GHANA | MACROECONOMIC UPDATE | GDP GROWTH | INSIGHTS

FUNDAMENTALS

GHANA'S 1Q2023 REAL GDP GROWTH: PEELING THE ONION

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IN BRIEF

- Ghana's overall real GDP growth outperformed expectations in 1Q2023, posting a 4.2% y/y expansion compared to the consensus expectation of 2.6%. A stronger-than-anticipated expansion in the services (10.1%) and agriculture (4.8%) sectors outweighed the contractions in the price-sensitive industry sector (-3.2%) to power growth above expectations.

- A cursory view of the headline rates would suggest recovery in Ghana's growth momentum towards the 2021 trajectory, creating a false impression of resilience in the real sector. However, peeling a layer of the onion will reveal that while the overall growth appears good on the outside, the sub-sectoral dynamics raise questions about sustainability amidst fiscal austerity in the quarters ahead.

- The services sector outperformed expectation but is likely to falter in the quarters ahead. While the growth momentum appears inspiring, the public sector orientation of the growth drivers amidst the outlook on fiscal austerity, tapers our optimism about its sustainability for the rest of the year.

- Industry continues to bear the brunt of price shocks with a negative near-term outlook. We are bearish on the manufacturing sector outlook both from the perspective of a tighter operating environment and softening consumer demand. In the construction sector, we believe the drags partly reflect financing challenges as overdue payments from the government continue to restrain access to bank credit and weighs on activity within the sector. Against this backdrop, we maintain our bearish FY2023 overall real GDP growth forecast range of between 1.9% – 2.9% (midpoint: 2.4%) for now.

Good on the outside

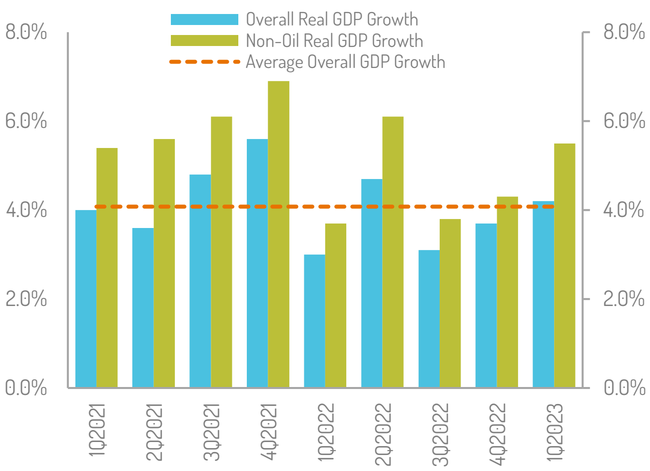
Ghana's overall real GDP growth outperformed expectations in 1Q2023, rebounding to 4.2% y/y in the period under review from 3.0% in the corresponding quarter in 2022 and 3.7% in 4Q2022. The market consensus was for a moderation to 2.6% growth, due to the lingering price pressures over the past year.

However, a stronger-than-anticipated expansion in the services and agriculture sectors outweighed the contractions in the price-sensitive industry sector to power growth above expectations. Our analysis of the growth performance showed that the overall growth of 4.2% in 1Q2023 exceeds the 3.6% average growth witnessed during the 2022 price shocks and pushes closer to the post-pandemic average recovery of 4.5%.

Excluding the contraction in hydrocarbon output, non-oil real GDP growth also strengthened markedly to 5.5% in 1Q2023, exceeding the 1Q2022 and 4Q2022 outturns by 1.8pp and 1.2pp, respectively.

A cursory view of the headline rates would suggest recovery in Ghana's growth momentum towards the 2021 trajectory, creating a false impression of resilience in the real sector. However, peeling a layer of the onion reveal that while the overall growth appears good on the outside, the sub-sectoral dynamics raise questions about sustainability amidst fiscal austerity in the quarters ahead.

ANNUAL REAL GDP GROWTH RATES (2014 - 2022)



SOURCE: GHANA STATISTICAL SERVICE

Not so good on the inside

The services sector outperformed expectation but is likely to falter in the quarters ahead. The services sector logged an impressive 10.1% y/y growth in 1Q2023, on the back of jumbo growth rates in Public Administration & Defence (37.6%), Health & Social Work (31.6%), and Education (26.0%). We also observed more private sector-led growth in ICT (18.9%), Finance & Insurance (8.6%), Transport & Storage (6.4%), as well as Real Estate services (5.1%).

While this growth momentum appears inspiring, the public sector orientation of the growth drivers amidst the outlook on fiscal austerity, tapers our optimism about its sustainability for the rest of the year. The Ghana Statistical Service attributed this growth to increased recruitment and higher remunerations in the past year. We note the 30.0% public sector pay rise agreed in January 2023, which, in our opinion, contributed to the rise in remunerations and growth in the public sector-related GDP in 1Q2023. However, we expect this fiscal anchor for growth to weaken in the coming quarters as government implements austerity measures under the ongoing reform programme.

As expected, the price-sensitive Hospitality (-0.2% y/y) and Trade (-5.3% y/y) sub-sectors contracted in 1Q2023 as the FX squeeze, removal of the benchmark discount policy at the ports, and utility tariff hikes since August 2022 weighed on operations.

Overall, we remain bullish on growth in ICT and Transport & Storage in 2023 due to the ongoing digitalization within the public and private sectors as well as emerging private transport and logistics businesses. However, we are bearish on public sector-led sub-sectors and cautious on finance & insurance activities as financial institutions prioritize post debt exchange recapitalisation in place of profit growth.

Industry continues to bear the brunt of price shocks with a negative near-term outlook. In line with our expectations, the industry sector endured a second consecutive quarter of year-on-year contraction in its real output due to its vulnerability to price pressures and under-investment in the hydrocarbon sector.

Excluding the Electricity sub-sector, which grew by 3.5% y/y, all other components of industry witnessed contractions to shrink the overall sector by 3.2% y/y in 1Q2023. Notably, the Construction (-6.0%) and Manufacturing (-2.5%) sub-sectors declined again in 1Q2023 after respectively shrinking by 7.1% and 9.6% in 4Q2022.

We believe the woes of the Construction sector reflects both financing challenges and material supply bottlenecks. On the financing side, we think overdue payments from the government to contractors is restraining access to bank credit and weighing on activity within the sector. Our review of the banking sector non-performing loans (NPLs) showed that construction sector loans have the highest NPL ratio as of FY2022 (29.1%). Given the delay in settlement of contractor arrears, we expect this high credit risk profile to sustain the tight credit stance of banks against the sector, dampening its near-term growth prospects.

SECTORAL BREAKDOWN OF KEY GROWTH DRIVERS

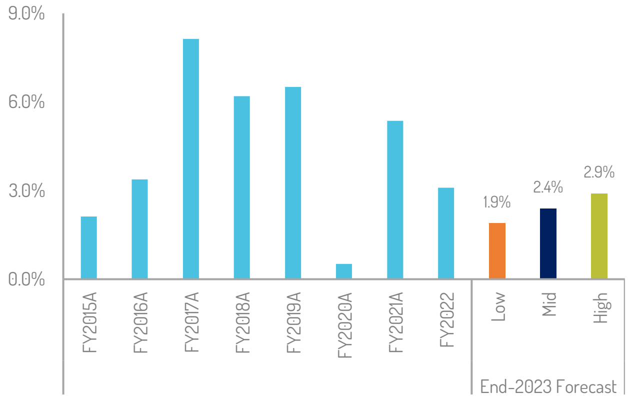
	YEAR-ON-YEAR		QUARTER-ON-QUARTER	
	4Q2022	1Q2023	4Q2022	1Q2023
REAL GDP GROWTH	**3.7%**	**4.2%**	**0.8%**	**1.1%**
AGRICULTURE	**3.6%**	**4.8%**	**1.0%**	**1.3%**
Fishing	-1.5%	-3.3%	-0.4%	-0.7%
Crops & Cocoa	3.6%	5.2%	1.0%	1.4%
INDUSTRY	**-1.0%**	**-3.2%**	**-0.2%**	**-0.8%**
Mining & Quarrying	13.4%	-2.9%	3.2%	-0.7%
Construction	-7.1%	-6.0%	-1.8%	-1.5%
Manufacturing	-9.6%	-2.5%	-2.5%	-0.7%
SERVICES	**7.6%**	**10.1%**	**1.9%**	**2.6%**
ICT	20.5%	18.9%	5.0%	4.4%
Finance & Insurance	8.6%	8.6%	2.4%	2.0%
Transport & Storage	3.9%	6.4%	1.0%	1.6%
Trade	2.6%	-5.3%	0.7%	-1.7%
Hotel & Restaurant	2.4%	-0.2%	0.6%	-0.1%

SOURCES: GHANA STATISTICAL SERVICE

We also remain bearish on the manufacturing sector outlook both from the perspective of a tighter operating environment and softening consumer demand. In addition to the FX pressures, we expect the quarterly hikes in utility tariffs and the recent increase in excise duty to elevate the operating cost of manufacturing businesses. Despite the higher cost of operation, we believe distributors of consumer goods will be unable to fully pass on the cost implication of higher taxes and utility tariffs due to weak demand conditions. Consequently, we foresee a contraction in profit margins, leading to weaker growth momentum for the manufacturing sector with negative spill over to the trade sector.

Against this backdrop, we maintain our bearish FY2023 overall real GDP growth forecast range of between 1.9% – 2.9% (midpoint: 2.4%) for now. We expect sustained momentum in the livestock and crops sub-sector to spur growth within the agriculture sector while ICT, transport & storage, and education continue to support the services sector growth. On the downside, we expect aggressive fiscal consolidation in 2H2023 to weigh on the public sector drivers of growth while the price sensitive trades, hospitality and industry sector remain constrained by cost pressures in 2023.

HISTORICAL AND FORECAST REAL GDP GROWTH



SOURCE: GHANA STATISTICAL SERVICE, IC INSIGHTS

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