

FUNDAMENTALS

GHANA'S 2024 REAL GDP GROWTH: OFF THE CHARTS

**Head, Insights**

Courage Kingsley Martey

+233 240 970 832

courage.marthey@ic.africa

IN BRIEF

- The Ghanaian economy moved out of the sand onto the green in 2Q2024, beating all the odds of continued modest recovery by posting a growth rate that is off the charts.
- Overall real GDP growth surpassed expectation with an expansion of 6.9% year-on-year in 2Q2024 against the market expectation of 3.3%. Excluding the effect of oil & gas, non-oil real GDP growth was slightly stronger at 7.0% y/y while the informal sector expanded by 6.3% y/y with largely broad-based improvements across key sectors.
- Our review indicates that the acceleration in growth momentum in 2Q2024 was the fastest pace since 4Q2021 which culminated in FY2021 growth rate of 5.1% (vs 0.5% in FY2020). Notably, we observed a low base effect for most of the sub-sectors within the industrial sector, which powered industry growth to 9.3% y/y in 2Q2024 from a contraction of 2.6% in the corresponding quarter of 2023. Growth was firmer in the agriculture sector with an expansion of 5.4% y/y in (vs 4.4% in same period 2023) while services however witnessed a slight moderation to 5.8% y/y (vs 6.0% a year ago).
- Our updated growth model suggests a stronger-than-expected bounce from the low industrial base last year with additional tailwind from election-related spending and a stable FX in 2H2024. Against this backdrop of strong favourable base effect and potential spending boost, we raise our FY2024 real GDP growth forecast by 1.8pp to between 4.7% – 5.7% (midpoint: 5.2%) from our earlier forecast of 2.9% – 3.9%.
- We expect the new wells on the Jubilee South East (JSE) oil field to support the positive growth momentum in the extractive sector. The ongoing payments to local contractors and the low base from last year will sustain the growth in the construction sector, with positive spillovers for banks' loan book, asset quality and overall GDP growth. In the services sector, we tip ICT, trade, and finance & insurance activities to continue the positive momentum. However, reports of dry weather conditions and the seemingly intractable illegal mining activities will cap the upside for agriculture.

Outperforming all the odds

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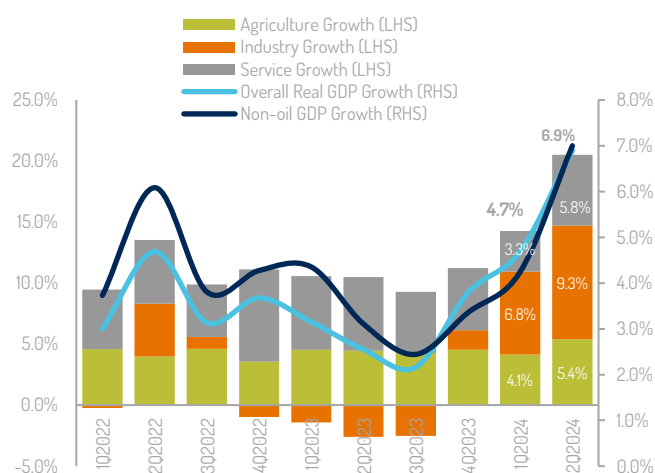
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The market and our expectation were for continued but modest recovery in Ghana's real GDP growth due to the slower-than-expected pace of disinflation, the faster-than-expected pace of Cedi depreciation in 1H2024 and the restrictive policy stance.

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SECTORAL DISAGGREGATION OF REAL GDP GROWTH



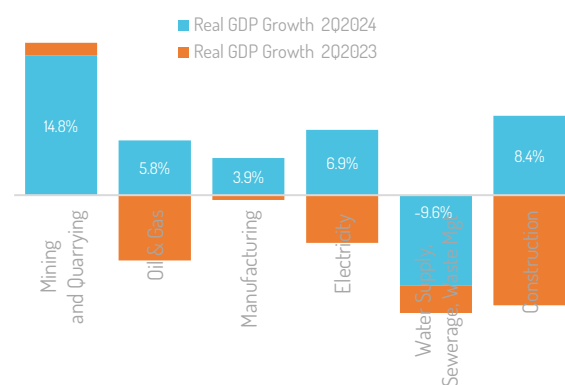
SOURCE: GHANA STATISTICAL SERVICE

Industry bounced from a low base with recovery in key sub-sectors. The industrial sector continued its recovery for the third straight quarter in 2Q2024 with a steeper growth of 9.3% y/y, coming from a 2.6% contraction in the corresponding period of last year.

The strong expansion was underpinned by a return to positive growth for oil & gas (5.8% y/y), manufacturing (3.9%), electricity (6.9%), and construction (8.4%) sub-sectors, all of which posted contractions in the like period of 2023. We attribute the growth in oil & gas to the start of oil production from new wells on the Jubilee South East (JSE) field in 1H2024, supported by out-performance on the Tweneboa Enyenra Ntomme (TEN) oil field. Our estimation also revealed a 20.2% y/y growth in mining and quarrying in 2Q2024, largely due to upsurge in domestic gold production, which propelled growth in the extractive sector (including oil & gas) to 14.8% y/y. We expect the new oil fields to support the positive growth momentum in the extractive sector for the remainder of 2024 and sustain the accelerated growth in overall real GDP for FY2024.

In May 2024, Ghana's finance minister noted that the Treasury was in the process of paying contractor arrears with GHS 49.0bn paid as of May 2024. In September 2024, leadership of the local contractors confirmed ongoing payments with outstanding claims as of end-August 2024 pegged at GHS 12.1bn. In our view, these contractor payments stimulated activity within the construction sector, reviving growth from 8-consecutive quarters of shrinkage to 8.2% in 1Q2024 and 8.4% in 2Q2024. In 2H2024, we expect the Treasury to continue its steady payment of arrears to local contractors with election pressure as a major driver. We expect these payments and low base from last year to sustain the growth in the construction sector, with positive spillovers for banks' loan book, asset quality and overall GDP growth.

DISAGGREGATION OF INDUSTRY SECTOR GROWTH

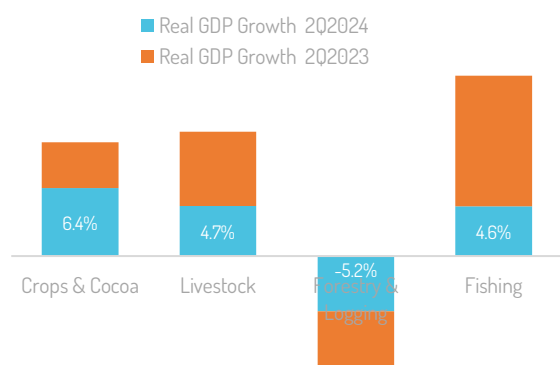


SOURCE: GHANA STATISTICAL SERVICE

Expansion in crops anchors growth in the agriculture sector. Although the cocoa sub-sector continued its shrinkage for the 4th consecutive quarter (-26.2% y/y), our analysis showed that other crops enjoyed a robust growth of 8.0% y/y to nudge net growth

in crops & cocoa sub-sector to 6.4% y/y. Despite the slight y/y moderation in growth of other sub-sectors, the heavily-weighted crops sub-sector pushed agriculture sector growth to 5.4% y/y (vs 4.4% in the same period of 2023). While we expect the sector's growth to strengthen for the second successive year, we continue to see the full year momentum below 5.0% with our forecast for FY2024 at 4.8% y/y (FY2023: 4.5%). We believe reports of dry weather conditions in food growing regions of the north and the seemingly intractable illegal mining activity will cap the upside for crops.

DISAGGREGATION OF AGRICULTURE SECTOR GROWTH



SOURCE: GHANA STATISTICAL SERVICE

Services sector growth was a tad softer despite rebound in trades and hospitality sub-sectors.

The services sector growth moderated slightly to 5.8% y/y (vs 6.0% in 2Q2023) as ICT growth halved to 12.8% while transport (3.6%) and real estate services (2.3%) also cooled. Additionally, we observed slower growth rates in the public service sectors such as education (5.5% y/y | -50bps), public administration (5.7% y/y | -50bps), and health & social works (5.0% | -430bps). We believe the slower growth in public service sectors reflects the impact of fiscal adjustment under the ongoing IMF-supported programme. However, we foresee scope for a faster growth in 3Q2024 as the authorities execute election-related spending plans, ahead of the December 2024 general elections.

On a reassuring note, finance & insurance activities sustained the post-DDEP recovery despite ongoing struggle with asset quality issues in the banking sector. Growth in finance & insurance activities quickened to 7.6% y/y (vs 0.4% in 2Q2023), albeit with the prospect of a slowdown in 2H2024 as election-related uncertainty undermines long-term investment decisions. We however expect the increasing use of Fintech companies and digital platforms for financial service delivery to provide upside momentum in the finance & insurance sector.

Growth in ICT unexpectedly halved in 2Q2024 but remained in double-digits as Ghanaians continue to adopt internet and data services. Having secured regulatory approval to provide satellite broadband internet service in Ghana, the start of Starlink

operations and potential adoption by internet-dependent firms will sustain growth of ICT in the double digits. We believe this bodes well for services sector growth in the short-to-medium term.

SECTORAL BREAKDOWN OF KEY GROWTH DRIVERS

	YEAR-ON-YEAR	
	2Q2024	2Q2023
OVERALL REAL GDP	6.9%	2.5%
AGRIC	5.4%	4.4%
Fishing	4.6%	12.2%
Crops & Cocoa	6.4%	4.3%
INDUSTRY	9.3%	-2.6%
Mining & Quarrying	14.8%	1.4%
Construction	8.4%	-11.7%
Manufacturing	3.9%	-0.5%
SERVICES	5.8%	6.0%
ICT	12.8%	25.1%
Finance & Insurance	7.6%	0.4%
Transport & Storage	3.6%	5.8%
Trade	3.2%	-4.2%
Hotel & Restaurant	4.8%	3.0%

SOURCES: GHANA STATISTICAL SERVICE



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

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 Ainoa Ofori

Chief Operating Officer
+233 24 220 6265
nanaainoa.ofori@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

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