

FUNDAMENTALS

GHANA'S FY2023 REAL GDP GROWTH: PADDLING AGAINST THE CURRENT

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IN BRIEF

- Ghana's real GDP growth rate for FY2023 came in at 2.9% y/y, representing the second consecutive year of slowdown in annual GDP expansion after posting a 3.8% growth in FY2022 from 5.1% in FY2021. However, the FY2023 growth rate out-performed the authorities' revised target of 2.3% and our midpoint forecast of 2.4% while perfectly [aligning with our upper band forecast of 2.9%](#).
- In our view, the second consecutive year of decline in Ghana's real GDP growth rate reflects the prolonged impact of elevated cost pressures and the 2023 domestic debt exchange which eroded the working capital of businesses and the purchasing power of households. We also attribute the decline in annual growth rate partly to the aggressive squeeze in fiscal and monetary policy under the ongoing 3-year IMF programme which commenced in May 2023.
- Services sector growth beat our estimate on the back of rebound in hospitality, and transport while the trade sub-sector avoided our forecast contraction. As expected, we observed a marked slowdown in annual growth rates for public sector-related services as the IMF-induced fiscal austerity took a toll on the sub-sectors.
- The construction sector particularly caught our attention within the industry sector as its woes deepened from -6.8% y/y in FY2022 to -9.9% in FY2023. In our view, this largely reflects the squeeze from fiscal austerity while external debt default resulted in the suspension of some public projects amidst overdue contractor payments. We also believe the elevated cost of construction materials also weighed on demand and private sector construction activity.
- Having endured the worst of recent economic shocks with the ongoing policy adjustments delivering modest signs of macro-level improvements, we perceive favourable conditions for a rebound in economic activity in 2024. Consequently, we believe the slowing momentum in Ghana's growth rate has bottomed-out with the economy primed for a modest recovery in 2024. We thus reiterate our FY2024 growth forecast range of 2.8% – 3.8% (midpoint: 3.3%).

Accelerating to the finish line from a slow start

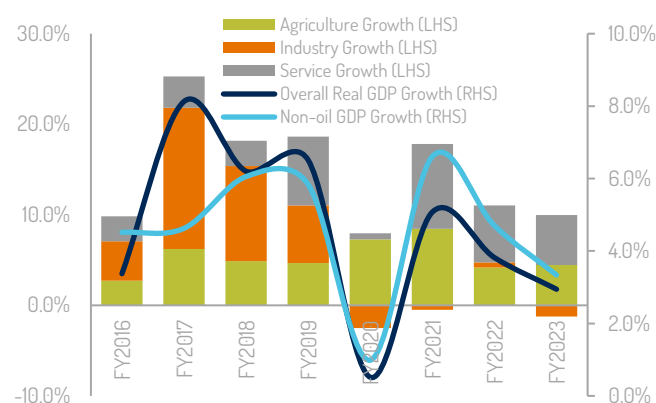
Ghana's real GDP growth rate for FY2023 came in at 2.9% y/y, representing the second consecutive year of slowdown in annual GDP expansion after posting a 3.8% growth in FY2022 from 5.1% in FY2021. However, the FY2023 growth rate out-performed the authorities' revised target of 2.3% and our midpoint forecast of 2.4% while perfectly [aligning with our upper band forecast of 2.9%](#). Unpacking the GDP growth data, we observed that the full year outturn was propelled by acceleration in growth to 3.8% in 4Q2023 to mitigate the growth deceleration recorded in 9M2023 (Average 9M2023 growth: 2.6%).

In our view, the second consecutive year of decline in Ghana's real GDP growth rate reflects the prolonged impact of elevated cost pressures and the 2023 domestic debt exchange which eroded the working capital of businesses and the purchasing power of households. We also attribute the decline in annual growth rate partly to the aggressive squeeze in fiscal and monetary policy under the ongoing 3-year IMF programme which commenced in May 2023. The combination of new taxes, cut in budget outlay for public investment and goods & services as well as the policy rate hikes to 30.0% resulted in a double whammy of fiscal and monetary squeeze on the private sector.

Excluding the impact of oil & gas, non-oil real GDP showed a relatively stronger growth rate of 3.3% in FY2023, although with a much sharper decline compared to the 4.7% outturn in 2022. Notably, we observed that while both overall and non-oil growth have tracked each other since 2018, the latter has shown more resilience since the COVID-induced crash in 2020. If this pattern is sustained with a more robust growth into the medium-term, we foresee a quicker recovery in purchasing power as non-oil real GDP accounts for 94.5% of Ghana's overall real GDP.

In monetary terms, Ghana's overall nominal GDP stood at GHS 841.6bn (+37.0% y/y) while the USD-equivalent stood at USD 76.4bn (+2.8% y/y) as the Cedi's sharp depreciation in 2023 deflated the USD value of Ghana's economy.

ANNUAL REAL GDP GROWTH BY SECTOR



SOURCE: GHANA STATISTICAL SERVICE

Agriculture and services sectors stay afloat but industry relapsed

Services sector growth beat our estimate as the trade sub-sector avoided our forecast contraction. Despite slowing down as expected, the heavily-weighted trades sub-sector churned out a marginal growth of 0.3% y/y in FY2023 from 1.3% in FY2022 (vs our forecast of -0.6%). Furthermore, the service sector was aided by rebound in annual growth rates for hospitality (+4.1%), and transport & storage (+5.6%), leaving us with optimism about the FY2024 outlook when electioneering activities kick into gear.

As expected, we observed a marked slowdown in annual growth rates for public sector-related services as the IMF-induced fiscal austerity took a toll on the sub-sectors. Growth in information and communication services (18.0%) came in slightly below our full year forecast of 18.4%. However, the high double digits expansion remains a source of optimism for the outlook as telecoms sector operators signal sustained investment in network infrastructure amidst the data revolution.

Consequently, Ghana's services sector expanded by 5.5% y/y in FY2023 (vs our forecast growth of 4.8%), albeit representing a moderation from the 6.3% witnessed in FY2022.

A broad slowdown in key sub-sectors dragged industry into contraction territory. The industry sector suffered a relapse in FY2023, shrinking by 1.2% y/y (vs our forecast contraction of 1.3%) as negative growth in four sub-sectors outweighed the positive growth in gold and manufacturing. Specifically, the extractive sector witnessed mixed fortunes with reduced rate of contraction in hydrocarbon to -3.3% y/y (-8.5% in FY2022) while the expansion in gold output cooled to +10.1% (+32.3% in FY2022).

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Agriculture sector defies contraction in cocoa sub-sector.

The agriculture sector witnessed a marginal recovery to 4.5% in 2023 (vs 4.2% in FY2022), ostensibly supported by food crops which outweighed a 0.3% y/y contraction in cocoa output as well as livestock production (+6.5% y/y). In our view, the cocoa sector remains the major blot on the resilience of the agriculture sector amidst the challenges with the sector's financing and farm yield. The anticipated decline in cocoa output for the 2023/2024 crop season amidst the new EU regulation on cocoa imports will pose a downside risk to growth in the sector in 2024. However, we expect food crops, fishing, and livestock to act as growth poles.

SECTORAL BREAKDOWN OF KEY GROWTH DRIVERS

	YEAR-ON-YEAR	
	FY2023	FY2022
OVERALL REAL GDP	2.9%	3.8%
AGRIC	4.5%	4.2%
Fishing	4.1%	8.8%
Crops & Cocoa	4.8%	3.8%
INDUSTRY	-1.2%	0.6%
Mining & Quarrying	2.5%	8.9%
Construction	-9.9%	-6.8%
Manufacturing	0.9%	-2.5%
SERVICES	5.5%	6.3%
ICT	18.0%	21.2%
Finance & Insurance	2.9%	9.8%
Transport & Storage	5.6%	4.0%
Trade	0.3%	1.3%
Hotel & Restaurant	4.1%	0.2%

SOURCES: GHANA STATISTICAL SERVICE

Primed for modest recovery in 2024

Having endured the worst of recent economic shocks with the ongoing policy adjustments delivering modest signs of macro-level improvements, we perceive favourable conditions for a rebound in economic activity in 2024.

Our inflation forecast suggests a non-linear but general decline in inflation towards the mid-teens by FY2024, despite recent elevation in FX pressures. We expect the general disinflation outlook to sustain the recovery in price-sensitive manufacturing sector in 2024 as the rebound to positive growth in FY2023 (+0.9% y/y) from a contraction of 2.5% in 2022 gives us optimism for 2024. Furthermore, we expect the construction sector to benefit from a revived public investment post external debt restructuring deal while election-induced constructions add further tailwind to growth in industry.

In the service sector, we remain bullish on information and communication sector with growth forecast to remain in double digits despite anticipated moderation. Our optimism hinges on the ongoing investment and expansion in network infrastructure by the major telecoms sector operators while demand for data services continues to grow. We also expect demand for hospitality and transport services to strengthen on the back of the upcoming electioneering activities in the lead up to the December elections.

Consequently, we believe the slowing momentum in Ghana's growth rate has bottomed-out with the economy primed for a modest recovery in 2024. We thus reiterate our FY2024 growth forecast range of 2.8% - 3.8% (midpoint: 3.3%).



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