GHANA | MACROECONOMIC UPDATE | GDP GROWTH | INSIGHTS

## FUNDAMENTALS

# GHANA'S FY2022 REAL GDP GROWTH: BATTEN DOWN THE HATCHES

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# IN BRIEF

- Ghana witnessed a 200bps y/y slowdown in overall real GDP growth to 3.1% in FY2022 as the relentless FX shocks expectedly weighed on price-sensitive sectors amidst a slowdown in agrarian output.

- High input cost weakened growth in the agricultural sector to 4.2% as Government's decision to slash fertilizer subsidy, together with the effect of drought and illegal mining in agrarian zones, undermined expansion of the heavily-weighted crops sub-sector.

- The oil & gas sector contracted for the 3rd consecutive year (-6.7% y/y) as the higher crude oil prices failed to stimulate growth in an industry already struggling with under-investment. However, gold production rebounded strongly to support mining & quarrying output (+8.1% y/y), lifting the overall industry growth into a positive territory of 0.9% y/y.

- Finance & insurance activities surprised to the upside, growing by 5.7% y/y (vs 2.4% in 2021) while ICT sustained its robust momentum with a 19.7% y/y expansion, albeit below the 33.1% outturn in 2021. With the impact of de-recognition, and modification losses from the domestic debt exchange yet to fully reflect in the finance and insurance activities growth, we expect a lower revised FY2022 growth rate, and potentially lower FY2023 growth for the finance & insurance sub-sector.

- In view of the already weakened private sector activity occasioned by the price shocks last year, we foresee further headwinds to growth in 2023 as the immediate policy framework favours stability over growth. With the Treasury's aggressive posture on revenue mobilization, coupled with banks' low appetite for higher risk, businesses may have to batten down the hatches in 2023.

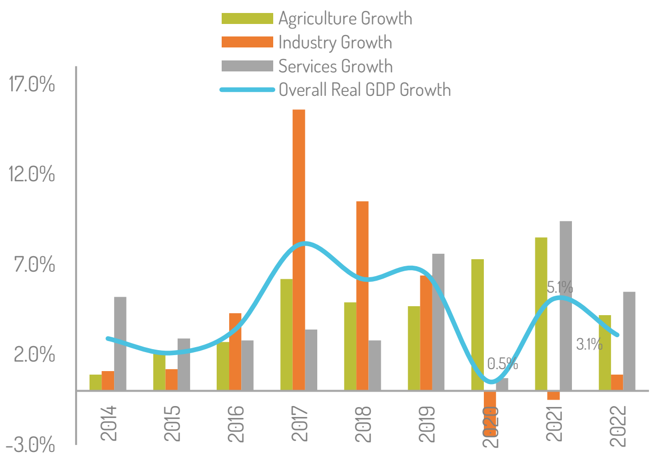
## Price shocks melt real GDP growth in FY2022

Ghana witnessed a sharp slowdown in overall real GDP growth in FY2022 as the relentless FX shocks expectedly weighed on price-sensitive sectors amidst a slowdown in agrarian output. Following the strong rebound in 2021 post-COVID economic activity, real GDP growth faltered to 3.1% y/y in FY2022 (vs 5.1% in FY2021) as weaker growth rates in agriculture and services sectors offset the recovery in mining output. In value terms, Ghana's overall nominal GDP stood at GHS 610.2bn (USD 71.2bn) in FY2022.

**High input cost weakens growth in crops & cocoa sub-sector.** The agriculture sector could not sustain the robust expansion of the previous 2-years (2020 – 2021 average: 7.9%) as growth decelerated to 4.2% y/y (vs 8.5% in FY2021). The slower growth was underpinned by a weakening of the heavily-weighted crops (including cocoa) sub-sector, which posted a growth of 3.8% y/y.

We believe the Government's decision to slash fertilizer subsidy by a fifth to only 15% of the total price amidst an upsurge in input costs weighed on productivity within the crops sub-sector. This, together with the effect of poor rainfall and illegal mining in agrarian zones, squeezed the growth in cocoa sub-sector to 0.9% (-950bps y/y) as cocoa production fell sharply below 800,000 metric tons in the 2021/2022 crop season.

ANNUAL REAL GDP GROWTH RATES (2014 - 2022)




SOURCE: GHANA STATISTICAL SERVICE

**Gold glittered amidst a dull performance in manufacturing.** The industry sector emerged from two consecutive years of annual recession to post a marginal growth of 0.9% y/y (vs -0.5% in FY2021). Unsurprisingly, the construction (-4.0%) and the manufacturing (-2.5%) sub-sectors contracted in 2022 as FX pressures amplified the effect of disrupted global supply chains.

Additionally, the oil & gas sector contracted for the 3rd consecutive year (-6.7% y/y) as the higher crude oil prices failed to stimulate growth in an industry already struggling with under-investment.

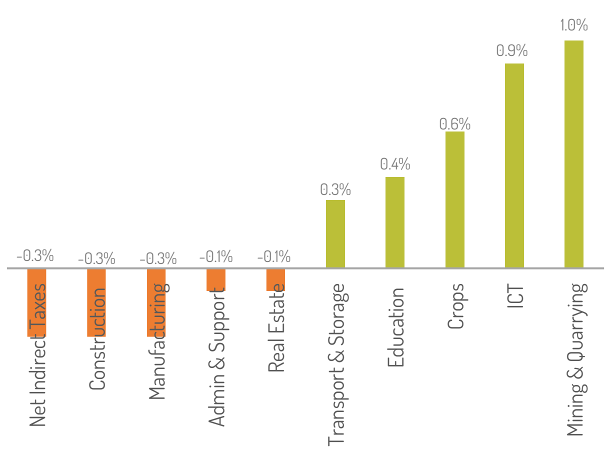
However, gold production rebounded strongly to support mining & quarrying output (+8.1% y/y), lifting the overall industry growth into a positive territory of 0.9% y/y. Excluding the support from gold output, the non-gold real GDP growth plummeted to 2.1% in 2022 (vs 7.1% in 2021), reflecting the broad-based slowdown in economic activity last year.

We believe the government's decision to reduce the Withholding tax on gold exports to 1.5% (-150bps) incentivized the use of approved routes for gold exports, enhancing the official record of domestic gold output. However, we believe the mining sector remains vulnerable to downside risk as concerns of illegal mining continues to cloud operations in the sector.

**Finance & insurance activities surprised to the upside while the hospitality industry contracted.** Growth of the services sector weakened to 5.5% y/y (vs 9.4% in FY2021), underpinned by FX-induced moderation within the trades (+1.3% y/y), as well as transport & storage (+4.7% y/y) sub-sectors. As price shocks intensified in 2022, the price-sensitive hospitality, and real estate sub-sectors contracted by 1.0% and 7.6%, respectively.

On a positive note, finance & insurance activities surprised to the upside, growing by 5.7% y/y (vs 2.4% in 2021) while ICT sustained its robust momentum with a 19.7% y/y expansion, albeit below the 33.1% outturn in 2021. Although the impressive performance of finance & insurance activities surprised us amidst the mark-to-market losses on investments, we believe the higher interest rates provided a tailwind for interest income in the sector. However, the impact of higher impairment losses from the domestic debt exchange is yet to fully reflect in the sector's performance as the Treasury bonds became impaired in December 2022 after the FY2022 GDP data had been collected. Consequently, we expect a lower revised growth rate for the finance & insurance sub-sector in FY2022, and potentially in FY2023 when the de-recognition, and modification losses are fully reflected.

CONTRIBUTION TO THE ANNUAL GDP GROWTH OF 3.1%




SOURCES: GHANA STATISTICAL SERVICE

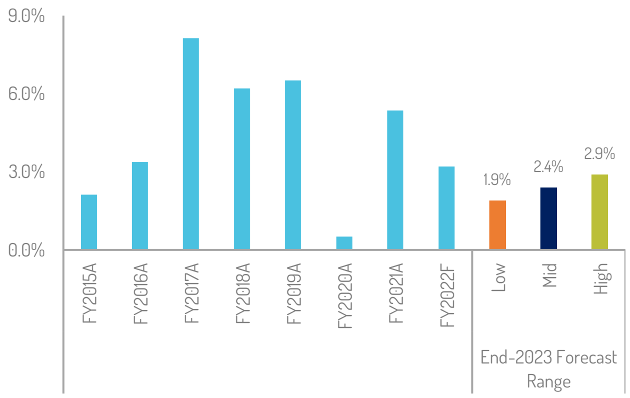
## The balance of risks to growth remains tilted to the downside

In view of the already weakened private sector activity occasioned by the price shocks last year, we foresee further headwinds to growth in 2023 as the immediate policy framework favours stability over growth. Given the expected start of fiscal austerity under an IMF programme amidst intensified tax burden, production and consumption possibilities will be restrained over the next 12 – 18 months.

While a potential front-loading of CAPEX ahead of next year's election could revive growth in the construction sector, we expect strict expenditure controls under an IMF programme to restrain public investments in 2023.

With the Treasury's aggressive posture on revenue mobilization, coupled with banks' low appetite for higher risk, businesses may have to batten down the hatches in 2023. Although inflation commenced a downturn in 1Q2023, our year-end forecast of between 22.7% – 24.7% suggest lingering cost pressures in the months ahead with core inflation potentially stickier to the downside. The elevated inflation profile will keep the policy rate higher for longer, sustaining the high cost of funds for any bankable project within the private sector in 2023. Consequently, we expect growth to bottom-out in 2023 as we reiterate our revised FY2023 growth forecast of between 1.9% – 2.9% (base case: 2.4%).

HISTORICAL AND FORECAST REAL GDP GROWTH




SOURCE: GHANA STATISTICAL SERVICE, IC INSIGHTS

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