

# The Economic Impact of Ghana's Election: An Investor's Guide into 2017 **2016**

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## Introduction

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As Ghana's presidential elections fast approaches, Goodman AMC makes an in-depth analysis of each candidate's proposed economic policies and their macroeconomic impact in 2017. This research briefing describes how major factors gives an insight to diverging economic trajectories under a Mahama or an Akufo-Addo administration.

The proposed monetary policy for the National Democratic Congress (NDC) is centered on national debt reduction, expanding infrastructure and job creation within the private sector. Recently the NDC party has been construed as being a precursor to higher taxation and the tightening of government spending.

Comparatively, the monetary policy objectives for the New Patriotic Party (NPP) are centered on public sector job creation and increased government spending. NPP governmental policy also supports business-friendly legislation and legislation concerning issues such as universal education entitlements and extensive public work projects.

This scenario analysis provides a thorough and undeviating system for forecasting macroeconomic activities under either an Akufo-Addo or a Mahama presidency.

***Goodman AMC is an independent advisory firm with no political affiliation.***

## **Mahama vs Akufo-Addo**

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The impact of Mahama's economic proposal is likely to move from a modest slowdown in economic activity for the first 21 months of his presidency and is likely to receive a boost afterwards. Under Akufo-Addo, the economic impact is also likely to have a modest slowdown for his first 18 months and shift to a moderate positive boost afterwards.

The rationale behind this is the fact that elected Presidents in Ghana often inherit a growing national debt and also have the tendency to spend more when they have most political capital; mostly enacting reforms that may have an initial negative impact, but will pay economic and political dividends later. So normally the first year for the Ghanaian economy is poor. But by the second year (depending on the ability to manage the economy), they tend to gain some of the advantages from the early cycle.

Most elections in Ghana often tend to create a certain level of uncertainty. Nevertheless, Ghana's 2016 race is not any different. The main factors that would explain diverging economic trajectories under a Mahama and Akufo-Addo presidency are; fiscal, job creation and investor confidence.

When it comes to the fiscal front, the fiscal multiplier from increased government spending and tax cuts under Akufo-Addo (which according to the NPP, is intended to shift the focus of economic policy away from taxation to production) would be slightly higher than increased taxation on various sectors under Mahama.

An NPP Administration though, despite its grandiose promises and increased spending might possibly shirk austere fiscal spending in their first year, touting Ghana's increasing debt and huge spending on large infrastructure projects as a result for necessary austerity measures.

## **High Income Inequality Levels Cause for Demands from Voters**

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Though most analysts would be wondering the underlying factors that have led voters to begin to make demands and believe out-rightly in promises made to them by politicians (both from the NPP and NDC), Goodman AMC is strongly convinced that the widening income inequality gap is likely to be the most obvious answer. The inequality between the North and South of Ghana was estimated by UNICEF and surmised that, the differential between just the north and south of the country accounted for a 10% of national inequality in 2013. Inequalities between the rural and urban areas now account for 17.6% of Ghana's inequality.

More so, the average household expenditure in urban localities stands at GHC 11,061 which is about 1.5 times that of the rural localities which stood at GHC 7,152.

National inequality and an increase in unemployment rates (partly due to the freeze on employment by Government which is the largest employer) has been a major factor responsible for the increasing job creation promises by presidential candidates to the electorates. The electorates want to see these promises for job creation and income stability come to pass. Fifteen percent of national inequality in 2013 according to the Thiel Index was due to differences in average living conditions between regions.

Goodman AMC is therefore convinced that this income inequality situation in Ghana will proceed to play a major deciding role in driving the Ghanaian electorate. Probably more importantly than is commonly believed, history shows that assuring promises does not necessarily solidify a presidential candidates chances of winning.

## **Uncertainties May Persist**

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Ghana's Provisional Real GDP (including Oil) grew at 2.50% (year-on-year) in the second quarter of 2016, representing a sharp decline from a 4.8% growth in the first quarter. The slowdown in growth was mostly due to a 49% fall in oil output after a technical fault at the main production vessel stopped production between March and May. Nevertheless Goodman AMC believes that part of the weakness in economic growth could already be as a result of the lingering apprehension about the election which has reduced business spending, since most investors are waiting to see the outcome of the elections. Real GDP growth is projected to reach 4.9% in 2016 and 5.5% in 2017.

Ghana's presidential elections would be mired by likely economic uncertainties for a Mahama or Akufo-Addo win. The usual component relates to who becomes the next president of Ghana as well as what kinds of policies the new president plans to undertake.

The uncertainty is quite high if Akufo-Addo wins since his policies and plans to implement are of divergence with Mahama's already existing and well known plans.

With several research works demonstrating that uncertainty may cause businesses to delay investments, Ghana's situation is no different. It may eventually go on to hurt employment in the services sectors. Goodman AMC strongly believes that the pending election cycle is currently weighing slightly on economic activity, and will continue to do so into 2017.

This could be tracked back to both the Kufuor and Atta-Mills Administrations. After the NPP's Kufuor had handed over power to the NDC's Atta-Mills in 2009, GDP growth rate plummeted from 8.4% in 2008 to 4.7% in 2009. This sharp decrease was as a result of the high level of uncertainties that came along with a shift in political power.

In 2009 when the left winger Atta-Mills took over power from the center-right John Kufuor, most deals and contracts with investors in the oil and gas sector were abrogated and reviewed, causing many investors to flee the country. A similar occurrence is likely to happen with an Akufo-Addo win. Therefore an NPP sweep could dominantly affect most investors in the oil and gas sector who have already been the targets of heated criticisms from the NPP camp. This could scare markets and slow growth even further, contributing to a pullback that will be followed by a recovery later in the year.

A major example was the Kosmos Energy and Government of Ghana oil drill and exploration deal which later went sour under a new government and eventually set a bad precedence which later caused international capital to flee from Ghana. This could also be a determinant for the modest slowdown of the economy under an NPP appreciation. Ghana's landmark railway project between the Government of Ghana, Ghanaian investor and billionaire Charles Ampofo and a consortium of investors was halted largely due to such uncertainties.

By contrast, a Mahama win will be good for most foreign oil and gas/energy contractors, subcontractors and companies already having major dealings with the Government of Ghana.

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## Government Spending & Deficits

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It is quite obvious that, Akufo-Addo's stated desire to reduce taxes would boost private sector activity. On the face of it Mahama would on the other hand under a Seth Terkper Finance Ministry continue to maintain or raise taxes which could lower private sector's incentives to spend.

In Akufo-Addo's manifesto, there is a proposal to champion a reduction in taxes over the next four years. There is also an ambition to increase government spending to carry out policies like *one-district one -factory, free senior high school, \$1 million for every constituency, one-village one-dam* etc. These could increase the country's deficit. It's also worth noting that while Akufo-Addo has proposed significant tax cuts, we haven't heard many specifics about the budget items that will be reduced or eliminated to make those cuts possible.

Akufo-Addo has promised to give every constituency the equivalent of \$1 million a year if his party wins power. These money they proposed would be used to alleviate poverty by installing basic services such as electricity, running water and sanitation. This would cost \$1.1 billion over four years given that Ghana has 275 constituencies. With Ghana having accepted an IMF bailout partly for its debt management, a project like this would need clearer explanations on how this plan would not break budget in a time of austerity.

Mahama's possible tax increment and spending on the other hand would lead to a static increase of the deficit. However, taking into consideration the stronger economic activity from increased government spending, this could actually lead to a modest dynamic reduction in the budget deficit by the end of 2020.

Meanwhile, both Akufo-Addo's and Mahama's proposals to create jobs is expected to increase activity in the near term, and increase the economy's potential growth rate by preventing an accelerated slowdown in the labor force.

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## Investor Confidence

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Another important issue has to do with the candidate who is likely to boost confidence in the market. Under Akufo-Addo's administration, we assume a modest negative confidence shock for the initial first quarter of 2017 as private sector investors retrench. The adverse domestic confidence shock would largely be as a result of a likely power crisis in Ghana which could increase investor agitation and somehow elevate market turbulence.

An Akufo-Addo victory would initially make international investors less confident about the direction of Ghana's economic policy since a win by Akufo-Addo is likely to mean more changes in policy.

In other words, the negative confidence impact both locally and on the foreign markets would be short lived, and followed by market relief with much reduced uncertainties after the first 18 months.

Meanwhile, a Mahama victory would also likely be accompanied with a pending power crisis and lead to a more modest confidence shock as well as less capital inflows into the country.

The impact of Mahama clinching the 'throne' will be gentler on the climate of political policy than if Akufo-Addo wins the election, given that he is still the incumbent President.

As mentioned earlier, Ghana stands a high chance of another power crisis under either a Mahama win or an Akufo-Addo victory, which could persist for over 6 to 12 months. This could be short lived depending on a candidate's willingness to prioritize energy policy. Note that the gas from Jubilee and TEN fields will not be able to meet fully the total current demand. They will only enhance power supply but will not add to the generation capacity.

## **Market Perception and Business Sentiments**

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From an investing in Ghana perspective, it is very imperative to take note that markets in Ghana never behave that predictably nor do they move in coherence with political decisions.

The Stock Market in Ghana does not thrive on whether the public are concerned about who becomes the next president and also does not respond to a president's approval ratings.

For example, after the 2004 and 2008 elections, the Ghanaian stock market (as measured by the GSE-AS) surprised everyone by defying all projections made by experts.

After year-end 2004, the Ghana Stock Exchange All-Share Index recorded a 91.32% increase from a low of 3553.42 points in 2003 to 4769.02 points in 2004 which was an election year. The average of the stock price before 2004 was also 0.047 and this increased to an average of 0.123 after 2004. This showed an increase in the market index of 261% over the period.

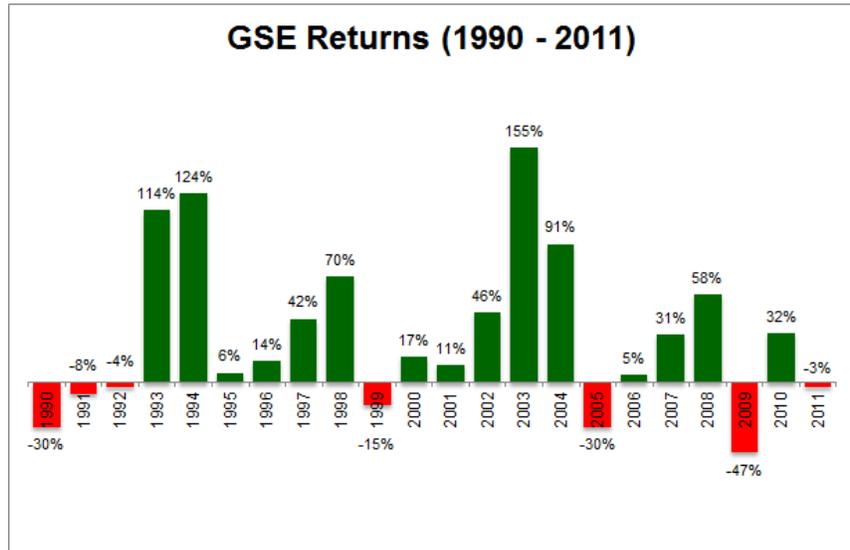
Note further that at the end of election year 2004, Ghana Stock Exchange (GSE) was adjudged the world's best-performing market with a year return of 144% in US dollar terms, compared with 30% return by Morgan Stanley Capital International Global Index.

Though the 2008 elections was even entangled with greater uncertainties since it was an incumbent handing over power to a new government, the GSE All Share Index had enjoyed an impressive growth of over 100% from 2006 to year-end 2008 when it rose from 5,006.02 points in 2006 to 10,431.64 points.

Moreover it is very critical to bear in mind that the market has followed a particular trend for 3 consecutive elections. After every general election year ever since

Ghana's December 2000 presidential elections a peculiar pattern had occurred; the GSE All-Share Index growth declined to 11% in 2001 after a 17% growth in the year 2000 which was an election year. Similarly, growth plummeted by 30% in 2005 after a 91% growth in 2004 which was also an election year. After year-end in 2009 an even worse growth was recorded; the GSE All Share growth had decreased sharply to an all-time low of 47% from a 58% high in election year 2008.

Source: Annual Report Ghana



It could also be argued that an anomaly had occurred post the 2012 presidential election in Ghana when the GSE Composite Index in 2013 took a different turn by recording a significant growth of 78.8%, one of the best performances in the world.

Here again, history suggests the market is resilient and indifferent to election year uncertainties but may take a downward turn afterwards. An election year therefore tends to create less market volatility even though there are uncertainties of who

will be elected president of Ghana. On the other hand, it should be noted 2017 could witness either a steep rise or a sharp decline in the stock market performance at record levels.

However, it is also important to note that the decline in investment inflows in Ghana has been primarily due to fundamental reasons in the economy as opposed to a change in administration.

One major fear investors might have could be when the Ghanaian electorate elects a president who is already much disliked or could become very unpopular while in office, this mostly isn't the case in Ghana. Therefore it is important to note that for an investor, the only real concern should be how to lobby the Government.

#### **Ghana Business Confidence**

Business sentiments as measured by the Bank of Ghana's Business Confidence Index went up from an index level of 91.8 in December 2015 to 97.1 in March 2016. This was driven by relative stability in the foreign exchange market, enhanced prospects for growth, increased capital expenditure and industry performance. The slight increase in business confidence could possibly be indicating that uncertainty over the outcome of December presidential election is causing companies in Ghana to put big plans on hold.

The December presidential election is likely to have a mild impact on whether this slightly improved business confidence could translate into genuine increases in investment in 2017. However, Goldman AMC expects business confidence to still be on an increasing trajectory after the first quarter of 2017.

Ghana's Consumer Confidence also inched up from an index level of 88.2 in February 2016 to 90.1 in April 2016. The rise in April 2016 Consumer Confidence Index suggested that consumers were relatively more optimistic about prospects of the domestic economy compared to sentiments disclosed in February 2016. This

could translate that Ghanaians are more confident even as the election draws closer than they were at the beginning of the year.

This has also left perceptions about economic conditions at a high in 2016 despite the pending elections. The Composite Index of Economic Activity (CIEA) which is the Bank of Ghana's leading indicator of economic activity improved to 416.26 in March 2016, from 397.12 in March 2015. This represented a year-on-year growth of 4.8%, compared with a growth of 5.8% a year earlier. With the elections closer than ever, the CIEA continues to show a positive boost, and inched up from 406.7 in June to 410.8 in July representing a 5.0% year-on-year growth.

Despite the so-called election uncertainties, both Consumer Confidence and CIEA are also expected to continue its slightly upward trends if growth prospects are impacted positively by the oil and gas production from the TEN oil fields and the stability in the foreign exchange market. However, risks to the growth outlook, which includes, the tight credit conditions, electricity supply shortfalls and continued fiscal tightness, could slow down this growth projection in the first quarter of 2017.

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## Cedi Depreciation

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Currency depreciation might occur as a result of a number of factors – economic fundamentals, interest rate differentials and risk aversion among investors. The slowdown in economic activity in 2017 could be mainly attributed to energy supply constraints and rising input costs.

Therefore with a potential energy crisis Goodman AMC predicts that the Cedi could depreciate rapidly again in the first half of 2017 but remain relatively stable during the second half. This could also be fuelled by the outflows of foreign exchange from a higher-than projected trade deficit resulting from an oil price decline and lower production levels of cocoa and gold. This depreciation could also be aggravated by speculative activities on the foreign exchange market, which follows similar depreciation trends during the same period in 2015.

Regardless, an NPP presidency could among other factors contribute to a more immediate but short-term fluctuation in the Cedi due to the uncertainty of markets about the effects of Akufo-Addo's policies on the Ghanaian economy. However, long-term, these effects could fade in the long-run, should his policies prove to be successful, or could grow should they be unsuccessful.

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## Impact on Public Debt

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The next president will enter office with the national debt of over USD 27.8 billion (65.9% of GDP) as at July 2016. Debt held by the public is projected to increase to about \$32.4 billion by the end of 2016. Public debt to GDP ratio has been projected to reach 72.4% in 2016 and 62.6% by the end of 2017. This large and growing national debt threatens to slow economic growth and could be ultimately unsustainable.

Based on Goodman AMC's preliminary update of our central estimates, both Mahama and Akufo-Addo would increase the debt relative to current law. Though Akufo-Addo would increase it by an order of magnitude more, Mahama's plan would slightly reduce deficits if unspecified revenue from business tax reforms are incorporated.

With debt levels of over \$26 billion and interest rates at 26%, there is probably little alternative to cutting spending and finding new sources of tax revenues, irrespective of which party gets into power.

With Akufo-Addo's plans to reintroduce nursing allowances, introduce free Senior High School, give \$1 million to every constituency etc., unless it is accompanied by very large spending cuts, it could increase the national debt, offsetting some or all of the incentive effects of the tax cuts. Also billions of dollars in new spending, especially without raising taxes, raises the threat of inflation.

The Bank of Ghana's latest inflation forecast suggests slight outward shift in the forecast horizon as increases in ex-pump prices of petroleum products slowed the pace of expected disinflation. Therefore, it predicts that headline inflation is likely to move within the medium-term target band of  $8 \pm 2$  percent in the third quarter of 2017, against earlier projections of mid-2017.

## **Conclusions**

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All in all, the 2016 election has been quite interesting in terms of policy directions. For long-term investors, however, there aren't very many uncertainties that they should worry about from the Ghanaian election, no matter who wins.

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## Caveat

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1. Our estimates are preliminary, rough, and rounded. They rely on what we know about the candidates' plans as of November, 2016. In some cases, we had to rely on assumptions that may or may not materialize.

2. This paper represents the opinion of Goldman AMC and was prepared solely for informational purposes, it is not intended as investment advice.

3. This paper also does not intend to express a view for or against any candidate or any specific policy proposal. Candidates' proposals should be evaluated on a broad array of policy perspectives, including but certainly not limited to their approaches on deficits and debt.

4. The information in this document including statements concerning market trends, are based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. The information in this document may contain projections or other forward-looking statements regarding future domestic and international events yet to shake our perception, and is only as current as the date indicated. Similarly, our analysis could change significantly based on new policies and further policy detail.

There is no assurance that such events will occur, and may be significantly different than that shown here.

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