Country Report

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"0 or 0.0" means nil or negligible;"n/a" means not available; "-" means not applicable

Ghana

Summary

Outlook for 2023-27

Data and charts

Summary

Recent analysis

Economy

Briefing sheet

Editor: **Rukmini Sanyal**

Forecast Closing Date: **April 13, 2023**

Political and economic outlook

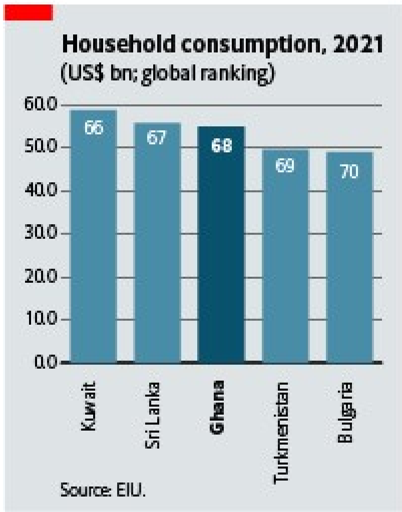
- Ghana's economy relies on output and exports from the hydrocarbons, gold and cocoa sectors, exposing it to global trade headwinds. New oilfields will be slow to come on stream. The services and agricultural sectors employ most working Ghanaians.
- The ruling New Patriotic Party will retain power until the 2024 presidential and parliamentary elections, which EIU expects the National Democratic Congress, the main opposition party, to win. Public dissatisfaction with falling living standards will spur sporadic unrest, making the coming years a testing time for a normally stable democracy.
- Short-term policy will focus on restoring macroeconomic stability. Ghana is undergoing domestic and external debt restructuring, which will continue in the coming months. We expect Ghana to enter a US$3bn extended credit facility (ECF) agreement with the IMF over the coming quarters, to bolster the fragile fiscal and financial outlook.
- Real GDP growth will slow in 2023 as rising prices and monetary tightening weigh on private consumption and investment and as government spending declines. Growth will remain subdued in 2024 as tightening continues. It will then pick up over 2025-27, driven by an uptick in gold and oil exports earnings as new projects come on stream.
- The cedi will be under intense pressure early in the forecast period, as a result of capital flight connected to Ghana's debt crisis, and of extraordinarily high inflation and export earnings' vulnerability to changes in commodity prices.
- Ghana is the fourth African country (after Chad, Zambia and Ethiopia) to have requested bilateral debt restructuring under the Common Framework platform supported by the G20, reflecting its unsustainable debt levels compared with its regional peers.
- Ghana is in discussions with the IMF over a financial support facility, but the risk that the country will fail to regain access to international bond markets will be high in the near term, given investor concerns over high debt and prolonged restructuring negotiations.

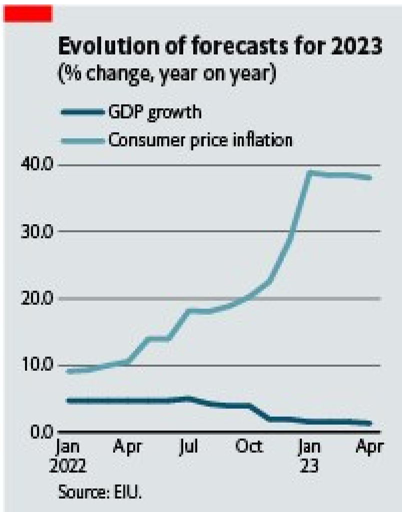
Key indicators

	2022[a]	2023[b]	2024[b]	2025[b]	2026[b]	2027[b]
Real GDP growth (%)	3.3	1.3	2.3	4.4	4.8	5.8
Consumer price inflation (av; %)	31.9[c]	38.1	19.2	9.1	8.0	7.4
Government balance (% of GDP)	-8.3	-7.1	-6.8	-6.0	-5.4	-4.4
Current-account balance (% of GDP)	-2.6	-1.9	-1.1	-2.0	-2.4	-2.7
Short-term interest rate (av; %)	19.5[c]	31.6	30.0	27.2	23.2	21.2
Exchange rate GH¢:US$ (av)	8.27[c]	11.59	12.86	13.51	14.18	14.70

[a] EIU estimates. [b] EIU forecasts. [c] Actual.

Market opportunities





Key changes since March 13th

- At its end-March monetary policy committee meeting the Bank of Ghana (BoG, the central bank) raised its policy interest rate by 150 basis points, to 29.5%, in a bid to stem soaring inflation and steep depreciation of the cedi against the US dollar.
- We expect the policy-rate to reach 31.5% by end-2023, before being held stable in 2024 as inflationary pressures ease.
- In the light of exchange-rate data for March 2023, we now expect the cedi to depreciate less sharply in 2023, to an average of GH¢11.59:US$1 (revised from GH¢12.38:US$1).

The month ahead

- **May—Monetary Policy Committee meeting, BoG:** After raising its policy rate by a cumulative 1,250 basis points in 2022, the BoG increased the rate cumulatively by another 250 basis points up to March 2023, to 29.5%, to contain inflationary pressures. We expect the BoG to raise the rate by another 100 basis points at end-May.
- **TBC—Progress on negotiations with the IMF:** Given the conclusion of the domestic debt-swap programme in February, sustained commitment to external debt restructuring and the urgent need to restore macroeconomic stability, we expect the Fund's Executive Board to approve a US$3bn ECF by mid-2023.

Major risks to our forecast

Scenarios, Q1 2023	Probability	Impact	Intensity
Companies end up with a higher tax burden	High	High	16
Political unrest intensifies as 2024 election approaches	High	High	16
Sustained inflationary pressures and rapid depreciation weigh on Ghana's growth and business outlook	High	High	16
Russia-Ukraine conflict turns into global war, further inflates Ghana's import bill and inflation	Moderate	Very high	15
Ghana suffers a major terrorist attack, heightening business risks	Moderate	High	12

Note. Scenarios and scores are taken from our Operational Risk product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.
Source: EIU.

Outlook for 2023-27

Political stability

EIU expects Ghana's underlying political stability to continue in 2023-27, despite a highly acrimonious party-political landscape. The rivalry between the two major parties—the ruling New Patriotic Party (NPP) and the opposition National Democratic Congress (NDC)—will continue to characterise the political scene. As the NPP has a razor-thin working majority in parliament (with 137 seats plus the support of one independent member of parliament in the 275-seat legislature), passing controversial reforms will prove difficult. Reaching consensus on major legislation (including revenue-mobilising bills) will test the government's strength and keep policymaking slow over the remainder of its term. We expect a transfer of power to the NDC at the 2024 elections, driven by anti-incumbency sentiment and public discontent with the current government over worsening living standards. However, irrespective of who retains power, we expect policy to continue to focus on ensuring macroeconomic stability. The new government will face similar economic challenges to those its predecessor did, but overall political stability will be maintained, as Ghana's main parties and citizens have faith in the country's well-established democratic institutions and confidence that any transfer of power will be fair.

Public dissatisfaction with the government stems from factors such as highly elevated domestic prices, poor public-sector working conditions and limited economic opportunities for young people. The economic turmoil in Ghana will be reflected in its political outlook, with a heightened risk of strikes, protests and political polarisation in the short term. Demonstrations will be mostly non-violent and concentrated in urban centres, but could temporarily disrupt business activities. In November 2022 hundreds of protesters marched through Accra, the capital, to demonstrate about falling living standards caused by the ongoing cost-of-living crisis in Ghana, specifically rising inflation; similar protests are likely in the near term. Given Ghana's large fiscal deficit, we do not expect the government to be able to subsidise fuel prices in the short term, and this will cause lasting public frustration.

Election watch

The next parliamentary and presidential elections are due in 2024. Under constitutionally mandated term limits, the incumbent president, Nana Akufo-Addo, cannot run for a third term, and he has pledged to comply. In early January the trade and industry minister, Alan Kyerematen, resigned and announced his bid to become the NPP's presidential candidate. We expect the contests to secure the presidential candidacies of both the NPP and the NDC to be highly competitive, with several high-profile figures expected to contend. A former president, John Mahama, launched his campaign to secure the NDC presidential candidacy in March. However, the NDC could also choose to revitalise its prospects with a fresh candidate, such as Kwabena Duffuor, a former finance minister, who has also declared his intention to secure the party candidacy. Our baseline forecast is that economic hardships, the fallout from debt restructuring and poor governance will create an anti-incumbency wave and push the electorate to seek change. The NDC therefore stands a strong chance of winning the 2024 presidential poll and securing a legislative majority.

International relations

Macroeconomic instability and a public debt crisis will weigh on Ghana's business environment and its ambitions to become a West African trading hub. A weak regional regulatory environment, poor transport links and low foreign trade, except in commodities, will hamper progress. China will remain a leading trade partner; Ghana will continue to export manganese ore and oil to China, and its machinery imports from China will rise in line with domestic industrialisation efforts. Ghana's proximity to its troubled neighbour, Burkina Faso, and a heightened risk of cross-border infiltration by militants will remain causes for concern. Ghana will remain committed to strengthening West African counter-terrorism networks, and participate in counter-terrorism drills (such as the Flinstock drill with the US, which concluded in mid-March) against a backdrop of rising militancy in the Sahel region.

Policy trends

Our forecast assumes broad policy continuity in 2023-27. The government faces four main challenges: easing the effects of rising inflation on domestic consumers and productive sectors; addressing deep fiscal imbalances; securing external debt restructuring; and locking in an IMF deal.

In mid-December 2022 Ghana announced suspension of payments on most external debt (including Eurobonds, commercial loans and most bilateral debt). Balance-of-payments stresses, driven by a sustained current-account deficit, high debt repayments, a lack of access to international bond markets and capital withdrawals lie behind the external liquidity crisis. Ghana has sought treatment under the G20's Common Framework platform and hopes to include non-Paris Club members—including China, Ghana's largest bilateral creditor (to which Ghana owed US$1.7bn at end-2021)—under the platform's restructuring process. Preliminary restructuring talks between Ghana's Ministry of Finance and Chinese delegates in early March were positive, in a reassuring sign; we expect external debt negotiations to be expedited in the coming months. Eurobond holders (which collectively held US$13.1bn of Ghana's debt at end-2021) have also been engaged in debt-restructuring negotiations since mid-December.

A three-year, US$3bn extended credit facility (ECF) arrangement was agreed with the IMF in December 2022, with the aim of restoring credibility among investors, building reserve buffers and improving fiscal and debt sustainability. However, debt restructuring needs to be agreed with Ghana's external creditors before the IMF's Executive Board can sign off on the ECF. Given the country's pressing macroeconomic crisis, the conclusion of a domestic debt-swap operation in February and increasing international attention on speeding up external debt restructurings, our core forecast remains that the IMF programme will be approved by mid-2023.

The deal will pave the way for access to new debt and stronger foreign reserves, and reinforce the government's commitment to pursuing market-oriented reforms. IMF conditionality will also focus primarily on enhancing structural reforms, including fiscal consolidation, and management of a bloated and largely inefficient public sector. Similarly, reforms of both the energy and cocoa sectors will also dominate the agenda over the forecast period. Adherence to ECF conditions will be crucial for obtaining financial support, making austerity measures increasingly necessary.

Ghana's debt negotiations

Against a backdrop of unsustainable debt levels, soaring debt-service costs, a severely weakened currency and large twin fiscal and current account deficits, Ghana first requested an IMF extended credit facility (ECF) programme in early July 2022. The local-currency debt swap that was announced by the government in early December 2022, and confirmation of plans to launch an external debt-restructuring programme, paved the way for the government to reach a staff-level agreement with the IMF for a three-year, US$3bn ECF arrangement on December 12th. Soon afterwards, in mid-December, Ghana announced the suspension of payments on most of its external debt, setting the stage for a restructuring process.

On February 10th Ghana concluded its domestic debt-swap programme, which registered a participation rate of 85% by eligible bondholders, better than the government's initial target, of 80%. Under the final terms, bonds are to be exchanged for new securities that will pay between

8.35-15% interest compared with an average of 19% on old bonds. This will mean heavy present-value losses for banks, but we expect the resulting extension of maturities on domestic debt to ease some fiscal pressures. This is a key step towards facilitating the securing of IMF Executive Board approval for a US$3bn ECF.

As for external debt, Ghana has requested bilateral debt restructuring under the Common Framework platform supported by the G20. In January 2023 members of the Paris Club agreed to form a creditors' committee to discuss external debt restructuring and the potential cancellation of Ghana's external debt. Ghana also hopes to include non-Paris club members—including China, which represents a particular area of sensitivity—in the restructuring talks. Since December 2022 holders of Eurobonds (which collectively held about US$13.1bn of Ghana's debt at end-2021) have engaged with debt-restructuring negotiations, which are likely to involve haircuts/write offs, probably of between 30% and 50%. Collective action clauses in bond contracts should facilitate agreements, but the process risks being protracted.

We expect Ghana to secure restructuring agreements on its public external debt during 2023-24, involving official and private creditors alike. This will include a combination of write offs, maturity extensions and reductions in interest rates. We expect official creditors to agree to a deal in 2023, and this, combined with the domestic debt restructuring that has already been secured, should provide enough reassurance to reduce Ghana's risk of debt distress and allow the IMF to approve the agreed programme. However, there is a material risk that IMF board approval will be delayed owing to prolonged external debt-restructuring negotiations, given the involvement of multiple stakeholders in the process.

Fiscal policy

We expect the government to remain committed to fiscal consolidation in 2023-27 in a bid to bring the public finances and debt back onto a sustainable path, underpinned by an IMF programme. The 2023 budget includes measures to both widen the tax net and extend spending cuts. In line with our expectations, in mid-April the president assented to three new revenue-raising bills: the Income Tax Amendment Bill, the Excise Duty Amendment Bill and the Growth and Sustainability Amendment Bill. The income tax bill, among other things, revises the rates of income tax for individuals and introduces an additional income tax bracket. A new Growth and Sustainability levy has been imposed on the profit before tax of companies and institutions and on production for mining and upstream oil and gas companies. The Excise Duty Act has been revised to match the tax rates for cigarettes and other tobacco products that are imposed by the Economic Community of West African States, with a fresh imposition of excise duty on wine, spirits, sweetened beverages and electronic cigarettes. The bills will boost revenue over the forecast period, helping to shrink the fiscal deficit to 7.1% of GDP in 2023 (from an estimated 8.3% of GDP in 2022) and steadily to 4.4% of GDP in 2027.

Despite revenue mobilisation measures in the 2023 budget—including the reintroduction of road tolls, a 2.5-percentage-point rise in the value-added tax (VAT) rate, to 15%, and an increase in excise duties—a slowing economy will keep the revenue/GDP ratio below potential in 2023. However, quickening economic growth will push up the ratio in 2024-27. Increasing administrative efficiency under IMF guidance will also boost revenue in 2023-27, as will an increase in the trade tax take in 2025-27, driven by rising gold and oil output.

As no fuel subsidies are expected in 2023 (with none having been introduced in 2022, when global oil prices were at their peak), and with further discretionary and capital spending cuts expected, expenditure will fall as a proportion of GDP in 2023. In 2024 election-related outlays will keep the spending/GDP ratio stable. However, constrained borrowing, alongside a decline in non-priority spending in 2025-27 as the new government (following the 2024 elections) prioritises consolidation, will push down the spending/GDP ratio in these years. Debt-service repayments will nonetheless prevent a bigger decline in the ratio, even with restructuring partially easing the burden. Downside risks to access to future external financing stem from continued investor risk-aversion relating to Ghana's large fiscal deficit and onerous stock of public debt, which we expect to fall to a still-high 60.9% of GDP at end-2027.

Monetary policy

After raising its policy rate by a cumulative 1,250 basis points in 2022, and by another 100 points in January, the Bank of Ghana (BoG, the central bank) raised its rate by a further 150 basis points in March 2023 (bringing the rate to 29.5%) in a bid to curb rising inflation, which, at 45% year on year in March, remains well above the BoG's target range of 6-10%. New taxes, depreciation of the cedi and soaring domestic prices for food, fuel, and utilities will keep average inflation elevated in 2023, at 38.1%. We therefore expect further rate rises throughout 2023, to a terminal rate of 31.5%. The policy rate will be held steady in 2024 as inflation slows. We expect monetary loosening to start only from the second half of 2025, followed by additional sharper cuts in 2026-27 (taking the rate to 23% by end-2027) as supply-side inflationary pressures abate. Securitisation of central bank loans to the government will weigh on liquidity and limit access to credit for micro, small and medium-sized enterprises.

International assumptions

	2022	2023	2024	2025	2026	2027
Economic growth (%)						
US GDP	2.1	0.7	1.2	2.0	2.1	1.9
OECD GDP	2.8	0.8	1.5	1.9	2.0	1.9
World GDP	3.1	2.0	2.5	2.7	2.7	2.7
World trade	4.3	2.1	3.3	3.6	3.7	3.8
Inflation indicators (% unless otherwise indicated)						
US CPI	8.0	4.0	2.2	1.9	2.0	2.1
OECD CPI	8.9	5.7	2.8	2.3	2.1	2.1
Manufactures (measured in US$)	-0.4	5.6	4.9	3.6	3.1	2.4
Oil (Brent; US$/b)	99.8	87.0	85.0	81.0	76.7	71.8
Non-oil commodities (measured in US$)	14.6	-9.0	-2.1	-0.7	-1.5	-1.5
Financial variables						
US$ 3-month commercial paper rate (av; %)	2.1	5.1	5.0	4.0	3.1	2.6
US$:€ (av)	1.05	1.09	1.13	1.15	1.17	1.18
¥:US$	131.46	123.58	110.61	107.75	110.25	108.75

Economic growth

Growth will slow to 1.3% in 2023, as a cost-of-living squeeze, public spending cuts and monetary tightening by the BoG will cause domestic demand to contract for the first time since 2014. Reduced consumption and sustained cedi depreciation will, however, help to boost net exports, the sole growth driver in 2023 and the main factor behind our growth forecast of 2.3% for 2024. Alongside lower import demand, the recommissioning of the Bibiani gold mine in western Ghana, which achieved its first gold pour in July 2022, will strengthen net exports. The mine's output capacity is expected to be 190,000 troy oz in the first 12 months of operation; this will be ramped up to 230,000 troy oz/year by end-2023 and be sustained at 200,000-255,000 oz/y until 2030.

As 2023-24 are peak years of the fiscal and monetary (2023) tightening cycle, Ghana's longer-term outlook is more optimistic. With the economy and investor sentiment stabilising under an expected ECF, we expect growth to average 5% a year in 2025-27. Lower inflation, falling borrowing costs and reduced pressure on real incomes will support stronger consumption, and higher investment, which will also be driven by overseas investment in hydrocarbons and gold.

In the second half of 2025 exports will be boosted as the Ahafo North gold mine, which is run by Newmont, a US firm, and is expected to have an annual capacity of about 300,000 troy oz, begins production, strengthening output in a phased manner over 2025-27. We expect oil output and exports to stay below 2019 levels in 2022-24, but to rise briskly from end-2025, assuming that the Pecan oilfield, managed by Aker Energy, a Norwegian firm, comes on stream. Export earnings from cocoa—Ghana's major agricultural commodity, with production of 750,000 tonnes expected in 2022/23 (October-May) under normal conditions—will stay volatile, given exposure to global input prices (including for fertilisers), and vulnerable to climate-related uncertainties in 2023-27. Constrained oil sector growth, fiscal consolidation and generally high policy rates (which will keep private consumption growth below potential) will keep annual average growth in 2023-27 below the pre-coronavirus rate, of 6.5-8%.

Economic growth

%	2022[a]	2023[b]	2024[b]	2025[b]	2026[b]	2027[b]
GDP	3.3	1.3	2.3	4.4	4.8	5.8
Private consumption	-2.2	-4.3	1.3	3.5	4.4	5.5
Government consumption	1.0	-2.5	0.4	0.7	1.0	1.2
Gross fixed investment	-1.5	-5.7	0.2	6.5	7.2	10.1
Exports of goods & services	22.0	8.3	2.8	9.5	6.5	7.0
Imports of goods & services	6.0	-6.3	-1.9	5.7	5.5	6.8
Domestic demand	4.6	-3.3	0.9	2.9	4.3	5.7
Agriculture	4.5	0.9	2.0	5.5	5.0	6.0
Industry	4.2	1.0	2.2	4.3	5.7	6.5
Services	1.9	1.7	2.5	3.9	4.0	5.0

[a] EIU estimates. [b] EIU forecasts.

Inflation

We expect inflation to rise further on average in 2023, to 38.1%, despite a slowdown in monthly inflation over most of the period, with inflation having declined to a (still very high) annualised 45% in March, from 52.8% in February. In 2023 upward domestic price pressures will be spurred in part by pass-through effects of sustained depreciation and the introduction of new taxes, including a rise in the VAT rate and excise duties. We expect inflation to average 10.9% a year in 2024-27, falling into the lower half of the BoG's target range (of 6-10%) in 2027. This will reflect waning supply-side price pressures as global commodity prices decline and logistical disruptions ease as the forecast period progresses.

Exchange rates

After sliding against the US dollar in mid-January-March, the cedi will continue to depreciate in 2023, losing about 30% of its value against the US dollar by end-2023. We now expect the currency to weaken to GH¢12.46:US$1 at end-2023 (from GH¢10.95:US$1 as at mid-April). Currency depreciation will be driven by increased demand for hard currency due to high import prices, inflation, capital flight, rising profit repatriation by Ghanaian-based multinationals and weak investor sentiment in the face of the ongoing debt crisis. The expected Executive Board approval of an IMF programme by mid-2023 and sustained fiscal and monetary tightening will help to slow the cedi's fall comparatively over the second half of the year. We expect further gradual depreciation in 2024-27, to GH¢14.70:US$1 at end-2027, but at a much slower pace than in 2022-23 as debt-restructuring uncertainties abate. Ghana's sustained depreciation reflects the country's structural current-account deficit and higher inflation than its trading partners. Reserves will average 3.3 months of import cover over 2023-27, just above the internationally regarded prudential minimum of three months.

External sector

We expect the current-account deficit to narrow to 1.9% of GDP in 2023 and 1.1% of GDP in 2024 as international prices for refined fuel imports decline from their 2022 peak and as contracting domestic demand in 2023 and more stringent regulations on imports suppress the import bill. The deficit will widen in 2025-27, reaching 2.7% of GDP in 2027, as the primary income deficit grows. Although export earnings from gold and cocoa (which are among Ghana's major commodities) will rise, revenue from oil exports will fall in 2023-24 as oil prices decline from peak 2022 levels, narrowing the trade surplus. The trade surplus will widen in 2026-27 as growth in export receipts, driven by a strong rise in oil and gold output, exceeds growth in the import bill.

The services account will remain in deficit in 2023-27, given expenditure on technical services for hydrocarbons and mining projects. However, the deficit will narrow gradually as a proportion of GDP as the tourism sector recovery picks up in 2025-27. The primary income deficit/GDP ratio will rise in 2023, reflecting rising profit repatriation (especially by gold firms), and fall in 2024. It will then rise again in 2025-27 as repatriation by oil and mining companies increases in line with new projects coming on stream. The secondary income account will continue to post large surpluses, buoyed by inflows of workers' remittances. The deficit will be primarily financed by short-term borrowing.

Forecast summary

Forecast summary
(% unless otherwise indicated)

	2022[a]	2023[b]	2024[b]	2025[b]	2026[b]	2027[b]
Real GDP growth	3.3	1.3	2.3	4.4	4.8	5.8
Gross agricultural production growth	4.5	0.9	2.0	5.5	5.0	6.0
Consumer price inflation (av)	31.9[c]	38.1	19.2	9.1	8.0	7.4
Consumer price inflation (end-period)	54.1[c]	26.5	13.5	8.0	7.8	7.2
Short-term interbank rate	19.5[c]	31.6	30.0	27.2	23.2	21.2
Government balance (% of GDP)	-8.3	-7.1	-6.8	-6.0	-5.4	-4.4
Exports of goods fob (US$ bn)	17.4	15.4	14.8	15.2	15.9	16.6
Imports of goods fob (US$ bn)	15.7	13.8	13.5	14.4	14.9	15.4
Current-account balance (US$ bn)	-1.8	-1.3	-0.8	-1.6	-2.1	-2.7
Current-account balance (% of GDP)	-2.6	-1.9	-1.1	-2.0	-2.4	-2.7
External debt (year-end; US$ bn)	35.3	35.0	35.5	35.9	37.4	37.5
Exchange rate GH¢:US$ (av)	8.27[c]	11.59	12.86	13.51	14.18	14.70
Exchange rate GH¢:¥100 (av)	6.29[c]	9.38	11.63	12.54	12.86	13.51
Exchange rate GH¢:€ (end-period)	9.14[c]	13.84	14.99	16.03	16.91	17.55
Exchange rate GH¢:SDR (end-period)	11.28[c]	17.05	18.25	19.38	20.31	21.24

[a] EIU estimates. [b] EIU forecasts. [c] Actual.

Data and charts

Annual data and forecast

	2018[a]	2019[a]	2020[a]	2021[a]	2022[b]	2023[c]	2024[c]
GDP							
Nominal GDP (US$ m)	67,304	68,372	70,061	79,123	71,537	69,490	76,292
Nominal GDP (GH¢ m)	308,587	356,544	391,941	459,131	591,469	805,458	981,146
Real GDP growth (%)	6.2	6.5	0.5	5.4	3.3	1.3	2.3
Expenditure on GDP (% real change)							
Private consumption	3.8	13.9	-1.0	0.8	-2.2	-4.3	1.3
Government consumption	1.8	5.4	10.1	82.1	1.0	-2.5	0.4
Gross fixed investment	13.2	-10.0	1.8	5.8	-1.5	-5.7	0.2
Exports of goods & services	6.6	12.7	-50.7	69.1	22.0	8.3	2.8
Imports of goods & services	5.0	15.9	-54.5	113.8	6.0	-6.3	-1.9
Origin of GDP (% real change)							
Agriculture	4.9	4.7	7.3	8.4	4.5	0.9	2.0
Industry	10.5	6.4	-2.5	-0.8	4.2	1.0	2.2
Services	2.8	7.6	0.7	9.4	1.9	1.7	2.5
Population and income							
Population (m)	29.8	30.4	31.1	31.7	32.4	33.0	33.6
GDP per head (US$ at PPP)	5,442	5,773	5,750	6,181	6,698	6,901	7,050
Fiscal indicators (% of GDP)							
Central government budget revenue	15.4	15.0	14.1	15.3	14.2	14.3	14.7
Central government budget expenditure	19.1	19.2	25.0	24.6	22.6	21.4	21.4
Central government budget balance	-3.7	-4.3	-10.9	-9.3	-8.3	-7.1	-6.8
Public debt	58.8	64.0	77.3	80.0	101.2	81.3	73.8
Prices and financial indicators							
Exchange rate GH¢:US$ (av)	4.58	5.21	5.59	5.80	8.27[a]	11.59	12.86
Exchange rate GH¢:€ (av)	5.42	5.84	6.38	6.87	8.71[a]	12.63	14.47
Consumer prices (end-period; % change)	5.8	7.8	10.5	12.6	54.1[a]	26.5	13.5
Stock of money M1 (% change)	13.0[b]	13.5[b]	14.0[b]	13.0[b]	15.0	11.0	14.0
Stock of money M2 (% change)	15.4	21.7	29.6	12.5	33.0[a]	14.0	14.0
Current account (US$ m)							
Trade balance	1,809	2,257	2,043	1,099	1,660	1,536	1,317
Goods: exports fob	14,943	15,668	14,472	14,728	17,407	15,361	14,838
Goods: imports fob	-13,134	-13,411	-12,429	-13,628	-15,746	-13,825	-13,521
Services balance	-2,515	-3,573	-4,511	-3,165	-2,885	-2,542	-2,192
Primary income balance	-3,922	-3,952	-3,399	-3,831	-3,950	-3,891	-3,721
Secondary income balance	2,583	3,404	3,732	3,355	3,338	3,597	3,749
Current-account balance	-2,044	-1,864	-2,135	-2,541	-1,836	-1,300	-847
External debt (US$ m)							
Debt stock	23,575	27,072	31,871	36,181	35,313	34,991	35,457
Debt service paid	2,707	2,556	2,745	3,231	3,266	1,578	1,719
Principal repayments	1,966	1,582	1,711	1,943	1,749	801	922
Interest	740	974	1,034	1,288	1,517	777	797
International reserves (US$ m)							
Total international reserves	6,188	7,437	7,652	9,781	6,395	6,594	6,799

[a] Actual. [b] EIU estimates. [c] EIU forecasts.
Sources: IMF, International Financial Statistics; Bank of Ghana.

Quarterly data

	2021 2 Qtr	3 Qtr	4 Qtr	2022 1 Qtr	2 Qtr	3 Qtr	4 Qtr	2023 1 Qtr
Prices								
Consumer prices (2012=100)	331.8	342.3	350.8	373.6	421.5	459.7	520.4	561.7
Consumer prices (% change, year on year)	7.9	9.7	12.0	16.3	27.0	34.3	48.3	50.4
Financial indicators								
Exchange rate GH¢:US$ (av)	5.74	5.82	5.91	6.45	7.14	8.06	11.42	10.59
Exchange rate GH¢:US$ (end-period)	5.76	5.86	6.00	7.11	7.23	9.60	8.57	11.01
Deposit rate (av; %)	11.5	11.5	11.5	11.5	11.5	11.5	13.7	n/a
Discount rate (end-period; %)	13.5	13.5	14.5	17.0	19.0	22.0	27.0	n/a
Treasury-bill rate (av; %)	13.3	12.6	12.7	13.0	18.3	21.7	25.1	n/a
M2 (end-period; GH¢ bn)	121,891	124,597	135,598	142,729	145,157	160,107	180,345	n/a
M2 (% change, year on year)	21.3	14.2	12.5	19.5	19.1	28.5	33.0	n/a
GSE all-share index (end-period; Dec 31st 2010=1000)	2,644	2,855	2,789	2,743	2,545	2,460	2,444	2,745
Sectoral trends								
Gold price, London (US$/troy oz)	1,815.0	1,789.4	1,796.3	1,873.4	1,874.0	1,726.0	1,729.0	1,888.3
Cocoa beans price, New York & London (US$/tonne)	2,382.5	2,456.5	2,447.8	2,492.4	2,381.4	2,286.9	2,411.1	2,675.0
Foreign reserves (US$ m)								
Reserves excl gold (end-period)	9,824	10,417	9,406	8,557	6,859	n/a	n/a	n/a

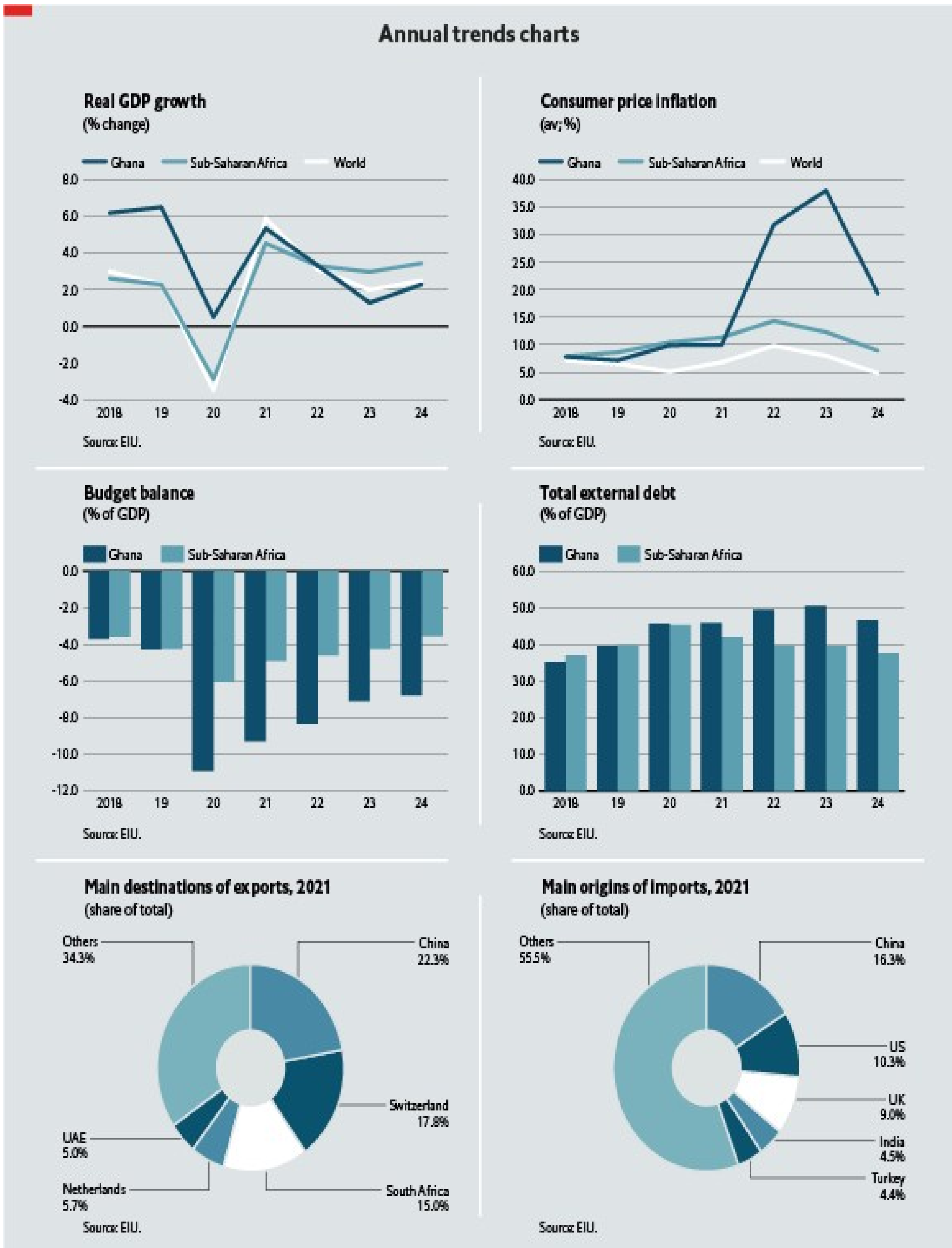
Sources: IMF, International Financial Statistics; Bank of Ghana, Quarterly Economic Bulletin, Statistical Bulletin; Ghana Stock Exchange.

Monthly data

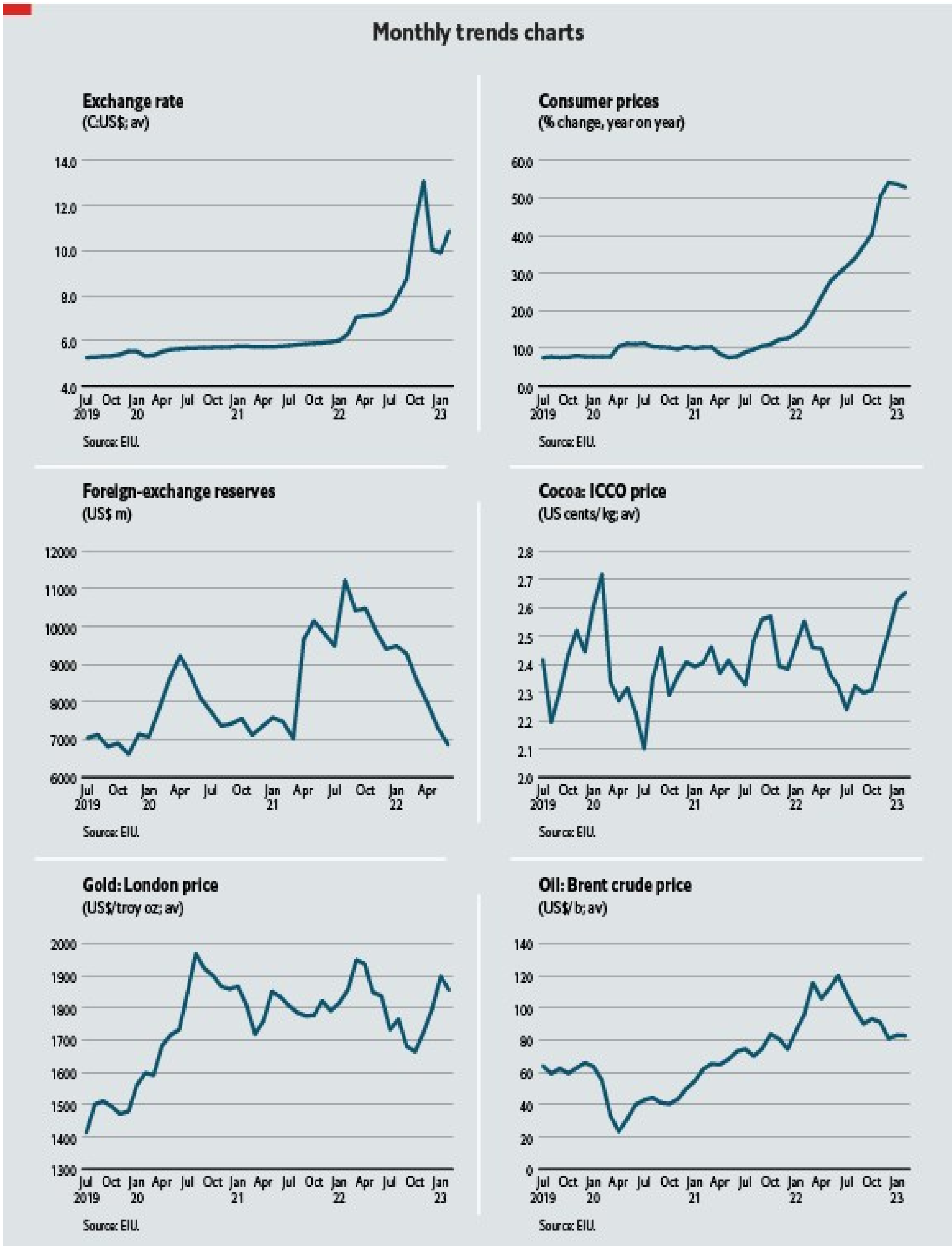
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate GH¢:US$ (av)												
2021	5.758	5.755	5.725	5.728	5.730	5.750	5.782	5.824	5.856	5.879	5.904	5.944
2022	6.007	6.305	7.043	7.109	7.122	7.187	7.387	8.055	8.743	11.162	13.067	10.030
2023	9.904	10.858	11.009	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Exchange rate GH¢:US$ (end-period)												
2021	5.758	5.735	5.726	5.729	5.744	5.760	5.798	5.849	5.863	5.898	5.914	6.003
2022	6.021	6.597	7.109	7.109	7.141	7.227	7.608	8.228	9.600	13.002	13.098	8.572
2023	10.794	11.008	11.008	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Real effective exchange rate (1997=100; CPI-based)												
2021	71.61	71.97	73.35	73.37	72.85	73.18	74.73	74.76	75.17	75.67	76.83	77.88
2022	77.45	75.04	69.80	71.88	76.23	77.06	78.58	74.01	71.95	58.88	51.05	67.05
2023	68.01	70.62	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M2 (% change, year on year)												
2021	28.4	29.1	28.6	25.8	22.2	21.3	20.8	20.2	14.2	14.5	12.9	12.5
2022	16.5	17.7	19.5	19.9	18.4	19.1	22.6	23.4	28.5	45.2	48.1	33.0
2023	43.3	44.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Consumer prices (av; % change, year on year)												
2021	9.9	10.3	10.3	8.5	7.5	7.8	9.0	9.7	10.6	11.0	12.3	12.6
2022	13.9	15.7	19.4	23.6	27.6	29.8	31.8	33.9	37.2	40.4	50.3	54.1
2023	53.6	52.8	45.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Deposit rate (av; %)												
2021	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5
2022	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	13.1	14.0	14.0
2023	14.0	14.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
3-month money market rate (end-period; %)												
2021	13.6	13.6	13.6	13.6	13.6	12.9	12.7	12.6	12.6	12.7	12.6	12.7
2022	12.8	13.0	13.3	16.5	18.4	19.9	21.3	21.9	22.1	24.0	25.8	25.5
2023	25.2	25.7	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Gold price, London (US$/troy oz)												
2021	1,867	1,808	1,718	1,760	1,850	1,835	1,808	1,785	1,775	1,777	1,822	1,790
2022	1,816	1,856	1,948	1,937	1,849	1,837	1,733	1,765	1,681	1,664	1,725	1,798
2023	1,898	1,855	1,913	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Cocoa beans price, New York & London (US$/tonne)												
2021	2,391	2,405	2,461	2,368	2,413	2,366	2,327	2,484	2,558	2,568	2,393	2,382
2022	2,467	2,551	2,459	2,455	2,367	2,322	2,239	2,323	2,299	2,309	2,412	2,512
2023	2,625	2,653	2,748	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Foreign-exchange reserves excl gold (US$ m)												
2021	7,579	7,473	7,028	9,668	10,140	9,824	9,489	11,217	10,417	10,473	9,891	9,406
2022	9,491	9,272	8,557	7,967	7,306	6,859	n/a	n/a	n/a	n/a	n/a	n/a
2023	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Sources: IMF, International Financial Statistics; Haver Analytics.

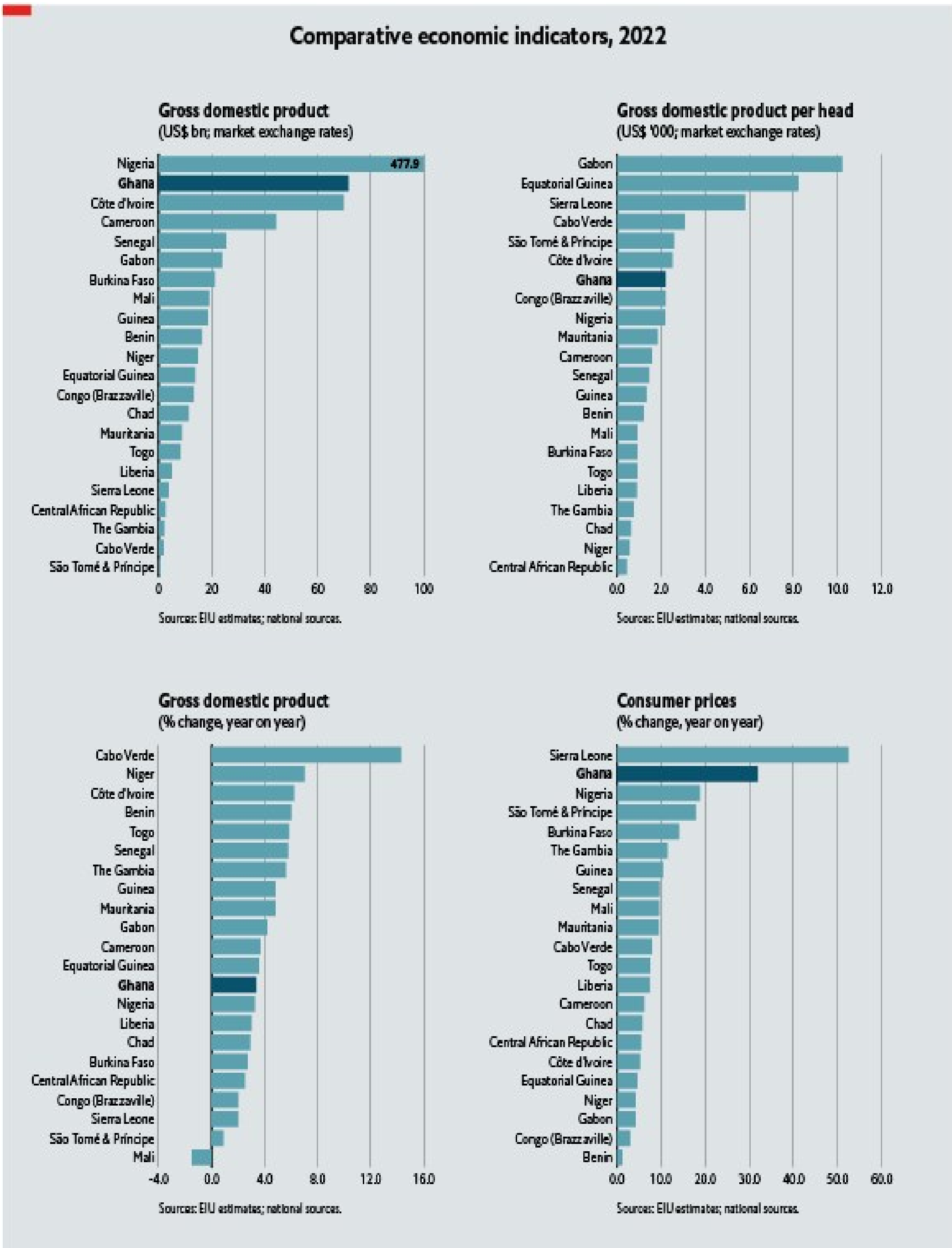
Annual trends charts



Monthly trends charts



Comparative economic indicators



Basic data

Land area

238,537 sq km

Population

31.7m (2021, IMF)

Main towns

Population in '000 (2020, World Gazetteer estimates)

Accra (capital): 1,963

Kumasi: 1,468

Tamale: 361

Takoradi: 233

Atsiaman: 203

Tema: 156

Teshi Old Town: 144

Cape Coast: 143

Sekondi-Takoradi: 139

Climate

Tropical

Weather in Accra (altitude 27 metres)

Hottest months, March, April, 23-35°C; coldest month, August, 22-27°C; driest month, January, 15 mm average rainfall; wettest month, June, 178 mm average rainfall

Languages

English (official), Twi, Ewe, Fante, Ga, Hausa

Measures

Metric system

Currency

Cedi (GH¢) = 100 pesewas. Average exchange rate in 2022: GH¢8.27:US$1

Time

GMT

Public holidays

New Year's Day (January 1st); Independence Day (March 7th); Good Friday (April 15th); Easter Monday (April 18th); May Day (May 2nd); Republic Day (July 1st); Farmers' Day (December 2nd); Christmas (December 25th-26th)

Political structure

Official name

Republic of Ghana

Form of state

Unitary republic

Legal system

A new constitution, based on the US model, was approved by referendum in April 1992

National legislature

Parliament; 275 members elected by universal suffrage every four years

National elections

December 2020 (presidential and parliamentary); next elections in December 2024

Head of state

President, elected by universal suffrage for a maximum of two four-year terms; Nana Akufo-Addo won the December 2020 presidential election

National government

Cabinet appointed by the president, but subject to parliamentary approval

Main political parties

The ruling New Patriotic Party; the National Democratic Congress, the main opposition party; other parties include the Progressive People's Party, the People's National Convention, the Convention People's Party and the National Democratic Party, but none of these smaller parties currently has parliamentary representation

Key ministers

President: Nana Akufo-Addo

Vice-president: Mahamudu Bawumia

Attorney-general: Godfred Dame

Communications & digitalisation: Ursula Owusu-Ekuful

Defence: Dominic Nitiwul

Education: Yaw Osei Adutwum

Employment & labour relations: Ignatius Baffour Awuah

Energy: Matthew Opoku Prempeh

Environment, science & technology: Kwaku Afriyie

Finance: Ken Ofori-Atta

Food & agriculture: Owusu Afriyie Akoto

Foreign affairs & regional integration: Shirley Ayorkor Botchwey

Health: Kwaku Agyemang-Manu

Interior: Ambrose Dery

Lands & natural resources: Samuel Abu Jinapor

Local government: Daniel Kwaku Botwe

Railway development: John Peter Amewu

Roads & highways: Kwesi Amoako-Attah

Sanitation & water resources: Cecilia Dapaah

Trade & industry: Samuel Abu Jinapor (acting)

Transport & aviation: Kwaku Ofori Asiamah

Works & housing: Francis Asenso-Boakye

Central bank governor

Ernest Addison

Recent analysis

Generated on April 28th 2023

The following articles were published on our website in the period between our previous forecast and this one, and serve here as a review of the developments that shaped our outlook.

Economy

Forecast updates

Ghana's external debt restructuring will progress this year

March 24, 2023: Policy trends

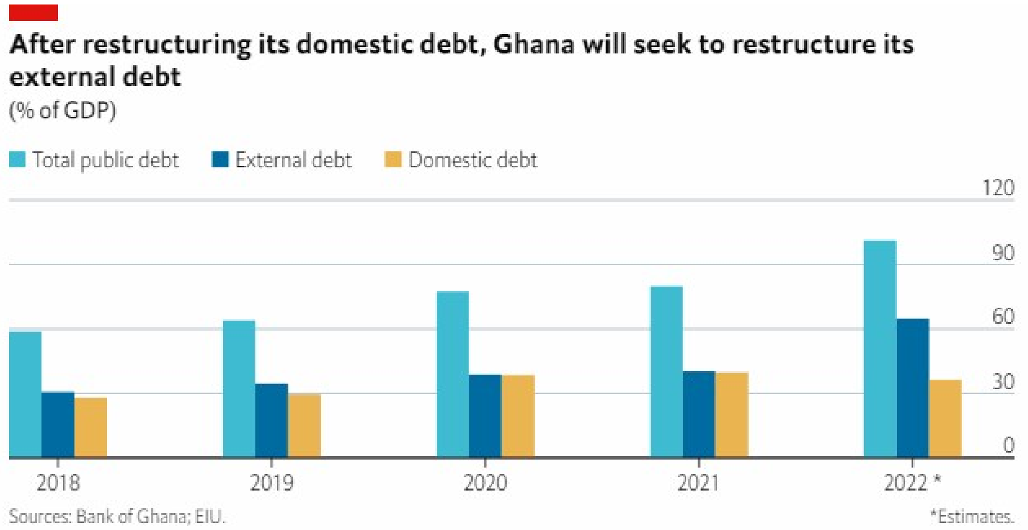
What's happened?

The finance minister, Ken Ofori-Atta, arrived in Beijing on March 23rd to meet Chinese officials to discuss a proposed restructuring of Ghana's external debt. **We expect bilateral debt-restructuring negotiations between the two countries to be successfully concluded in the coming months and that Ghana will secure an IMF programme by the middle of this year.**

Why does it matter?

A three-year, US$3bn extended credit facility (ECF) arrangement was agreed with the IMF in December 2022, with the aim of restoring credibility among investors, building foreign-reserve buffers and improving fiscal and debt sustainability. However, debt restructuring needs to be agreed with Ghana's external creditors before the Fund can approve the ECF. Ghana's exposure to Chinese creditors—Ghana's largest bilateral creditor, to which it owed about US$1.9bn at end-2022—represents a particular area of sensitivity, given China's track record of refusing to abide by broader restructuring deals (such as in Zambia).

In a reassuring sign, preliminary restructuring talks held between Ghana's Ministry of Finance and Chinese delegates held earlier in early March were positive. We expect the ongoing negotiations to prove fruitful and for broad restructuring terms with China to be agreed in the coming weeks. Ghana has sought treatment under the G20's Common Framework platform and seeks to include non-Paris Club members, including China, in the Common Framework restructuring process. This follows the government's announcement of suspension of payments on some of its external debt, including Eurobonds, commercial loans and bilateral debt in mid-December.



Since December 2022 holders of Eurobonds (which collectively held about US$13.1bn of Ghana's debt at end-2021) are also participating in debt-restructuring negotiations. Collective action clauses in bond contracts should facilitate agreements, but the process risks being protracted, which could delay the securing of an IMF deal. Separately, in February Ghana concluded its domestic debt-swap programme, which registered a participation rate of 85% by eligible bondholders—better than the government's initial target, of 80%. We expect the resulting extension of maturities on domestic debt to ease some fiscal pressures. **We expect official external creditors to agree to a restructuring deal this year. Combined with the domestic debt restructuring that has already been secured, this should provide enough reassurance to reduce Ghana's risk of debt distress and allow the IMF to approve the agreed ECF programme by mid-year.**

What next?

We continue to expect Ghana to secure restructuring agreements on its public external debt in 2023-24. This will include a combination of write-offs, maturity extensions and reductions in interest rates. However, there is a material risk of IMF approval being delayed until late 2023, owing to prolonged external debt-restructuring negotiations, given the involvement of multiple stakeholders in the process.

Rate increases will continue in Ghana in 2023

March 28, 2023: Monetary policy outlook

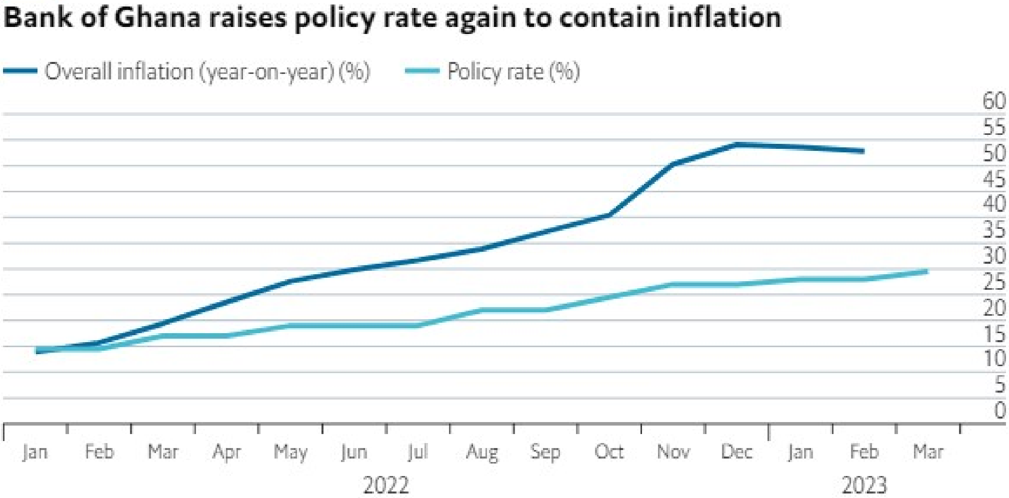
What's happened?

At its latest monetary policy committee meeting, at end-March, the Bank of Ghana (BoG, the central bank) raised its policy interest rate by 150 basis points, to 29.5%, in an effort to stem soaring inflationary pressures and steep depreciation of the cedi against the US dollar. **Inflationary and currency pressures will remain elevated until at least mid-2023, driven in part by high global commodity prices, and, critically, by debt-restructuring uncertainties. Stability will only return once debt-restructuring terms are agreed and the IMF's Executive Board approves the proposed US$3bn programme. We currently expect this in mid-2023, although downside risk loom large.**

Why does it matter?

Although the BoG has front-loaded rate increases to curb inflation, cumulatively raising its policy rate by 1,250 basis points in 2022 and by 250 points so far in 2023, persistent external price pressures and the ongoing domestic debt crisis continue to undermine business confidence, while also raising borrowing costs. We expect inflation to rise further on average in 2023, to 38.5% (from 31.9% in 2022), despite sustained monetary tightening, and remain well above the BoG's target range (of 6-10%) in 2024. Sustained domestic price pressures in 2023 will in part be spurred by the pass-through effects of sustained depreciation, rising domestic utility, fuel and food prices and the introduction of new taxes, including a rise in the value-added tax (VAT) rate and excise duties in the coming year. **This will increase dissatisfaction with the government and heighten the risk of social unrest in the near term**.

A gradual reduction in global commodity prices over 2023 will not translate into improved purchasing power for Ghanaians as the cedi continues to struggle against major currencies. The cedi was trading at more than GH¢11.01:US$1 on March 27th, compared with GH¢8.57:US$1 at end-2022. We expect generally low reserves, capital flight and large fiscal and current-account deficits to cause further depreciation, to GH¢13.19:US$1 at end-2023.



Sources: Bank of Ghana; Ghana Statistical Service; EIU.

We expect the exchange rate to partially stabilise over the second half of 2023, once the staff-approved IMF programme secures Board approval. However, there is a high risk that prolonged external restructuring negotiations **will delay approval for the extended credit facility until beyond the first half of 2023, which would prolong exchange-rate and inflationary pressures.**

What next?

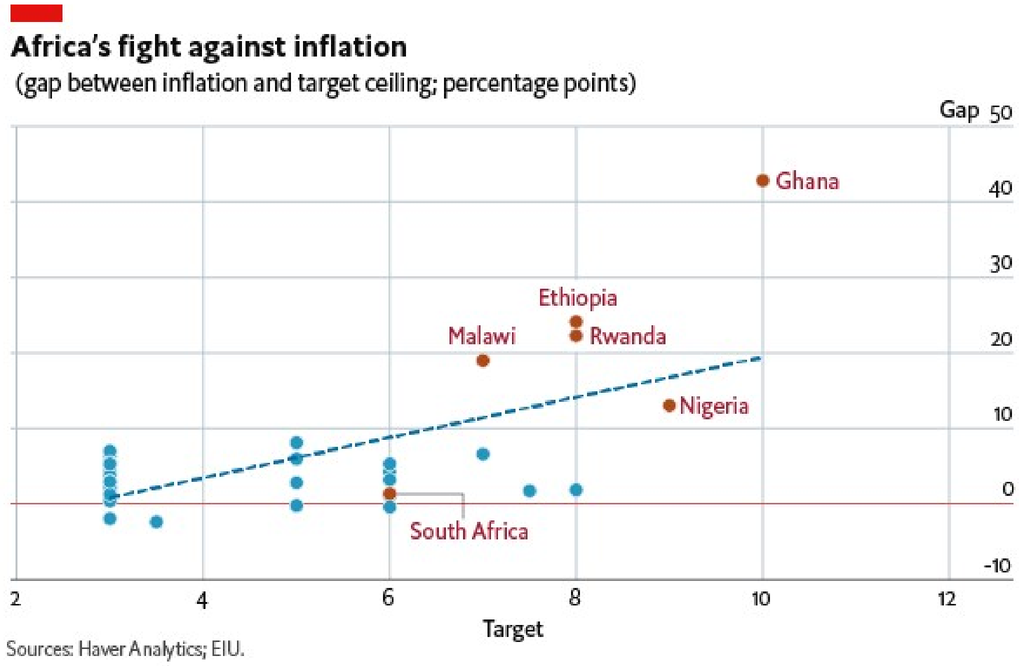
The BoG will raise rates throughout 2023, with the policy rate expected to reach 31.5% at end-2023. Following this the rate will be held steady (albeit at a high level) in 2024 as inflation slows. **Inflation will remain well above the BoG's target range throughout 2023-24, before falling into the middle of the band from 2025 onwards.**

Africa's mixed success in battle against inflation

April 5, 2023: Inflation

In most African countries inflation is above the target ceiling as a result of post-coronavirus demand pressures combined with the supply shock of the Russia-Ukraine conflict. The magnitude varies but most economies have a significant battle ahead in taming inflation, with the average difference or gap between inflation and the target ceiling (for those that have one) being a little over 6 percentage points. Central banks that typically focus on growth face the most daunting challenge.

In the case of Ghana, inflation is running at more than 40 percentage points higher than the rate its central bank has set as the maximum. Yet there is a sizeable cluster of countries where the gap is less than 5 percentage points. These countries mostly have strict targets. In the case of the West African Economic and Monetary Union and the Economic and Monetary Community of Central Africa, currencies are pegged to the euro, which requires a ceiling of 3%. Of this group of 14 countries, only Senegal has a gap higher than the African average. For currencies pegged to the rand (either fully or partially), which applies to four countries in the Common Monetary Area in Southern Africa, the ceiling is set by the South African Reserve Bank (South Africa's central bank) at 6%. All of these economies have kept inflation close to, or below, that target ceiling.



There is a strong correlation between high inflation targets and large gaps between the targets and actual inflation: where targets are higher, central banks have generally been weaker in adhering to them. This partly reflects the preference for economic growth in countries that select a high target. But central banks in Africa that fall into this category are also more prone to regulatory deficiencies, state intervention and missteps. In **Ghana**, where inflation is most alarming, the central bank misjudged underlying price pressures in 2021 that derived from extensive lending to the government and remains locked in a struggle to regain control of inflation, despite massive interest-rate increases. **Ethiopia, Malawi, Nigeria and Rwanda are similarly in a situation where inflation is running rampant relative to their (accommodating) targets.** All supported economic growth for too long and have been too slow to change course. As slowing global growth feeds into African economies via the commodity price channel, inflationary pressures will diminish to an extent. However, inflation will be stickiest in countries where central banks are weak, and tightening cycles in these countries are the most likely to be halted to protect growth. We expect Malawi to actually cut interest rates in 2023 to support the economy, despite a gap of more than 19 percentage points between the inflation rate and the target ceiling.

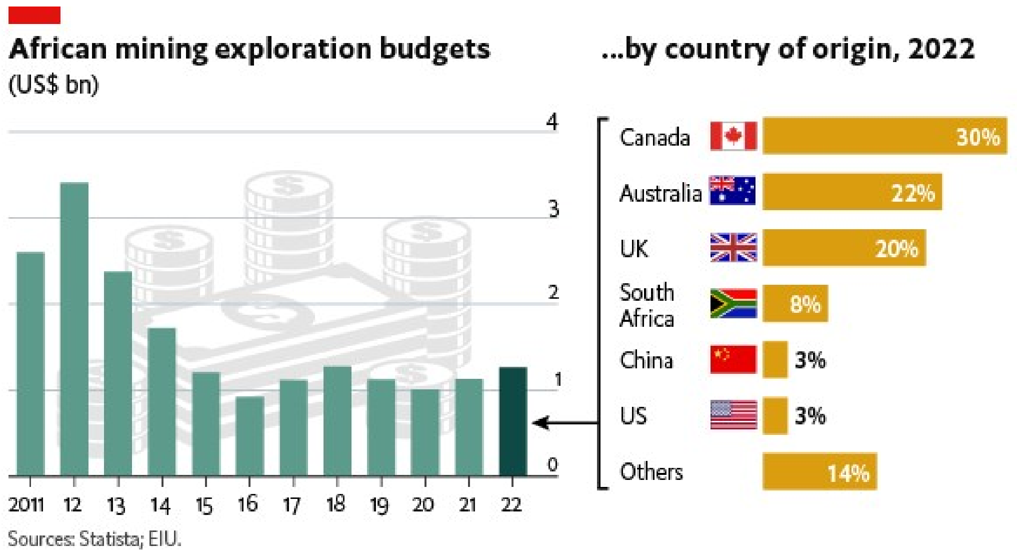
Analysis

African mining sector looks to the future

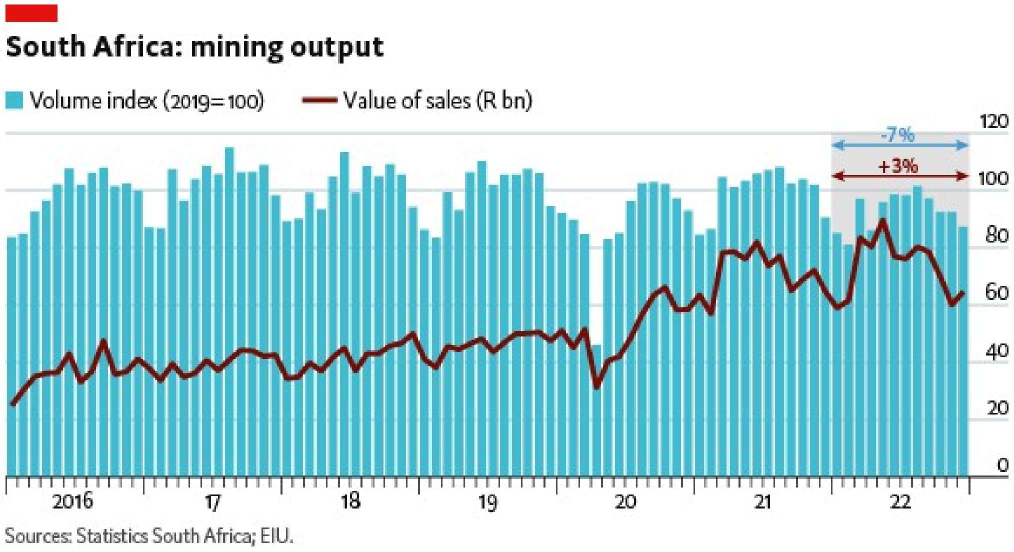
March 22, 2023

- **Africa's mining sector experienced a tumultuous year in 2022 but performed well across a number of key metrics, while the near-term outlook is reasonably promising given expected demand and price levels for Africa's main commodity groups.**
- **Longer-term trends—including the global energy transition and the emergence of new technologies—will see international companies intensify the competition for access to Africa's high-value metals and minerals.**
- **China and Russia have extended their reach across the African mining sector but still play a minor role compared with regional giants and Western-aligned multinational mining companies (MNMCs); incumbents will retain a dominant position in the African mining space.**
- **China will seek to expand its commercial ties with African mining ventures but will balance this with trade and investment elsewhere, while Russia will attempt to retain control of its current plays but could find its grip loosen owing to international sanctions linked to its invasion of Ukraine.**

Africa's mining sector performed reasonably well on a number of key metrics in 2022: high prices for many of the region's internationally traded metals and minerals helped to drive revenue growth; foreign direct investment flows held steady while merger and acquisition (M&A) activity was upbeat; and exploration budgets targeting Africa remained on an upwards trajectory and surpassed their pre-pandemic level. These outcomes were achieved despite strong headwinds in the form of higher operating and investment costs, transport and logistics bottlenecks, immense uncertainties surrounding the global economy and disruption to global supply chains and market demand. China grappled with extended covid-19 lockdowns and Europe faced an energy crisis linked to Russia's invasion of Ukraine.



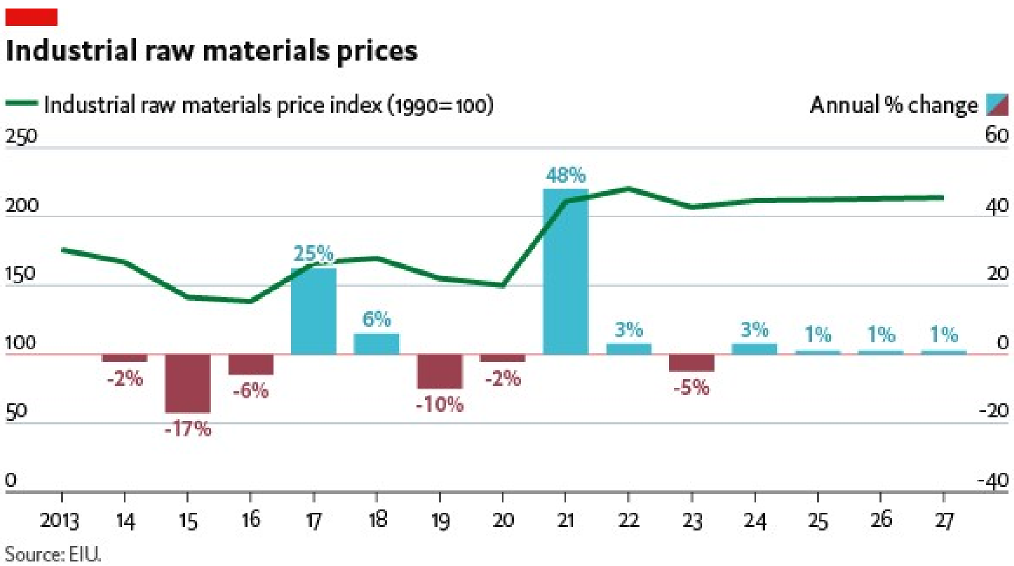
South Africa—which hosts the continent's largest and most developed mining industry—best illustrates the tumultuous yet ultimately rewarding year experienced by the African mining community in 2022. Total mine output declined by 7% as disruptions took their toll. The woes of transport and energy parastatals—Transnet and Eskom—imposed on mining operations severe rail and port constraints, load-shedding and electricity shortages. In addition, adverse weather conditions, industrial disputes and unsettled global value chains contributed to a difficult operating environment and curtailed capital investment spending. Nevertheless, total mineral sales were reported at R880bn (US$54bn) in 2022, up by 3% from the previous record high of R856bn in 2021, according to Statistics South Africa. A broader measure of the value of South Africa's mining production, as reported by the Minerals Council South Africa, an industry organisation, was R1.2trn in 2022, up from R1.1trn in 2021. The FTSE/JSE mining index and related market capitalisation experienced a rollercoaster ride but ended the year on a high, while the number of M&A transactions announced involving South African mining companies returned to pre-pandemic levels and posted a record deal value of over US$9bn in 2022.



Major challenges but near-term outlook is positive

Subdued global demand, high energy prices, higher borrowing costs and disruption to global value chains will continue to present major challenges for mining ventures in Africa during 2023 and 2024. However, we expect prices for Africa's major metals and minerals exports to remain high, although there will be great variation between individual export commodities. Some base metals (including lead, tin and zinc) and bulk minerals (including iron ore, bauxite, chromite and coal) could underperform because of a slowdown in OECD markets and troubles facing China's real estate and, by association, construction sectors. Conversely, the outlook appears brighter for gold, platinum group metals (PGMs)—namely iridium, osmium, palladium, platinum, rhodium and ruthenium—battery minerals (including lithium, copper, cobalt, nickel and graphite) and rare earth elements (REEs), which are subject to supply constraints and face increasing demand for use in high-tech consumer, industrial and defence products.

PGMs, copper and cobalt, iron ore, gold and coal are Africa's major mining revenue earners and the relatively positive near-term outlook for most of these mining products bodes well for corporate revenue and fresh rounds of investment in 2023-24. In addition, the search for and production of high-value battery metals and REEs should help to support new investment and acquisitions by mining companies, investors and traders in Africa's mining sector. Already, there is a healthy pipeline of projects seeking to exploit favourable market conditions and Africa's abundant reserves of copper and cobalt, gold and PGMs.

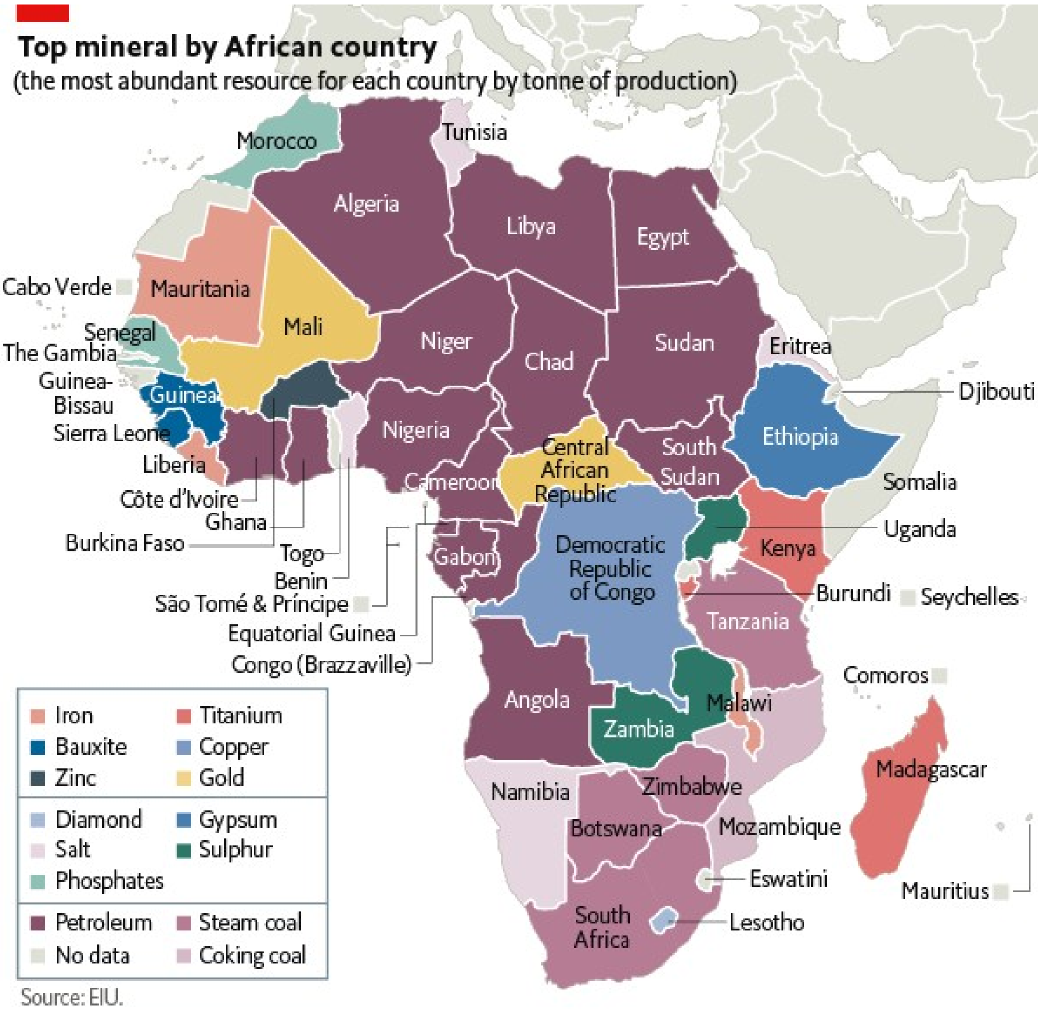


Mining companies are likely to focus on improvements to operating efficiency and implement hedging initiatives to tackle heightened cost pressures, address volatile commodity markets, account for unstable local exchange rates and protect profit margins in 2023-24. Electrification, automation, and digitalisation are ongoing trends that are playing out in the mining sector, as are corporate responses to the challenge posed by global environmental, social and corporate governance (ESG) requirements.

Enormous long-term potential for African mining

Mining companies will continue to make acquisitions and investments in Africa with an eye on the future. Whatever turbulence the mining sector encounters in the near term caused by geopolitics, trade tensions and inflationary pressures, these factors will do little to erode the medium- to long-term material demands of the global economy, especially the much-needed supply of metals and minerals to facilitate the global energy transition and technology trends.

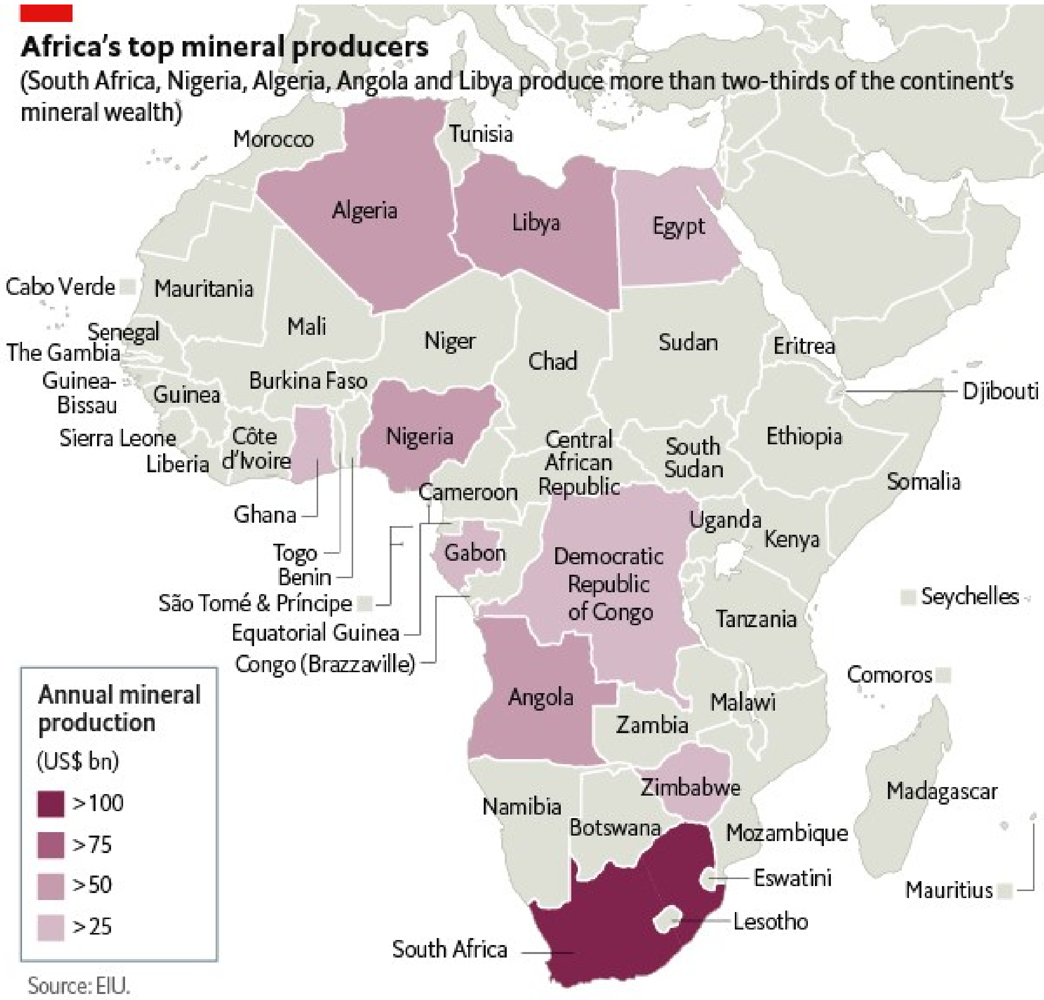
Africa is well placed to leverage medium- to long-term trends given the abundance of untapped deposits of high-value metals and minerals that are essential to the energy transition and the manufacture of high-tech products. Africa will play a crucial role in bridging the gap between the supply and the demand of technology-critical metals and minerals, which will see international mining companies intensify their competition by expanding existing mines, developing new ones and designing more efficient extraction and production facilities. Already, Africa is a leading global producer of bauxite, copper and cobalt, chromium, graphite, manganese, gold, diamonds, tantalum, uranium and PGMs, and has enormous potential as a supplier of REEs.



Source: EIU.

China holds a dominant position in the global supply of REEs—with an estimated 60% of global production and 85% of processing capacity. REEs are crucial for the manufacture of electronics, renewable energy technology and national defence systems. Demand for REEs for these uses will gain momentum in the decades ahead and require a massive ramp-up in production volumes. Geopolitical tensions between the US (and Western allies) and China will create a window of opportunity for African countries with a large endowment of these key commodities, especially

South Africa, to increase exploration budgets, raise capital investment and generate new income streams.



Significant barriers constrain mining potential

Africa's mining sector is beset by a range of factors that will continue to hinder its development and hold back its investment potential unless suitably addressed. Uncertainty surrounding licensing arrangements and regulatory frameworks can prove problematic, and MNMCs executives appear concerned about the possibility of further resource nationalisation—specifically increased and predatory taxation, contract reviews and renegotiation, export restrictions and forced equity transfers. In addition, the length of time and financial outlays needed to develop new projects and address transport and power infrastructure gaps can be a major hurdle for final investment decisions, while specific crime, corruption and security challenges are commonplace in major African mining countries.

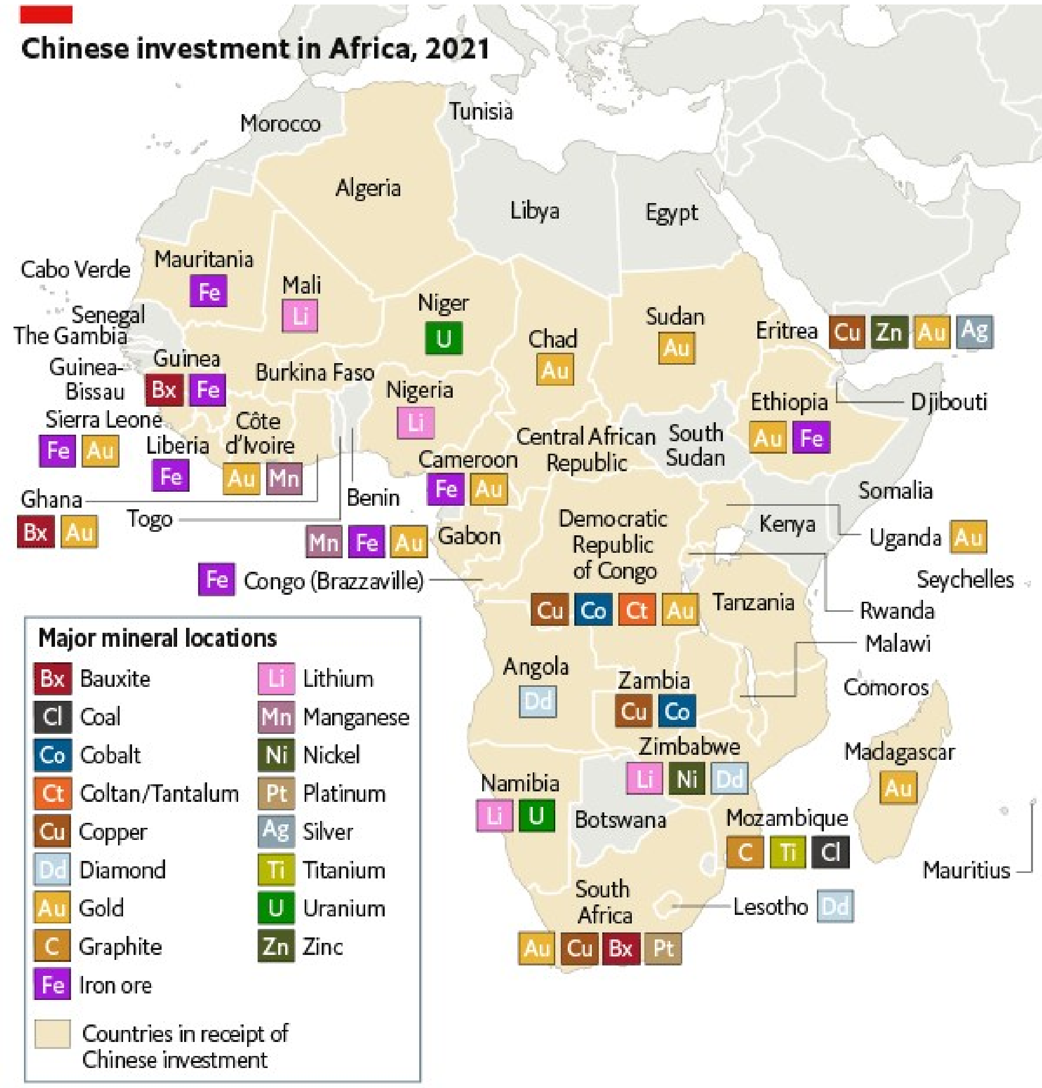
Africa's mining sector has received just 10-15% of the global exploration budgets of MNMCs over the ten-year period from 2013 to 2022. Indeed, Africa's share of global exploration budgets has declined steadily from about 15% in 2013 to about 10% in 2022—despite Africa having an abundance of metal and mineral deposits at numerous sites across the region, vast untapped mining reserves and governments that actively pursue foreign partnerships and direct investment. This outcome partly reflects the difficulties encountered while operating and investing in mining operations in Africa, something that governments are already attempting to address to improve the investment climate while ensuring maximum national benefit from their resources—a fine balancing act that will continue to play out in the decade ahead.

Incumbents will dominate Africa's mining space

MNMCs have been at the forefront of Africa's mining operations for decades and this will remain the case for the foreseeable future. Western-based MNMCs partly withdrew from Africa during the 2010s to rebalance their portfolios and risk exposure, but that process has run its course and interest in African ventures will be driven once again by market forces, security of supply concerns and geopolitics. Currently, Canadian, Australian, UK and South African-based mining companies retain a dominant position in developing mining ventures in Africa, which is highlighted by their ownership or control of production sites and large exploration budgets. US-based companies play a smaller role in the mining sector across the continent, as do companies from China, Brazil, India and Russia—although these so-called BRIC countries have expanded their presence in Africa substantially over the past decade.

China has a strategic presence and expanding footprint

China is by far the largest single buyer of African mining output; in 2020 China bought US$8.7bn or 43% of Sub-Saharan Africa's minerals exports and US$16.6bn or 32% of the region's ores and metals exports. Chinese traders, investors and mining companies have been particularly interested in Africa's base metals and bulk ores—including copper, cobalt, bauxite, chromite, iron ore, manganese and zinc—as well as uranium and gold. This interest has been driven largely by demand for these metals and minerals in China's fast-growing economy and has prompted Chinese entities to invest in mining sites across the continent.



Source: EIU.

Chinese enterprises control 6-8% of African mining sector production by value, although this control varies considerably by country and is much higher in some states. For instance, China has a large footprint in the Democratic Republic of Congo, where it controls about 25% of mineral and metal production; it has a dominant position in Eritrea, where it partners with the Eritrean government on a 60-40 split on the country's mining ventures; it controls about 37% of mining production by value in Guinea and 12% in Zambia; it controls about 25% of manganese production in Gabon; it holds the concession for the only industrial mine in Congo-Brazzaville; and it controls smaller shares in Ghana, Namibia and South Africa, although the total values of production in these countries are relatively large.

The future level of Chinese involvement in African mining operations will hinge on a few overarching economic and political factors: How will China's demand for mining sector output develop in the years and decades ahead? Will the Chinese government continue to target Africa as part of its push for improved security of supply? Will tighter financing conditions and a rebalancing of risk-reward calculations stifle some new investments in Africa? And will Africa's mineral-rich host countries encourage greater involvement of Chinese firms or become more critical of Chinese investments?

Chinese demand for metals and minerals will probably continue to increase in the next 5-10 years as the Chinese economy expands, albeit at a slower pace than during most of the 2000s and 2010s. Tighter environmental standards in China, the push to decarbonise its economy and a greater focus on high-tech industries in China will spur demand for foreign mining output, including traditional base metals and bulk ores from Africa. In addition, metals and minerals essential to the energy transition and the manufacture of high-tech products will spur Chinese investment in Africa. China's nuclear ambitions will also support uranium demand, benefiting Namibia in particular. However, competition for access to Africa's resources will be fierce and governments will be keen to leverage global rivalries to extract the best possible deals, which could see China pursue alternative supplies from other regions—specifically Russia, Central Asia and Latin America—at the expense of some African ventures.

Russia loses its grip on African mining assets

Russian mining companies have their own sizeable investments in metal, energy and mineral concessions in Africa. The concessions are largely concentrated in poorly governed and authoritarian states, namely Sudan, Guinea, the Central African Republic and Mozambique. Most Russian mining operations in Africa are joint ventures that rely in part on Russian financing, which means that international sanctions imposed by the US, the EU and aligned states will disrupt mining operations and output levels as Russian funding is limited or cut off entirely. We expect the disruption to projects in which Russian mining companies own stakes to be temporary, and the high prevailing price of most commodities will ensure that there is no shortage of buyers in the market for these concessions. Russia's grip on African ventures may loosen but the country has put enormous effort into building its political and commercial ties on the continent and will fight hard to maintain a foothold.

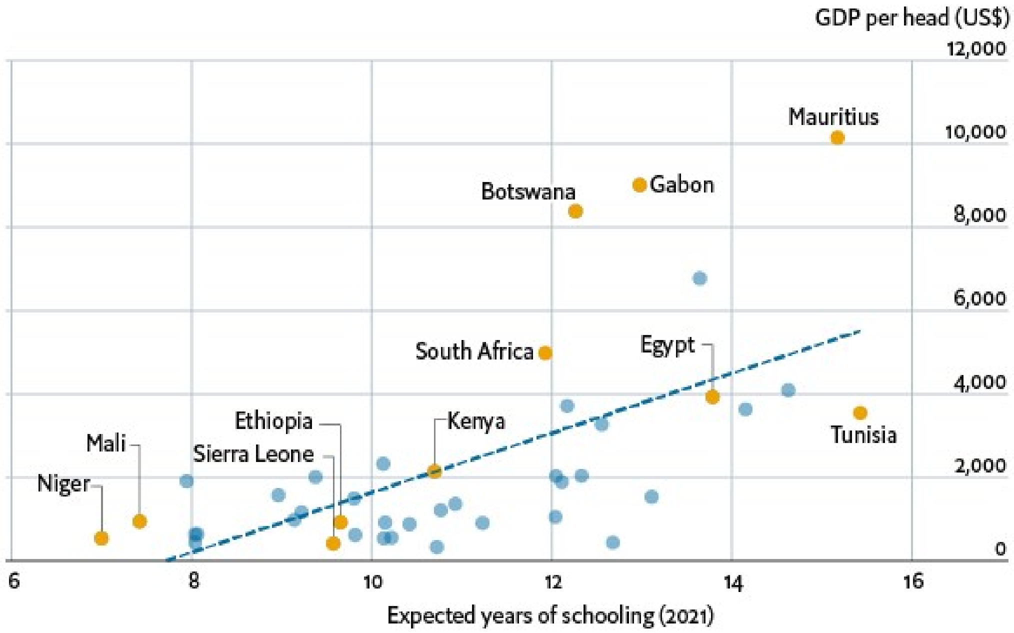
Mining sector ESG has a growing role

Mining companies operating and investing in Africa have the opportunity to help the continent to confront its ESG challenges, besides providing the metals and minerals essential for the global energy transition. Embedding ESG principles in business models has been part of the African mining scene for years, but has had mixed results, and this aspect of mining operations will become increasingly important as the region is affected by climate change and as stakeholders and investors demand more accountable, responsible and sustainable returns. Key areas where some progress has been made and that will be a focus for future development include mining site power supplies and water usage, fuelling options for transport and logistics, local community healthcare and environmental degradation. For instance, Africa has enormous potential for renewable energy—solar, wind and hydroelectric—that could provide the bulk of mining site power supplies and reduce reliance on stretched and expensive state utility provision. The deployment of hydrogen trucks and the creation of hydrogen infrastructure at mining sites is already a target of some of the largest mining companies operating in Africa, which could be achieved in the early 2030s. Mining companies will increasingly look at ways to better use available water supplies—including water recycling and treatment—to reduce the impact on groundwater levels and supplies for local communities.

Africa chart of the week: educate to prosper

March 29, 2023: Economic growth

Africa: education and GDP per head



Sources: UN Development Programme; EIU.

- Education is critically important for individual personal development and, as asserted by the UN, "is a fundamental human right and essential for the exercise of all other human rights". It is also highly correlated to a county's economic development. Although there are methodological challenges and offsetting factors (level of natural resource endowment, political instability, poor governance), studies have proven that a better-educated population translates into a wealthier, more developed economy.
- A crude snapshot looking at expected years of schooling, as compiled by the UN Development Programme (UNDP), and EIU estimates of income per head for African countries confirms this trend (see chart). At the bottom end with low years of schooling and correspondingly low income per head there are Niger and Mali, running up to Mauritius with high years of schooling and high income per head. Trend divergences can be explained by resource endowments (oil in Gabon, diamonds in Botswana) and the adverse impact of political instability and weak governance (Tunisia, for example, where years of schooling are high).
- Although the benefits are clear, Africa, or more specifically Sub-Saharan Africa, continues to struggle to comprehensively educate its expanding population. This has been made even harder by the impact of the covid-19 pandemic, which heavily disrupted schooling. A flurry of recent reports from UN agencies and the World Bank highlight the challenges.
- The UN Educational, Scientific and Cultural Organisation (UNESCO) estimates that 98m children between the ages of six and 18 remain out of schools in Sub-Saharan Africa, while the *State of Global Learning Poverty: 2022 Update* reports that nearly nine in ten children in Sub-Saharan Africa are unable to read and understand a simple text by the age of ten. The UNDP's Global Multidimensional Poverty Index 2022 (education is one of the three dimensions, along with health and standard of living) also reports that the number of poor people is now highest in Sub-Saharan Africa (579m) for the first time.
- Africa's medium- to long-term growth and development outlook will be heavily influenced by how quickly this education deficit is addressed. The global economy is increasingly oriented towards knowledge and digital skills without which many may struggle to find productive work, with attendant risks of social unrest. Despite ongoing economic pressures in many countries, we expect that support for education will be a priority, even as some countries seek to restructure debts and put spending on a sustainable path.

