GHANA – IMPLICATIONS OF CURRENT ECONOMIC CONDITIONS ON ITS ENERGY AND INFRASTRUCTURE SECTORS

As various economies around the world scramble to deal with the effects of recent global economic shocks, Ghana has reluctantly approached the International Monetary Fund for economic rescue. Already impacted by mounting public debt, rising inflation and rapid currency depreciation, the combination of all these factors has significant implications for its major growth sectors, including infrastructure, power and oil & gas.

Key Points

- Ghana faces deep fiscal and budget deficit challenges which have been worsened by global economic shocks
- Ghana's ability to meet its immediate financing needs has been further impacted by the downgrade in its credit rating
- The outcome of its negotiations with the IMF will affect Ghana's path to economic recovery and its ability to continue to attract much needed investments, especially in the critical energy and infrastructure sectors.

CURRENT STATE OF THE GHANAIAN ECONOMY

Economies around the world continue to struggle with the cumulative effects of the COVID-19 pandemic, Russia's invasion of Ukraine and other geo-political developments. Governments are facing continuing supply chain disruptions, record level inflation and feeble growth. Global growth is expected to drop from 5.7% in 2021 to 2.9% in 2022 and to hover at this level for the next two years as geo-political developments continue to disrupt economic activity, investment and trade in the near term. The effects on middle and low-income economies are particularly profound and Ghana is no exception.

Ghana faces serious economic challenges including deep fiscal and budget deficit issues which have been worsened by these global economic shocks. Public sector debt increased from 63% of GDP in 2019 to 78% of GDP in March 2022 and external debt jumped from 39% to 44% of GDP over the same period. Growing investor concern was reflected in the credit rating downgrade of Ghana's long-term debt by all the major credit agencies at the beginning of 2022. The downgrade means that the country is much less able to tap into the bond market to meet its medium-term financing needs and is expected to have far reaching consequences on its ability to meet foreign currency debt of nearly US$800 million due to bondholders over the next two years.

After pursuing various avenues to tighten spending and secure additional inflows into government coffers, Ghana is back on a road recently travelled – seeking rescue from the IMF. This was a path the government was loath to take as it repeatedly ruled out IMF rescue as an option, but now it seems to have concluded there are no viable alternatives. The economic situation means a slowdown in growth and investment in key sectors – in particular, the infrastructure, power and oil & gas sectors. The outcome of negotiations with the IMF will be instrumental in how these sectors are able to recover.

INFRASTRUCTURE SECTOR

Ghana had maintained a healthy pipeline of infrastructure projects to be completed in the coming years. The enactment of Ghana's Public-Private Partnership Act 2020 created a comprehensive framework for major infrastructure projects including roads and other transport infrastructure such as the Accra-Tema Motorway and Extension PPP Project. Ghana has also seen major foreign investment in the regeneration of hospitals, universities, leisure/trading centres as well as water treatment plants. It remains to be seen whether government will be able to prioritise its commitments in these areas and raise the required funding given its current fiscal debt issues.

POWER SECTOR

The power sector is in a particularly concerning state given the government's significant and rising debt in this sector. The Government of Ghana has engaged the independent power producers in talks regarding the take-out of existing multi-sourced senior loans by the government-owned Ghana Infrastructure Investment Fund (**GIIF**) in a bid to reduce the overall cost of power. This process began as far back as the end of 2019 when the government announced that it would use part of the proceeds of its 2020 Eurobond sale to refinance the loans. To date, none of the loans have been refinanced and government debt to independent power producers continues to rise. It has been estimated that debt in the energy sector is at risk of growing to US$12.5 billion by 2023 without significant reform. However, the government has recently reiterated that the completion of these take-outs is expected to save the economy an estimated US$13.2 billion over the term of the renegotiated power purchase agreements.

Separate from the debt issue in the energy sector is the growing demand for electricity in Ghana and the need for improved gas supply reliability. The 2022 Electricity Supply Plan for the Ghana Power System highlights that existing generating capacity will be inadequate to serve projected demand for electricity in Ghana and as such, there is a need to secure increased gas supply to existing power generation facilities and to initiate procurement of additional generation capacity.

OIL & GAS SECTOR

Recently, we have seen a decline in exploration activities in Ghana. Supermajors ExxonMobil and Total have announced withdrawals from projects in the country. These developments and Ghana's continued reliance on the importation of refined petroleum products make the case for more investment in the industry. In mid-2021, the government announced the decision for the Ghana National Petroleum Corporation, the state agency responsible for petroleum-related activities in Ghana, to negotiate with Aker Energy to acquire a larger stake in Deep Water Tano/Cape Three Points and South Deep Water Tano Oil fields in Ghana. If successful, this is expected to significantly improve Ghana's revenue-generating capacity and at the same time its local capabilities for upstream oil exploration. However, this move is not without its difficulties as there has been heavy criticism around the valuation of the increased stake and how the transaction will further affect government debt. In the wake of the current crises, it remains to be seen how the proposed investment will go ahead.

SUMMARY

Ghana has been down this path before, exiting its last IMF programme in April 2019. The economic gains since the last IMF rescue have been significant and led to the influx of foreign direct investment (FDI) at levels that have been stronger than the global and African average. In the first six months of 2021 alone, approx. US$829.29 million dollars of FDI flowed into Ghana and in the past two years it has pulled in various investors in the technological space (such as Google which opened its first AI centre in Africa in Accra) and in the manufacturing space (such as Volkswagen which opened a vehicle assembly plant in Accra). Unlike some other middle and low-income economies, Ghana has no history of bond defaults and it remains a country with real economic potential.

The current levels of public debt mean that in the short to medium term, the government's capacity to drive investments in the very sectors the country will need to grow its economy and deliver on the social needs of its people, will be severely limited. However, once it is able to charter a course to recovery with the help of the IMF, this will open up opportunities for much needed investment in the infrastructure, power and oil & gas sectors. Recent transactions in the mining and energy sectors may also indicate the unique opportunities that the current challenges present to industry players with a focus on Ghana.

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