Voluntary Report – Voluntary - Public Distribution **Date:** December 14, 2022

Report Number: GH2022-0020

Report Name: Ghana's Economy Enters a New Era

Country: Ghana

Post: Accra

Report Category: Agriculture in the Economy, National Plan, Policy and Program Announcements

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Report Highlights:

Ghana has experienced a sudden economic downturn, a product of internal miscalculations and external shocks. Once ranked among the fastest growing economies in the world, Ghana has lost the steam that made it a shining example of a well-managed economy in Sub-Saharan Africa, and now finds itself in economic turmoil. Hikes in global prices of fuel, fertilizer, and food, mainly induced by the Russia-Ukraine war, currency depreciation, and an overwhelming debt load have plunged the economy into distress. The GOG has reached out to the IMF for a bailout and announced several policy measures, including the withdrawal of forex support for imports of rice, poultry, vegetable oil, and other non-critical goods. Industry players anticipate food shortage resulting in much higher prices in the near term. Experts have warned that the policy will promote smuggling and black-market activities. Post expects food prices in Ghana to remain elevated in the foreseeable future as supplies remain limited.

Ghana’s Current Economic Outlook

Ranked by the World Bank and renowned rating organizations the world over as one of the fastest growing economies before the COVID-19 pandemic, and posting an impressive economic recovery in the aftermath of the COVID-19 pandemic with real Gross Domestic Product (GDP) growth rate of 5.4 percent, up almost a thousandfold compared to the preceding year’s growth rate of .5 percent, Ghana was expected to be a shining example of an African country with sound economic management in the face of considerable challenges.

However, policy miscalculations and external economic shockwaves have revealed serious cracks in what was a robustly built economic structure, leaving the country's foreign reserves at about $6.6 billion at the end of September 2022 that only provides less than three months of import cover. High inflation and a dramatically plummeting currency combined to put Ghana in a very difficult economic spot. Ghana’s annual inflation rose to 40.4 percent in October 2022, up from 37.2 percent in September, representing a record high since July of 2001. At the same time, the Ghanaian currency, the cedi, weakened dramatically in 2022, falling from about 6 cedis to the dollar in January to 13.8 cedis to the U.S. dollar in December. Downgrades from internationally renowned credit rating agencies over concerns about Government of Ghana (GOG) revenues and rising debt levels negatively impacted the GOG’s fiscal operations by drying up international credit, which is the primary reason for the weakening cedi. The GOG for the first three quarters of 2022 recorded a budget deficit of GH¢ 44 billion (7.4% of GDP) against a revised target of GH¢ 36.7bn (6.2% of GDP). At the end of September 2022, total public debt increased by 32.7% from the previous year’s GH¢ 352.1 billion. Domestic debt grew by 7.6% to 195.7 billion due to rising interest rates following the high inflation. External debt increased significantly, by 59.5% to GH¢ 271.7 billion because of the sharp depreciation of the cedi as repayment is in U.S. dollars. The cumulative effect of this debt load requires interest payments that take more than half of Ghana’s government revenues, according to Bloomberg News.

How did it all go wrong for Ghana and what is the impact on the agricultural sector?

Ghana Macro-Economic Stability is Shaken

Financial Cleanup Exercise

The current government came to power in 2016 and decided to initiate an overhaul of Ghana’s financial sector beginning in 2017 to remove a number of non-performing banks and other financial actors in the country to strengthen Ghana’s financial sector and begin to revitalize the economy. The two-year long exercise revoked the licenses of 420 institutions, including 9 banks, 15 savings and loans companies, 8 finance houses, 347 microfinance institutions, 39 microcredit institutions, 1 leasing company, and 1 remittance company. The exercise was touted as a success by the GOG in laying a solid foundation for the planned economic takeoff. It worked quite well until the arrival of the COVID-19 pandemic and the Russian-Ukrainian war’s economic shocks. Some internal policy decisions also helped to reduce Ghana’s macroeconomic stability.

COVID-19 and Announced Interventions

The COVID-19 pandemic became a resiliency test. The apparent success with turning the fortunes of the banking system around and restoring confidence in the financial sector may have led the GOG to relax fiscal discipline in the face of managing the economic impacts of the COVID-19 pandemic. The GOG announced a number of COVID-19 relief packages for citizens - a 50 percent pay raise for health workers, free potable water supply for all, and subsidized electricity supplies for one year. At the time, economy seemed to be in good shape in May 2021, with the annual inflation rate at a record low of 7.5 percent.

Russia-Ukraine War and Global Hikes in Prices

Indeed, Ghana's economy (posting a real GDP growth rate of 5.4 %), after the COVID-19-induced global recession, seemed impressive until series of unforeseen external shocks hit. These external shocks included spiking global fertilizer prices, rising fuel prices, and sharp increases in freight rates. Being substantially import-dependent, Ghana saw imported inflation put pressure on the cedi as the country's debt levels rose. The Russian-Ukraine war drove global prices up for fuel, foodstuffs, and freight, which all hit hard on Ghana. So impactful has the externality from Russia's invasion of Ukraine been on Ghana's economy that Ghana's Finance Minister acknowledged in his presentation of the 2023 annual budget statement and economic policy to the Ghanaian Parliament that, "the country's economic recovery is largely tied to the Russia-Ukraine war; and its external sector performance will depend on the quick resolution of the Russia-Ukraine conflict."

New E-Levy to replace tolls from Public Roads and Bridges and capture new Tax Revenues

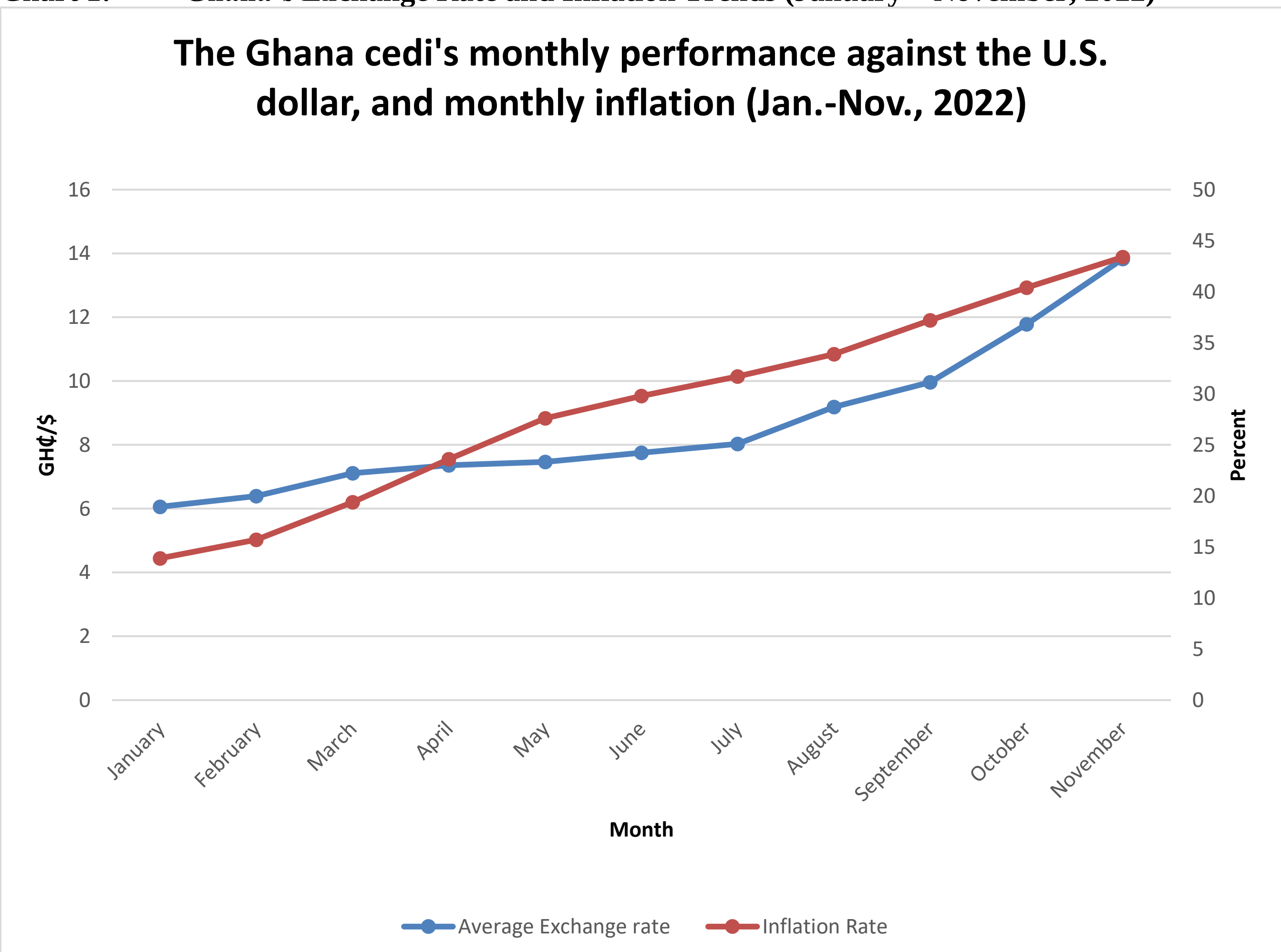
Still confident of Ghana's macroeconomic stability after successful management of the COVID-19 pandemic, and citing congestion at toll collection points as the main reason for its decision, the GOG courted public support for a new Electronic Transaction Levy (E-Levy) by announcing the cessation of public road and bridge tolls across the country as they presented their new E-Levy of 1.75 percent in the GOG's 2022 budget statement on November 17, 2021. Public reception to the new tax was not at all welcoming, and it gave the political opposition much to work with. The new E-Levy on all electronic financial transactions, including mobile money (smartphone-based payment app) payments, was promoted as a new and efficient solution for effective public revenue mobilization that would replace the road tolls, capture untaxed transactions in the informal economy, and tax the burgeoning growth in Ghana's e-commerce. Protracted debate over the E-Levy's passage by the Ghanaian Parliament resulted in reduction of the rate from 1.75 percent to 1.5 percent. Parliament finally approved the E-Levy bill on Tuesday, March 29, 2022, after the Minority staged a walkout as part of their avowed protest. The E-Levy bill was signed into law on Thursday March 31, 2022, and began on May 1, 2022.

Due to the unfavorable timing of its introduction, alongside the global economic challenges, compliance has been heavily compromised with many users of mobile money reverting to the use of cash to avoid the tax. This would later prove to be a miscalculation with dire consequences, as the projected new revenue amount of $1.15 billion was not realized. The re-introduction of road tolls was announced in the 2023 budget statement to Parliament on November 24, 2022. The budget statement also reduced the E-Levy rate from 1.5 percent to one percent of the transaction value and suspended the daily free transaction threshold of GH¢100.

The Big Problems - Inflation and Currency Depreciation

As a result of global price increases, Ghana's annual inflation rose to 40.4 percent in October 2022, representing a record high since July 2001. Food inflation in October 2022 reached 43.70 percent, driven most strongly by fuel price increases. Ghana, an oil exporter, imports all fuel consumed within the economy. Fuel prices at the pumps in November 2022 recorded more than a 173 percent increase since January 2022. The gasoline price shot up from GH¢6.90 in January to GH¢18.85 in November, an increase of 173 percent in less than a year. Diesel was equally sold at GH¢6.90 in January but reached GH¢23.45 in November, up by 240 percent within the same period of 11 months. The 2022 World Bank's Africa Pulse Report, released at the end of October, ranked Ghana as the country with sub-Sahara Africa's (SSA) highest food prices, claiming domestic food prices had gone up by 122 percent since January 2022. According to GOG figures, Inflation for imported items has reached 43.7 percent, higher than that for locally produced ones at 39.1 percent. Compounding the inflationary shock, from the beginning of the year the cedi has steadily depreciated against the major trading currencies, recording a depreciation rate of 58 percent against the U.S. dollar at the end of November 2022. Bloomberg reported that in October 2022, the cedi was the worst performing currency against the dollar in the world.

Chart 1: Ghana's Exchange Rate and Inflation Trends (January – November, 2022)



Data Source: International Currency Exchange, Nov. 2022; Ghana Statistical Service, Nov. 2022

Table 1: Impact of Inflation and Currency Depreciation on Selected Imports - Metric Tons/Liters

Product: \ Period:	January - September		%Δ 2022/21
	2021	2022	
Rice	186,031	125,088	-32.76
Wheat	766,643	395,464	-48.42
Poultry	287,619	93,924	-67.34
Red Meats (beef &pork)	15,122	5,465	-63.86
Seafood	41,335	34,952	-15.44
Snacks	27,089	6,372	-76.48
Pasta & Processed Cereals	72,480	61,561	-15.06
Dairy Products	37,460	11,104	-70.36
Exotic Fruits & Vegetables	87,934	82,397	-3.30
Alcoholic Beverages	35,716,517	17,112,020	-52.09
Non-alcoholic Beverages	66,368,009	43,977,542	-33.74

Data Source: Trade Data Monitor LLB, 2022

Table 1 shows that Ghana's rising inflation and its local currency's depreciation have resulted in significant decline in volumes of imports for almost all the selected products. This is expected to induce further price hikes as demand outstrips supply.

Table 2: Changes in Prices of Food Items on the Local Markets Since January 2022

Food Item	Previous Price (GH¢) per unit, January	Current Price (GH¢) per Unit, November	%ΔCurrent Price/Previous Price
Locally produced dressed chicken (broiler)	35/kg	60/kg	71
Locally produced dressed chicken (spent layer)	25/kg	50/kg	100
Imported frozen chicken	15/kg	30/kg	100
Imported red fish	12.5/kg	51/kg	308
Imported silver hake	11/kg	30.5/kg	177
Fish (Mackerel)	9.14/kg	15/kg	64
Eggs	18/crate	40/crate	122
Milk (UHT)	16/L	30/L	88
Bottled beer	7/330mls	10/330mls	43
Bread	6.5/loaf	18.95/loaf	192
Cooking oil	18/L	45/L	150
Cassava	3.54/kg	6.52/kg	84
Corn	4.06/kg	5.3/kg	31
Kenkey (boiled fermented corn dough balls covered in corn husks or plantain leaves)	2/ball	3/ball	50
Plantain	3.4/kg	8.84/kg	42
Rice (imported)	8/kg	22.5/kg	181
Rice (local)	9/kg	14/kg	56
Yam	6/kg	8/kg	33

Source: FAS Accra Field Survey, 2022

GOG's Announced Policies and the Expected Impacts

Curiously, the same factors (excessive borrowing, financial indiscipline, and revenue underperformance resulting from leakages, loopholes, and tax exemptions) identified by the current Finance Minister as the reasons for Ghana's economic woes in the 2017 budget statement persist and seem to have worsened. So, in a swift move to forestall further economic decline, the GOG announced several policy measures to help stabilize and revive the economy, in addition to opening negotiations with the International Monetary Fund for a new three-year program in September 2022 to relieve the GOG's balance of payment issues.

Relevant to agricultural trade and food security among these measures include:

- Reduction in the government's input subsidy rate from 38% to 15%
- Extensions to the six-month temporary restriction on grain and legumes exports
- MOFA set up foodstuff market at its premises
- Expansion of import permit policy to include rice
- Withdrawal of the benchmark discount policy on imported goods
- Withdrawal of forex support for selected imports

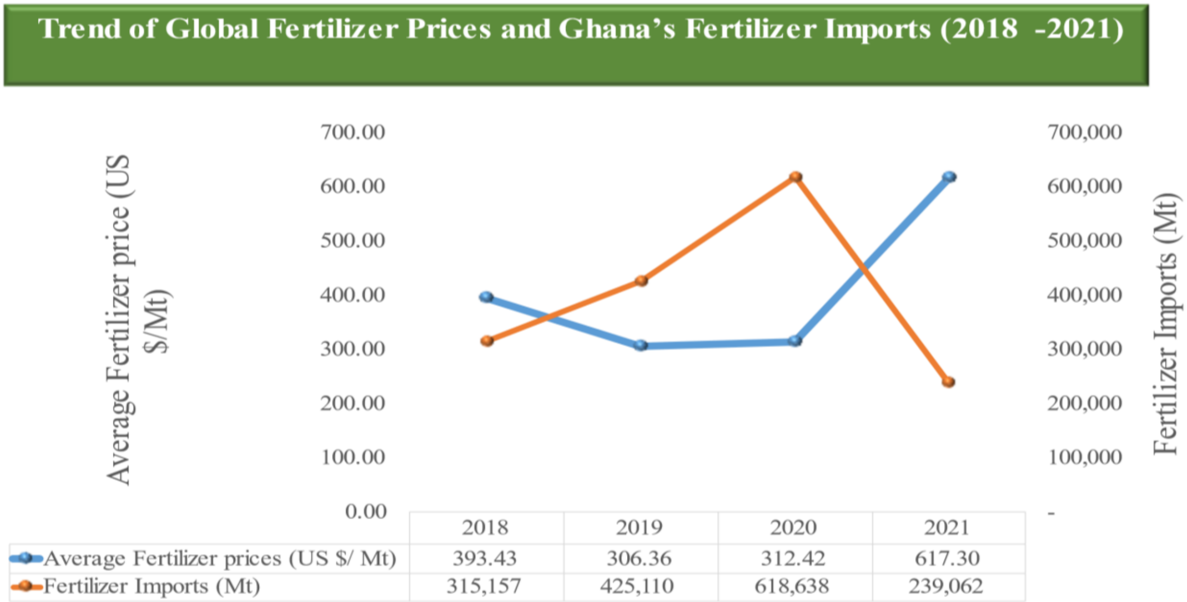
Reduced Fertilizer Subsidy means Decreased Local Food Supply is Imminent

Most impactful on the domestic food production has been the high global fertilizer prices, which caused the GOG to review its existing input subsidy package for Ghanaian farmers under its flagship project, Planting for Food and Jobs (PFJ). Under the PFJ, the GOG provided Ghanaian farmers with a 50 percent subsidy on the market prices of fertilizer. This provision has been very instrumental in the appreciable increases in crop productions recorded since the project's inception in 2017. For four continuous years, the input subsidy offered by the GOG had been 50 percent until the 2021/22 cropping season when MOFA announced a review of the input subsidy package.

The rising prices of fertilizer on the international markets forced the GOG to reduce the subsidy rate from 50 percent to 38 percent for the 2021/22 crop growing season. Ahead of the 2022/23 cropping season, The GOG announced in March 2022, that the fertilizer subsidy under the PFJ has again been slashed from 38 percent to 15 percent due to a more than 200 percent increase in fertilizer prices within just a year. The surging prices continued, as Urea recorded 91 percent increase in price in less than a year, with average retail price rising from GH¢260/50 kg in October 2021 to GH¢497.50/50 kg in September 2022. NPK (15-15-15) recorded an increase of 102 percent over the same period (from GH¢200/50 kg in October 2021 to 403.33/50 kg in September 2022).

This policy review, at a time when fertilizer prices are climbing beyond most farmers' ability to buy, will adversely affect domestic production and supply of key staples like corn and rice that usually rely on inorganic fertilizer application. Some farmers have indicated reducing their cropping areas, by up to 50 percent in some cases. Others have shifted to less fertilizer-dependent staple crops. Clearly, Ghana is already on the path to harvest less food in the 2022/23 crop production season.

Chart 2: Ghana's Fertilizer Imports and Hikes in Global Fertilizer Prices



Source: Statistics Research and Information Directorate, MOFA (2021)

Grain and Legumes Exports Restrictions Remains Ineffective

While the country is reported to have experienced bumper harvests during the 2021/2022 cropping season, recording average increases in productions of 15.74 percent, 8.38 percent, and 10.69 percent for cereals, starchy staples, and legumes respectively, food supply in most markets during the lean season (April to August) was limited. The activities of aggregators from neighboring countries were mainly blamed for this observation, triggering the GOG's original restriction announcement and renewals of temporary restrictions of cereals and legumes exports. Though the GOG has silently rendered what was initially announced as a six-month temporary restriction policy to an indefinite one, its enforcement has been barely effective because a substantial part of cereal and legume exports occurs informally, and usually over the porous land borders. Very minimal impact on trade and food supply is anticipated. The GOG has directed Customs agents at border points to enforce the bans.

Foodstuff Market at MOFA's Premises - Unsustainable

The recently introduced special markets on the premises of MOFA, described by the sector minister as a pilot project to supply Civil Servants with affordable produce sourced directly from the farms of PFJ beneficiaries, are not expected to last beyond the harvesting season. The concept was hatched to provide some relief to consumers due to the hikes in food prices but remains a drop in the ocean, as very few consumers are served. Though a commendable concept, it is obvious that there will not be enough supplies to sustain this initiative beyond the first quarter of 2023.

Import Restriction Policies will be Counterproductive

Since November 17, 2022, the Bank of Ghana (BoG) has withdrawn foreign exchange support to customers for the importation of certain goods it classified as "non-critical" or "non-essential," following a national address by President Akufo-Addo on Sunday October 30th, 2022, where he outlined steps to be taken to revitalize the Ghanaian economy. It is anticipated this restriction will remain in place until May 2023. The BoG sent an electronic message to the country's commercial banks informing them that following the presidential address, the central bank will no longer provide FX support for the imports of rice, poultry, seafood, vegetable oil, toothpicks, pasta, fruit juice, bottled water, ceramic tiles, and other non-critical goods.

The BoG expects this action to reduce the high demand for U.S. dollar and other major trading currencies and consequently slowdown the rapid depreciation of the cedi. Key industry players like the Food and Beverage Association of Ghana (FABAG) and the Importers and Exporters Association of Ghana (IEAG) that have been affected by this policy direction have resolved to adopt "a wait and see" approach towards this GOG policy initiative. Members of these associations foresee a difficult food security situation in the first quarter of 2023 should this policy of not funding imports of poultry and rice persist as planned. FABAG and IEAG remain confident that the resounding public outcry about further price increases will cause the GOG to retract the policy.

This move, seen by many in government as a policy that will help reduce the country's exposure to imports, ignores the looming consequence in terms of food security, especially as the populace are already grappling with recent sharp increases in the prices of food resulting mainly from high inflation and depreciation of the Ghanaian cedi against the major trading currencies. The need to ensure food security, especially during the lean season (April-August), should put pressure upon the government to reverse this policy, as Ghana is still far away from self-sufficiency in poultry meat, and rice production.

Expectedly, the complete withdrawal of the Benchmark Value Discount policy by the GOG in the 2023 budget statement has received mixed reactions from industry players, with local producers hailing the Government for supporting them to be competitive whereas the importers were disappointed with the 180-degrees change in policy direction. The Benchmark Value Discount Policy was introduced in April 2019 by the GOG with a view to make the Ghanaian ports competitive, reduce smuggling and increase government's revenue from the port. The policy provided a discount of 50 percent on the delivery or benchmark values of general imports with the exceptions of vehicles (imported vehicles received a 30 percent discount). This reduced import duties significantly and impacted prices of imported goods. The reversal of the policy will ultimately result in increased prices of imported goods.

Rice importers are now expected to offer proof of domestic sourcing to receive import permit from MOFA. This non-transparent trade policy is modeled after a previous requirement for poultry import permit (introduced by the current main opposition party while in government), when poultry importers were required to source 40 percent of their planned import volumes from domestic poultry producers before getting import permits from MOFA. According to the affected importers, a challenge with this directive is that samples presented by domestic suppliers appear good, but the final orders are usually substandard, requiring the off takers to make further investment in getting the rice prepared to the acceptable standard for consumers, thereby attracting additional marketing costs.

The withdrawal of forex support for selected imports, withdrawal of the benchmark discount policy on imported goods, and the addition of rice to poultry as products requiring import permits, will combine to be quite counterproductive. This is because the country is already set to record low food production in the 2022/23 cropping season. Ghana's population continues to grow, so the food supply will have to be enhanced or at least sustained to keep food prices from further increases. Any import restrictions will lead to depletion of stocks, unavoidably accompanied by escalating prices.

Industry’s Reaction to Withdrawal of Forex Support for Selected imports
Executives of various trade associations have described the Bank of Ghana’s current policy of suspending forex support for the import of rice, seafood, poultry, vegetable oils, toothpicks, pasta, fruit-juice, bottled water, ceramic tiles and a few other products identified as non-critical as a rushed one. This policy forms part of the GOG’s measures to address the cedi-depreciation, and these trade leaders acknowledged the concept behind the policy; however, they insist, it lacked stakeholder consultation and an effective contingency plan. It is obvious that Ghana lacks the local capacity to produce enough to meet its current local and export demands, and the leaders of the trade associations explained that the withdrawal of forex support can lead to a shortage of food in the near term.

Importers are complaining that working capital and profit margins are eroded by the continued depreciation of the cedi, and the volatility of the exchange rate is seriously affecting planned imports. Some importers have expressed concerns that the new policies will push them out of business. Another consequence of the import restriction policy, according to the trade association executives, is that some importers, distributors, and wholesalers may engage in hoarding, resulting in artificial shortages that will push prices further up as demand outstrips the available supply. Ultimately, the public will face price hikes. The leadership of the trade associations intimate that their members are open to sourcing goods locally but wonder if Ghana can produce at the same capacity, standard/quality and at competitive prices. They thus request that the GOG take a more measured approach in trying to discontinue the importation of these commodities described as non-critical.

Trade and market analysts have warned that the announced measures will cause traders to engage in desperate methods including smuggling and patronizing the black market. Some importers openly admit that they may decide to import through Togo and smuggle the goods into the Ghana through the land borders. This will have food safety implications, as the Food and Drugs Authority will not be able to regulate what gets into the country for public consumption, cold-chain integrity will be compromised on frozen product, and the GOG will lose tax revenue due to the smuggled goods. Undoubtedly, a thriving black market will be inimical to the BoG’s course of sanitizing the financial sector.

The Way Back
Ghana’s negotiations with the IMF are the principal key to success, as the return of availability of international financing will permit Ghana to restructure existing loans in a way to re-instill confidence in the Government and the Ghanaian cedi. As global inflation begins to moderate, the influx of imported inflation should diminish, and adjustments can be made by the players within the economy to the new circumstances. Ghanaian importers, producers, and consumers will continue to make the best they can of the situation. For the foreseeable future, food prices in Ghana will remain elevated as supplies remain limited.

End of report.

Attachments:

No Attachments.