GHANA | MACROECONOMIC UPDATE | GDP GROWTH | INSIGHTS

FUNDAMENTALS

GHANA'S 1Q2024 REAL GDP GROWTH:
GREEN SHOOTS OF RECOVERY

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

IN BRIEF

- Ghana's real sector showed green shoots of emerging recovery from the 2023 trough with a stronger overall growth momentum in 1Q2024 consistent with our FY2024 growth outlook. Overall real GDP expanded by 4.7% year-on-year in 1Q2024, outpacing the 3.1% outturn in the same period of 2023 and representing the highest quarterly growth since 2Q2022.

- The overall growth recovery was powered by a rebound within the industrial sector, which expanded by 6.8% y/y as improved activity in key sub-sectors benefited from favourable base effect. However, a moderation in growth in the agriculture (4.1% y/y) and services sectors (3.3%) indicates the lingering fragility within the real sector which was emphasized by the slower growth rate in non-oil real GDP at 4.2% y/y in 1Q2024.

- The moderation in services sector growth reflects contractions in fiscal-dependent sectors as the IMF-induced fiscal restraint triggered a normalisation in public sector activity following the increased recruitment and higher remunerations in 1Q2023 prior to the IMF programme.

- Agriculture endured a broad-based weakening in key sub-sectors with cocoa being the worst performer as issues of climate change, illegal mining, and diseases undermined productivity. With expectations for cocoa output to undershoot the authorities' target for 2023/24 season, we foresee lingering downside risk to agriculture growth in 2024, although improved food crop production in 3Q2024 will partly mitigate the downside.

- Extractives take the shine in industrial sector rebound but manufacturing and construction pulse are also improving. We believe the strong growth in the oil & gas sector reflects the start of production from Ghana's Jubilee South East (JSE) oil & gas project in 2H2023, which supported the current year's production levels relative to 1Q2023. With five new wells scheduled to come onstream in 2024, we believe the prospect remains positive for growth momentum in extractives and overall industry in 2024. Consequently, we reiterate our FY2024 forecast range for overall real GDP growth between 2.9% – 3.9% (midpoint: 3.4%).

A fragile recovery begins

Ghana's real sector showed green shoots of emerging recovery from the 2023 trough with a stronger overall growth momentum in 1Q2024 consistent with our FY2024 growth outlook. Overall real GDP expanded by 4.7% year-on-year in 1Q2024, outpacing the 3.1% outturn in the same period of 2023 and representing the highest quarterly growth since 2Q2022.

The overall growth recovery was powered by a rebound within the industrial sector, which expanded by 6.8% y/y as improved activity in key sub-sectors benefited from favourable base effect. However, a moderation in both the agriculture sector growth to 4.1% y/y (vs 4.5% in 1Q2023) and services sector to 3.3% y/y (vs 6.0% in 1Q2023), indicates the lingering fragility within the real sector. Excluding the impact of hydrocarbon, non-oil real GDP (which represents 95.0% of overall GDP) grew by 4.2% y/y in 1Q2024, marginally slower than the 4.4% outturn in 1Q2023 and emphasized the caution in the outlook.

On a seasonally-adjusted quarter-on-quarter basis, we note an emerging recovery in growth conditions as overall real GDP grew by 1.2% q/q (vs 0.8% in 1Q2023), consolidating the 1.0% q/q growth in 4Q2023. Notably, the q/q growth dynamic mirrors the year-on-year trend with the industrial sector providing the growth catalyst to outweigh the unsurprising cool-off in the agriculture and services sectors.

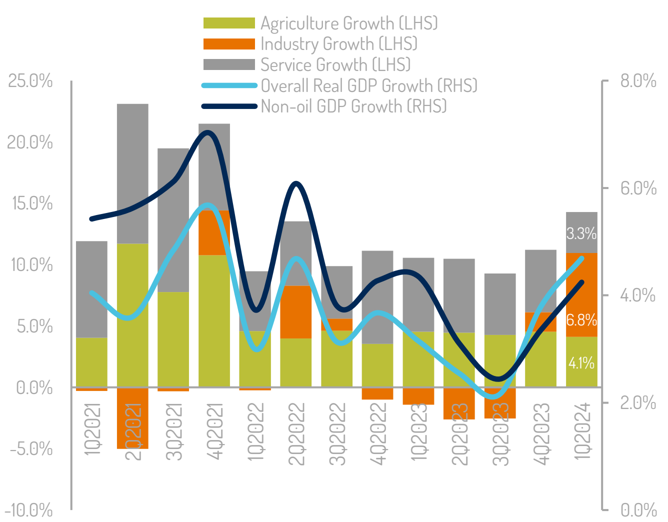
Although the softer growth in agriculture and services provides a strong basis for caution, we believe the ongoing industry recovery will be sustained to hold the FY2024 overall real GDP growth above the 2.9% outturn in FY2023.

Moderation in services sector growth reflects contraction in fiscal-dependent sectors. Although we expected the ongoing IMF programme to sustain the fiscally tight primary expenditure framework, we did not anticipate a contraction in real growth within the key sub-sectors such as Public Administration (-5.3%), Education (-4.9%), and Health & Social works (-8.8%). Rationalising the y/y contractions, we recalled that these fiscal-dependent sectors logged impressive growth rates of between 9.5% and 13.0% in the same period of 2023 as the authorities frontloaded recruitments and remunerations ahead of the IMF-induced austerity. Specifically, we noted a 30.0% hike in public sector pay in January 2023 amidst the higher recruitments and expected the weakening of this fiscal support in the subsequent quarters under the IMF programme. Consequently, the fiscal constraints triggered a normalisation of activity within the public sector, suggesting that the y/y contractions observed in 1Q2024 will be short-lived.

On a positive note, growth in the hospitality sub-sector (9.4%) rebounded strongly from the sluggish outturn of 1.7% in 1Q2023 while the trades sub-sector also expanded by 2.5% y/y from the 2.7% contraction in the same period of 2023. Although the recent FX-induced price pressures pose a downside risk to activity in these sectors in 2Q2024, we expect favourable base effect to sustain the positive momentum in trades in the quarters ahead.

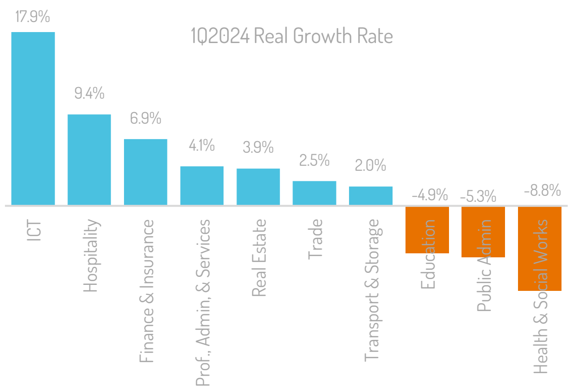
Impressively, the ICT sub-sector maintained its solid momentum with a 17.9% y/y expansion, replicating the same outturn from a year ago, as the Ghanaian economy continued its steady adoption of digitalisation amidst sustained CAPEX by Telecoms companies. We remain bullish on the outlook for ICT with the potential to out-perform our FY2024 forecast growth of 14.7% amidst the policy-driven digitalisation across the public and private sectors.

SECTORAL DISAGGREGATION OF REAL GDP GROWTH



SOURCE: GHANA STATISTICAL SERVICE

DISAGGREGATION OF THE SERVICES SECTOR GROWTH



SOURCE: GHANA STATISTICAL SERVICE

Agriculture endured a broad-based weakening in key sub-sectors with cocoa as the worst performer. Unsurprisingly, the deepening woes of Ghana's cocoa industry as well as the forestry & logging sub-sector continued to restrain the agriculture sector growth. The cocoa sub-sector witnessed a sharp contraction of

20.2% y/y in 1Q2024, representing the third consecutive quarter of y/y contraction as issues of climate change, illegal mining, and diseases undermined productivity. The drag from the lower cocoa output culminated in a weaker growth of 4.3% y/y in the crops & cocoa sub-sector in 1Q2024 (vs 5.0% a year earlier).

With expectations for cocoa output to undershoot the authorities' 2023/24 target of 820,000 metric tonnes by 40.0%, we foresee lingering downside risk to agriculture growth in 2024, although improved food crop production in 3Q2024 will partly mitigate the downside.

DISAGGREGATION OF AGRICULTURE SECTOR GROWTH

SOURCE: GHANA STATISTICAL SERVICE

Extractives take the shine in industry sector rebound but manufacturing and construction pulse are also improving. The industrial sector was the star performer among the three economic sectors, expanding by 6.8% y/y in 1Q2024 from a 1.4% contraction in the same period last year and consolidating its 1.6% growth in 4Q2023. Expectedly, the mining & quarrying sub-sector surged by 12.9% y/y on the back of a 13.8% y/y expansion in oil & gas output in 1Q2024. We believe the strong growth in the oil & gas sector reflects the start of production from Ghana's Jubilee South East (JSE) oil & gas project in 2H2023, which supported the current year's production levels relative to 1Q2023. With five new wells scheduled to come onstream in 2024, we believe the prospect remains positive for growth momentum in extractives and overall industry in FY2024.

The construction sector snapped from eight consecutive quarters of shrinkage to post an 8.2% y/y expansion in 1Q2024. In our view, this rebound reflects the resumption of arrears payments to contractors by the fiscal authorities amidst the 54.3% y/y increase in the 2024 budget for public investment. Following the Memorandum of Understanding with Ghana's Official Creditor Committee for the restructuring of its bilateral debt and subject to the execution by each bilateral government, we foresee a resumption of renegotiated project loans in the quarters ahead. This bodes well for construction sector growth in the medium term. In the immediate term, we expect the debt service relief from the renegotiated bilateral terms to create fiscal space for public investment in key projects to sustain the recovery in the construction sector in 2024.

SECTORAL BREAKDOWN OF KEY GROWTH DRIVERS

	YEAR-ON-YEAR	
	1Q2024	1Q2023
OVERALL REAL GDP	**4.7%**	**3.1%**
NON-OIL REAL GDP	**4.2%**	**4.4%**
AGRIC	**4.1%**	**4.5%**
Fishing	4.7%	-3.3%
Forestry & Logging	-1.2%	-1.5%
Crops & Cocoa	4.3%	5.0%
INDUSTRY	**6.8%**	**-1.4%**
Mining & Quarrying	12.9%	1.0%
Construction	8.2%	-6.0%
Manufacturing	2.0%	-1.5%
SERVICES	**3.3%**	**6.0%**
ICT	17.9%	18.0%
Finance & Insurance	6.9%	9.2%
Transport & Storage	2.0%	6.9%
Trade	2.5%	-2.7%
Accommodation & Food Serv.	9.4%	1.7%

SOURCES: GHANA STATISTICAL SERVICE

We stay optimistic on the growth outlook

The overall growth conditions and the outlook for key sectors, particularly the industrial activities, deepen our expectation for the start of modest economic recovery in 2024. We tip the extractive sector to hold industry aloft with construction and manufacturing improvements adding further tailwind for industrial growth.

In the services sector, we expect ICT, trade, hospitality, finance & insurance activities, and transport & storage to support growth with election-related spending as a key catalyst.

Consequently, we reiterate our FY2024 forecast range for overall real GDP growth between 2.9% – 3.9% (midpoint: 3.4%).

For more information contact your IC representative

Business Development & Client Relations

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

Kelvin Quartey
Analyst, Business Development
+233 57 6042802
Kelvin.quartey@ic.africa

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

Emmanuel Dadzoe
Analyst, FMCG, OMC, Telecoms
++233 30 825 0051
Emmanuel.dadzoe@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
Portfolio Manager
+233 55 710 6971
herbert.dankyi@ic.africa

Clevert Boateng
Analyst, Risk Assets.
+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 24 220 6265
randy.mensah@ic.africa

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

Daniel Asante
Trader, Fixed Income
+233 55 285 7164
daniel.asante@ic.africa