

Inflation - Consumer price inflation trended broadly higher during the first quarter, rising to 19.2% y-o-y in March. Inflation remained fairly elevated in Q2, dipping marginally to 18.4% y-o-y by June. Price pressures are expected to lift off in H2 2016 as the second- and third-round effects of markedly higher utility and fuel charges start to dissipate, and the headline print falling to 16.7% y-o-y in July fits this view. However, further upward adjustments in administered prices and a more volatile cedi exchange rate in the lead up to the elections may slow the disinflation process moving forward. Inflation is forecast to average 16.9 % in 2016 before moderating to 14.8% next year.

Growth - Real GDP growth rose to 4.9% y-o-y in Q1 2016, up from 4.1% y-o-y in Q4 2015. While authorities' Q1 estimate seems to be on the optimistic side, growth is still forecast to rise from 3.9% in 2015 to 4.1% in 2016, supported by an increase in commodity output and a slight improvement in electricity supply. High inflation and tighter monetary policy will however still weigh on the demand side of the economy.

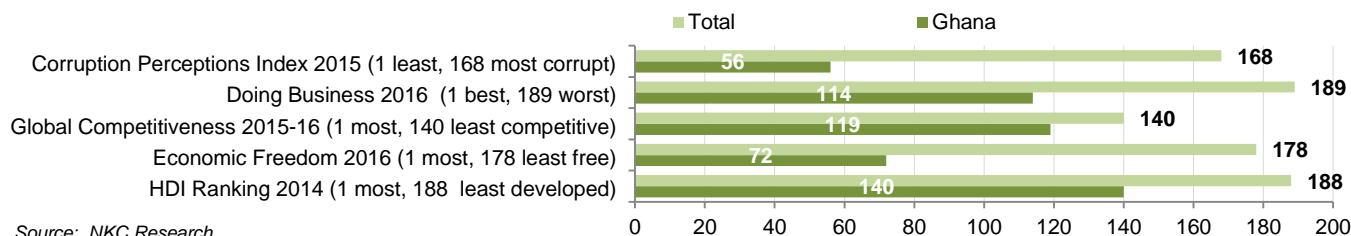
National development plan - Ghana has progressed well in terms of its fiscal consolidation strategy under the auspices of the International Monetary Fund's (IMF) Extended Credit Facility (ECF) programme. However, the risk of Ghana being disqualified from the programme has increased after Parliament passed a law allowing for budget deficit monetisation of up to 5% of previous year fiscal revenue, in contradiction to the IMF's recommendation of zero financing. The fact that Ghana has performed well in terms of meeting programme targets to date in addition to a commitment by the finance ministry to refrain from calling on the central bank to finance expenditure may however count in the country's favour.

OPPORTUNITIES	STRENGTHS
Opportunities for expansion of the oil industry as well as in related industries such as natural gas production.	Substantial natural resources translate into good prospects for economic growth, exports, and foreign direct investment (FDI).
Africa's second-largest producer of gold.	Low political risk and good track record with democracy and governance.
One of the countries on the continent with the most potential in the agricultural sector. The world's second-largest producer of cocoa.	Relative ease of doing business, and proximity to large markets, such as that of Nigeria.
Enormous funds have been directed at infrastructure development, although fiscal consolidation will slow the rate of development.	High levels of FDI finance a significant portion of the current account deficit.

VULNERABILITIES	WHAT IS BEING DONE?
The country generates a significant proportion of its foreign exchange earnings through primary commodity exports. As such, the economy is vulnerable to commodity price slumps.	If Ghana can get its local refineries in order and exploit the commercial potential of its natural gas, it would diversify export earnings. Local content laws are aimed at developing domestic industry.
Foreign reserves remain relatively low, equivalent to less than four months of import cover.	Increased oil production and commodity prices rising gradually over the medium term should bolster reserves.
Reckless fiscal spending has resulted in a sharp increase in public debt levels.	A financial assistance programme has been approved by the IMF, although Ghana's continued participation now looks less certain.
Persistent electricity supply shortages continue to hold adverse consequences for economic growth and development.	The arrival of emergency power plants has prevented the situation from deteriorating significantly over the short term. The completion of the Sankofa gas project in 2017/18 should see electricity supply increase more steadily.

MEGA TRENDS	
Population	27.67 million (Dec 2015) Age 15 - 64: 57.5%
Population growth rate (%)	2.33% (2015 est.)
Life expectancy at birth	Total population: 66.18 years; male: 63.76 years; female: 68.66 years (2015 est.)
HIV/AIDS	Adult prevalence rate: 1.6%; People living with HIV/AIDS: 270,000 (2015 est.)
Adult literacy rate (age 15 and over can read and write)	Total population: 76.6%; male: 82.0%; female: 71.4% (2015 est.)
Urbanisation	Urban population: 54% of total population (2015); Urban population growth: 3.4% (2015)
Population below national poverty line	24.2% (2013 est.)
Unemployment rate	5.2% (2014 est.)
Employment (% of total)	Agriculture: 44.7%; Industry: 14.4%; Services: 40.9% (2013 est.)
Labour participation rate (% of total population ages 15+)	69.5% (2014)
Business languages	English, Asante
Telephone & Internet users	Main lines in use: 275,570; Mobile cellular: 35 million; Internet users: 6.18 million (2015)

Sources: CIA World Factbook, World Bank, UNESCO, ITU, Ghana Statistical Service, UNAIDS & NKC Research



Risk environment / Risk outlook

Sovereign Risk Ratings		
S&P Global Ratings	Fitch	Moody's
B-/Stable	B/Negative	B3/Negative

S&P Global Ratings decided to lower Ghana's rating in October 2014 due to concerns about the financing of sizable budget and current account deficits, and scepticism regarding the government's ability to narrow these shortfalls quickly enough. Specifically, S&P lowered Ghana's rating by one notch from "B" with a negative outlook to "B-" with a stable outlook. More recently, S&P affirmed Ghana's long-term foreign and local currency issuer default rating on April 22. The outlook on the credit rating was maintained at stable. S&P projects a gradual pick-up in real GDP growth in the coming years, "owing to a more reliable power supply, while increased oil production from late 2016 should sustain medium-term growth."

Fitch Ratings affirmed Ghana's long-term foreign and local currency issuer default rating at "B" on March 24, while the outlook was maintained at negative. Fitch adjusted Ghana's outlook from stable to negative in March 2014, primarily due to the country's deteriorating fiscal position. In the most recent press release, the agency noted that Ghana's fiscal and external deficits leave the country vulnerable to domestic and external shocks, while fiscal slippages ahead of the November elections would increase inflationary and financing pressures. Furthermore, Fitch highlighted that additional downside risk stems from further declines in commodity prices negatively impacting growth and exacerbating Ghana's twin deficits.

Moody's Investors Service lowered Ghana's sovereign credit rating by one notch from "B2" to "B3" in March 2015, while the negative outlook on the rating was maintained. The "B3" rating is equivalent to a "B-" rating on the other rating agencies' scales. According to the agency, the decision to downgrade Ghana's credit rating stemmed primarily from deteriorating debt dynamics. More recently, on June 6, Moody's highlighted that Ghana is faced with tight domestic and external funding conditions. The agency also assesses Ghana's fiscal strength as being very low, "reflecting the country's high debt burden and very low debt affordability resulting from high interest expenditures as a share of GDP and of revenues." Furthermore, "the government's significant foreign currency debt share exposes public debt dynamics to currency volatility."

Infra-structure	Diversity of the Economy	Banking Sector	Continuity of Economic Policy	GDP Growth	Key Balances	Foreign Investment	Socio-economic Development	Forex Reserves
Improving, but still fairly weak	Relatively diverse	Relatively under-developed, but improving	Fiscal consolidation on track	Below potential, but outlook positive	Large structural twin deficits	Strong	Relatively low	Under pressure

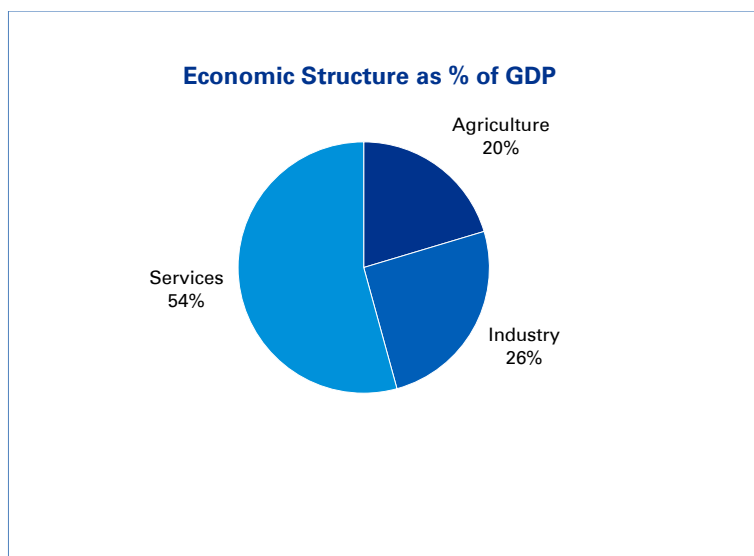
Stock Market	Listed Companies	Liquidity	Market Cap	Dominant Sector	Daily Trading Volume
Ghana Stock Exchange (GSE)	35 (primary listings)	Limited	\$2.43bn (primary listings)	Banking	0.24 million shares
Capital Market	Development	Liquidity	Maturity Range	Municipal Bonds	Corporate Bonds
Yes	Relatively developed (in African context)	Limited	91-days to 273-days (T-bills) 1-Yr to 7-Yr (Govt. bonds)	No	Limited

Macro-economic overview

Ghana's economic growth performance in recent years has been impressive – real GDP growth averaged roughly 7.8% p.a. during 2005-13. Unfortunately, years of reckless fiscal spending finally started to take a toll in 2014, when real GDP growth declined to 4%, down from 7.3% the year before. Weak fiscal finances contributed to a widening current account deficit, a depreciating currency, increasing levels of inflation, high interest rates, and an increase in tax rates. Concerns in relation to debt sustainability finally persuaded Accra to agree on an International Monetary Fund (IMF) support programme aimed at aggressive fiscal consolidation. The adverse effects of Accra's consolidation efforts placed the economy under even more pressure, which dragged real GDP growth down to 3.9% in 2015.

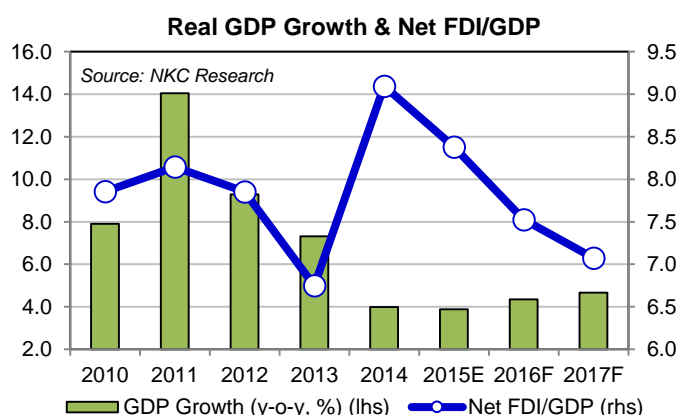
While we still see upward price pressures easing off to an extent during H2, inflation will likely remain elevated this year and monetary policy will have to be kept fairly tight as a result. Consumer disposable income levels will thus remain under pressure with adverse consequences for the services sector. Industry is expected to perform better this year, mainly due to a slight improvement in electricity supply and an anticipated rise in crude oil production – the Tweneboa-Enyenra-Ntomme (TEN) project is still on schedule to start production in Q3. Agriculture is also expected to perform better this year, partly driven by a larger cocoa crop. Taking all of this into account, we see real GDP growth at 4.3% in 2016. Real GDP growth looks set to trend even higher next year as oil production

at the TEN development is ramped up. The adverse effects of Accra’s fiscal consolidation drive should also start to dissipate to some extent next year, and lower inflation and interest rates should support a rebound in demand-side growth.

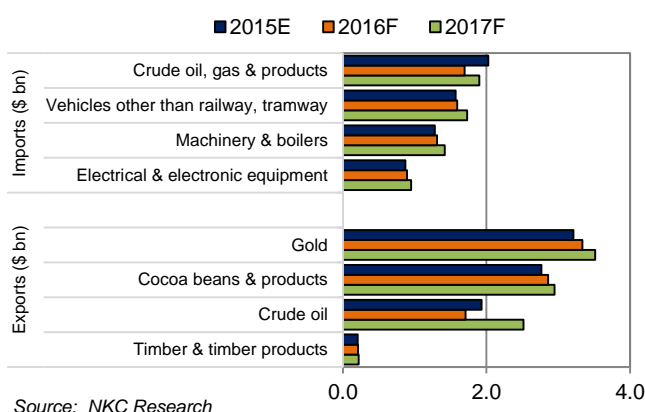


Source: Ghana Statistical Services

Ghana continues to attract healthy levels of foreign direct investment (FDI), with net inflows averaging around \$3.1bn over the 2010-14 period. Investments associated with oil exploration have boosted FDI in recent years, and foreign investment inflows remain critical in funding the country’s external imbalances while supporting infrastructure development. The government has demonstrated openness to foreign participation in the economy, with no discrimination against foreign-owned businesses and investment laws that protect investors against expropriation and nationalisation. Despite the drop in FDI last year, Ghana maintains healthy levels of foreign investor interest. As a proportion of GDP, FDI amounted to an estimated 8.4% last year, which is substantially higher than figures recorded by similarly-rated peers. We expect FDI inflows to remain largely stable this year, with positive factors such as improved electricity supply and progress with regard to fiscal consolidation counterweighed by the slump in crude oil prices and the spectre of upcoming elections. More specifically, net FDI is expected to reach \$3bn (7.5% of GDP) this year.



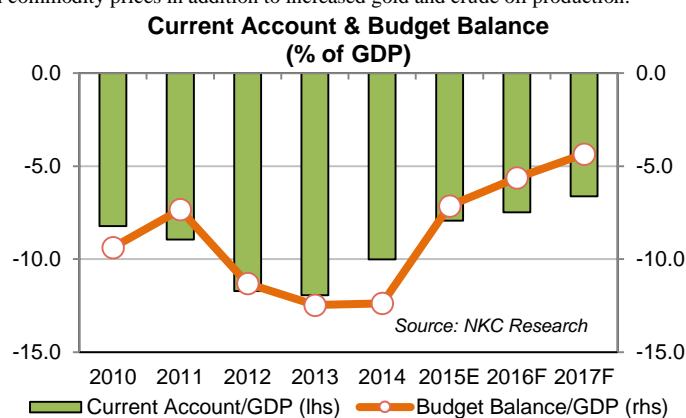
Ghana has recorded fairly large shortfalls on its external accounts for a number of years now. The current account deficit amounted to 11.7% of GDP in 2008, before narrowing to single-digit territory in 2009. The current account shortfall then widened gradually to 11.9% of GDP in 2013 as imports increased at a faster pace compared to exports. The external shortfall then narrowed slightly to 10% of GDP in 2014 due to a sharp fall in imports – the cedi depreciated from an average of GH¢1.95/\$ in 2013 to GH¢3.07/\$ in 2014 which made foreign goods significantly more expensive in local currency terms. The current account deficit narrowed further last year. Despite a 21.6% y-o-y decline in exports, mainly ascribed to lower oil prices and decreased gold production, lower imports and a narrower deficit on the combined invisible accounts dragged the current account shortfall down to 7.9% of GDP in 2015.



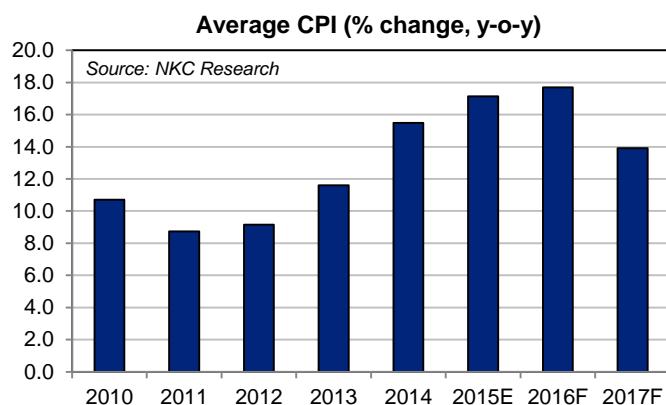
Source: NKC Research

Main Imports: % share of total	2015E	2016F	2017F
Crude oil, gas & products	14.96	12.71	13.02
Vehicles other than railway, tramway	11.61	11.96	11.86
Machinery & boilers	9.48	9.85	9.71
Electrical & electronic equipment	6.45	6.71	6.53
Main Exports: % share of total	2015E	2016F	2017F
Gold	31.02	31.72	29.56
Cocoa beans & products	26.69	27.17	24.81
Crude oil	18.65	16.26	21.16
Timber & timber products	1.98	2.01	1.83


According to the Bank of Ghana (BoG), exports declined by 10.4% y-o-y in Q1 2016, mainly ascribed to oil-related developments. Crude oil exports declined by 35% y-o-y in Q1, primarily due to the fact that Brent crude oil prices dipped below the \$30/bbl level in January. Tullow Oil also experienced technical issues early in 2016, which would have dragged oil output temporarily lower. Meanwhile, imports remained relatively stable in Q1 2016 compared to a year earlier. For the year as a whole, we predict exports will rebound marginally to \$10.5bn. Crude oil exports though are forecast to trend even lower this year as a slight increase in domestic production is more than offset by lower global prices for the commodity. Oil exports should however rebound next year as operations at the TEN oil fields are ramped up. Gold exports are forecast to edge slightly higher, while cocoa exports also look set to rise this year, with increased output more than offsetting an anticipated decline in global cocoa prices. We see imports falling slightly to \$13.3bn in 2016, partly the result of a decline in the fuel import bill. Despite a projection of a slightly narrower trade deficit, we forecast the current account deficit will widen to \$3bn in 2016 – it is worth noting that, when expressed as a percentage of GDP, the current account deficit is forecast to narrow to 7.5% in 2016. The current account shortfall should narrow further over the medium term, in line with a rebound in commodity prices in addition to increased gold and crude oil production.




On the fiscal front, Ghana has continued to perform well in relation to the country's consolidation strategy. That said, we remain concerned about the risk of expenditure slippages ahead of the upcoming elections. The recent move by Parliament to pass the Amended BoG Act with a provision allowing fiscal deficit monetisation of up to 5% of previous year fiscal revenues, in contradiction to the IMF's recommendation for zero financing, not only threatens Ghana's continued participation in the Extended Credit Facility (ECF) programme, but also raises the risk of expenditure slippages – the finance ministry's track record thus far this year and its commitment to refrain from calling on the central bank to finance fiscal spending however suggest that expenditure slippages will not be as severe as in previous election years. Our current forecast sees the fiscal deficit at 5.6% of GDP in 2016, wider than authorities' target of 5.3% of GDP. Besides the risk of expenditure slippages, we also think fiscal revenue projections might be on the optimistic side, especially given the fall in crude oil prices. Accra's assumption of 5.4% real GDP growth also seems optimistic in our view, and slower economic growth may well contribute to tax revenues coming in below target. Borrowing costs may also be higher than budgeted, as inflation is projected to decline at a slower pace than anticipated by authorities, which lowers the likelihood of aggressive monetary policy easing.



Consumer price inflation trended broadly higher during the first quarter, rising to 19.2% y-o-y in March. Inflation remained fairly elevated in Q2, dipping marginally to 18.4% y-o-y by June. Despite elevated inflationary pressures, the BoG decided to keep the Monetary Policy Rate (MPR) unchanged at both Monetary Policy Committee (MPC) meetings held during 2016 Q1 – the policy rate was last raised by 100 bps in November last year and by a cumulative 500 bps during 2015 as a whole. The apex bank did not deviate from this stance at the May MPC meeting, with the MPR again kept stable at 26%. The MPC highlights that its inflation forecast remains intact and that the committee sees the headline figure drop back into the target band (6% - 10%) by mid-2017. Like the MPC, we also expect inflation to start trending lower in H2, as already evidenced by the fact that inflation moderated to 16.7% y-o-y in July. However, our view predicts a slower decline. We have not ruled out the possibility of another adjustment in administered prices. There is also a risk that the cedi exchange rate may experience more volatility as the election draws nearer. Regardless, inflation looks set to trend lower on average moving forward, and we see a high likelihood of the policy rate being lowered in H2. Inflation is nonetheless forecast to average 17.7% in 2016, before moderating to 13.9% next year.

CONTACT DETAILS	
KPMG	NKC
<p style="text-align: center;">Amanor Dodoo – designation is Partner</p> <p style="text-align: center;">Tel +233302770454 Email ADodoo@kpmg.com</p>	<div style="text-align: center;">  <p>NKC AFRICAN ECONOMICS AN OXFORD ECONOMICS COMPANY</p> </div> <p style="text-align: center;">12 Cecilia Street Paarl, 7646, South Africa P O Box 3020, Paarl, 7620</p> <p style="text-align: center;">Tel: +27(0)21 863-6200 Email: research@nkc.co.za</p>



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