Ghana's growth rate to 1.6% this year.
- Data released by GSS show that real GDP growth weakened significantly in Q322, to 2.9% y-o-y, from 4.7% in Q222.
- While the mining sector recorded robust growth of 14.9%, a 7.4% contraction in the manufacturing sector and a 7.0% decline in the construction industry weighed on overall economic activity.

Ghana - Real GDP Growth (Cont'd)

Growth across many Sub-Saharan African countries remains below the long-term average.

FIGURE 1.4: Growth across Sub-Saharan African Countries in 2022

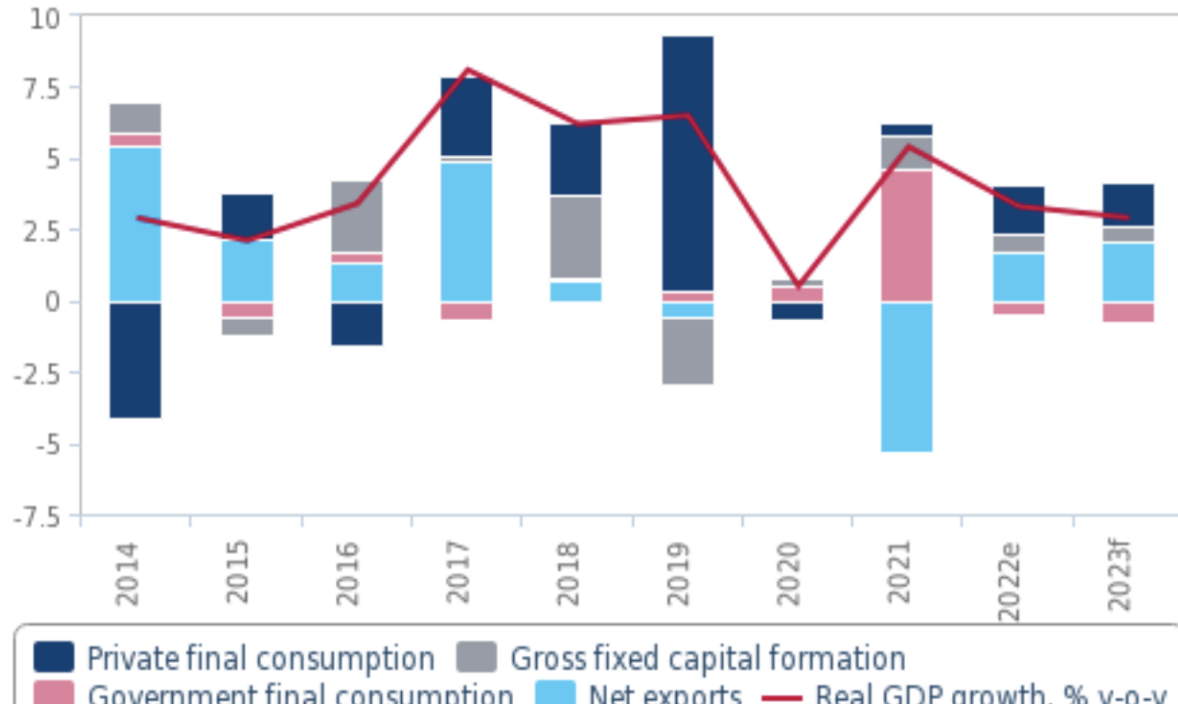


Source: World Bank staff estimates and projections.

- We project that economic growth will recover and accelerate but more slowly in 2024 to 4.7%, as lower price pressures and domestic investment and consumption pick-up under a likely IMF programme weigh on domestic demand

Key Drivers of Growth

Net Trade To Support Ghana's Economy In 2023
Ghana - Contribution To Real GDP Growth, pp



Upside Drivers

Net exports will be the driver of Ghana's economy in 2023.

Production increases in the country's most prominent commodities – gold, oil and cocoa – will bolster export growth.

Growth in gold output will remain healthy following the recommissioning of the Bibiani mine, as well as efforts to formalise artisanal and small-scale gold mining.

At the same time, Fitch forecasts robust growth in cocoa production as favourable weather conditions in Q422 will likely result in a strong harvest.



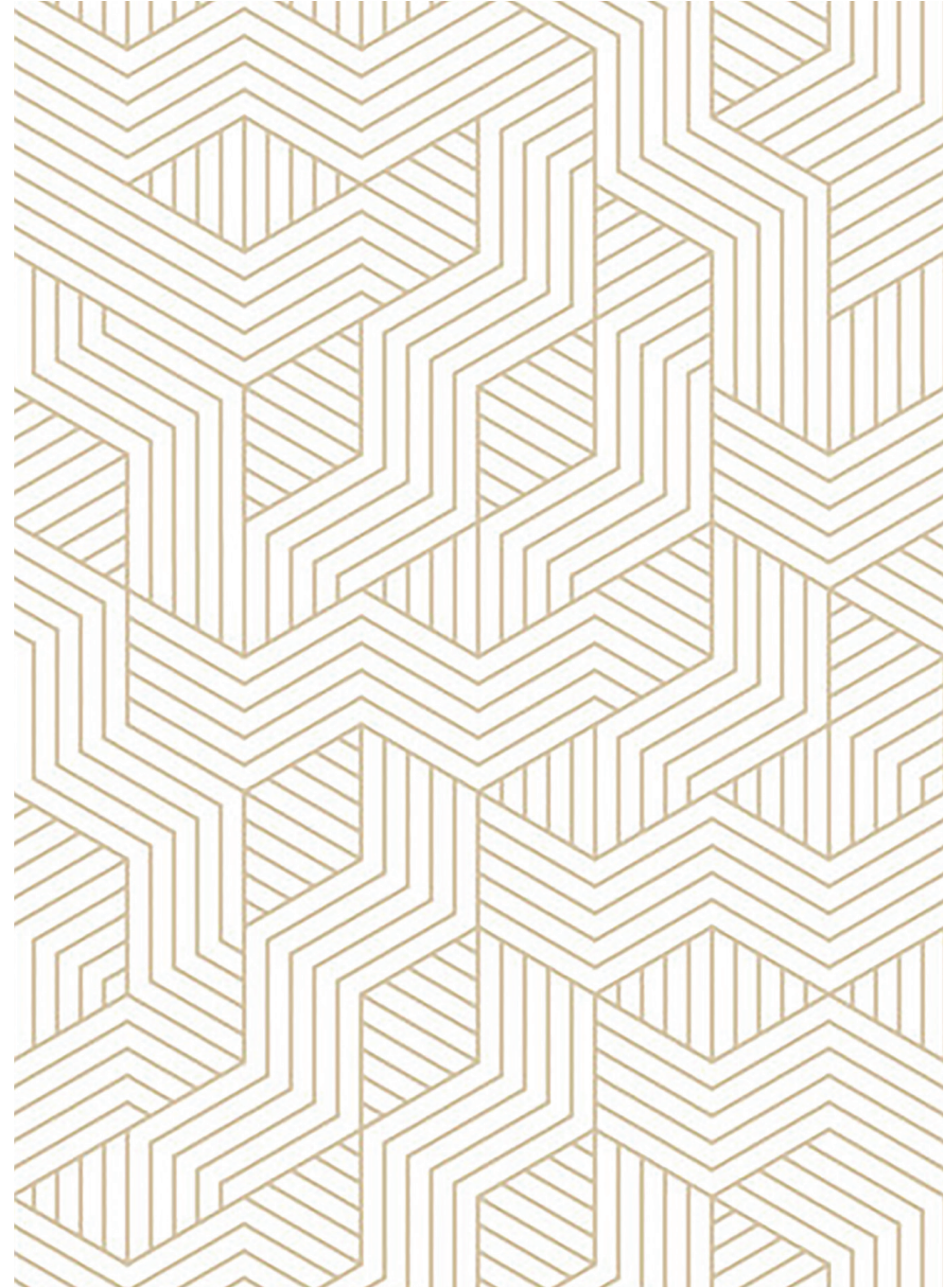
Downside Drivers

Fiscal slippages as a result of
 High debt and budget deficit,
 Reducing government spending on infrastructure and
 Investments as a result of lower credit growth.

Subdued private sector activity amid still-high inflation and rising taxes will lower import demand.



Monetary and Financial Developments



Inflation

 23 Feb

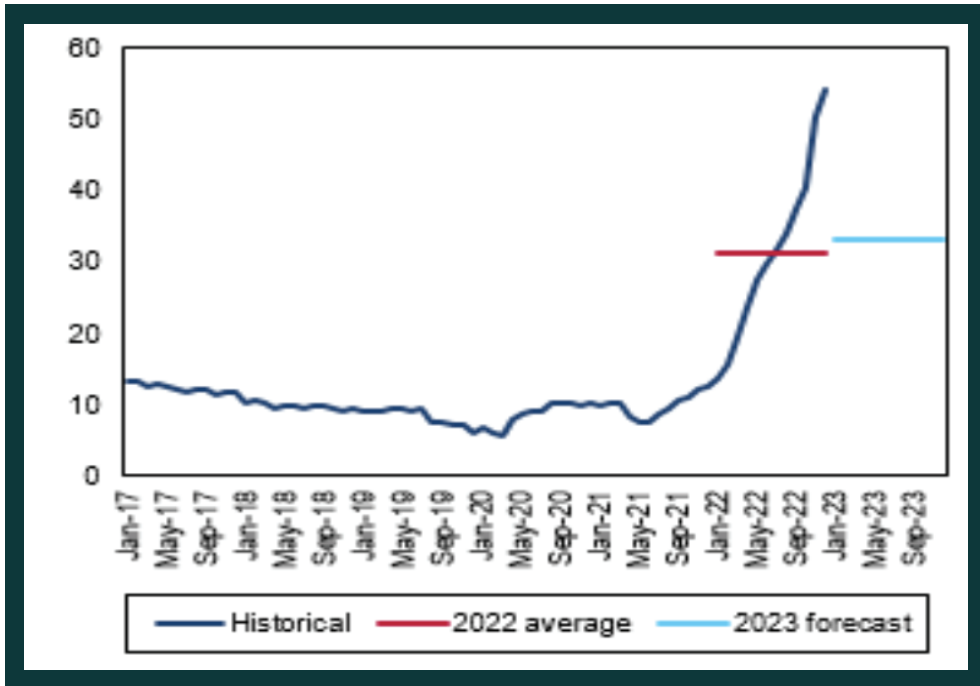
52.8%
Year-on-year
inflation

 23 March

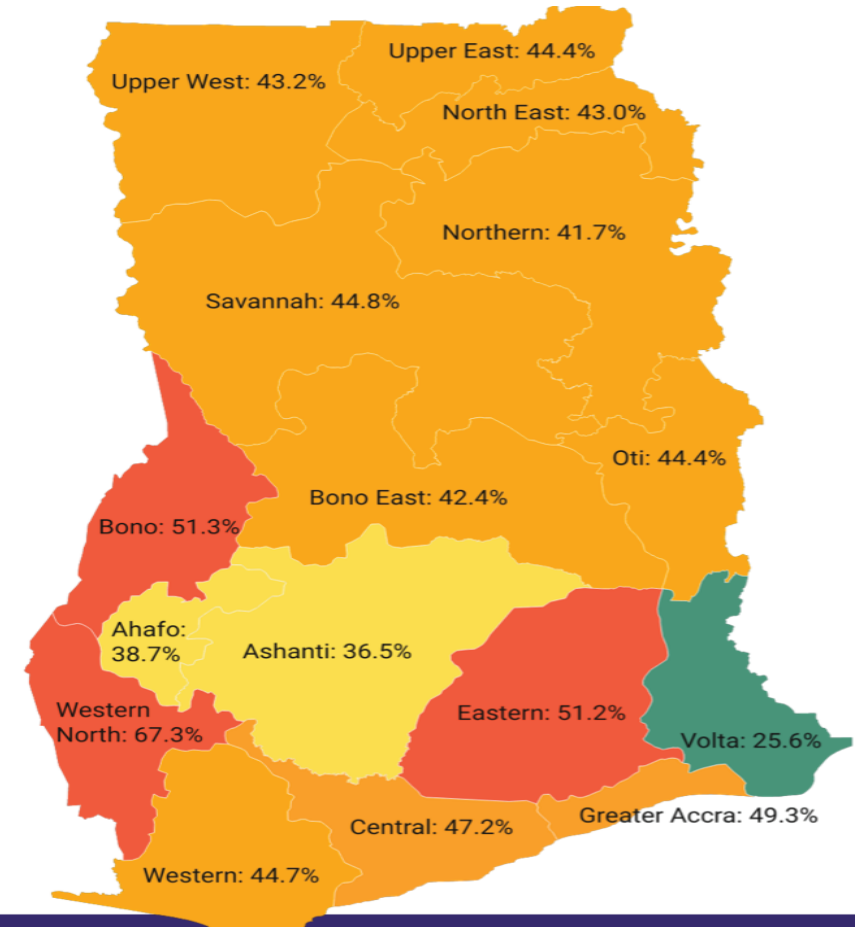
45.8%
Year-on-year
inflation

Food
Inflation **50.8%**

Non-Food
Inflation **40.6%**



Regional Inflation



Drivers of Inflation



Downside Risk

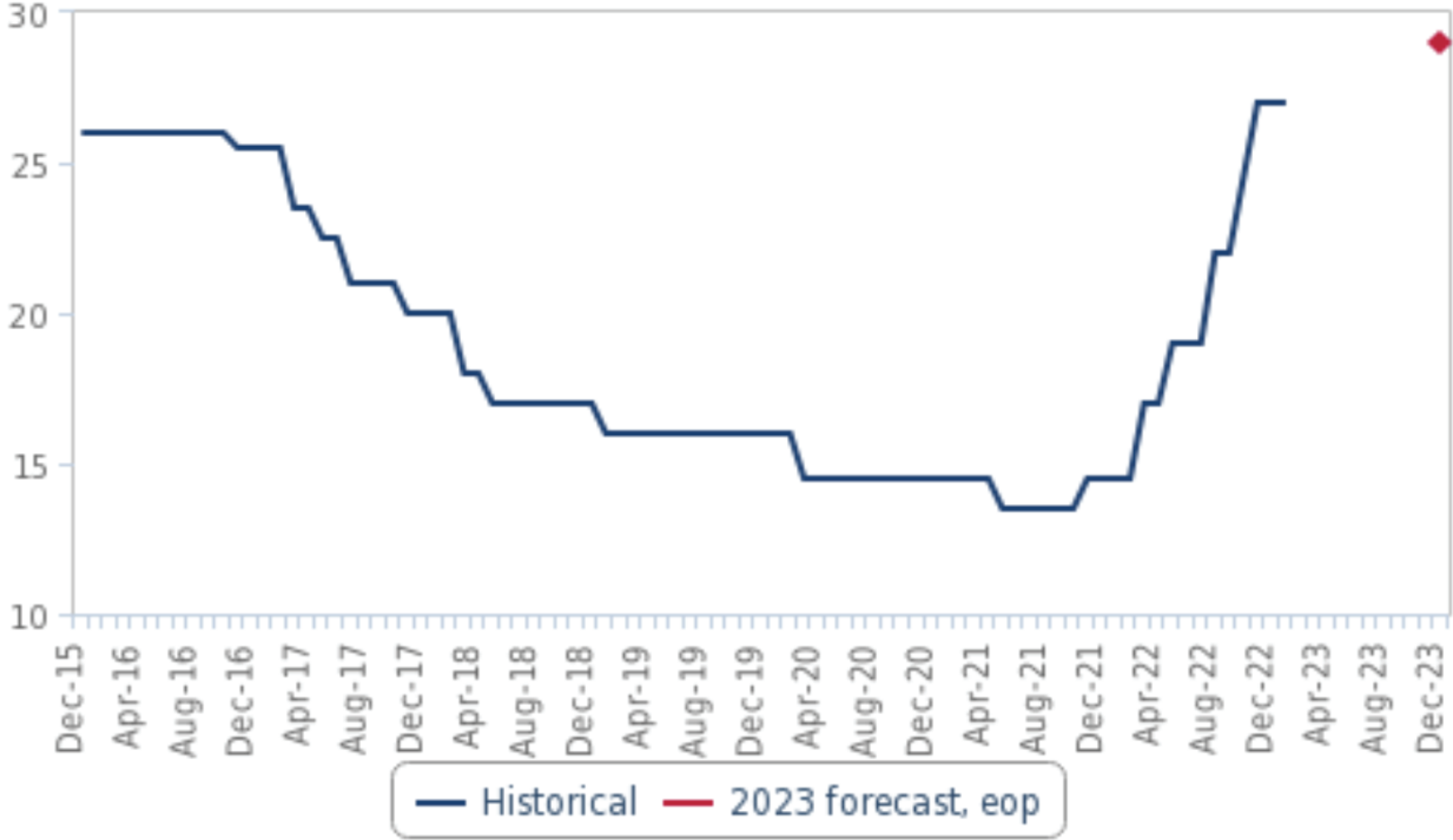
- The relative stability in the exchange rate
- A tightening monetary policy
- Efforts to mop up excess liquidity in the banking system
- Fall in global inflation
- Base drift effect



Upside Risk

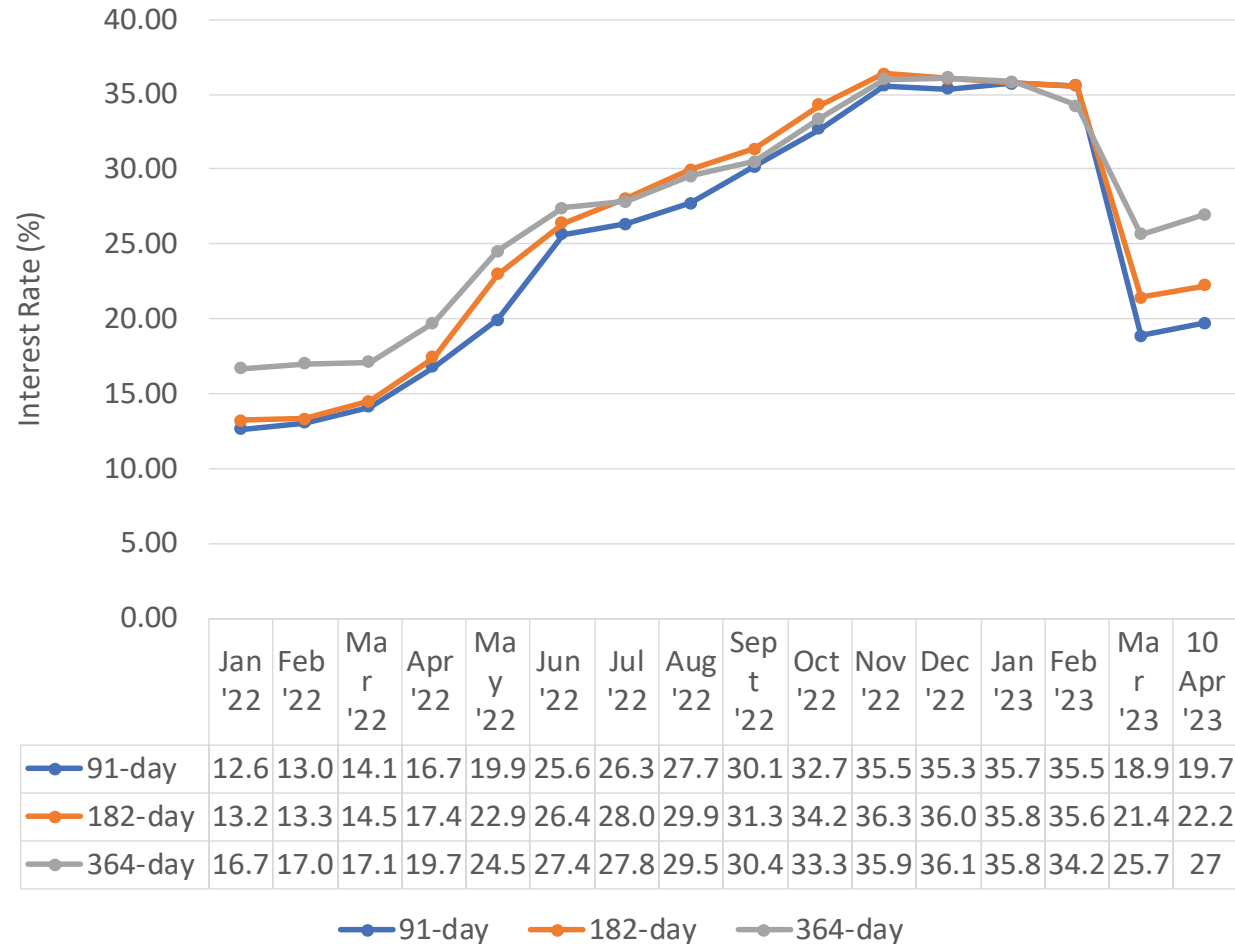
- The lingering effects of the 2.5 % increase in VAT and excise tax
- Reversal of benchmark discount values
- Increase in utility prices
- Exchange rate volatility
- Crude oil price escalated
- Bad weather and food supply chain disruption

Central Bank Nearing End Of Tightening Cycle
Ghana – Central Bank Policy Rate, %

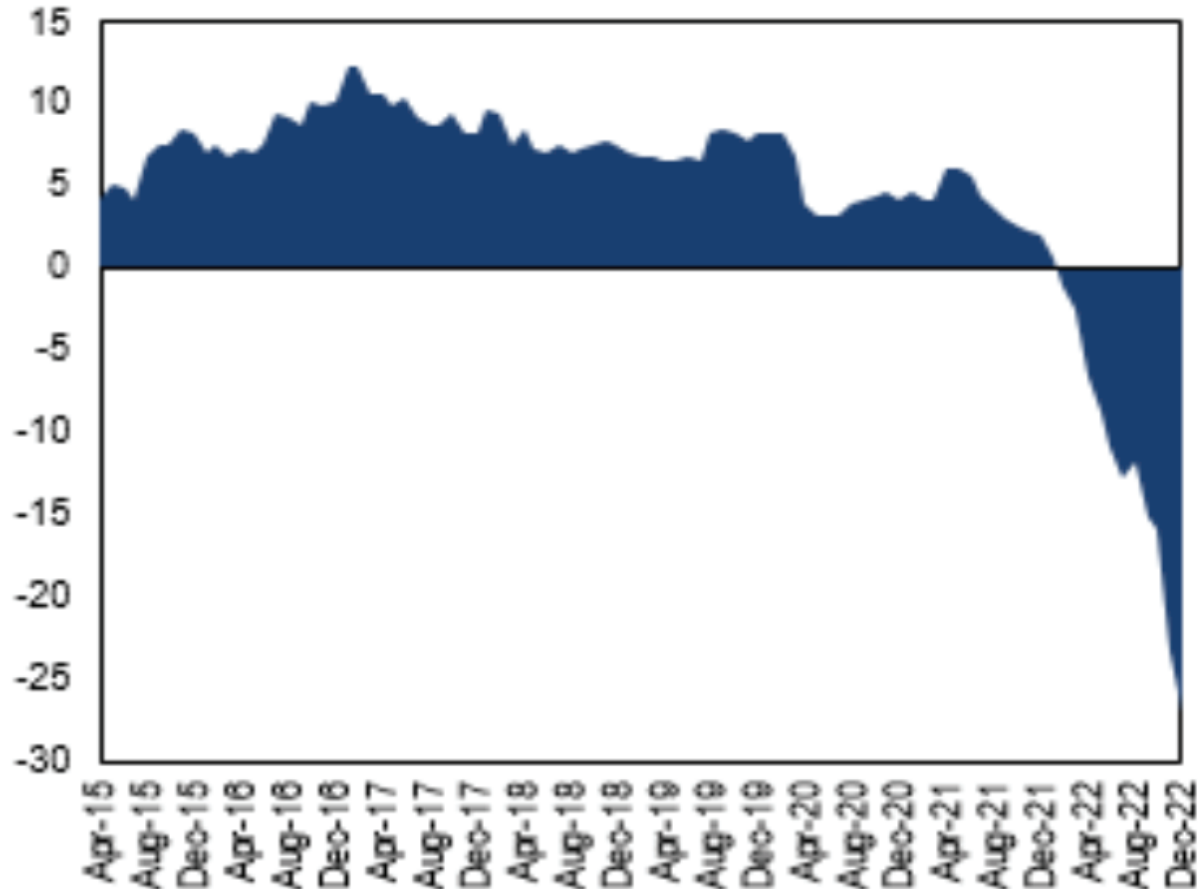


Interest Rates

Interest Rate on T-Bills



Real interest rates will remain in negative territory for most of 2023.



- This will likely continue to weigh on investment inflows, resulting in further net financial and capital account outflows in 2023 (following significant outflows in 2022).
- While this will put pressure on the exchange rate
- A disbursement of special drawing rights under a likely IMF programme will shore up foreign reserves

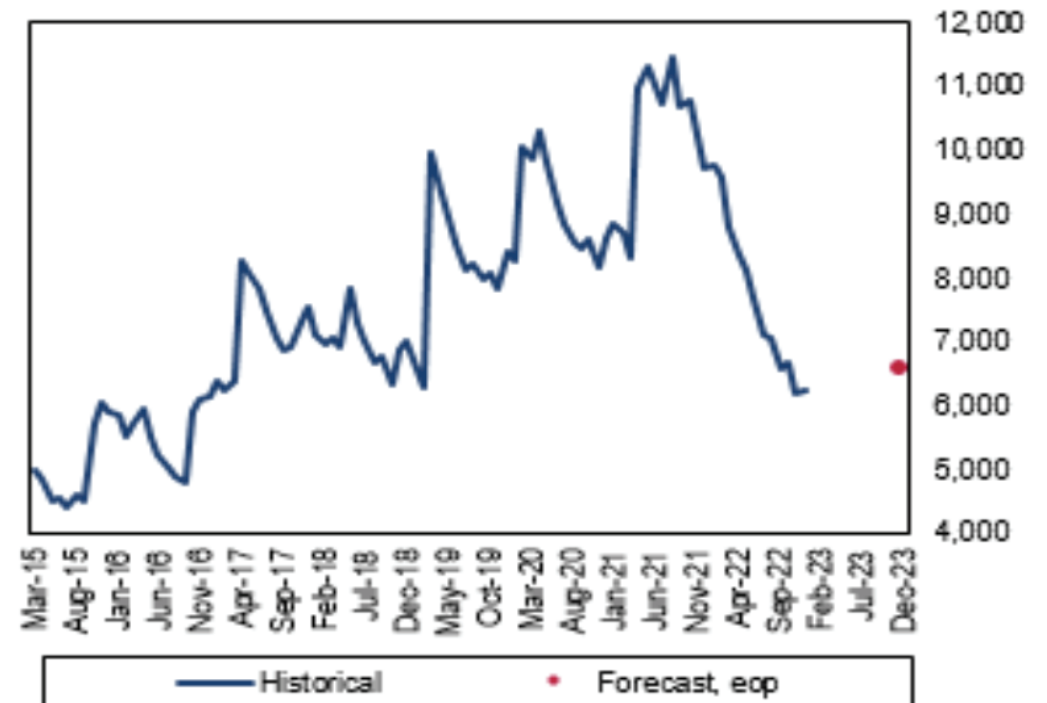
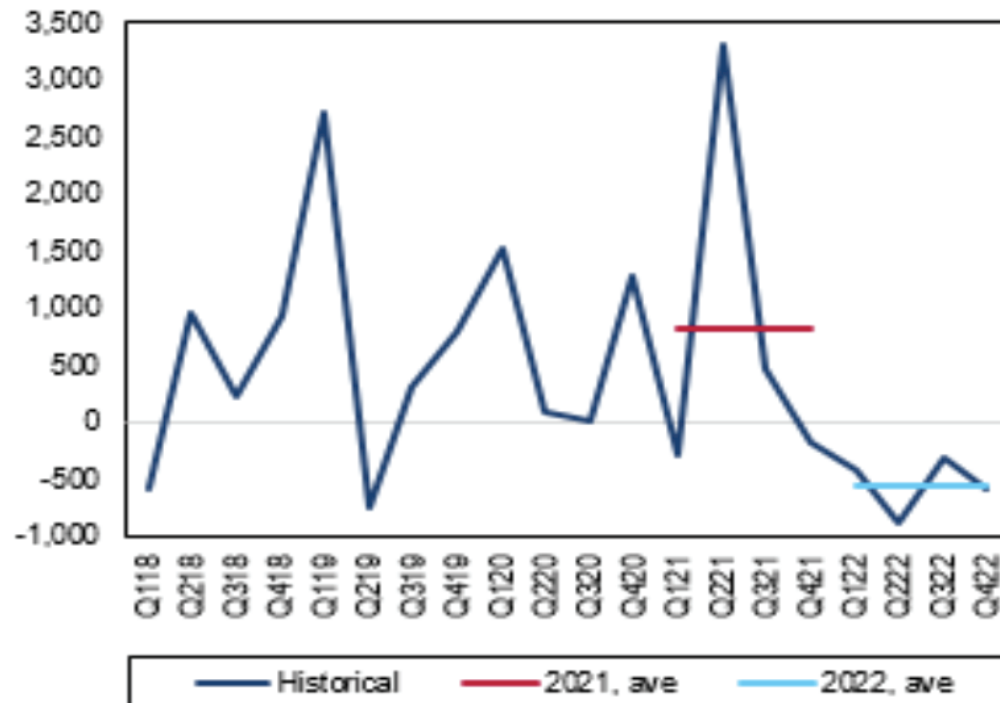
External Sector Developments



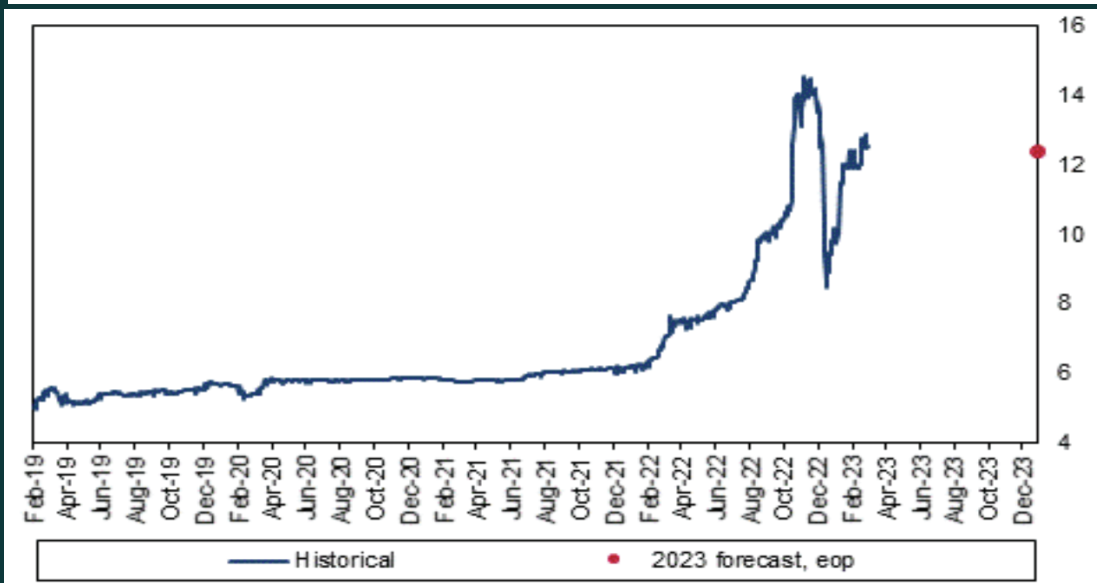
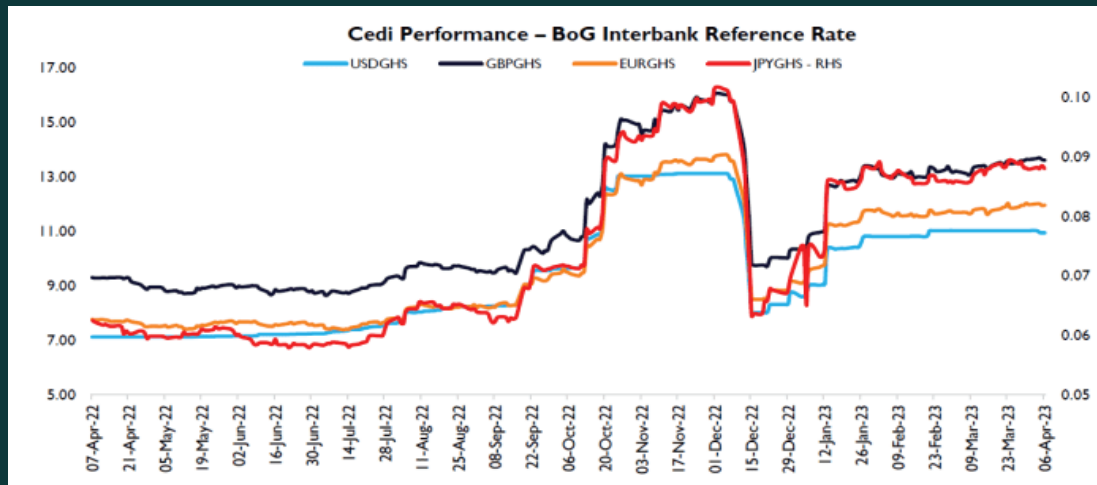
Ghana's current account deficit will shrink to 1.0% GDP in 2023, from an estimated 2.3% of GDP in 2022. This will be facilitated by a widening trade surplus and a reduction in external interest payments, which will result in a narrowing primary income deficit.

Investment To Remain Weak, But IMF Funding Will Stabilise Reserves

Ghana - Capital And Financial Account Balance, USDmn (LHS) & Foreign Exchange Reserves, USDmn (RHS)



Currency Forecast



Currency will experience Relative Stability In the Short to medium Term

- Fitch forecasts the cedi to end the year at GHS12.40/USD.
- Capital flight and falling foreign exchange reserves will ensure that the unit will continue to sell off in the short term
- The receipt of critical IMF funding following the likely formation of an official creditor committee will pare back some of the losses.
- The expected disbursement of special drawing rights and improving investor sentiment will see the cedi return to a more gradual depreciatory trend in H223.

Measures by BOG to address the Exchange Rate depreciation

Shore up International reserves



Tighter Monetary policy

Monetary Policy will focus on using the monetary policy rate to signal the monetary policy stance and contain inflationary pressures, step up sterilization efforts to address excess liquidity, and use the cash reserve ratio.



Gold Purchase Program and Gold for oil

The ongoing Gold Purchase Program with the objective to increase foreign exchange reserves ultimately will aggressively be pursued



Special Forex Auction for the BDCs

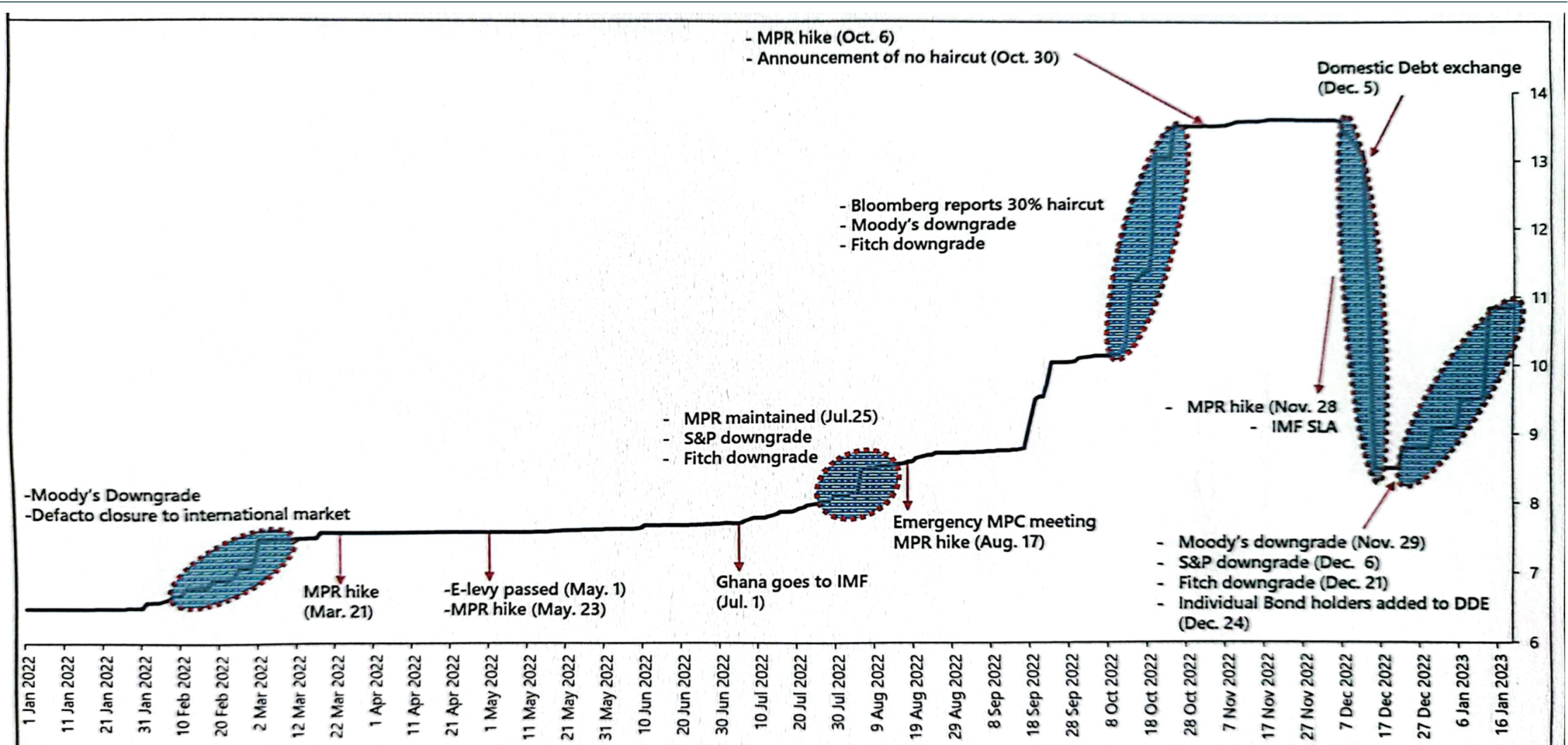
BOG will continue with the special Forex Auction for the BDCs to help with the importation of petroleum products.



Stricter FX Regulations and Import control

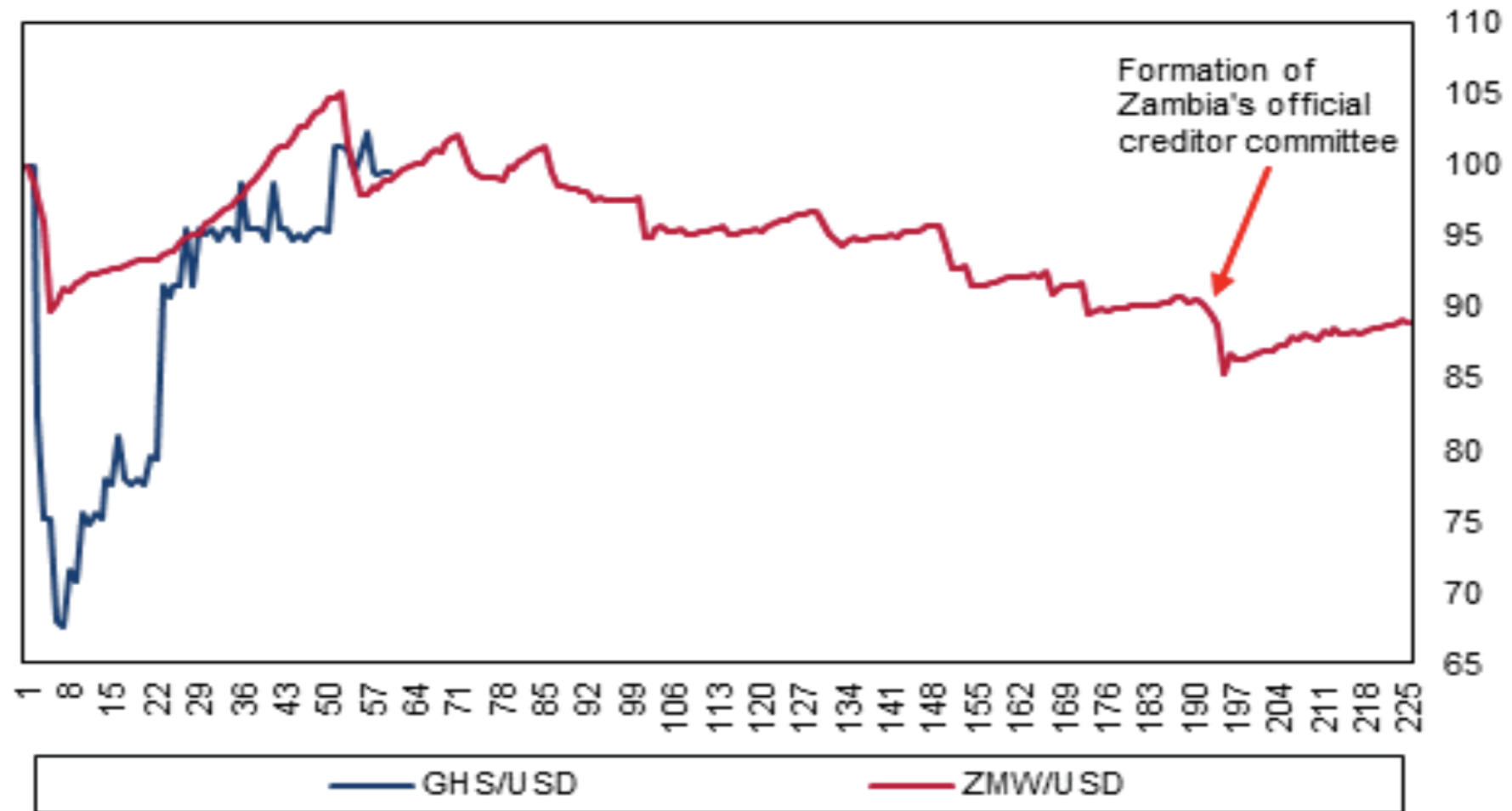
BOG will continue tightening its FX regulation, including the withdrawal of licenses for Forex bureaus and importers of rice, poultry, and others

Announcement Effect on Exchange Rate, Jan 2023

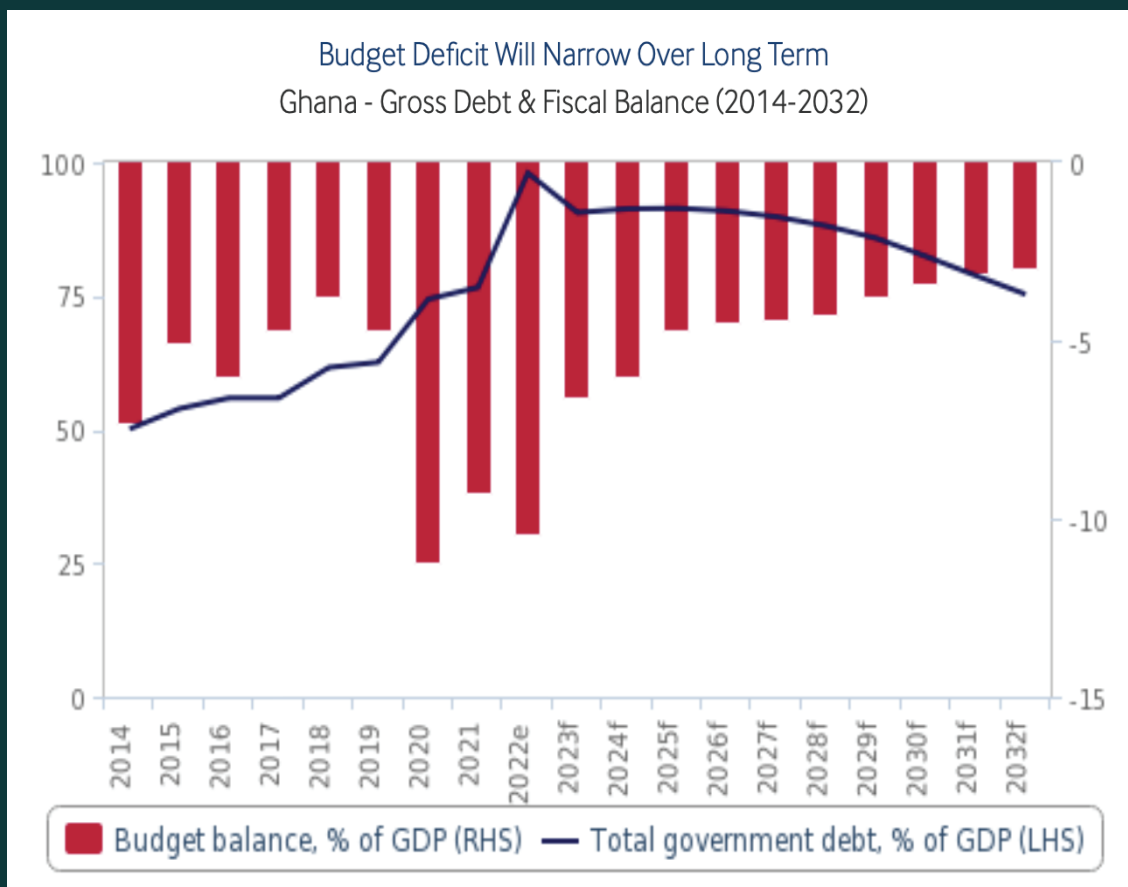


Cedi To Strengthen On Formation Of Creditor Committee

Ghana & Zambia – Exchange Rate Index

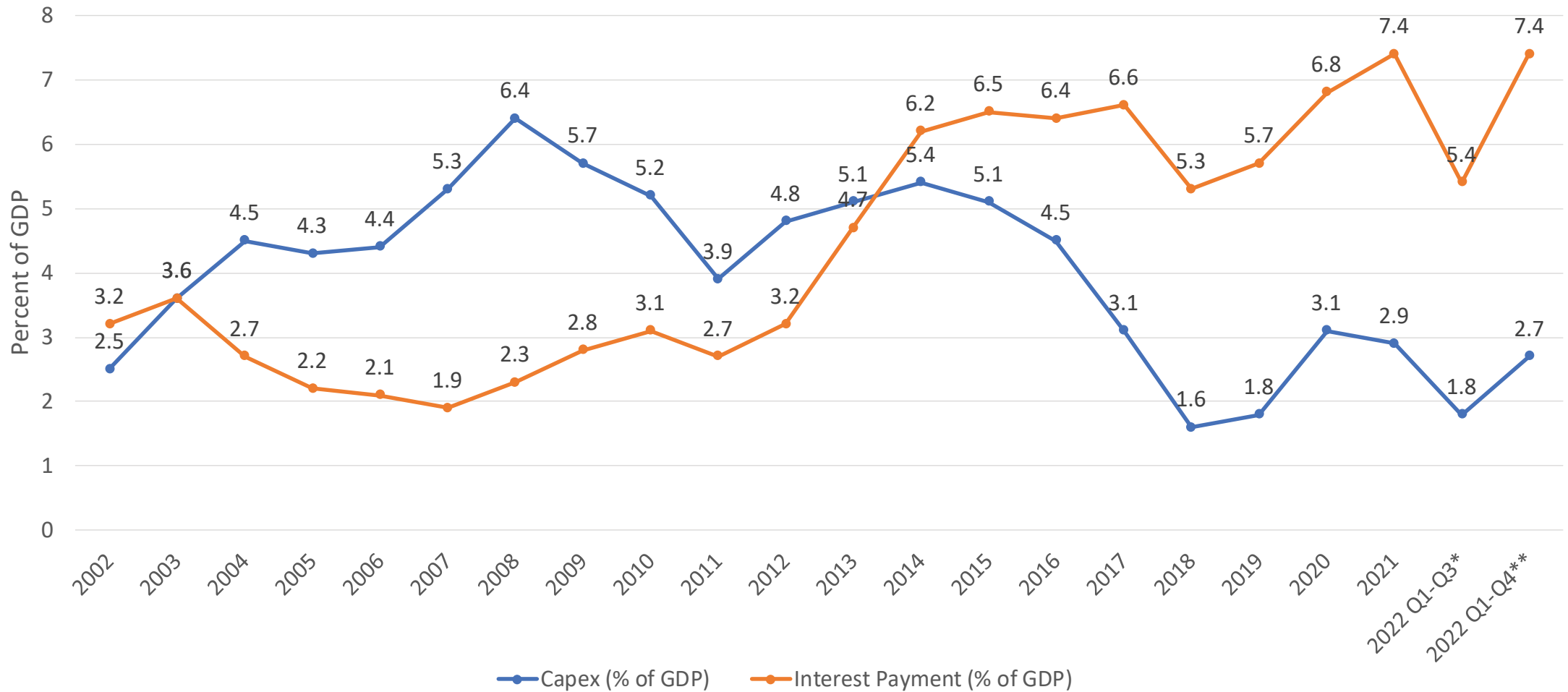


Fiscal Developments



- Ghana's fiscal deficit will narrow to 6.6% of GDP in 2023 from an estimated 10.4% in 2022.
- The budget shortfall will narrow on stronger revenue collection following tax hikes (16.5%) and lower expenditure growth as domestic debt restructuring and the suspension of external debt payments reduce debt servicing costs.
- Given Ghana's borrowing constraints, we believe the public debt-to-GDP ratio will fall for the first time since 2011.
- Revamp in tax revenue: As part of its 2023 budget plans, the government announced multiple tax increases, including a hike in the country's value-added tax (VAT) rate to 15.0% - from 12.5% previously - as well as an additional income tax bracket of 35.0%.

Interest Payment and Capital Expenditure



Data Source: GoG Budget Statements

Ghana's Engagement with the IMF

1st Round Agreements

- Program objectives
- Preliminary fiscal adjustment path
- Debt operations/exchange strategy
- Financing required

2nd Round Agreements

- Fiscal consolidation path
- Debts Sustainability
- Debt Management Strategy



Expects 3rd Round Agreements

- Structural reform benchmarks,
- Prior actions,
- Performance criteria on key macro-fiscal indicators and Finalization of the Memorandum of Economic and Financial Policies (MEFP)

Expects Outcome by Dec, 2022

- IMF Staff Level Agreement
- Debt Exchange Program.- Domestic and External
- Bilateral Credit Assurance
- Executive Board Approval

IMF Program Issues: Beyond the SLA and status of Prior Actions

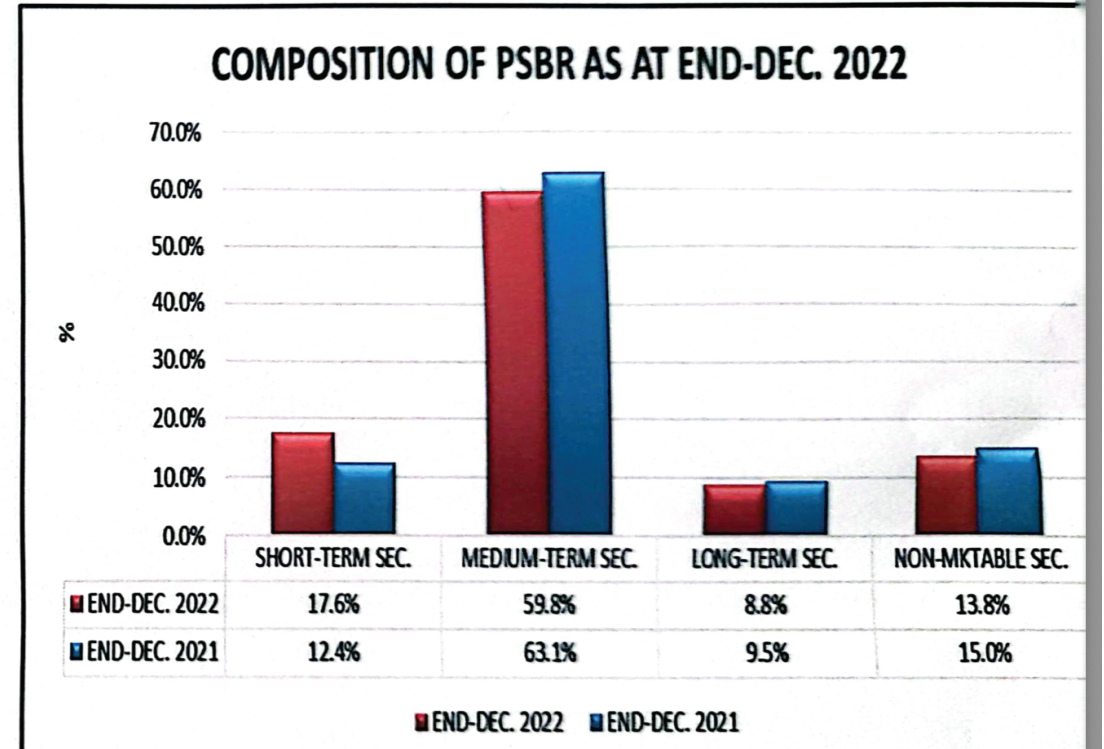
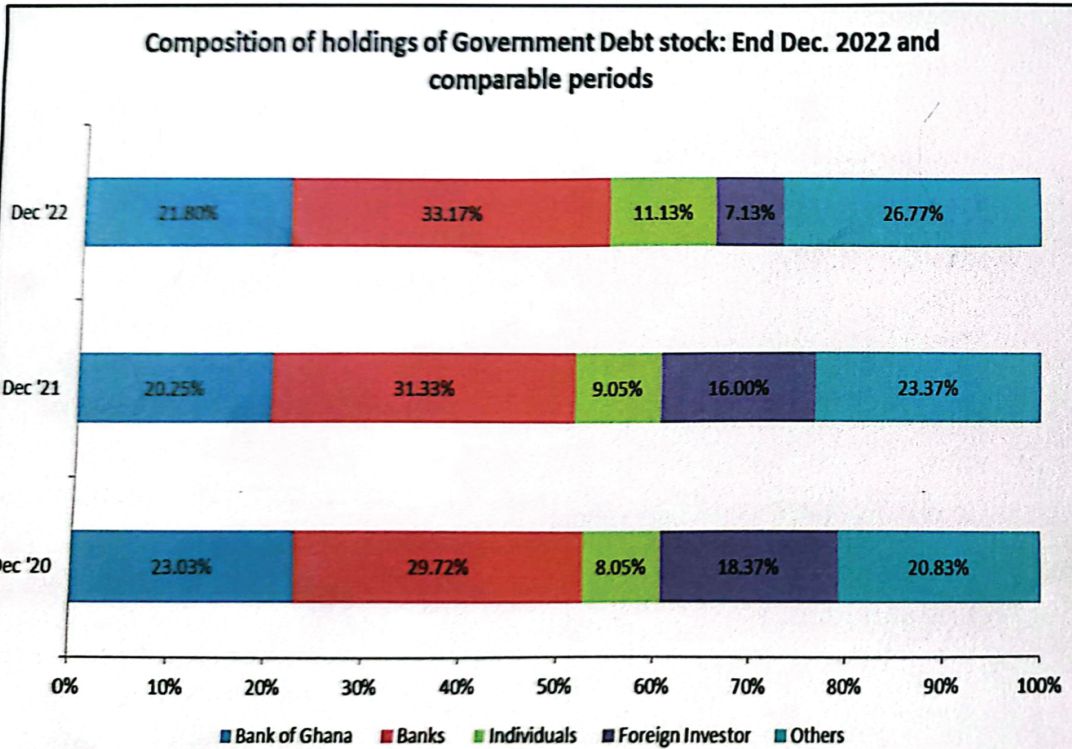
- **Enact Legislation or executive order necessary to achieve the 2023 fiscal targets: non-oil primary balance of at least 2 % of GDP:**
 - Excise Duty and Excise Tax Stamp (Amendment) Bill,
 - 2022, the Income Tax (Amendment) (No. 2) Bill, 2022, and
 - The Growth and Sustainability Levy Bill, 2022
- **Implement an upfront weighted average Electricity Tariff increase of 30%**
- **GETFUND, Road Fund, and DACF to start using HYPERION and GIFMIS**
- **To sign an MOU between the BOG and MoF on zero central bank financing of the budget.**
Implication??
- **Publish Auditor General Report on the Audit of Covid-19 spending between March 2020 and June 2022.**
- **Debt restructuring**

Domestic Debt Compositions

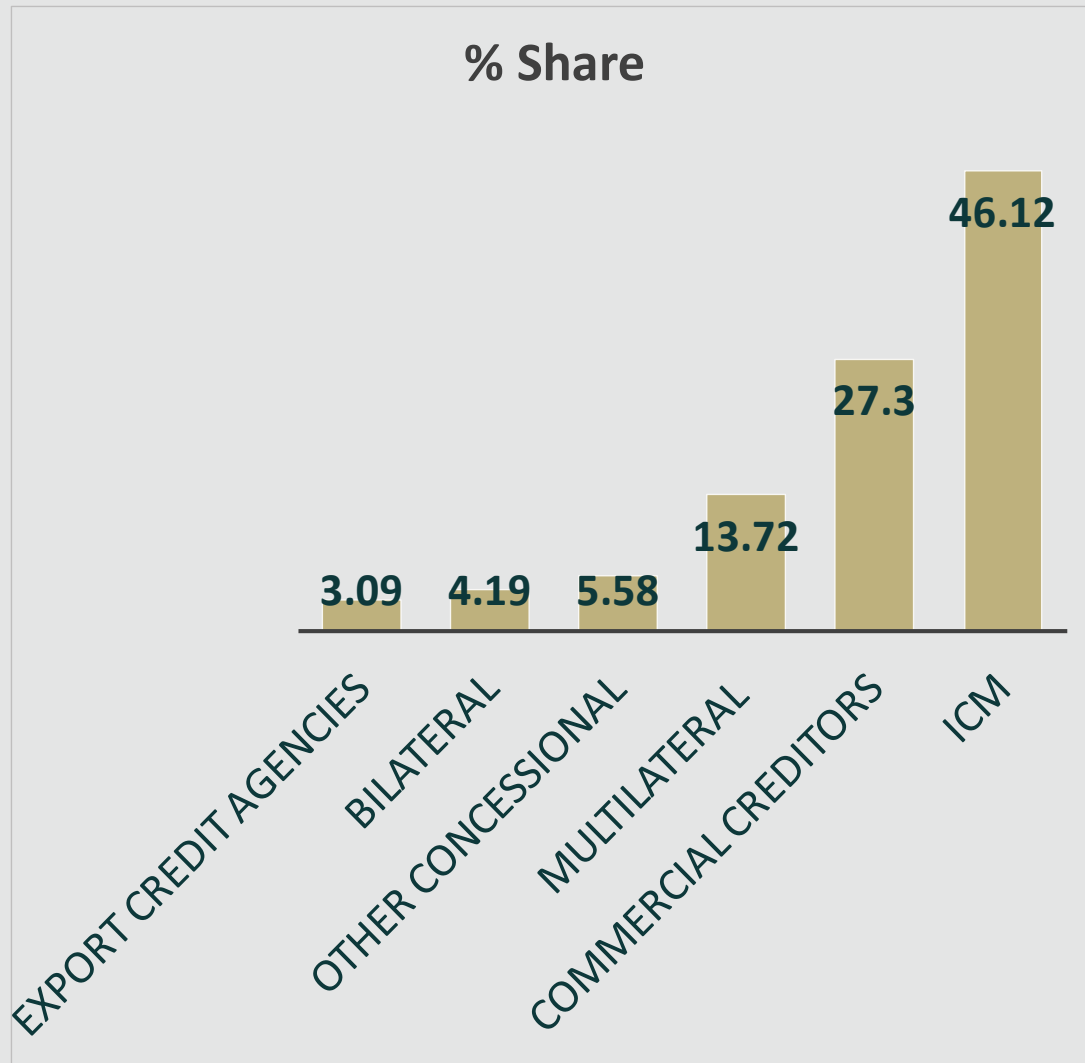
(Total public debt GH¢575.7 billion (US\$58 as of November 2022), and about 89.5% of GDP).
The stock of domestic debt stands at GH¢192.4 billion) (32.5% of GDP).

Foreign investors's share of of domestic GoG securities dropped by 52% over a year

The DDEP is likely to have a significant impact on the banking sector as it holds a significant percentage of its assets (investments) in GoG bonds assurance of short term securities increased marginally



External Debt Exchange Issues: Uncertain Environment



- Ghana is reorganizing almost \$30 billion of Eurobonds, local bonds, and bilateral loans as part of an overhaul of total public debt that stood at 575.7 billion in cedi (\$47 billion) as of November
- Talks on external debt negotiations have begun. External commercial bondholders have closely monitored the treatment of domestic and bilateral bondholders. Call for equal treatment.
- Perimeter of the debt exchange remains challenging as various groups push back and request exemptions.
- Financing assurances from bilateral creditors : Bilateral credit committee set to be formed later this week
- Nation has yet to restructure about \$13 billion of eurobonds but may secure the Board approval without resturing the Euronds

Navigating the Uncertain Future

Headwinds Ahead

- The stability of any financial system hinges on its ability to absorb losses without recourse to taxpayers' money.
- A recent stress test suggests significant vulnerabilities exist among banks and nonbank financial intermediaries.
- Faced with rising funding costs and
- The need to act more prudently, cut down lending further
- Profit squeeze
- Capital deterioration as a result of low asset quality

Opportunities Abound

- Further Regulatory Forbearance may be required.
- Promptly identify changes in the business environment;
 - Be mindful of sovereign risk
 - Support recovery and diversification of the Ghanaian economy
 - Increase investment in agribusiness (growing demand for domestic poultry, rice, soya etc)
 - Fill the gap created at the lower end of the market
 - The Role of DBG
- Rely on the cheaper source of funds to widen interest income
- Streamline operational costs and avoid heavy investment in fixed capital
- Prepare and assess different options for adapting the business and risk strategy, financial and capital plan and dividend policy.

Key Risk to the banking sector and implication for DBG

Currency depreciation

- Exchange losses due to the structure of banks' balance sheets where liabilities are more than assets
- Impacted adversely on forex-denominated NPL stock
- Breaches of single obligor regulatory limits due to impact on forex exposures.

Credit risk

- The NPL ratio has been relatively stable; however, the stock NPL stock, mainly due to the cedi's depreciation, continues to grow. Further depreciation of the cedi and high lending rates could further worsen the NPL position.

Sovereign Risk

- Results of stress tests conducted by banks on the DDE program indicate a significant negative impact on capital, earnings, and liquidity, hence the need for additional capital and liquidity injection.
- Yields on government instruments are likely to fall because of the expected reduction of the government liquidity obligation from a successful DDEP
- Mitigation of sovereign risk may be required DBG

THANK YOU
QUESTIONS?