GHANA OVERVIEW: THE FUTURE OF THE GHANAIAN ECONOMY

July 2017

This document provides a future outlook on the Ghanaian economy by reviewing its natural resources and activities over the last 20+ years that contributed to the boom of the late 2000s, the recent decline in growth due to the fall of economic activity and subsequent depreciation of the Cedi and the future outlook based on government initiatives to revitalize Ghana as one of the World’s most stable economies.

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1. Overview

With vast reserves of natural resources, Ghana has one of the highest per capita output in West Africa and is one of the world’s top gold and cocoa producers. Other exports such as petroleum oil, timber, electricity, diamond, bauxite, manganese and individual remittances are major sources of foreign exchange earnings.

By analyzing the Ghanaian economy over the last 21 years, the years of 2006, 2007, 2008 and 2011 were arguably the periods that the economy performed at its most optimum when measured with selected performance economic indicators compiled by the Institute of Statistical, Social and Economic Research (ISSER).

According to the ISSER’s Policies and Options for Ghana’s Economic Development Report, the Cedi was relatively stable against the major currencies despite the hikes in oil prices in 2005, which impacted economic activities around the world. The cumulative depreciation of the Cedi against the US dollar was 0.87 percent, resulting in the same inter-bank rate as in 2004 of 0.91 percent.

The currency exchange chart (Figure 1) reflected the strength of the Ghanaian Cedi as the Cedi recorded a high of 1.08 to $1 USD in July 2007. However, Ghana’s record high GDP growth of 14.0% in 2011 (IMF, 2015a) has not been sustained in subsequent years. For the first time since the last half-decade, the country’s growth of 4.2% has fallen below the Sub-Saharan African (SSA) average of 5.0% (IMF, 2015a).

Latest figures by the Bank of Ghana have shown that the Cedi’s depreciation against the dollar for March 2017, is five times more than the rate of depreciation recorded in the same period in 2016. The chart below details the slump in the period from July 2007 to July 2017 as follows:

![Figure 1 – Performance of the Cedi to the US Dollar (10 Year Review)](http://isser.edu.gh/index.php/sger)

2. Recent Economic Developments

Ghana’s economic performance during 2016 was mixed. After making solid progress on fiscal consolidation in bringing the fiscal deficit down from 10.2% of GDP in 2014 to 6.3% in 2015, the target to narrow it further to 5.3% of GDP in 2016 was missed by a wide margin with the deficit widening to 9% of GDP. Nevertheless, GDP growth at 3.6% was slightly higher than the forecast of 3.3%, and inflation, after remaining stubbornly above

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17%, fell a little to 15.4% in December 2016 and further to 13.3% in January 2017, closer to the central bank’s target range of 6%–10%.³

Furthermore, despite weak commodity prices, Ghana’s external balance improved in 2016 reflecting increased exports and a fall in imports. The current account deficit narrowed to 6.4% of GDP in 2016 from 7.6% of GDP in 2015. Gross foreign reserves increased marginally from $4.4 billion in 2015 to an estimated $4.9 billion, equivalent to 2.8 months of imports at the end of 2016.

3. Near-Term Prospects

Ghana’s near-term prospects can be good if it can attract huge investments from foreign investors and avoid further fiscal slippage. Economic growth is expected to accelerate in 2017, spurred by improvements in both the oil and non-oil sectors. However, structural limitations in infrastructure, labour markets and declining commodity prices contribute greatly to the slowdown in the growth momentum in many emerging and developing economies, including Ghana. The near-term for Ghana seems quite bleak, given the infrastructural challenge, particularly in the energy sector. The instability in electricity continues to play considerable havoc with productive economic activities, with negative implications for employment via decreasing derived demand for labour.⁴

The electric supply and Internet connectivity challenges suggest that Ghana needs to undertake a serious prioritisation of its electricity regulatory structure. Such an undertaking would entail major political decisions on the current policies, more specifically, tariff increases coupled with availability of technology enabled communication networks, which will make investment in the Ghanaian energy and communication sectors a lot more attractive to foreign investors and multi-national companies.

4. Future Growth

Oil production is expected to increase as repairs are completed in the Jubilee field and the TEN Field reaches its full capacity. The non-oil growth sectors, including services, are also expected to remain robust. Surveys conducted by the central bank indicate a positive outlook for business sentiments; this will go a long way to improve private sector investments. The expected rebound in commodity prices will support the exports and growth necessary to stabilize the exchange rate and create employment going forward. Funding into scientific, technological and engineering research, which led to the first satellite launch will boost the economy by encouraging more innovations and subsequent investments. This basis and substantiation for such funding will come from the free SHS initiative by H.E. President Nana Akufo-Addo, which aims to bridge the gap in Ghana between education and economic development.

5. Impact on Prospective Investments

Our proposal (document ref: EGB-GH-001-002) details a solution by our company to contribute towards resolving the electricity supply bottlenecks in Ghana. We aim to do this by constructing Solar Photovoltaic Facilities that will generate 120 Megawatts of electricity to be fed into the National Grid and will also provide Internet connectivity. However, the current bulk generation charge of 21.08 GHp per kWh (0.05 USD) compounds the problem of lack of investment, as the low tariff pricing options do not represent the kind of return needed to attract significant investment in the power sector.

The tariffs used in our proposal are reflective of Ghana’s predicted growth in the subsequent years plus the caveat that the electricity regulatory structure and tariffs undergoes wholesale changes to allow greater private

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sector and IPP participation. Due to the demand for electricity and the need for continued growth in the economy through rapid industrialisation and investment in education, we are confident that through an appreciation of the Cedi, the government can achieve the appropriate end user tariffs. The tariffs are 0.35USD per kWh for residential homes using over 600 kWh and up to $1.00 USD per kWh for Commercial and High Voltage use such as industry and mines. This price point will enable an influx of new technologies and companies into Ghana to help solve the electricity supply shortage. It will ensure a healthy return on investment for the government and companies investing in the power sector, with the result being a stable and reliable supply. A recommended strategy is for the return from the sale of electricity produced by the solar panels to fund the free SHS initiative as detailed in the proposal document ref EGB-GH-001-002.

Summary

1. Ghana experienced an economic boom in the mid-2000s that saw its currency perform strongly against the U.S Dollar. Factors that enabled economic boom include:
   I. Political stability, good governance and Civic Responsibility.
   II. Private Sector Competitiveness.
   III. Human Resource Development.
   IV. An advanced Industrial base due to rapid industrialization.
   V. Discovery of further Oil reserves and expansion of oil exploration.

2. There has been a marked decline in the Ghanaian economy in recent times to the extent that there has been a financing arrangement with the International Monetary Fund in place since April 2015. This agreement is aimed at providing more than $900 million over 3 years to help the country rebound after years of increasing debt, high inflation, and currency depreciation.\(^5\) The decline can be attributed to:
   I. A large expansion in the fiscal deficit driven by increased wage bill; reform of the pay scales.
   II. Increases in other spending and over-optimistic revenue projections.
   III. Institutional rigidities in the public finance system restricting proactive adjustment efforts.
   IV. Large tax exemptions which made reversing revenue shortfall more difficult.
   V. Decline of commodity prices as well as gold and minerals.
   VI. Energy supply affected by the impact of lower rainfall on hydroelectric power generation; disruptions to the supply of gas from Nigeria.

3. Ghana has made some progress on fiscal consolidation in bringing the fiscal deficit down. Despite low commodity prices, gross foreign reserves increased marginally from $4.4 billion in 2015 to an estimated $4.9 billion, equivalent to 2.8 months of imports at the end of 2016.

4. Ghana can make a full recovery if fiscal slippage is avoided and if it can continue to attract foreign direct investment. It is believed that the current electricity crisis, which hampers Internet connectivity and the electricity policy need to be addressed as it will be the driving force for economic recovery.

5. Political stability will remain strong following the comprehensive victory of H.E. President Nana Akufo-Addo at the end of 2016. A key policy of speeding up industrialization and investment in education will open up opportunities for the private sector and will have a long term positive impact on Ghana’s economic development. Despite a tight fiscal picture, new oil and gas output will support gradually improving economic prospects in the coming year and beyond. However investment in education supported by improved electrification and connectivity to the Internet will lead to sustained economic growth for Ghana.

\(^5\) https://www.imf.org/en/News/Articles/2015/09/28/04/53/socar012016a
6. About EGB Engineering LTD U.K

EGB Engineering is a U.K. registered company with expertise in the field of power and propulsion. We provide quality engineering products and services to OEM and End User clients such as the Niger Delta Power Holding Company (Nigeria), Rolls-Royce (U.K. & Germany), Safran (France) and United Technologies (US). The company operates in the Energy (low carbon and renewables), Aerospace, Defence and Nuclear sector. The company is headed by Eur. Ing. Arnold Gad-Briggs (B.Sc, M.Sc, CEng, MIMechE, MIET, MIDGTE) who boasts academic and professional qualifications and experiences in the energy sector.

For further information on this proposal, please contact Mr. Arnold Gad-Briggs on:

Email: agbriggs@egb-engineering.co.uk Direct Telephone: +44 (0) 7973539110

Visit the website at: www.egb-engineering.co.uk

Company Registered Address:
28 Beaumont Avenue,
Southwell,
Nottinghamshire.
United Kingdom.
NG25 0BB.