

IEA Economic Outlook Report

September – October 2024



Special features: Bank of Ghana's Gold for Oil Programme and BRICS Meeting

The Institute of Economic Affairs (IEA Ghana)

**Economic Outlook Report
September – October 2024**

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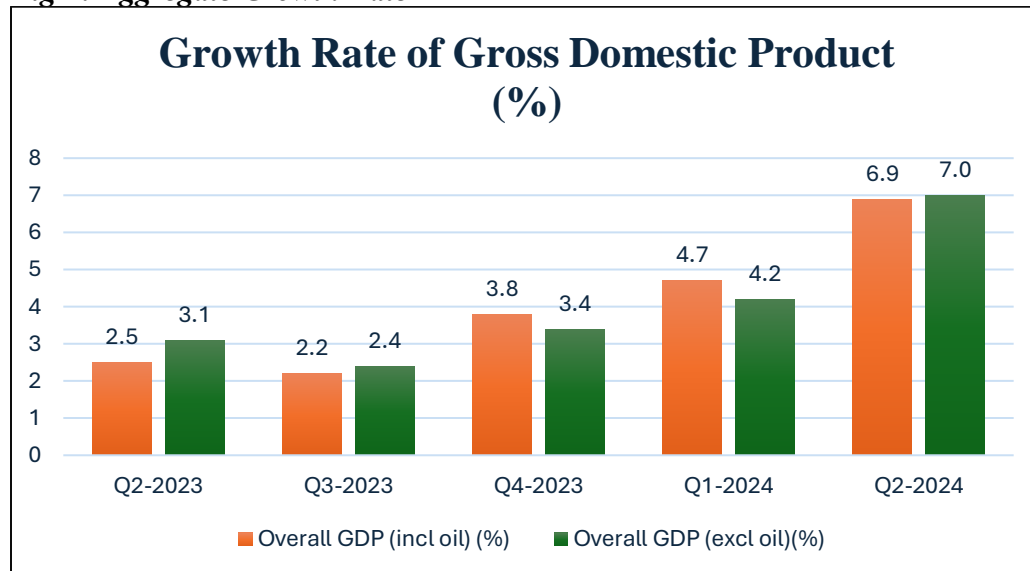
1.0 Introduction

The Institute of Economic Affairs (IEA), Ghana, has been publishing a bi-monthly *Economic Outlook* that examines recent developments in the Ghanaian economy and the future outlook. The *Economic Outlook* provides the public with the IEA's independent views on the economy. The *Outlook* also features one or two additional topics deemed of national or international importance. This edition of the *Outlook* covers the period September-October, 2024 and focuses on economic growth, inflation, exchange rate and public debt. It also features the Bank of Ghana's recently-announced Gold Coin Programme and the recently-concluded BRICS Summit in Russia.

2.0 Economic Growth

Data published by the Ghana Statistical Service (GSS) show that economic growth was generally on the upward trend between Q2-2023 and Q2-2024, with year-on-year GDP growth increasing from 2.5% to 6.9%. Nonoil GDP growth followed a similar trend as overall GDP growth during the period, increasing from 3.1% to 7.0% (Fig 1).

Fig 1: Aggregate Growth Rate

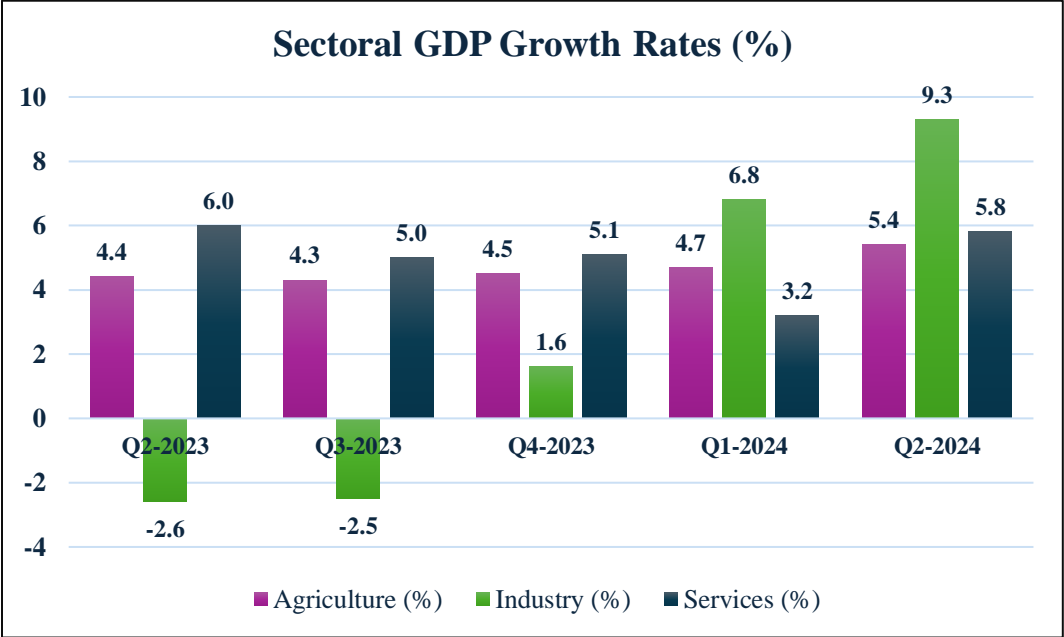


Source: Ghana Statistical Service

For 2024 as a whole, the IMF has revised its growth projection for Ghana from 3.1% to 4.0%, indicating an expected stronger recovery from the effects of Covid-19 and the general economic crisis that has plagued Ghana in the past four years or so. Notwithstanding this higher growth projection for 2024 as a whole, the fact that it is much lower than the growth rates in Q2 and Q3 suggests that growth is expected to slow down in H2-2024 compared with H1-2024. That said, Ghana is generally growing below its potential due to several factors, including low public investments, macroeconomic instability and the high cost of doing business. Achieving higher growth will require, in particular, leveraging the country’s huge natural resource wealth to increase investments in physical and human capital, lowering the cost of doing business and sustaining macroeconomic stability.

In terms of sectoral growth, agriculture showed a fairly steady positive growth throughout the period, ranging between 4.3-5.4% (Fig. 2). Services also grew by positive rates, ranging from 3.2-6.0%. Industry, on the other hand, recorded erratic growth, with negative rates in Q2-2023 and Q3-2023 and positive rates in Q4-2023, Q1-2024 and Q2-2024, ranging between 1.6-9.3%. The erratic growth of industry reflected irregular quarterly oil outputs during the period.

Fig2: Sectoral Growth Rates

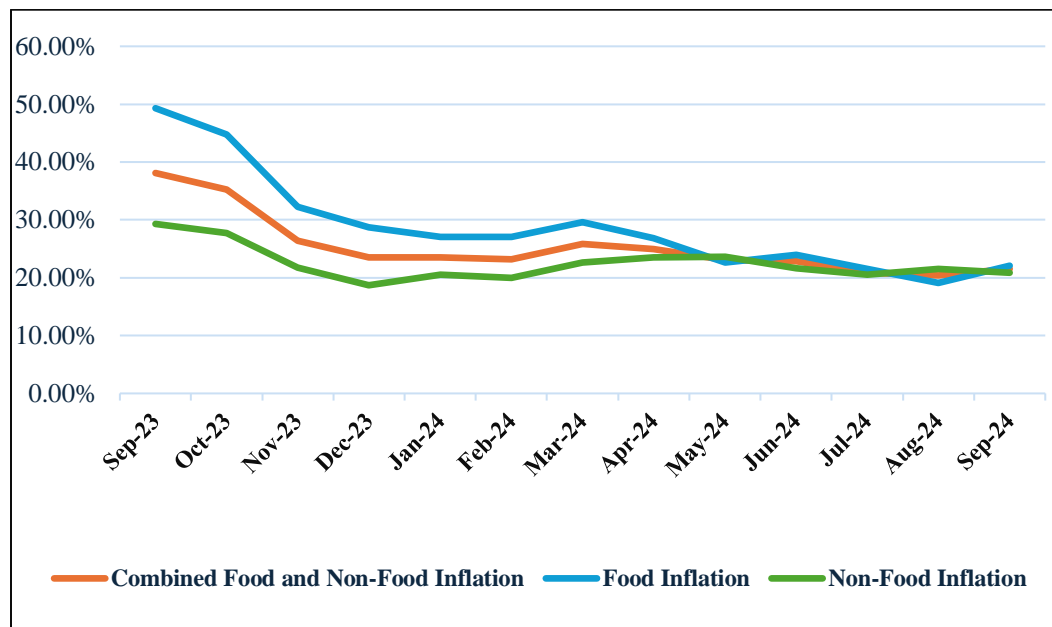


Source: Ghana Statistical Service

3.0 Inflation

During the past year (September 2023-September 2024), inflation declined almost steadily from 38.1% to 21.5%, a drop of 16.6 percentage points. Food inflation was higher than combined inflation for most part of the year, but also contributed to most of the decline in overall inflation during the year. This shows the importance of food prices in determining overall inflation in the country. Indeed, the contribution of food prices to the general cost of living is evident in food's weight of 43% in the CPI basket, indicating that, on the average, Ghanaians spend 43% of their monthly budget on food alone, leaving 57% for all other consumer items.

Fig 3: Inflation



Source: Ghana Statistical Service

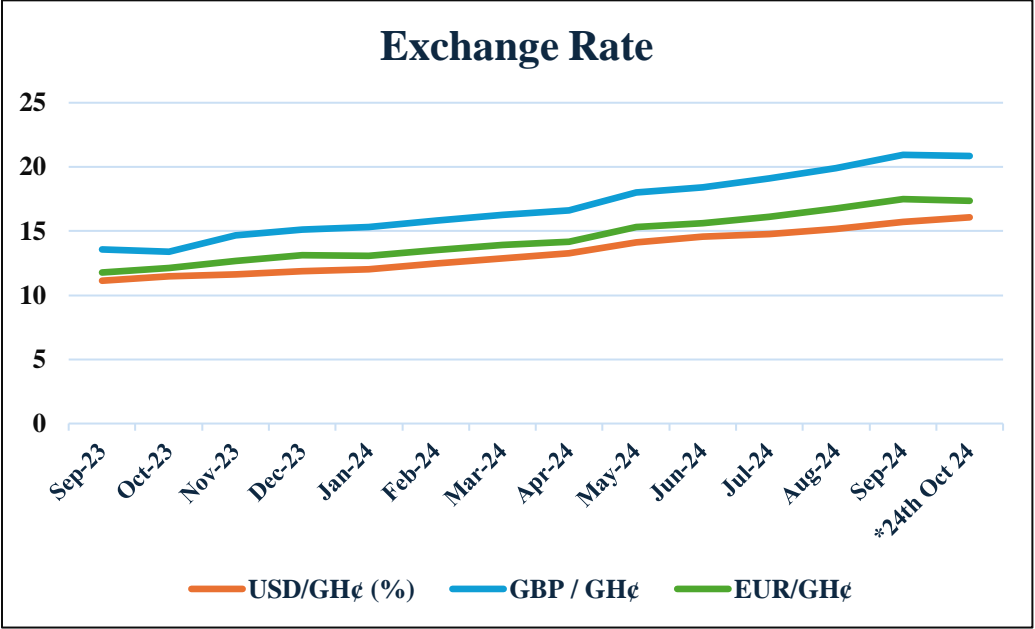
Inflation has been stuck in the lower twenties since December 2023, after being brought down drastically from a peak of 54% a year earlier in December 2022. The last measure of inflation was 21.5% in September. Meanwhile, most countries have seen their inflation, which skyrocketed due to Covid-19 and the Russia-Ukraine war, fallen to fairly low levels. The persistence of higher inflation in Ghana points to the failure of monetary policy, relying on the demand-based Inflation Targeting framework, to deal with underlying supply and cost factors, particularly food prices, fuel prices and depreciation. With these factors persisting, we expect inflation to remain at least in the higher teens throughout the rest of the year. We note that the BoG has revised upwards its end-year inflation forecast from the previous 13-15% (mid-point 14%) to 17-19% (mid-point 18%). This

looks more realistic, although disappointing. We have long maintained that it will require the joint effort of the Bank of Ghana and Government to address the underlying supply and cost drivers mentioned above to break Ghana’s inflation persistence.

4.0 Exchange Rate

Over the past year, the rates of exchange of the cedi to the dollar, pound sterling and euro have all increased consistently and significantly. Using the dollar for reference, the cedi/dollar rate has risen from 11.13 at the end of September 2023 to 16.07 as of 24th October 2024 (See Fig 4). This implies an increase in the cedi/dollar rate of 44.3% over the period, which is quite high.

Fig 4: Exchange Rate

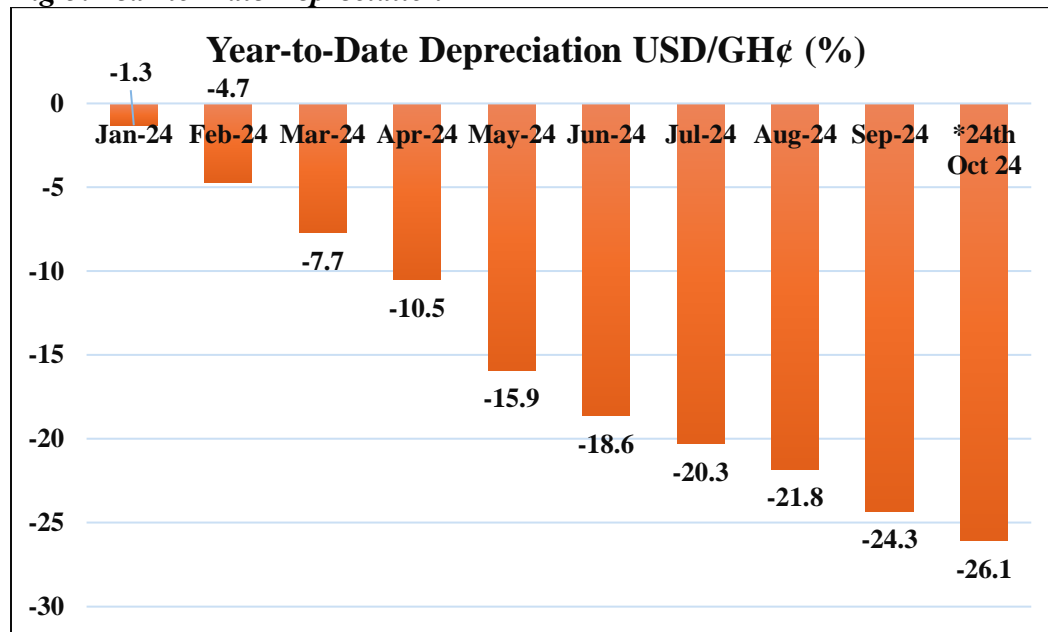


Source: Bank of Ghana

The increase of the cedi/dollar rate by 44.3% over the last year or so means that traders—and other users of dollars—have had to pay 44.3% more for every dollar over the past year alone. The increase should be expected to be passed through imported goods to domestic prices, fueling overall inflation.

When the value of the cedi is measured in terms of the dollar, and its depreciation from end-2023 is calculated, the cedi is seen to have depreciated cumulatively from -1.3% in January 2024 to -26.1% by 24th October 2024 (See Fig. 5).

Fig 5: Year-to-Date Depreciation



Source: Bank of Ghana

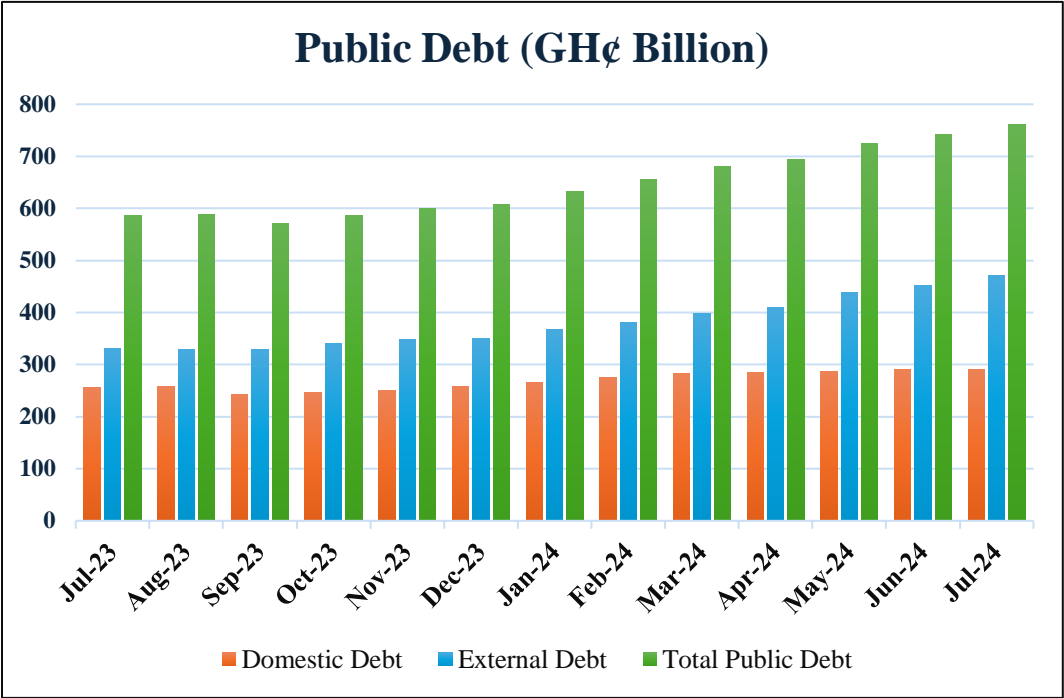
We recall that the cedi depreciated by 30.0% in 2022 and 27.8% in 2023. Thus, the additional depreciation of 26.1% so far in 2024 means that the cedi has lost about 74% of its value against the dollar over the past 3 years or so. This is a huge depreciation by all standards. The cedi faces further risks for the rest of the year for a number of reasons. The first is election uncertainties that precipitate increased dollar holdings as a safe haven. The second is uncertainties about the future of the IMF programme in the face of the uncertain outcome of the elections and the possible intentions of the new administration, which would increase demand for dollars. The third relates to uncertainties about debt negotiations with non-Eurobond commercial creditors, which could delay further disbursements under the IMF programme and associated inflows and, thereby, reduce FX supply in the economy. Indeed, the Minister of Finance has announced that the IMF Board will carry out the third review of Ghana’s programme on December 2. This seems quite belated since staff completed their own review in early October. The fourth is a subdued cocoa crop coupled with possible availability of limited syndicated loan in the face of Cocobod’s expressed intention

to shift to domestic financing of the crop. Beyond the elections, it will require strong efforts to bridge the perennial foreign exchange supply-demand gap through structural and macroeconomic reforms in order to achieve lasting exchange rate stability.

5.0 Public Debt

During the year July 2023-July 2024, Ghana’s public debt increased consistently from GHS585.8 billion to GHS761.2 billion, an increase of GHS175.4 billion (or 30%) over the period. The increase would be a combination of the exchange rate effect on the external component of the debt and an increase in the debt stock itself. A true measure of the debt increase as well as the debt stock burden is the debt-to-GDP ratio, which also allows international comparisons to be made.

Figure 6: Public Debt (Nominal Value)

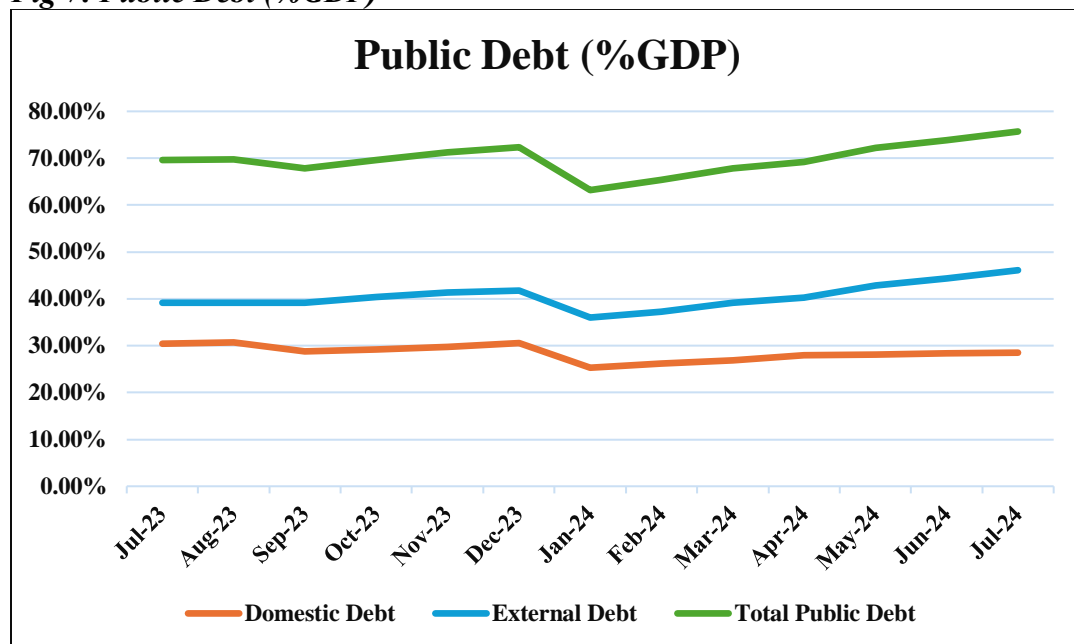


Source: Bank of Ghana

Ghana’s public debt as a ratio of GDP rose steadily from 69.6% in July 2023 to 72.30% in December 2023, dipped to 63.2% in January 2024 (largely due the higher projected GDP for 2024) and then rose steadily to 75.7% in July 2024. Significant debt restructuring has taken place in the

last two years or so under the IMF programme, which has had an impact on the debt/GDP ratios. While, the restructuring is yet to be completed, borrowing has continued on the domestic market **as Ghana’s has lost external market access. In the circumstance, the upward trend in the debt/GDP** is a bit concerning, since Ghana was understood to be moving on a path to debt sustainability by 2028 under the IMF programme scenario.

Fig 7: Public Debt (%GDP)



Source: Bank of Ghana

The IMF has cautioned Ghana to “maintain current debt levels to avoid economic pitfalls,” in a statement made by Dr. Abebe Selassie, Director, African Department at the IMF/World Bank Annual Meetings on 26th October, 2024. Dr. Selassie stressed the need to “keep fiscal deficits modest, particularly during the election cycle.” He emphasized that, moving forward, it was crucial for Ghana to strike a balance between addressing development spending needs and maintaining debt sustainability. Dr. Selassie also noted the importance of securing favourable terms with non-Eurobond commercial creditors as part of debt structuring efforts. The IMF Director’s statement suggested a need for a combination of both fiscal adjustment and debt restructuring to achieve and maintain debt sustainability, although the relative emphasis between the two was not made clear. That said, sustained prudent fiscal policy will be critical for Ghana to avoid future debt crises and the periodic disruptions to the economy, especially during election cycles.

6.0 Bank of Ghana's Gold Coin Programme: A Reality or Mirage?

The Bank of Ghana recently announced its intention to introduce a Ghana Gold Coin (GGC), ostensibly for boosting savings and improving money-market liquidity management.

The Bank has suggested that the GCC could be an alternative store of value to the dollar, which appears to be in high demand, straining the cedi-dollar exchange rate. We find the BoG's reasons for introducing the GCC, however, to be surprising. We are wondering why the Bank will offer an alternative asset to Ghanaians to hold with the hope of easing pressure on the dollar instead of finding a solution to the reasons why Ghanaians prefer to hold the dollar instead of the cedi, which include high inflation, persistent economic crisis and lack of confidence in the economy. Offering the GCC as an alternative asset to the dollar seems to be an admission of failure to deal with the real problems facing the economy, and which drive Ghanaians to hold dollars instead of cedis.

The liquidity-management reason for introducing the GCC looks equally perplexing. The Bank is expected to buy gold from miners with cedis. The Bank arranges for the gold to be minted into the GCCs. The Bank then sells the GCCs back to Ghanaians in exchange for the cedis it injected into the economy in the first place when it bought gold. Therefore, the GCCs sale eventually results in zero liquidity withdrawal from the economy on a net basis, contrary to the claim by BoG that it amounts to liquidity management. We urge the Bank to focus on dealing with the fundamental causes of the cedi depreciation and the growing appetite of Ghanaians to hold dollars instead of resorting to the GCC. The required measures should include: maintenance of fiscal and monetary discipline to reduce pressures on the cedi, reduction of inflation to close the gap with trading partners and addressing the persistent FX demand-supply gap through appropriate structural reforms.

7.0 The BRICS Summit in Russia: The Birth of a New Economic Order?

The BRICS-group, formed around 2006, comprises Brazil, Russia, India, China and South Africa. The BRICS seeks, among others, economic collaboration and development, particularly for

emerging markets, reform of international financial institutions, and enhanced political dialogue and mutual support on issues affecting global governance. The BRICS held their last summit in Russia during October 22-24, 2024 to which they invited other major emerging-market countries such as Egypt, Saudi Arabia and Mexico.

The BRICS constitutes a huge block, accounting for about 40% of the world population and 30-35% of the world GDP. The BRICS could become a counterweight to the G-7 group of countries (comprising Britain, Canada, France, Germany, Italy, Japan, and the United States), who dominate the current economic order. This objective could gain momentum, if, as planned, they explore the possibility of adopting a common currency for trade among themselves and, thereby, reduce their reliance on the US dollar.

The BRICS may likely attract increasing numbers of emerging-market economies (EMEs), disenchanted with the current world economic order superintend by the West and their allied institutions—the IMF, World Bank and WTO—where the EMEs have limited representation and voice. Eventually, a new world economic order could emerge, with a diminished role for the US dollar as the leading international trading and reserve currency and with EMEs playing a significant role.

Appendix

Table1: Economic Growth (GDP)

Quarters	Q2-2023	Q3-2023	Q4-2023	Q1-2024	Q2-2024
GDP (GH¢ Billion)	42.3	45.0	50.6	51.0	45.2
Overall GDP (incl oil) (%)	2.5	2.2	3.8	4.7	6.9
Overall GDP (excl oil)(%)	3.1	2.4	3.4	4.2	7.0
Sub-components					
Agriculture (%)	4.4	4.3	4.5	4.7	5.4
Industry (%)	-2.6	-2.5	1.6	6.8	9.3
Services (%)	6.0	5.0	5.1	3.2	5.8

Source: Ghana Statistical Service

Note: GDP is in real figure (in 2013 prices).

Table2: Inflation

Data	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
Combined Food and Non-Food Inflation	38.1%	35.2%	26.4%	23.5%	23.5%	23.2%	25.8%	25.0%	23.1%	22.8%	20.9%	20.4%	21.5%
Food Inflation	49.3%	44.8%	32.2%	28.7%	27.1%	27.0%	29.6%	26.8%	22.6%	24.0%	21.5%	19.1%	22.1%
Non-Food Inflation	29.3%	27.7%	21.7%	18.7%	20.5%	20.0%	22.6%	23.5%	23.6%	21.6%	20.5%	21.5%	20.9%

Source: Ghana Statistical Service

Table 3: Exchange Rate

Exchange Rates	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sept-24	*24 th Oct-24
GHS/USD	11.13	11.49	11.62	11.88	12.03	12.46	12.87	13.27	14.13	14.59	14.78	15.18	15.70	16.07
GHS/GBP	13.59	13.39	14.68	15.13	15.30	15.80	16.26	16.62	17.99	18.43	19.10	19.92	20.94	20.83
GHS/EUR	11.77	12.14	12.67	13.13	13.05	13.52	13.90	14.19	15.33	15.62	16.11	16.78	17.49	17.37

Source: Bank of Ghana

Table 4: Year-to-Date Depreciation

Exchange Rates	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sept-24	*24 th Oct 24
GHS/USD (%)	-1.3	-4.7	-7.7	-10.5	-15.9	-18.6	-20.3	-21.8	-24.3	-26.1

Source: Bank of Ghana

Table 5: Public Debt: GH¢ Billion and % GDP

Public Debt (GH¢ bn) (%)	Domestic Debt		External Debt		Total Public Debt	
	Value	% GDP	Value	% GDP	Value	% GDP
Jul-23	255.6	-30.40%	330.7	-39.20%	585.8	-69.60%
Aug-23	258.1	-30.70%	329.8	-39.20%	587.9	-69.80%
Sep-23	242	-28.80%	329.5	-39.10%	571.5	-67.90%
Oct-23	245.6	-29.20%	340.2	-40.40%	585.9	-69.60%
Nov-23	250.7	-29.80%	348.4	-41.40%	599	-71.20%
Dec-23	257.3	-30.60%	351.1	-41.70%	608.4	-72.30%
Jan-24	265.6	-25.30%	367.7	-36.00%	633.3	-63.20%
Feb-24	275.8	-26.20%	380.2	-37.30%	656	-65.40%
Mar-24	282.9	-26.90%	398.4	-39.10%	681.4	-67.90%
Apr-24	284.8	-27.90%	409.8	-40.20%	694.6	-69.20%
May-24	287	-28.10%	438.1	-42.90%	725.1	-72.20%
Jun-24	290	-28.40%	452.2	-44.30%	742.2	-73.90%
Jul-24	290.9	-28.50%	470.3	-46.10%	761.2	-75.70%

Source: Bank of Ghana