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African Export-Import Bank
Banque Africaine d'Import-Export

Trade & Development Finance Brief (ATDFB)

Volume 6 Issue 2 2022

Afreximbank and the Power of Partnerships: How Ghana is Navigating Fallout from COVID-19 and Ukraine Crises

Countries that rely heavily on commodity exports for both foreign exchange earnings and government revenues were particularly gravely exposed to the economic ravages of the Covid-19 pandemic. The concurrent sharp decreases in government revenues and dramatic increases in social expenditures triggered by COVID-19-containment measures resulted in a widening of fiscal and current account deficits. The Ukraine crisis, which increased uncertainty and heightened the risk of stagflation, exacerbated these deficits.

Member countries and development partners can extract some valuable lessons from the experience of Ghana, which was hitherto one of the success stories in the region displaying growth resilience and enjoying the confidence of global investors and access to international capital markets. The country has issued close to US$11 billion in Eurobonds since 2018 and its 40-year bond issued during the worst of the global pandemic downturn in 2020 was oversubscribed.

However, Ghana emerged with large fiscal and current account deficits. Lately, the country's macroeconomic management challenges have been exacerbated by high borrowing costs, as inflation surges globally. Ghana has battled these headwinds and managed to strengthen the foundation of its growth resilience through a combination of reforms and support from African Export–Import Bank. Through its innovative financing structures, Afreximbank provided a US$750 million facility in the form of countercyclical support to the government of Ghana last month. The facility will enable Afreximbank to leverage more financing from institutional investors to help its member country manage fallout from the two global crises.

Despite the myriad of challenges associated with the COVID-19 and Ukraine crises, Ghana continues to demonstrate growth resilience. Although Moody's and Fitch downgraded the country earlier this year because of challenges related to liquidity and debt, S&P Global affirmed its ratings with a stable outlook. The country's gross domestic product (GDP) expanded by 4.2 percent last year, and the International Monetary Fund (IMF) forecasts that it will grow by more than 5.2 percent this year and remain on a trajectory of robust growth in 2023. This has happened despite an extremely challenging global economic environment with an increasing risk of stagflation, especially in Europe, where countries are contending with an energy crisis and record inflation. Ghana's resilience follows a decade of sustained economic growth. In the five years before the 2020 pandemic downturn, the country's GDP expanded by an average of more than 5.3 percent annually. During the global downturn, Ghana's output also expanded modestly, by about 0.4 percent.

Diversified economic growth

Ghana's growth resilience is a combination of several factors: improving commodity terms of trade; increased oil production; improved mining activities particularly gold production from underground ore sources at the Obuasi mine this year; expanding information and communication technology (ICT); a dynamic services industry; improving agricultural production; and an increase in manufacturing and industrial activities. Notably, the country's economic growth is increasingly diverse, with an expanding industrial production base and some of the fastest gains in the services subsector. This latter element is gradually reducing the historic correlation between commodity cycles and growth that negatively affects credit ratings, and thereby is strengthening Ghana's growth resilience.

Two other important factors that are diversifying Ghana's sources of growth are the development of the country's automotive industry and the competitiveness associated with membership in the new African Continental Free Trade Area (AfCFTA). Corporations draw on economies of scale associated with the free trade area to spread the risk of investing in smaller markets, meaning that investment has flowed into Ghana's automotive industry from abroad. The AfCFTA has also positively affected the automotive industry through tax incentives, public procurement, and duty-free access to a wide range of other African countries.

Leading car manufacturers have provided support to the 2019 Ghana Automotive Development Policy, which aims to boost local production and reduce excessive reliance on highly polluting imported used vehicles. Several original equipment manufacturers, including Volkswagen, Nissan, and Toyota, have signed agreements to assemble vehicles in Ghana. Meanwhile, Ghana's Katanka Automotive Company Limited is assembling its line of automotives from complete knock-down kits imported from China. This has positioned Katanka Automotive to become a significant player in the country's automotive market. The company also has tremendous prospects for growth and employment opportunities in an industry that is highly labor-intensive. This could significantly broaden the fiscal space and sustainably improve living standards.

Trade, especially excessive dependence on imports of manufactured goods, was one of the main channels through which the COVID-19 downturn affected Ghana and other African economies, especially during the first-round effects. External imbalances have been the main driver of macroeconomic challenges across the region.

If Ghana's booming automotive industry could exceed the country's growing domestic demand for cars (more than 100,000 vehicles per year), it could improve the country's balance of payments, enhancing its structural resilience to future crises. The industry also would boost Ghana's share of intra-African trade, and more generally, Ghana's overall trade. This would sustain the growth of the country's foreign reserves and further strengthen its foundation for macroeconomic stability.

Ghana's stock of foreign reserves increased by 24.7 percent in 2021, to US$9.7 billion (representing more than 4.5 months of import cover). At that level, the country's foreign reserves remain above the IMF threshold of 3 months. This bodes well for the ongoing efforts by the government to stabilise the local currency and the CEDI. More generally, it is also a positive sign for Ghana's macroeconomic stability, especially when coupled with an IMF-funded programme anchored on strong fiscal and structural reforms, which likely to further enhance these efforts.

Moves to reduce fiscal deficits

Ghana's forecasted growth resilience also reflects the government's commitment to implement tough economic reforms in the post-containment phase of the pandemic and to put the country on a long-term path toward fiscal and debt sustainability. The government put in place difficult internal adjustment measures to reduce fiscal deficits, cutting discretionary spending by an additional 10 percent on top of the 20 percent cut announced earlier this year. It also reduced government ministers' salaries by 30 percent. Besides expenditure cuts, the government approved unpopular measures, such as a levy on all electronic transactions, including mobile money transfers, as well as taxes on e-commerce and e-gaming.

These reform measures, along with Ghana's robust growth prospects, are poised to both increase revenues and curb expenditures, which will further lower the overall fiscal deficit. After rising to a pandemic-triggered peak of about 11 percent of GDP in 2020, the deficit fell to about 7.9 percent in 2021 and is forecast to fall further to about 6.2 percent this year. On the back of these reforms, Ghana's growth prospects in the near term are very encouraging. The IMF forecasts that the country's GDP will remain on a strong expansionary path, with output growing by 5.1 percent in 2023.

The increasing risk of stagflation in Europe, compounded by the Ukraine crisis, has severely threatened global growth, and higher borrowing costs have raised the fiscal incidence of sovereign debt. However, given its growth resilience in 2020 and its government's ongoing efforts to broaden its fiscal space, diversify its sources of growth and trade, and cultivate strategic partnerships for alternative sources of external financing, including concessional lending, Ghana has cause for optimism.

Afreximbank support

Afreximbank is supporting Ghana's efforts, which are fully aligned with the Bank's own strategy. That strategy supports the diversification of sources of growth and envisions the emergence of a vibrant African automotive industry to accelerate the development of regional value chains and deepen economic integration on the continent. The Afreximbank strategy also calls for the growth of intra-African trade, an efficient absorber of adverse global shocks, and for industrialization to boost the continent's exports. In this regard, Afreximbank is collaborating closely with partners to leverage more resources so it can help accelerate the structural transformation of the Ghanaian economy and set the country on a long-term path towards fiscal and debt sustainability. This will ensure that when the next global crisis occurs, Ghana will be ready to face it.

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