

Agriculture and Services Lift Growth; Outlook Remains Positive.

GDP - Q4-20

According to the recently released Q4-20 GDP report by the Ghanaian Statistical Service (GSS), the economy grew by 3.27% y/y in Q4-20 compared with a revised contraction of 3.18% y/y in Q3-20. The sustained growth in the fourth quarter of 2020 was due to (1) stronger expansion in the Agricultural sector (+8.18% y/y vs Q3-20: +4.89% y/y) and (2) rebound in the services sector (+4.65% y/y vs Q3-20: -3.35% y/y) amidst the easing of COVID-19 restrictions which took effect in June 2020. The Q4-20 GDP outturn was in line with Cordros' estimate of 3.28% y/y. However, due to the revisions to the Q1-20 (+6.79% y/y vs previous: +4.91% y/y), Q2-20 (-5.92% y/y vs previous: -3.21% y/y) and Q3-20 (-3.18% y/y vs previous: -1.09% y/y) growth numbers, the 2020FY (+0.29% vs 2019FY: +6.64%) print was 71bps below our estimate of 1.00% y/y.

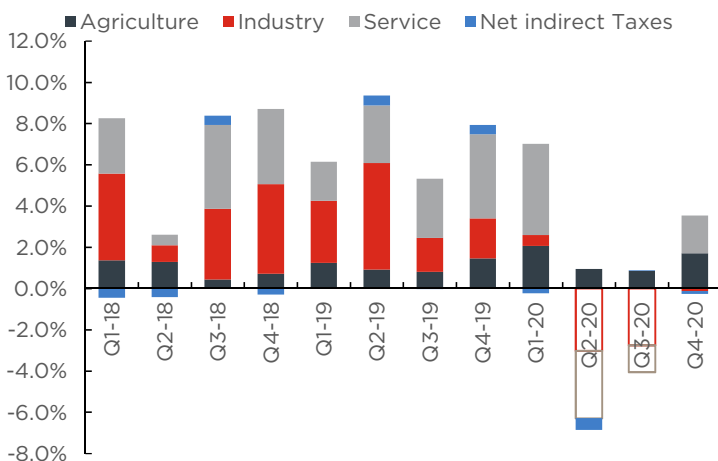
Our attribution analysis also shows that agriculture contributed 1.71ppts to the 3.27% y/y growth rate while the service sector contributed 1.83ppts in the fourth quarter. On the other hand, industries (-0.12ppts) and net indirect taxes (-0.15ppts) contributed negatively to the growth rate during the period. Classifying broadly into oil and non-oil sectors, we highlight that the oil sector (7.4% of total GDP) posted its fourth consecutive quarter of decline amidst lower oil production volume. In comparison, the non-oil sector (92.6% of total GDP) rebounded after two consecutive quarters of decline. Pertinently, the oil sector contracted by 9.85% y/y (Q3-20: -10.80% y/y) while the non-oil sector grew by 4.48% y/y (Q3-20: -2.42% y/y).

Analyst(s)

Abdulazeez Kuranga

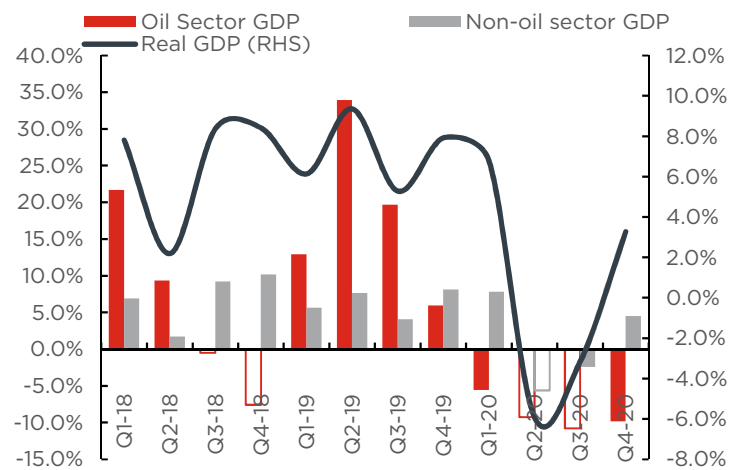
abdulazeez.kuranga@cordros.com

Figure 1: Contribution to GDP growth rate (y/y)



Source: GSS, Cordros Research Estimates

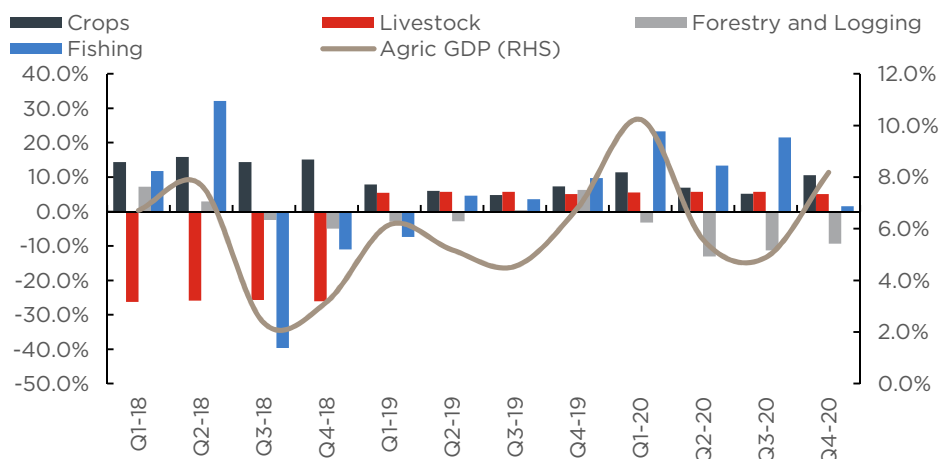
Figure 2: Trend in Oil and Non-oil sector growth (y/y)



Agricultural Output Maintains Momentum

Boosted by crops and cocoa production (75.0% of total agriculture output), the agricultural sector grew by 8.18% y/y in Q4-20 (Q3-20: 4.89% y/y) – the highest since Q4-19 when the sector posted a growth of 10.23% y/y, which was the highest since the GSS started keeping a record of the current data series. We think the USD400.00/tonne Living Income Differential (LID) implemented at the beginning of Q4-20 must have influenced cocoa producers to ramp up supplies to earn more as the LID is added to the sale price of Cocoa beans. Consequently, the growth in crops and cocoa doubled to 10.59% y/y in Q4-20 (Q3-20: 5.16% y/y). The robust expansion in crops and cocoa alongside the growth in livestock (5.09% y/y vs Q3-20: 5.75% y/y) and fishing (1.57% y/y vs Q3-20: 21.53% y/y) proved sufficient in offsetting the decline in forestry and logging (-9.35% y/y vs Q3-20: -11.29% y/y).

Figure 3: GDP growth of the Agriculture sector and sub-sectors



Source: GSS, Cordros Research

Gains from Re-opening puts Service Sector Back in Shape

After posting two consecutive quarters of decline in Q2-20 (-8.29% y/y) and Q3-20 (-3.35% y/y), the services sector rebounded in Q4-20 (4.65%). We believe the strong recovery in the sector reflects the (1) continued gains from the relaxation of COVID-19 induced containment measures, (2) increase in Telecoms subscribers and (3) production of medical and pharmaceutical products in response to the pandemic. Thus, broad-based expansion across the Trade (+5.54% y/y vs Q3-20: -11.36% y/y), ICT (+22.46% y/y vs Q3-20: +32.63% y/y), Real Estate (+43.48% y/y vs Q3-20: -6.59% y/y), Health (+15.79% y/y vs Q3-20: +6.85% y/y) and Transportation (+5.41% y/y vs Q3-20: +5.31% y/y) all of which constitute 57.7% of the Services GDP helped in bringing the Services sector back to shape.

Recovery in Manufacturing Sector Moderates Decline in Industrial GDP

Unlike the Agricultural and Services sectors, the Industrial GDP (32.6% of total GDP) declined in Q4-20 (-0.36% y/y) albeit substantially lower when compared with Q2-20 (-7.82% y/y) and Q3-20 (-7.16% y/y). The mild contraction in the fourth quarter came on the heels of a sharp recovery in the manufacturing sector

(+14.20% y/y vs Q3-20: -7.36% y/y) – the highest since Q1-18: (+16.61% y/y). We think the preceding was due to the (1) increased demand by the consumers occasioned by festivities and (2) stability in the FX situation of the country amidst the easing of social distancing measures, both of which positively influenced manufacturing production. Meanwhile, the mining and quarrying (-10.91% y/y vs Q3-20: -12.39% y/y) sub-sector continued to reel from the impact of the COVID-19 pandemic, with the Oil sector (52.3% of mining GDP) posted its fourth consecutive quarter of decline.

Outlook – Positive Growth Trajectory to be Sustained in Q1-21

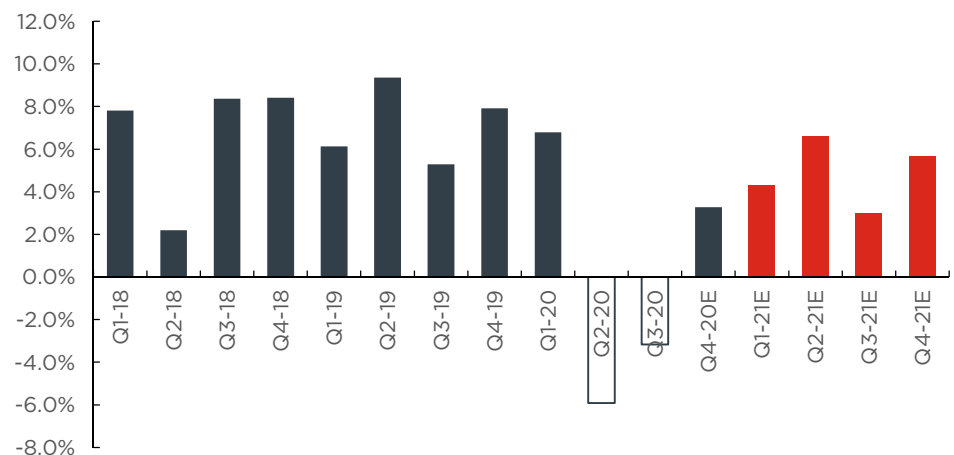
For the Agricultural sector, we expect growth to moderate on account of a high base effect in the prior year even as Cocoa producers continue to ramp up production given the LID implementation. **Accordingly, we estimate the agriculture sector will grow by 2.58% y/y.**

Similarly, we expect the base effect from Q1-20 to moderate the growth in the service sector in Q1-21 amidst the knock-on effects from the administration of COVID-19 vaccines. That said, we remain bullish on the ICT sector as voice and internet subscriptions continue to benefit from the expansion in mobile money services. We also expect trade to continue to benefit from the full re-opening of the economy. **Overall, we forecast the service sector will grow by 3.59% y/y in Q1-21.**

Although mining and quarrying activities are expected to be constrained by low crude oil production volume, we believe the favourable base effects from the prior year and sustained uptrend in construction and manufacturing sub-sectors bodes well for the Industrial sector. **Consequently, we believe the Industrial sector is on course to post its first positive growth since Q1-20. Against this backdrop, we expect the industrial sector to grow by 3.29% y/y in Q1-20.**

Having factored in the upside and downside risks, we have revised our estimates for Q1-21 and 2021FY growth upwards to 4.30% y/y (Previously: 2.73% y/y) and 4.85% y/y (Previously: 4.56% y/y), respectively.

Figure 4: Trend in GDP – Historical and Forecast (y/y)



Source: GSS, Cordros Research Estimates

Appendix. Ghana - Key Economic Forecasts.

	2013	2014	2015	2016	2017	2018	2019	2020E	2021E
Activity									
Real GDP (% YoY)		2.9	2.2	3.5	8.1	6.3	6.6	0.3	4.9
Nominal GDP (GHS billion)	123.65	155.43	180.40	215.08	256.67	300.6	350.79	404.9	432.66
Nominal GDP (USD billion)	64.40	52.95	47.77	54.86	58.92	65.56	69.01	71.85	73.58
Real GDP (GHS billion)	123.65	127.20	130.00	134.50	145.40	154.50	165.51	165.99	174.05
Population (million)	26.43	27.04	27.67	28.31	28.96	29.61	30.28	30.98	31.69
GDP per capita (USD)	2436.63	1958.20	1726.40	1937.80	2034.50	2214.1	2212.02	2171.4	2320.61
Stock of bank credit to the economy (GHS billion)	16.96	24.10	30.13	35.41	37.83	42.72	45.17	48.85	52.24
Stock of bank credit to the economy (% of GDP)	13.7	15.5	16.7	16.4	14.7	14.2	12.9	12.9	12.1
Fiscal balance (% of GDP)									
Federal government balance	-6.6	-4.87	-4	-8.11	-3.38	-3.51	-4.14	-13.4	-10.7
Total public debt	42.9	51.2	55.5	56.8	55.5	57.6	62.4	70.9	74.3
Capital Expenditure	3.87	4.03	3.98	3.57	2.47	1.58	1.76	2.3	3.34
Debt Indicators									
Gross external debt (USD billion)	11.90	13.87	15.76	16.44	17.16	17.88	20.31	24.5	30.5
Gross external debt (% of GDP)	20.9	28.6	33.4	32.0	29.5	28.8	32.5	36.2	38.4
Gross external debt (% of exports)	103.9	113.7	131.6	159.4	121.1	110.5	137.6	169.4	186
Total debt service (USD billion)	2.29	2.41	2.40	2.75	3.11	3.45	3.79	4.58	5.28
Total debt service (% of GDP)	3.6	4.6	5.0	5.0	5.3	5.3	5.7	6.8	7.2
Total debt service (% of exports)	16.4	17.8	21.7	24.7	22.5	23.2	24.2	31.7	35.0
External Balance									
Exports (GHS billion)	24.86	39.15	45.48	43.13	62.59	78.02	81.79	83.00	89.39
Exports (USD billion)	13.95	13.55	11.06	11.14	13.84	14.87	15.67	14.46	15.10
Imports (GHS billion)	25.78	39.46	46.83	45.72	55.43	62.42	69.84	71.41	75.89
Imports (USD billion)	17.48	15.04	13.99	12.92	12.65	13.12	13.38	12.44	12.82
Trade balance (GHS billion)	(0.92)	(0.31)	(1.35)	(2.59)	7.16	15.60	11.95	11.59	13.50
Trade balance (% of GDP)	-0.7	-0.2	-0.7	-1.2	2.8	5.2	3.4	3.1	3.1
Current account balance (USD billion)	(5.58)	(3.75)	(3.38)	(2.84)	(2.00)	5.78	(2.15)	(1.97)	(2.57)
Current account balance (% of GDP)	-8.7	-7.1	-7.1	-5.2	-3.4	8.8	-3.21	-2.9	-3.5
Net FDI (USD billion)	3.74	4.47	2.91	6.82	7.14	3.19	3.07	1.86	3.10
Net FDI (% of GDP)	5.8	8.4	6.1	12.4	12.1	4.9	4.6	2.8	4.2
Current account balance plus FDI (% of GDP)	(2.9)	1.4	(1.0)	7.3	8.7	13.7	1.4	(0.2)	0.7
Exports (% YoY, GHS value)	-12.2	57.5	16.2	-5.2	45.1	24.7	4.8	1.5	7.7
Imports (% YoY, GHS value)	5.6	53.1	18.7	(2.4)	21.2	12.6	11.9	2.3	6.3
Foreign exchange reserves (ex. gold, USD billion)	5.63	5.46	5.88	6.16	7.55	7.02	8.42	8.6	9.07
Foreign exchange reserves adequacy (average months of import cover)	3.1	3.8	3.5	3.5	4.3	4.1	4.0	4.1	4.3
Prices									
CPI (average % YoY)	11.7	15.5	17.1	17.5	12.4	9.9	7.2	9.9	9.1
CPI (year-end % YoY)	13.5	16.99	17.7	15.4	11.8	9.43	7.9	10.5	11.3
GDP Deflator (year-end % YoY)		22.2	13.6	15.2	10.4	10.2	9.2	9.9	9.1
Interest & Exchange Rates									
Monetary policy rate (MPR), % year-end	16.0	21.0	26.0	25.5	20.0	17.0	16.0	14.5	14.5
Broad money supply (GHS billion)	20.69	27.53	34.86	43.42	52.06	60.43	69.95	92.7	107.45
Broad money supply (% YoY)	18.2	33.1	26.6	24.6	19.9	16.1	15.8	32.5	15.9
3-month interest rate (T-bill year-end %)	18.8	25.79	23.12	16.81	13.33	14.56	14.69	14.1	14
5Y yield (% year-end)				24.8	17.6	16.5	19.5	19.9	19.6
10Y Yield (% year-end)				19	19	17.5	19.8	19.8	19.7
Exchange rate (GHS/USD) annual average	1.92	2.94	3.78	3.92	4.36	4.59	5.22	5.74	5.45
Exchange rate (GHS/USD) year-end	2.20	3.20	3.79	4.20	4.52	4.96	5.71	5.87	5.92

Source: BOG, GSS, Bloomberg, Cordros Research Estimates

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