FUNDAMENTALS

GHANA'S 2Q2023 REAL GDP GROWTH: WALKING ON QUICKSAND

22 SEPTEMBER 2023

Head, Insights
Courage Kingsley Martey
+233 240 970 832
courage.martey@ic.africa

IN BRIEF

- The Ghanaian economy expectedly showed signs of a slowing momentum in 2Q2023 as the drag from fiscal tightening, cost pressures, and credit squeeze intensified. Provisional real GDP growth rate for 2Q2023 printed in line with market expectation at 3.2% y/y (median expectation: 3.3%), lower than the 4.8% y/y outturn in the same period of 2022.

- In our update on the 1Q2023 GDP growth – Peeling the Onion – we opined that the provisional growth of 4.2% was better-than-expected, largely due to the outsized interim public expenditure. However, the updated and reconciled data for public spending on compensation of employees in public administration, health, and education sectors showed a lower growth than initially reported. Consequently, and unsurprisingly, the revised real GDP growth for 1Q2023 revealed a slower growth of 3.3% y/y, 90bps lower than the provisional growth of 4.2% earlier reported.

- Interrogating the 2Q2023 growth performance, we identified the fragile industry sector as a potential quicksand in the growth trajectory, which poses further downside risk to overall growth in 2H2023 and FY2023. However, we find comfort in a resilient agriculture and services sector growth. In view of this, we revert our FY2023 growth forecast to between 1.9% – 2.9% (midpoint: 2.4%), lower than FY2022 outturn of 3.1% but above GOG revised target of 1.5%.

- In 2H2023, we perceive lingering downside risk to construction sector growth, mainly from the IMF-related fiscal austerity which resulted in a 23.0% cut in CAPEX for 2023 amidst oil revenue shortfall. We also expect the manufacturing sector to remain subdued in 2H2023 as higher taxes, and costly utility tariffs continue to strain margins while softening consumer spending weigh on volume growth. However, we believe the ICT sector growth, which partly reflects ongoing CAPEX investment by telecom companies, and a generally strong agrarian output will partly mitigate the downward pressure.

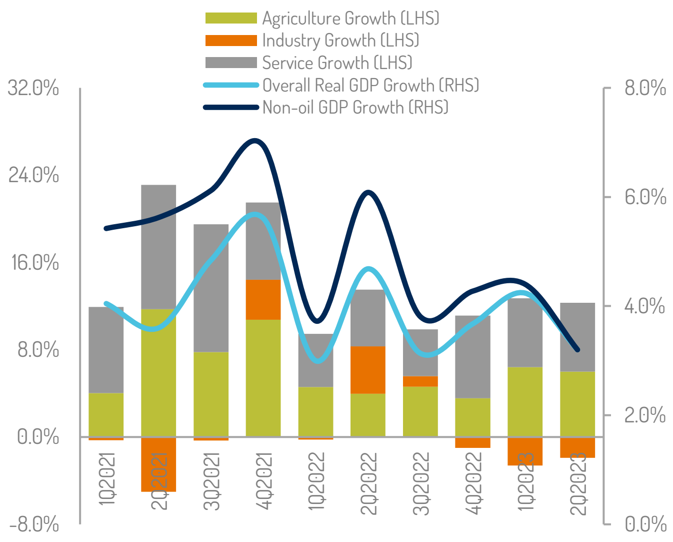
Slowing momentum

The Ghanaian economy expectedly showed signs of a slowing momentum in 2Q2023 as the drag from fiscal tightening, cost pressures, and credit squeeze intensified. Provisional real GDP growth rate for 2Q2023 printed in line with market expectation at 3.2% y/y (median expectation: 3.3%), lower than the 4.8% y/y outturn in the same period of 2022. This reflects the lingering recession in industry sector, worsened by a softer growth in hospitality, finance & insurance as well as contraction in trades.

In our update on the 1Q2023 GDP growth – Peeling the Onion – we opined that the provisional growth of 4.2% was better-than-expected, largely due to the outsized interim public expenditure. However, the updated and reconciled data for public spending on compensation of employees in public administration, health, and education sectors showed a lower growth than initially reported. Consequently, and unsurprisingly, the revised real GDP growth for 1Q2023 revealed a slower growth of 3.3% y/y, 90bps lower than the provisional growth of 4.2% earlier reported.

Interrogating the 2Q2023 growth performance, we identified the fragile industry sector as a potential quicksand in the growth trajectory, which poses further downside risk to overall growth in 2H2023 and FY2023 (industry share: 32.8%). However, we find comfort in a resilient agriculture and services sector growth. In view of this, we revert our FY2023 growth forecast to between 1.9% – 2.9% (midpoint: 2.4%), lower than FY2022 outturn of 3.1% but above GOG revised target of 1.5%.

REAL GDP GROWTH BY SECTOR (YEAR-ON-YEAR)



SOURCE: GHANA STATISTICAL SERVICE

Walking on quicksand

The austerity-induced cut in public spending on CAPEX will weaken an already sinking industry sector. The industry sector contracted for the third consecutive quarter in 2Q2023, shrinking by 1.9% y/y on the heels of 2.6% and 1.0% contractions in 1Q2023 and 4Q2022, respectively.

Despite the 3.5% expansion in the mining & quarrying sub-sector (incl. +2.9% y/y for oil & gas), the industry sector was held back by contractions in the other sub-sectors. The construction sector remained depressed with a fourth consecutive quarter of year-on-year contraction, sinking deeper with -11.7% y/y outturn in 2Q2023 (-6.0% y/y in 1Q2023). Similarly, the manufacturing sub-sector remained on a shrinking path for the fourth straight quarter with -0.5% y/y in 2Q2023 (-1.5% y/y in 1Q2023). In our view, the four consecutive quarters of contractions in manufacturing, and construction sectors reflect the adverse impact of higher operating cost due to FX pressures, tax hikes, higher import duty, quarterly utility tariff hikes, and lower cement sales.

In 2H2023, we perceive lingering downside risk to construction sector growth, mainly from the IMF-related fiscal austerity which resulted in a 23.0% cut in CAPEX for 2023 amidst oil revenue shortfall.

We also expect the manufacturing sector to remain subdued in 2H2023 as higher taxes, and costly utility tariffs continue to strain margins while softening consumer spending weigh on volume growth. This unfavourable cost environment amidst a weakened consumer spending will weigh on private sector investment for the rest of 2023 and keep the industry sector in a sinking sand.

Resilient services and agriculture sectors provide comfort despite downside risk. Growth in the services sector came in satisfactorily strong at 6.3% y/y in 2Q2023, on the back of unrelenting expansion in the information & communication sub-sector which accelerated by 26.4% y/y. The robust growth in the information & communication sector drove the overall real GDP growth of 3.2%, accounting for 1.9pp of the overall GDP growth in 2Q2023. We believe the ICT sector growth partly reflects the ongoing investment in CAPEX by telecom companies, with MTN Ghana leading with GHS 2.2bn in CAPEX during 1H2023. We view the growing trend in data subscription and usage as a key support for growth in the short-to-medium term.

Notwithstanding our bullish view on growth in information & communication (with support from transport & storage), we also perceive enormous downside risk to the services sector growth. Chiefly, we expect the impact of IMF-related fiscal tightening to be fully felt in education, public administration, and health & social work in 2H2023. Having supported growth in 1H2023, losing this anchor will soften the services sector and the overall real GDP growth in 2H2023.

As expected in our note on the 1Q2023 GDP outturn, growth in finance & insurance activities plunged to 0.4% y/y in 2Q2023 (vs revised growth of 8.6% in 1Q2023). We attribute the capitulation in growth to moderation in risk appetite of banks amidst elevated non-performing loans with the urgent need to rebuild post-DDEP capital buffers. In 2H2023, we expect the ongoing recession in the construction, manufacturing, and trade sectors to sustain the high non-performing loans in the banking sector, keeping credit conditions firmly tight. This will maintain the subdued growth in finance & insurance for the rest of 2023.

For the insurance sector, the slowdown in growth in investment income amidst an uptick in net benefits and claims was a major drag in 1H2023 and will weigh on growth in 2H2023.

The agriculture sector has been an oasis in a desert, posting a 6.0% y/y growth in 2Q2023 and averaging 6.2% y/y in 1H2023 (vs 4.2% average growth in 2022). Growth in crops & cocoa (6.3%) as well as fishing (12.2%) and livestock (6.9%) sub-sectors have held up the momentum in the agriculture sector. The disaggregated data for crops & cocoa suggests that cocoa sector growth (1.2%) was muted within the 6.3% growth attributable to crops & cocoa. We think this reflects the weakening yield in the cocoa sector since 2022 as the authorities grapple with pest and disease control as well as reported smuggling to neighbouring countries amidst perceived unattractive farm-gate price. We, however, expect the 63% increase in farm-gate price for the 2023/24 crop season to stem the tide of cocoa bean smuggling and revive local yield.

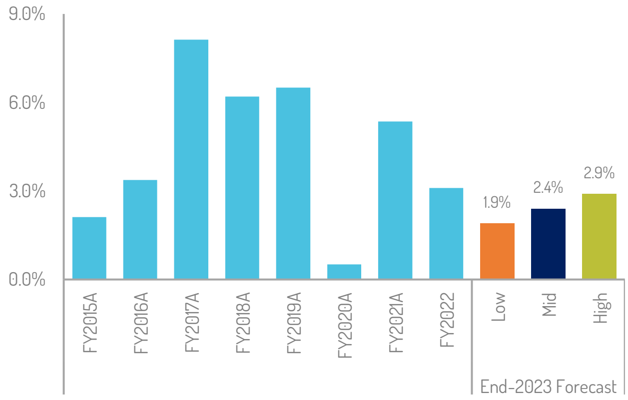
SECTORAL BREAKDOWN OF KEY GROWTH DRIVERS

	YEAR-ON-YEAR		QUARTER-ON-QUARTER	
	2Q2023	**2Q2022**	**2Q2023**	**2Q2022**
OVERALL REAL GDP	**3.2%**	**4.7%**	**0.7%**	**0.9%**
AGRIC	**6.0%**	**4.0%**	**1.3%**	**0.9%**
Fishing	12.2%	7.8%	2.8%	1.7%
Crops & Cocoa	6.3%	3.8%	1.3%	0.8%
INDUSTRY	**-1.9%**	**4.3%**	**-0.8%**	**1.0%**
Mining & Quarrying	3.5%	6.4%	0.8%	1.6%
Construction	-11.7%	0.4%	-3.1%	0.1%
Manufacturing	-0.5%	6.1%	-0.1%	1.2%
SERVICES	**6.3%**	**5.2%**	**2.6%**	**1.2%**
ICT	26.4%	12.4%	5.6%	2.8%
Finance & Insurance	0.4%	4.3%	0.1%	1.1%
Transport & Storage	6.0%	1.7%	1.4%	0.4%
Trade	-5.3%	1.2%	-0.9%	0.2%
Hotel & Restaurant	3.4%	3.6%	0.3%	0.3%

SOURCES: GHANA STATISTICAL SERVICE

.

HISTORICAL AND FORECAST REAL GDP GROWTH



SOURCES: GHANA STATISTICAL SERVICE, IC INSIGHTS

For more information contact your IC representative

Business development & client relations

Derrick Mensah
Head, Business Development
+233 24 415 5765
derrick.mensah@ic.africa

Dora Youri
Head, Wealth Management
+233 23 355 5366
dora.youri@ic.africa

Kelvin Quartey
Analyst, Business Development
+233 57 604 2802
kelvin.quartey@ic.africa

Corporate Access

Joanita Hotor
Corporate access
+233 50 137 6100
Joanita.hotor@ic.africa

Insights

Courage Kingsley Martey
Head, Insights
+233 240 970 832
courage.martey@ic.africa

Churchill Ogutu
Economist
+254 711 796 739
churchill.ogutu@ic.africa

Lydia Adzobu
Senior Analyst, Financial sector
+233 24 656 8669
Lydia.adzobu@ic.africa

Investing

Isaac Adomako Boamah
Chief Investment Officer
030 225 2623
isaac.boamah@ic.africa

Obed Odenteh
Portfolio Manager, Fixed Income
+233 54 707 3464
obed.odenteh@ic.africa

Timothy Schandorf
Portfolio Manager, Risk Assets
+233 24 292 2154
Timothy.schandorf@ic.africa

Herbert Dankyi
Analyst, Rates
+233 55 710 6971
herbert.dankyi@ic.africa

Clevert Boateng
Analyst, Consumer, Technology, Media & Telecommunication
+233 24 789 0452
clevert.boateng@ic.africa

Operations

Nana Amoa Ofori
Chief Operating Officer
+233 24 220 6265
nanaamoa.ofori@ic.africa

Emmanuel Amoah
Fund Administrator
+233 20 847 2245
emmanuel.amoah@ic.africa

Kelly Addai
Fund Accountant
+233 20 812 0994
kelly.addai@ic.africa

Trading

Randy Ackah-Mensah
Head, Global Markets
+233 24 332 6661
randy.amensah@ic.africa

Allen Anang
Equities,Trader
+233 54 084 8441
allen.anang@ic.africa

Isaac Avedzidah
Trader, Fixed Income
+233 24 507 7382
isaac.avedzidah@ic.africa