GHANA | MACROECONOMIC UPDATE | GDP GROWTH | INSIGHTS

FUNDAMENTALS

GHANA'S 3Q2023 REAL GDP GROWTH: BUILDING BLUES

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IN BRIEF

- Ghana's overall real GDP growth slowed to 2.0% y/y in 3Q2023, from a revised 2.7% in the same period of 2022 and average of 3.2% in 1H2023. Tellingly, the seasonally-adjusted quarter-on-quarter outturns showed broadly weaker growth rates for all the three sectors with industry posting the worst outcome of 1.1% q/q shrinkage to drag overall growth rate to 0.5% q/q (vs 0.7% in 2Q2023).

- The broad slowdown in the sequential and annual growth rates underscores our longstanding view that Ghana's real GDP growth is losing steam amidst IMF- and inflation-induced policy squeeze despite the seeming outperformance in 1H2023. We also believe a likely surge in the GDP deflator on account of comparatively outsized inflation in 9M2023 weakened the latest real GDP growth. In view of this, we reiterate our FY2023 forecast of 2.4% ±0.5pp, with a likelihood to close the year along the upper limit of between 2.4% – 2.9%. For FY2024, we project overall growth at 3.3% ±0.5pp.

- Although contractions in the oil and gas sector had been a major drag on extractive sector growth since 2020, the 3Q2023 outturn showed a 0.9% y/y growth in oil & gas. This confirms lower gold production as the proximate cause of the 8.1% y/y contraction in the extractive sector in 3Q2023 and raises sustainability questions about the BOG's Gold-for-Reserves programme as a support for forex reserves in 2024. On a bullish note, we think the positive turn in manufacturing reflects the benefit of improved FX performance and easing price pressures, which bodes well for the outlook. However, we believe there is substantial spare capacity in the sector which requires several quarters of expansion to exhaust.

- The services sector chokes on fiscal squeeze although recovery in trades and hospitality is a breath of fresh air. Following the outsized growth recorded in 1H2023 with a front-loaded fiscal support, growth in public administration, education, and health expectedly moderated in 3Q2023 as the IMF programme commenced. The trades and hospitality sectors gave us something to cheer with return to growth territory, respectively growing by 2.4% and 11.2% y/y in 3Q2023 from contraction territory the previous year. The pulse test suggests positive outlook for 4Q2023 and FY2024 on the back of festivities and tourism-induced boost to trades and hospitality.

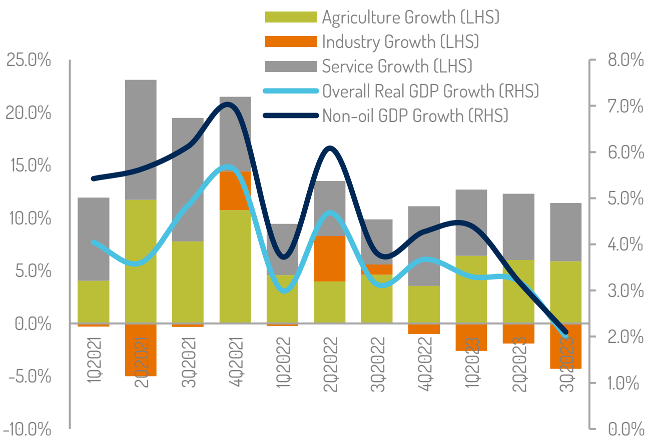
Industrial blues weigh on overall growth

Ghana's real GDP growth decelerated sharply in 3Q2023, in line with our expectation, as key sectors of economic activity started losing steam with the withdrawal of fiscal support amidst the protracted construction sector blues. Overall real GDP growth rate slowed to 2.0% y/y in 3Q2023, from a revised 2.7% in the same period of 2022 and average of 3.2% in 1H2023.

The sectoral review points to industry sector with a contraction of 4.3% y/y (vs +0.9% y/y in 3Q2022) as the main drag on overall growth. However, the agriculture and services sectors rebounded from their sub-5.0% growth in 3Q2022 to post growth rates above 5.0% and limit the slump in overall real GDP growth in 3Q2023. Specifically, agriculture expanded by 5.9% y/y (vs +4.6% in 3Q2022), thanks to a robust growth in crops (cassava and yam) despite a marginal contraction in cocoa. Similarly, the services sector grew by 5.5% y/y in 3Q2023 (vs +3.9% in 3Q2022), helped by recovery in hospitality and trades subsectors. Despite the stronger growth in agriculture and services relative to the comparable period of 2022, we note that the y/y outturn in 3Q2023 represents a slowdown compared to the y/y performance in 2Q2023.

Tellingly, the seasonally-adjusted quarter-on-quarter outturns showed broadly weaker growth rates for all the three sectors with industry posting the worst outcome of 1.1% q/q shrinkage to drag overall growth rate to 0.5% q/q (vs 0.7% in 2Q2023). The broad slowdown in the sequential and annual growth rates underscores our longstanding view that Ghana's real GDP growth is losing steam amidst IMF- and inflation-induced policy squeeze despite the seeming outperformance in 1H2023. We also believe a likely surge in the GDP deflator on account of comparatively outsized inflation in 9M2023 weakened the latest real GDP growth. In view of this, we reiterate our FY2023 forecast of 2.4% ±0.5pp, with a likelihood to close the year along the upper limit of between 2.4% – 2.9%. For FY2024, we project overall real GDP growth at 3.3% ±0.5pp.

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



SOURCE: GHANA STATISTICAL SERVICE

Industry downturn continues as extractives hit rock bottom amidst protracted slump in the construction sector. The extractive subsector of industry surprisingly contracted by 8.1% y/y compared to the strong y/y growth of 14.9% in the same period of 2022 and the moderated growth of 3.5% in 2Q2023. The Ghanaian Statistical Service attributed the disappointing outturn to lower gold production in 3Q2023 relative to the comparable period of 2022. While we expected another quarter of moderated growth due to unfavourable base effect, we did not anticipate a contraction in the mining sector against the backdrop of the 150bps slash in withholding tax on gold export in 2022. Also, the Bank of Ghana's ongoing Gold-for-Reserves programme since 2022 had been lauded by the authorities as the main catalyst for the rise in forex reserves after reportedly upscaling gold holdings by 4.0x to 35 tonnes as of September 2023.

Although contractions in the oil and gas sector had been a major drag on extractive sector growth since 2020, the 3Q2023 outturn showed a 0.9% y/y growth in oil & gas. This confirms lower gold production as the proximate cause of the 8.1% contraction in the extractive sector and raises sustainability questions about the BOG's Gold-for-Reserves programme as a support for forex reserves in 2024.

The construction sector shrinkage continued with -8.3% y/y in 3Q2023 (vs -7.0% in 3Q2022), representing the 5th consecutive quarter of y/y contraction. The Statistical Service attributed the slump to lower import of cements and raw materials required for the local manufacture of cements. This corroborates the BOG's November 2023 monetary policy report, which noted a 26.1% y/y decline in the volume of cement sales to 1.9 million tonnes in 9M2023. Additionally, we opine that ongoing fiscal squeeze on the CAPEX budget and the contraction in banks' credit to private enterprises continue to weigh on the construction sector.

Our review of banks' credit portfolio showed a 190bps y/y decline in the share of construction sector loans to 8.8% of total loan portfolio as of October 2023. We believe this tighter credit stance reflects banks' aversion to risky construction loans as the sector accounted for 36.9% of total industry NPLs (+520bps y/y) as of October 2023. In the absence of renewed CAPEX drive from the fiscal authorities, the construction sector will remain subdued in the near-term. However, the aggressive CAPEX push in the 2024 budget amidst a more stable FX should stimulate growth in the 2024 election year, subject to IMF and revenue constraints.

On a positive note, manufacturing sector growth turned positive on a year-on-year (2.1%) and quarter-on-quarter (0.5%) basis, bucking the trend of four consecutive quarters of contractions. We think this positive turn reflects the benefit of improved FX performance and easing price pressures, which bodes well for the outlook. However, we believe there is substantial spare capacity in the sector, which requires several quarters of expansion to exhaust.

Services sector chokes on fiscal squeeze although recovery in trades and hospitality is a breath of fresh air. Following the outsized growth recorded in 1H2023 with a front-loaded fiscal support, growth in public administration, education, and health expectedly moderated in 3Q2023. Public administration grew by 1.3% y/y (vs 6.8% in 2Q2023), education sector grew by 1.4% y/y (vs 5.4% in 2Q2023) while the health sector growth cooled to 3.5% y/y (vs 11.0% in 2Q2023). On a quarter-on-quarter basis, these public sector-led activities grew by less than 1.0pp each, reflecting the squeeze from fiscal austerity on payroll and statutory allocations under the ongoing IMF programme.

While growth in information & communication remained strong at 17.3% y/y, this represents a slowdown of 110bps compared to the comparable quarter of 2022. Despite the observed slowdown in growth momentum for ICT, we remain bullish on this sector as a key driver of services sector growth. However, we maintain our near-term bearishness on growth in finance & insurance activity as the sector brace for capital rebuild over the next two years (2024 - 2025).

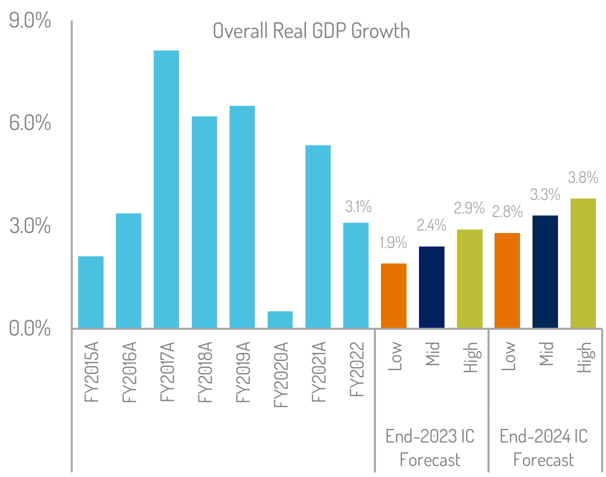
The trades and hospitality sectors gave us something to cheer with return to growth territory, respectively growing by 2.4% and 11.2% y/y in 3Q2023 from contraction territory the previous year. The pulse test suggests positive outlook for 4Q2023 on the back of festivities and tourism-induced boost to trades and hospitality. We further expect this positive momentum to carry into 2024 on the back of moderating price pressures and election-related support for aggregate demand for goods and hospitality services.

SECTORAL BREAKDOWN OF KEY GROWTH DRIVERS

	YEAR-ON-YEAR		QUARTER-ON-QUARTER	
	3Q2023	3Q2022	3Q2023	2Q2023
OVERALL REAL GDP	**2.0%**	**2.7%**	**0.5%**	**0.7%**
AGRIC	**5.9%**	**4.6%**	**1.3%**	**1.3%**
Fishing	0.7%	10.0%	0.2%	2.8%
Crops & Cocoa	7.2%	4.0%	1.5%	1.3%
INDUSTRY	**-4.3%**	**0.9%**	**-1.1%**	**-0.4%**
Mining & Quarrying	-8.1%	14.9%	-2.1%	0.8%
Construction	-8.3%	-7.0%	-2.1%	-3.1%
Manufacturing	2.1%	-7.4%	0.5%	-0.1%
SERVICES	**5.5%**	**3.9%**	**0.0%**	**1.4%**
ICT	17.3%	18.4%	4.1%	5.6%
Finance & Insurance	0.9%	5.1%	0.2%	0.1%
Transport & Storage	6.2%	6.4%	1.6%	1.4%
Trade	2.4%	-2.4%	0.5%	-0.9%
Hotel & Restaurant	11.2%	-6.4%	2.0%	0.3%

SOURCES: GHANA STATISTICAL SERVICE

HISTORICAL AND FORECAST REAL GDP GROWTH



SOURCES: GHANA STATISTICAL SERVICE, IC INSIGHTS

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