

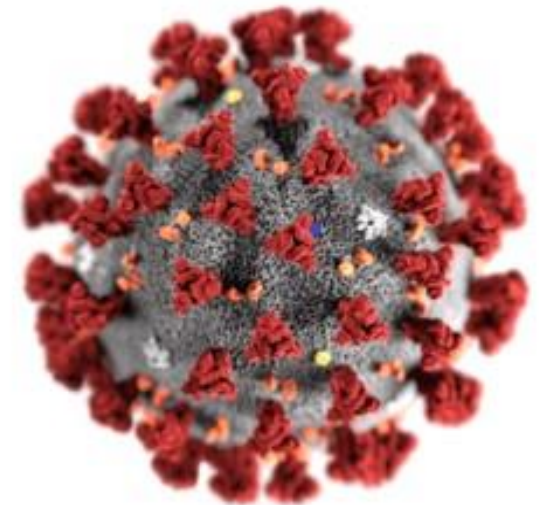


Economic Impact of COVID-19 on the sectors of Ghana's economy

Webinar series — CCIFG

May, 2020

Presented by Robert Dzato





“With COVID-19,
we all face **a future** that
is both **uncertain** and
unpredictable.”

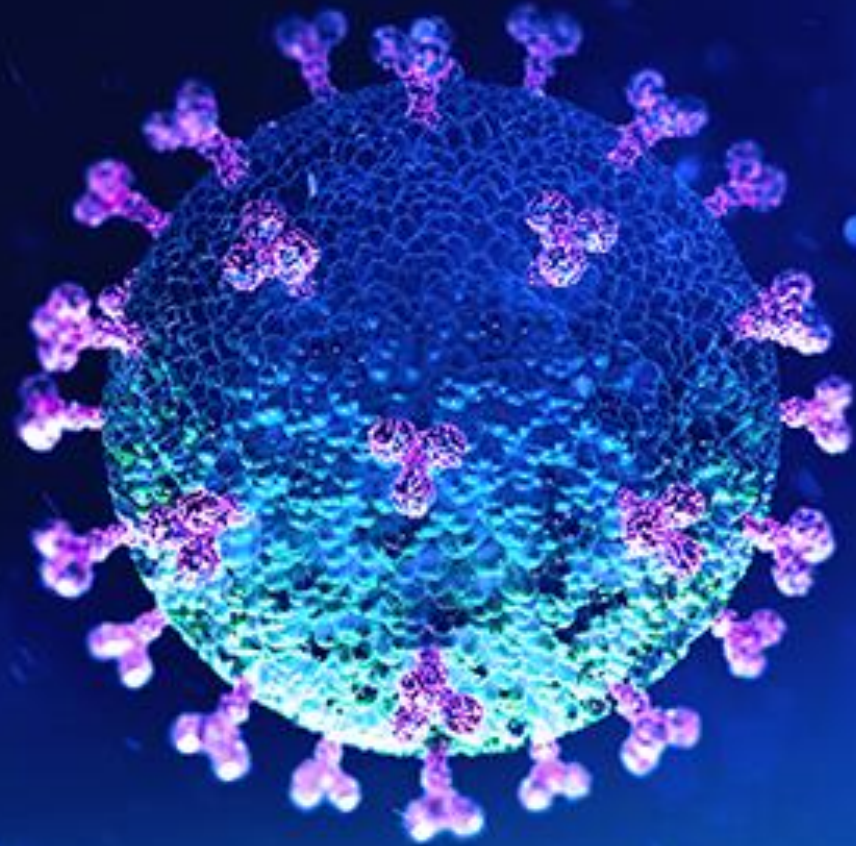
-my thoughts

Outline

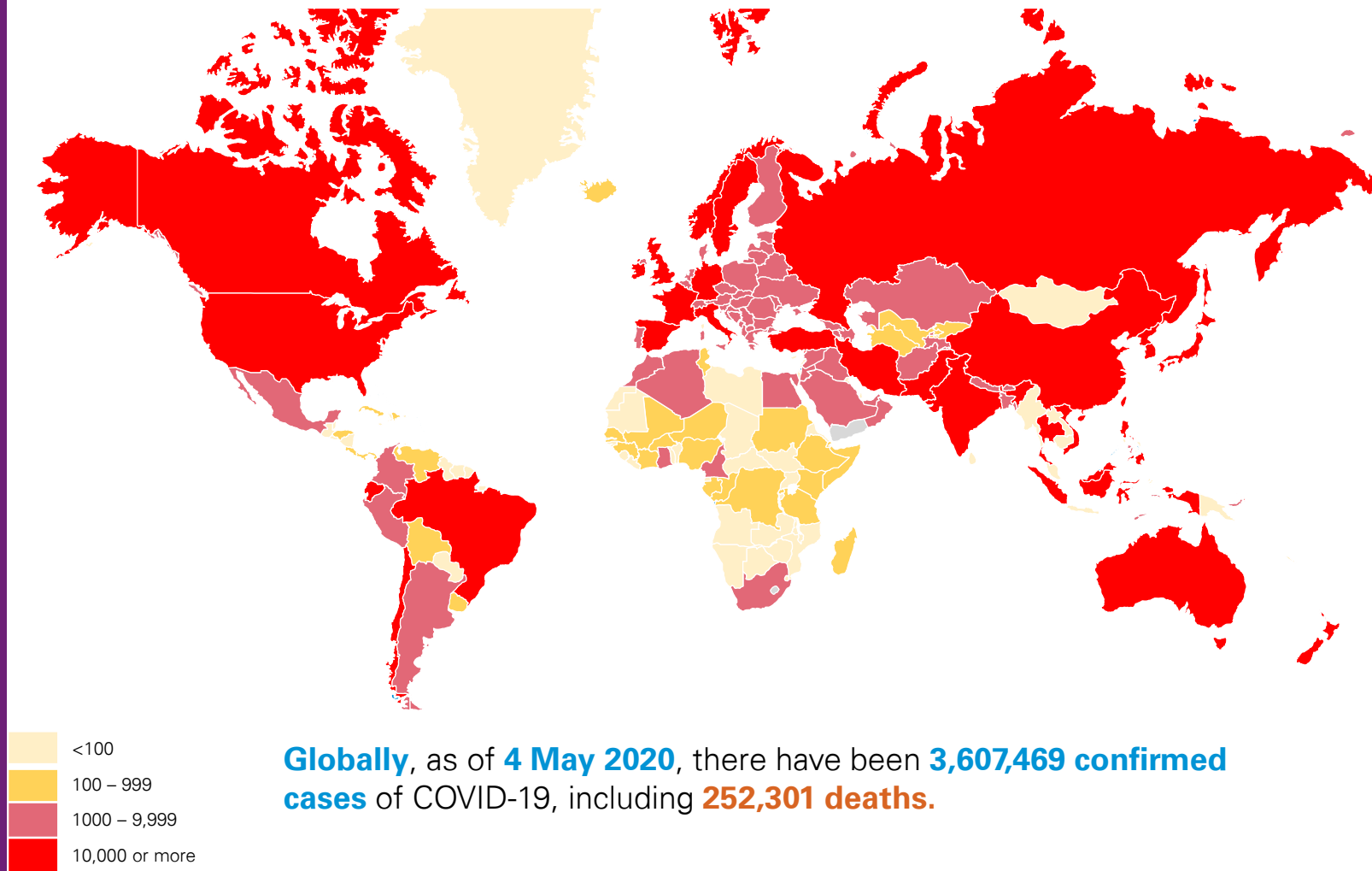
1	The Global Context and Response to COVID-19	3
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5	What is your COVID-19 Response Strategy?	31
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Global context and Response to COVID-19



The world has been blindsided by the onslaught of the novel coronavirus ...



COVID-19 Timelines

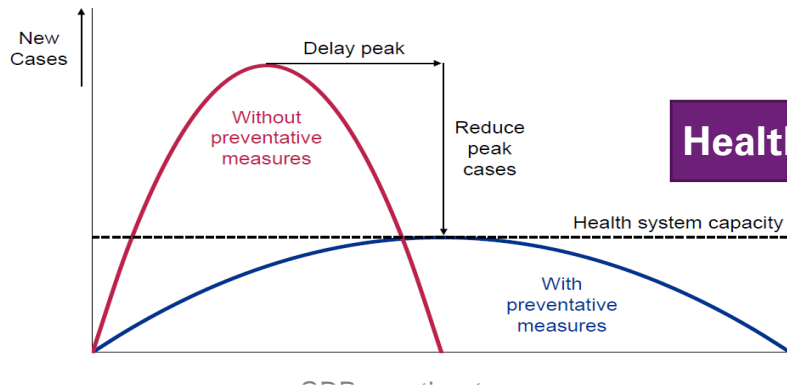
- 30 January 2020 - Public Health Emergency of International Concern by WHO
- 11 March 2020, WHO declared COVID-19 a pandemic.
- COVID-19 hit over 200 countries thus far
- 5 May 2020 Circa, 3.6mn confirmed cases; 252,201 deaths as at 14.00 GMT
- USA leads (1.1mn) followed by Spain(217k), Italy(210k) UK(186k, Germany(163k), Russia (145k)
- 27% recovery cases, death toll circa 7% recorded
- 12 March, 2 cases confirmed in Ghana

Sources: Worldometer and Johns Hopkins University and Medicine as at 21 April 2020

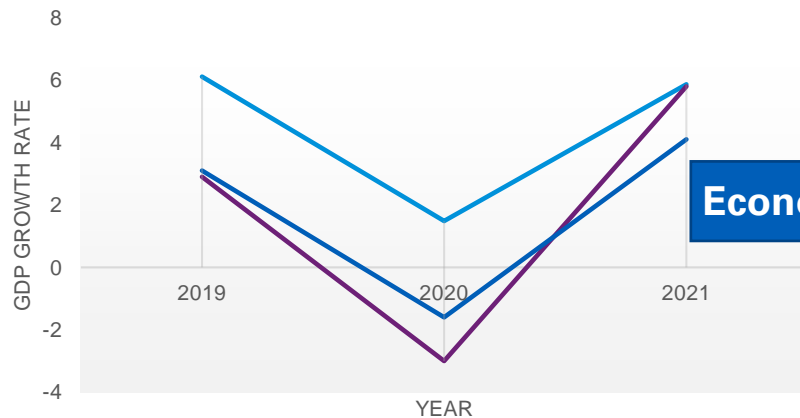
A strong correlation exists between health and economic impact

The IMF puts the impact of COVID 19 on global financial stability at the 2008 financial crisis levels

Flattening the Pandemic Curve



- ❑ According to UC Berkley economist, Gournichas, if 50% of the world is infected, 1% of the world, 76 million people would die.
- ❑ Ongoing research for possible vaccine do not solve the immediate problem of health systems capacity.
- ❑ Flattening the caseload curve is critical but comes with an economic cost if other measures are not also taken



- ❑ General consensus among economists that the pandemic will throw the global economy into recession.
- ❑ "U" shaped recovery path seems a more likely scenario. An "L" shaped scenario looks possible.
- ❑ Countries with higher levels of debt face "L" shaped (a long period of stagnant growth) economic downturns.

— Ghana — Global — Sub sahara Africa

Source: IMF and KPMG analysis

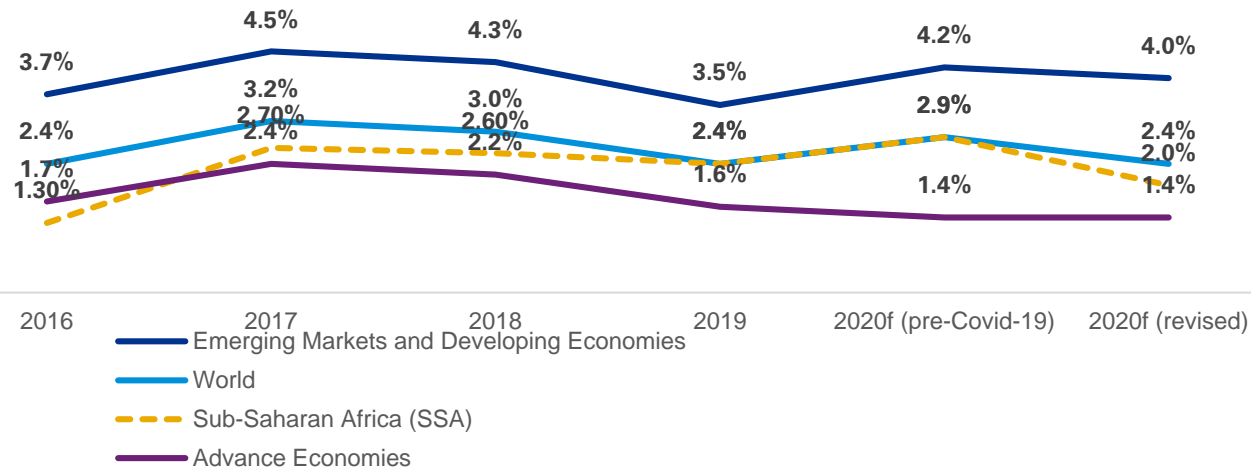


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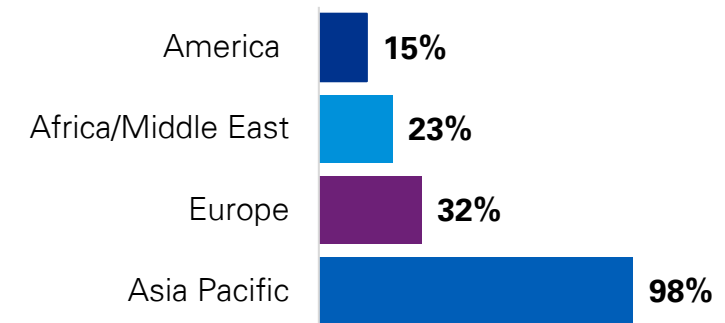
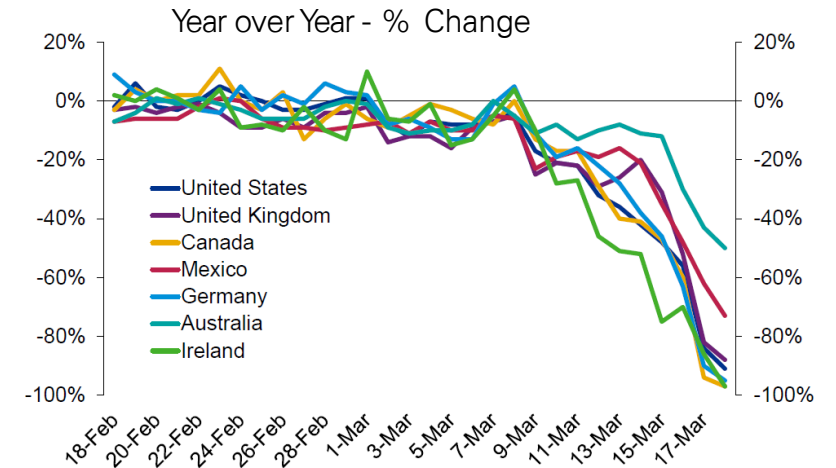
Social distancing leads to a collapse in activity

Global Growth is expected to decline in 2020



- IMF data, however, point to a V shape recovery as it projects the global economy to contract sharply by -3% in 2020. SSA GDP growth rate is expected to be -1.6% in 2020 and bounce back to grow at 4.1% in 2021.
- Travel restrictions, country lockdowns etc have caused disruptions in travel, tourism and hospitality industries

Change in Total Restaurant Diners

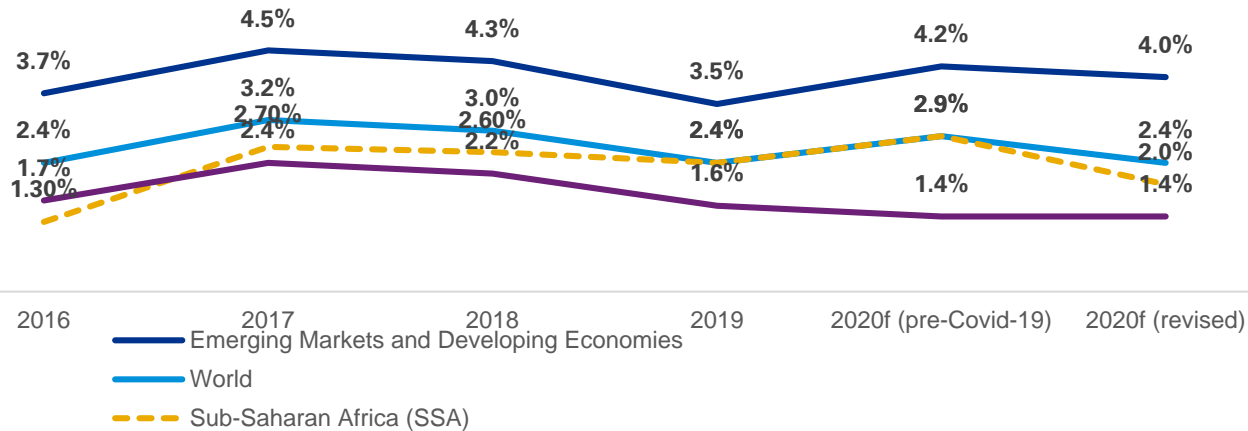


U.S. flight bookings to all regions of the world have taken fallen sharply. (y/y % change in bookings, Q1 2019 vs Q1 2020)

Source: KPMG Economics, OpenTable (March 18, 2020), Haver Analytics, Fowardkeys, OECD, Euromonitor

Social distancing leads to a collapse in activity

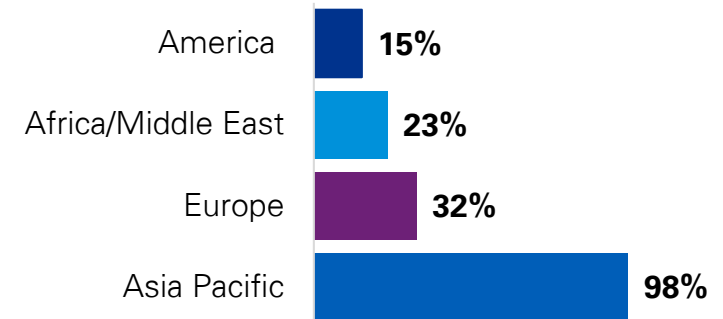
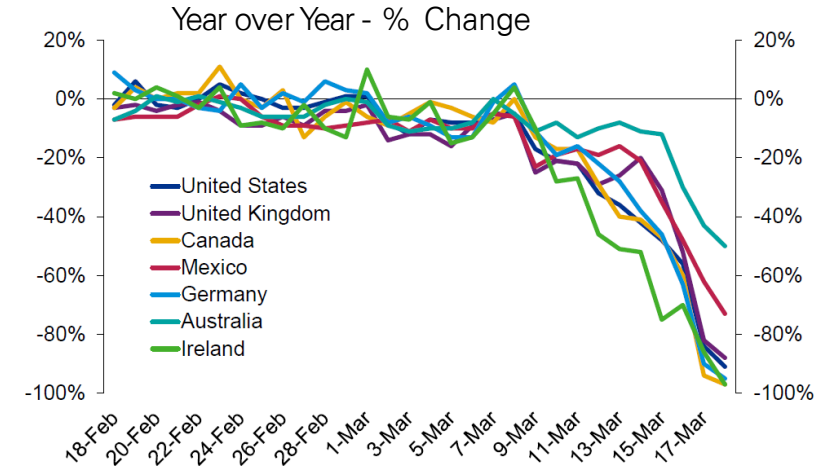
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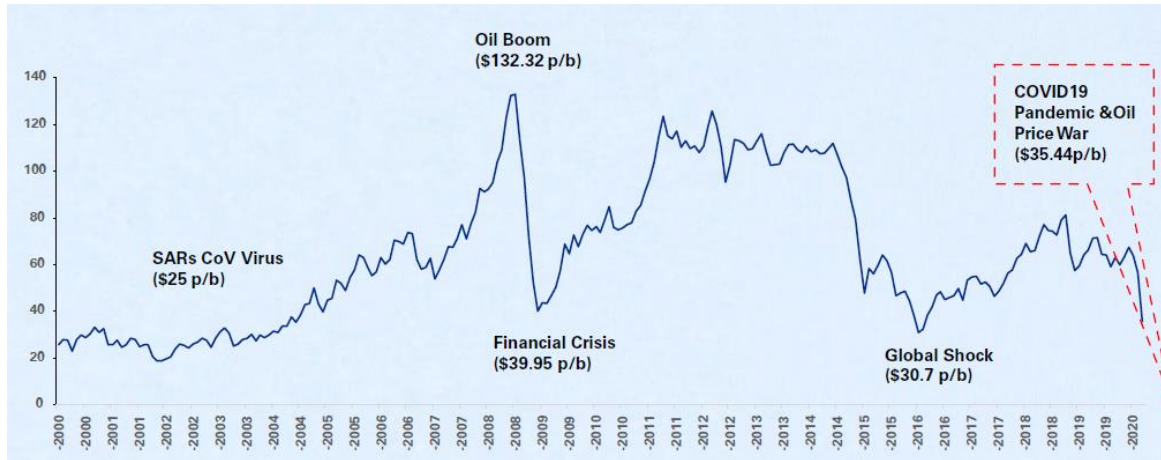
Change in Total Restaurant Diners



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China growth slows, oil prices decline, emerging markets currencies fall

Plummeting oil price

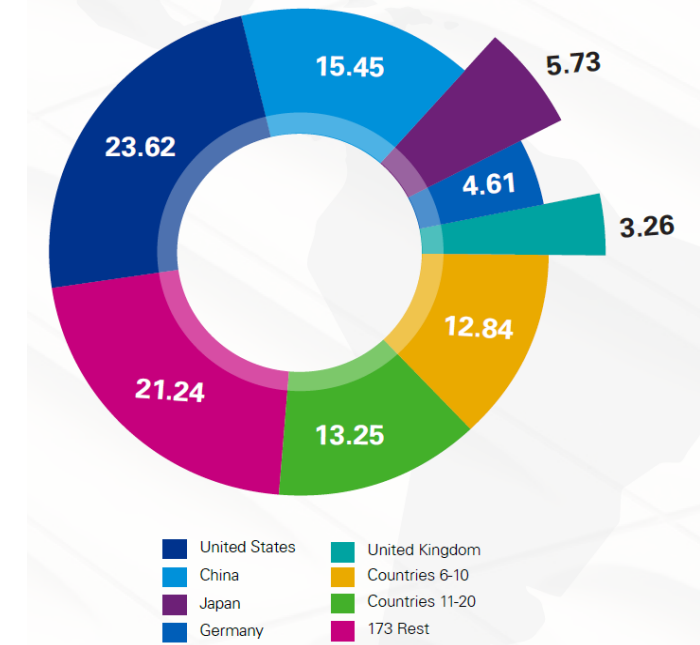


Losses against the greenback in 2020

The impact of the decline in oil price has stung currencies across Emerging Markets and oil exporters e.g. Saudi Arabia, Nigeria and Angola while importers like South Africa and Turkey

Sources: WHO Situation Report, Bloomberg, KPMG Research

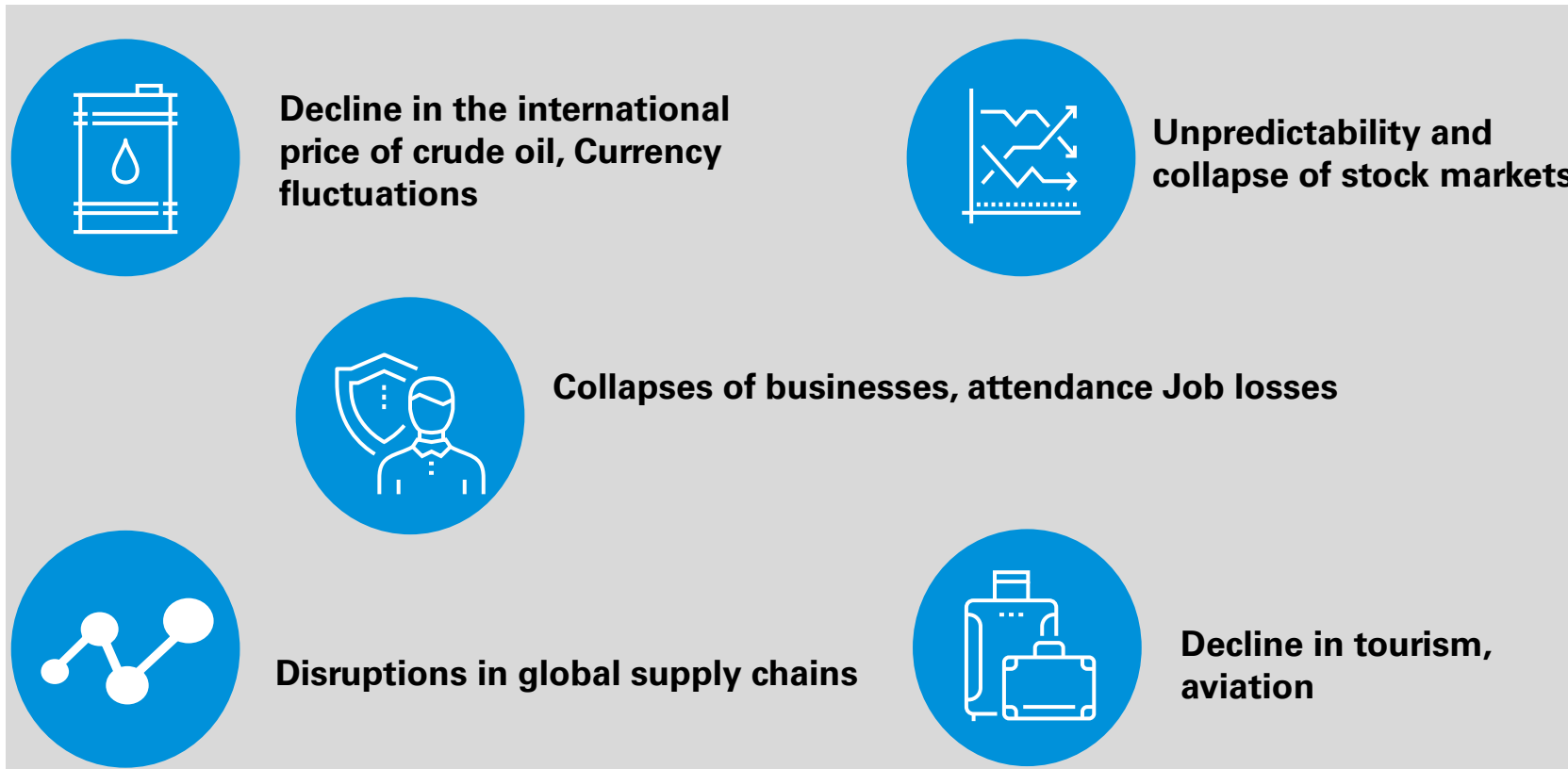
The Chinese economy (which accounts for 15.45% global GDP) grew at 6.8% in Q12020, said to be lowest in 28 years



Economic backlash as countries and companies redesign strategies to pivot away from China due to supply chain disruption

COVID-19 has shifted global economic outlook from growth to recession

Although the impact of the crisis on the global economy and the timing of a recovery still remains highly unclear, projected growth of more than 3% globally in 2020, is expected to decline to about -3%



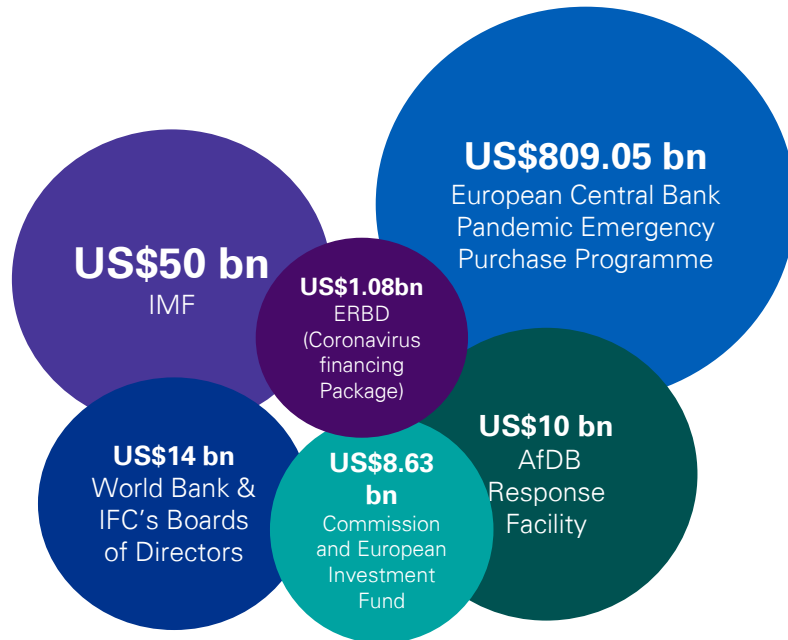
“The economic disruption expected from COVID-19 is both extensive and unpredictable”- KPMG in Ghana

Source: Global Financial Stability Overview: Markets in the Time of COVID-19 ; WEF; Africa's Pulse ; KPMG Analysis

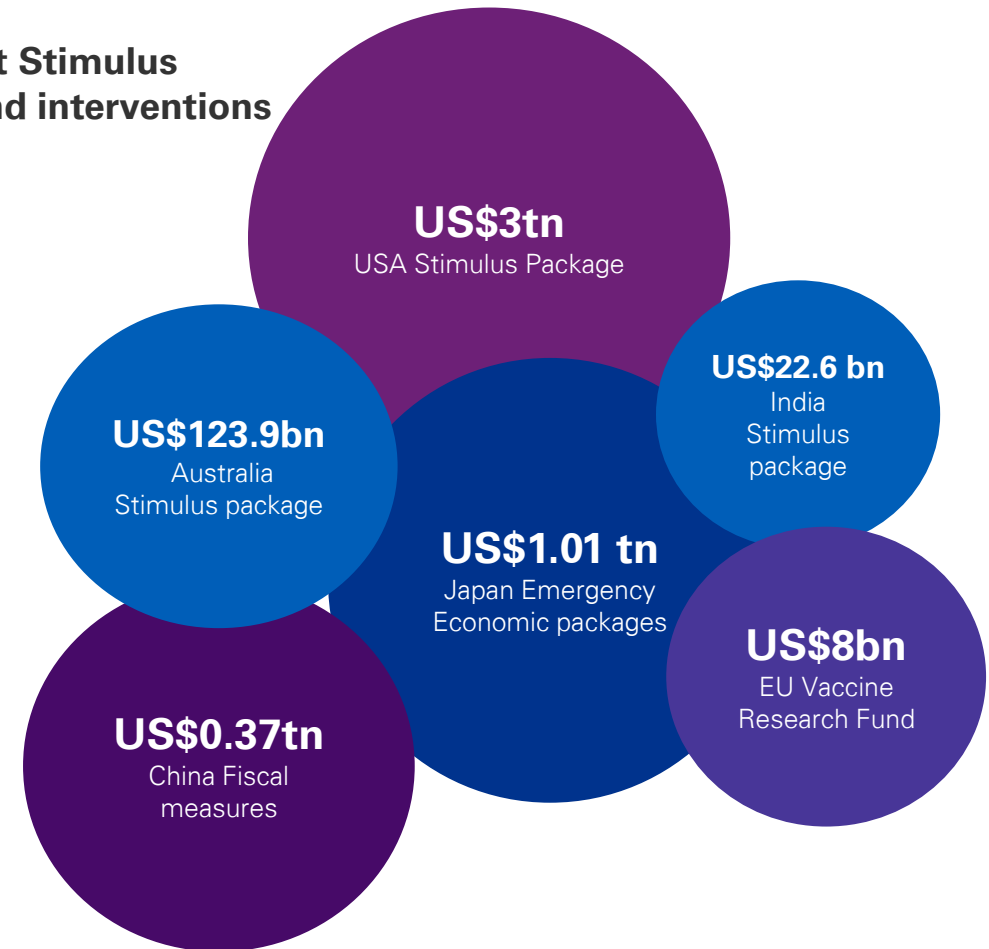
International bodies and governments are responding to the pandemic...

International development agencies and Governments have introduced incentives and economic relief programmes that provide a financial cushion for affected individuals to help fight the broader economic disruption caused by the pandemic.

International development agencies



Government Stimulus packages and interventions



Source: IMF Policy Tracker, World Bank, ERBD
Currencies converted on 23 April 2020

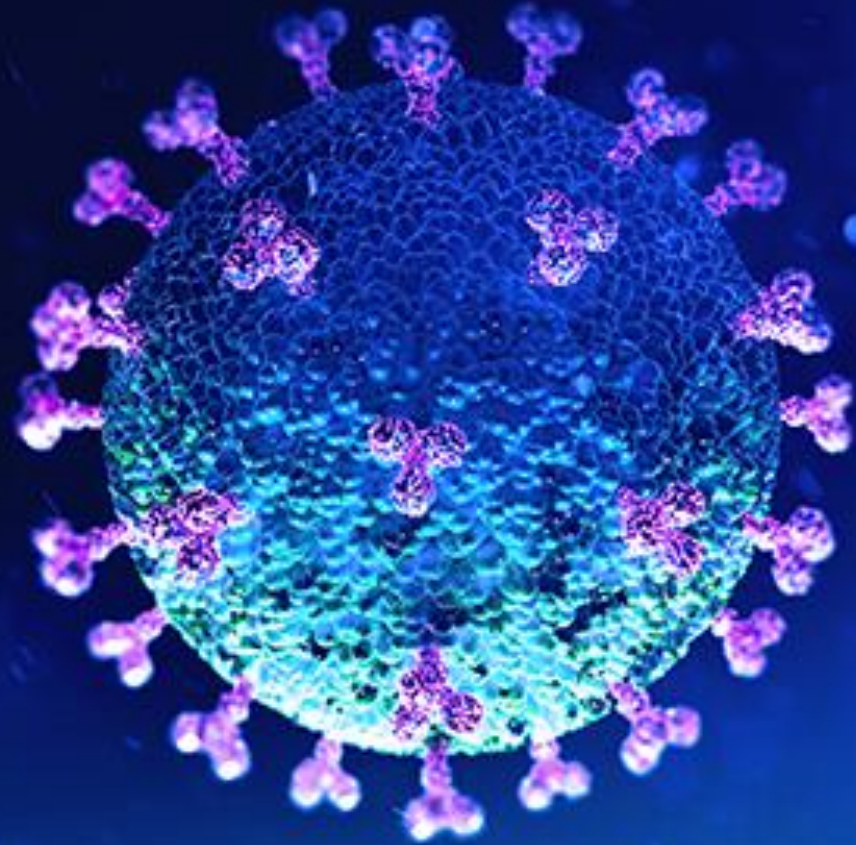


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Bringing it Home- Ghana context



#StayAtHome



**"We know how to bring
the economy back to life.
What we do not know is how
to bring people back to life"**

- President Akufo-Addo

Bringing it home

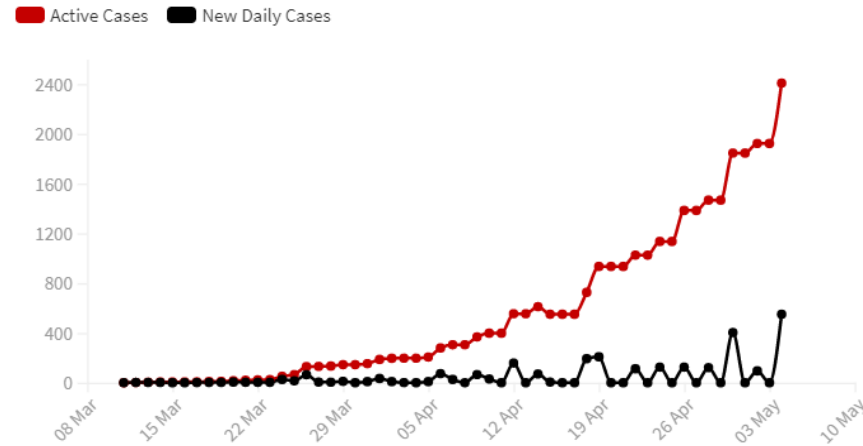
Cases in Ghana keep rising steadily as government seeks to stop the spread



Cases per region

Greater Accra Region	2,332
Ashanti Region	124
Eastern Region	94
Central Region	38
Volta Region	30
Oti Region	23
Western Region	21
Upper West Region	19
Upper East Region	19
Northern Region	13
Western Northern Region	4
North East Region	2
Total	2,719

Confirmed COVID-19 cases as at 04 May 2020



Measures by Government

- Emergency response team
- Public education and awareness campaign on the virus
- Closure of borders
- Social distancing and restriction on public gatherings to 25 persons
- Partial lockdown of parts of Greater Accra and Ashanti regions
- Contact tracing
- Closure of schools and universities
- Mass disinfection of markets

Social distancing and lockdown have disrupted economic and social activities with significant revenue and expenditure implications for the economy

Source: Ghana Health Service, Citinewsroom, KPMG Analysis



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The rate of confirmed cases is rising... is Ghana at its peak yet?

Tests Conducted



Confirmed Cases



Death Rate (0.66%)



Recoveries(10.8%)



Regions



“Death rate for Ghana is relatively low but confirmed cases are rising across regions”

As at 4th May 2020

Government has put in place measures to curb the impact of the pandemic...

Utilisation of the Stabilisation Fund

- Lower the cap on the Ghana Stabilisation Fund (GSF) from the current US\$300 million to US\$100 million
- Amend the Petroleum Revenue Management Act (PRMA) to allow a withdrawal from the Ghana Heritage Fund to undertake emergency expenditures in periods of national emergency.



Realignment of Statutory Funds towards expenditures

- Realignment of Statutory Funds towards expenditures that tend to mitigate the impact of the coronavirus pandemic (sanitation and health related expenditures) and limiting the award of new contracts while focusing on the payment of arrears



Adjustments in Expenditures

- Reduce the proportion of Net Carried and Participating Interest due GNPC from 30% to 15%;
- Adjust expenditures on Goods & Services and Capex downwards by GH¢1,248 million

Tax Reliefs

- Extension of due dates for filling of taxes from 4 months to 6 months after the end of the basis year
- Tax payers encouraged to pay their taxes by bank transfers
- Remission of penalties on principal debts granted to tax payers who redeem their outstanding debts due GRA up to 30 June 2020
- Waive VAT on donations of stock of equipment and goods for fighting the Covid-19 pandemic
- Waive taxes on selected Third-Tier Pension withdrawals
- Permit the deduction of contributions and donations towards COVID-19 as allowable expense for tax purposes.
- Health workers to also receive three months tax holiday.

Implementation of CAP

- Prepare and implement a Coronavirus Alleviation Programme (CAP) to be funded with an initial capital amounting to GH¢1.0 billion to mitigate the impact of the Coronavirus on businesses and households and ensure that job losses are minimised.

Establishment of the COVID-19 Fund

- A COVID-19 Fund is to be managed by an independent board of trustees, chaired by former Chief Justice, to receive contributions and donations from the public to support the CAP and to assist in the welfare of the needy and the vulnerable.

Liquidity for Health Care Providers

- The MoF paid GH¢300 million to NHIA as part of measures to provide liquidity to Health Care providers and the pharmaceutical industry.
- Government arranged Life and Sickness Insurance for Health Care Professionals on the front line of the Health Care Pandemic.



External Financing

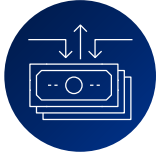
- Secure the World Bank DPO of GH¢1,716 million
- Secure the IMF Rapid Credit Facility of US\$1 billion

Reduction in Data Cost

- Engaging the Telcos to reduce the cost of data and telecommunication services to households and small businesses

Source: MoF presentation to Parliament on 30 March 2020

Bank of Ghana has also put in measures to curb the impact of the pandemic



Policy Rate and Reserves

- The Bank of Ghana (BoG) has decreased the monetary policy rate by 150 basis points to 14.5%.
- Reduction in the primary reserve requirement from 10% to 8%.
- **Improve liquidity for banks as well as potential loss of interest income on new loans and Government securities**



Capital Conservation Buffer and Borrowing from BoG

- Capital Conservation Buffer (CCB) for banks of 3.0% is reduced to 1.5%
- Amendment of the Bank of Ghana Act to allow for government borrowing from BoG up to 10% of previous year's tax revenue in the event of tight domestic financing market conditions
- **Reduction in CCB means banks can create more risk assets**



Interest Payment

- Arrange with BoG to defer interest payments on non-marketable instruments estimated at GH¢1,222.8 million to 2022 and beyond
- **There will be cashflow impact on banks holding these instruments**



Commercial Banks Support

- Commercial banks to;
- provide syndication facility of GH¢3 billion to support industry especially in the pharmaceutical, hospitality, service and manufacturing sectors.
 - grant six-month moratorium of principal repayments for selected businesses;
 - reduction of interest rates priced-off the Ghana Reference Rate (GRR) by 200 basis points (2% per annum).



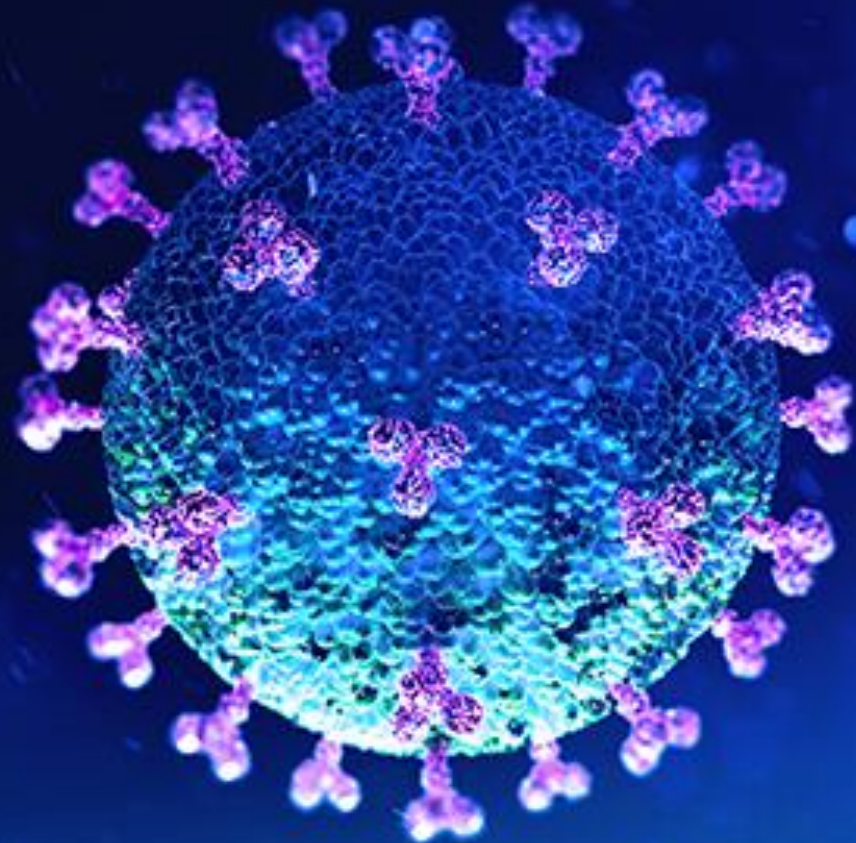
Support to Mobile Money Users

- All mobile money users can send up to GH¢100 for free (excl. cash out).
- Daily limits of mobile money transactions increased.
- **Loss of fee income from use of banking Apps for online transfers**

Sources: MoF presentation to Parliament, MPC Press release

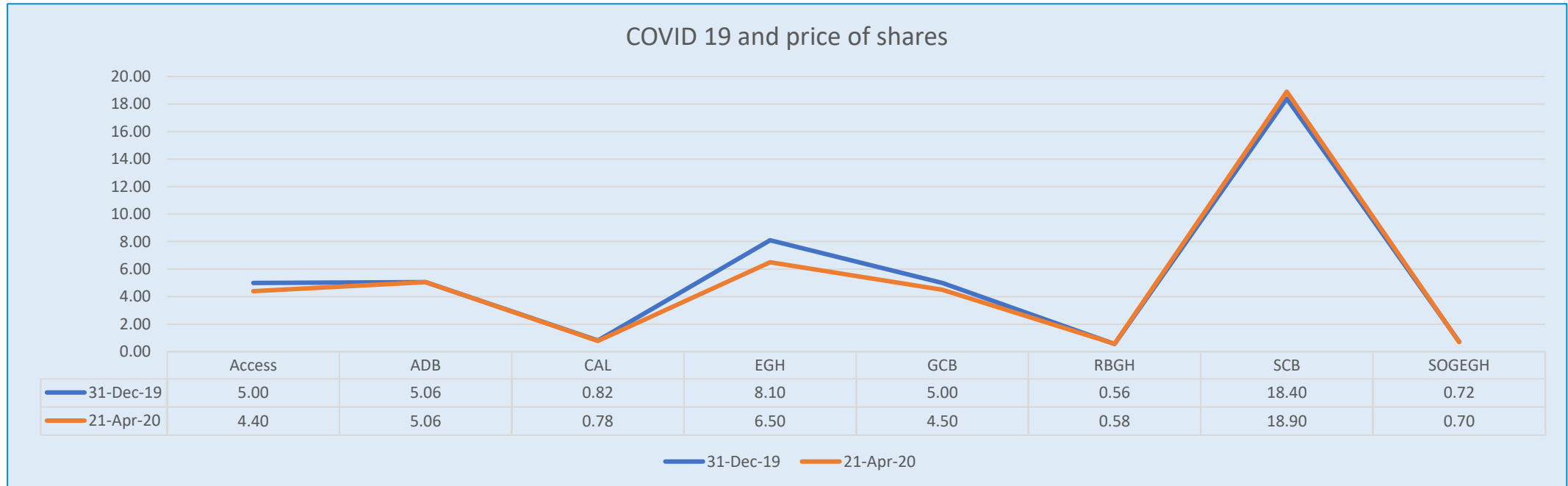


COVID-19 Impact on Economy of Ghana



How has investor sentiments fed through the stocks of banks?

Global markets have responded swiftly to the impact of the pandemic in stock of banks. Has the Ghana Stock Exchange (GSE) done the same?

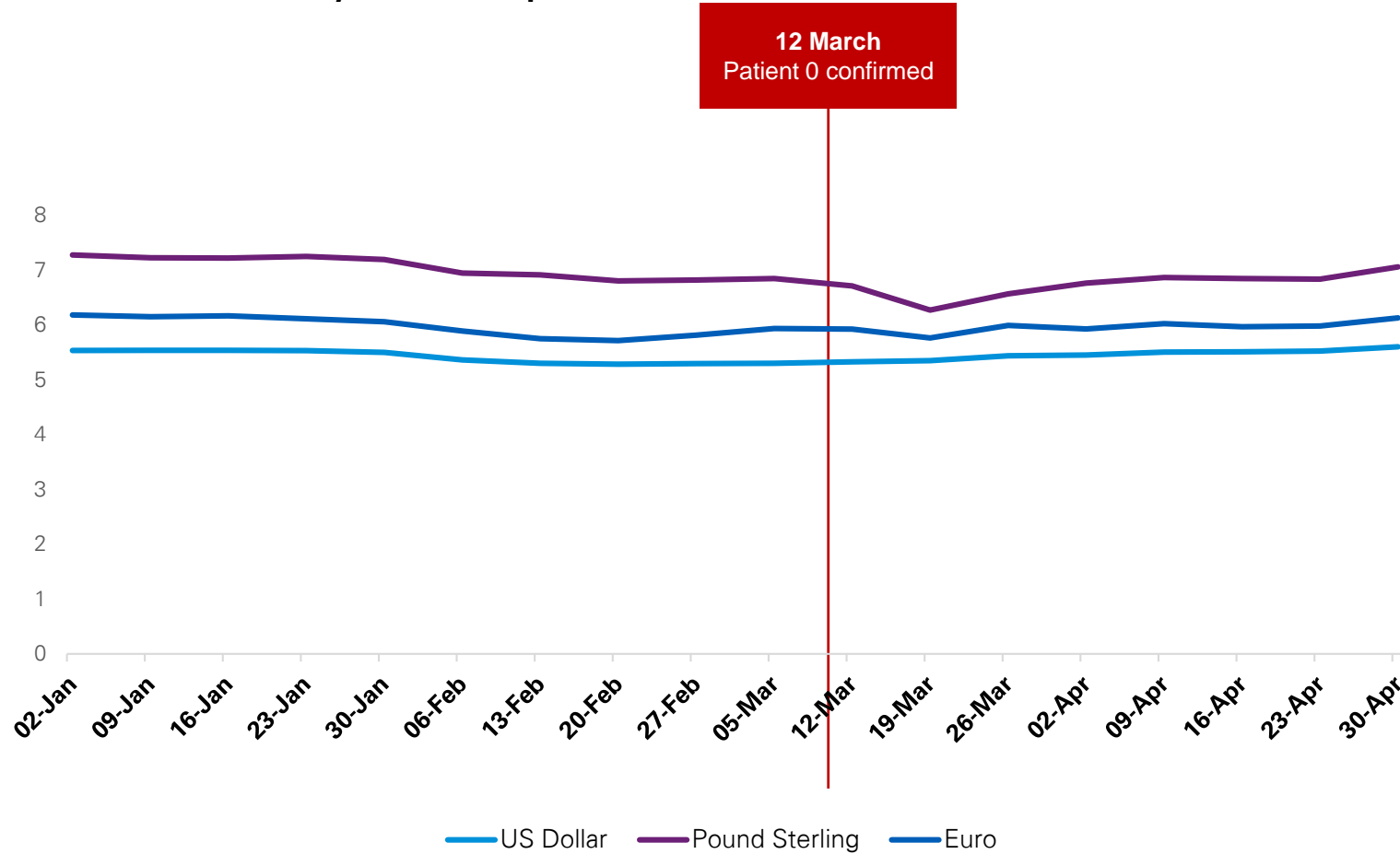


Generally, investors on the GSE have not responded in similar manner as their global counterparts. Except for Access Bank, Ecobank and GCB which have experienced an average of 5% decrease in their share prices, share prices of the remaining banks listed on the GSE have remained fairly stable between 31 December 2019 and 21 April, 2020

Source: Ghana Stock Exchange

The market is also reacting to the pandemic as the Cedi depreciates

FX rates from 2 January 2020 to 30 April 2020



Source: Bank of Ghana

- Between late January to early March 2020, the GHS appreciated against the USD by about 4%. However, there has been significant depreciation since middle of March (after the first COVID-19 case was recorded).
- Fluctuations in the FX rates are attributable to the shortage of supply of FX from key sources such as:
 - Delays in Cocoa Board loan syndication
 - Falling crude oil and cocoa prices
 - Reduction in remittances from abroad
 - Reduction in non-traditional exports
 - Fall in FDI inflows
- Above developments are expected to impact adversely on banks FX trading and remittance fee income

Macro Economic Snapshot: 2017 – Sept 2019

Macroeconomic Indicators	2017 Outturn (Rebased)	2018 Outturn (Rebased)	2019 Q3 Outturn
Overall GDP Growth Rate	8.1%	6.3%	6.2%**
Non Oil GDP Growth Rate	4.6%	6.5%	5.2%**
End Period Inflation Rate	11.8%	9.4%	7.6%
Fiscal Deficit	4.8% of GDP	3.7% of GDP	4.5% of GDP
Primary Balance – Surplus/(Deficit)	0.5% of GDP	1.4% of GDP	(0.3)% of GDP
Import Cover (Gross Foreign Assets)	4.3 months cover	3.6 months cover	4.1 months cover

“Ghana’s economic growth trajectory is truncated by COVID-19”

**As at end of June, 2019

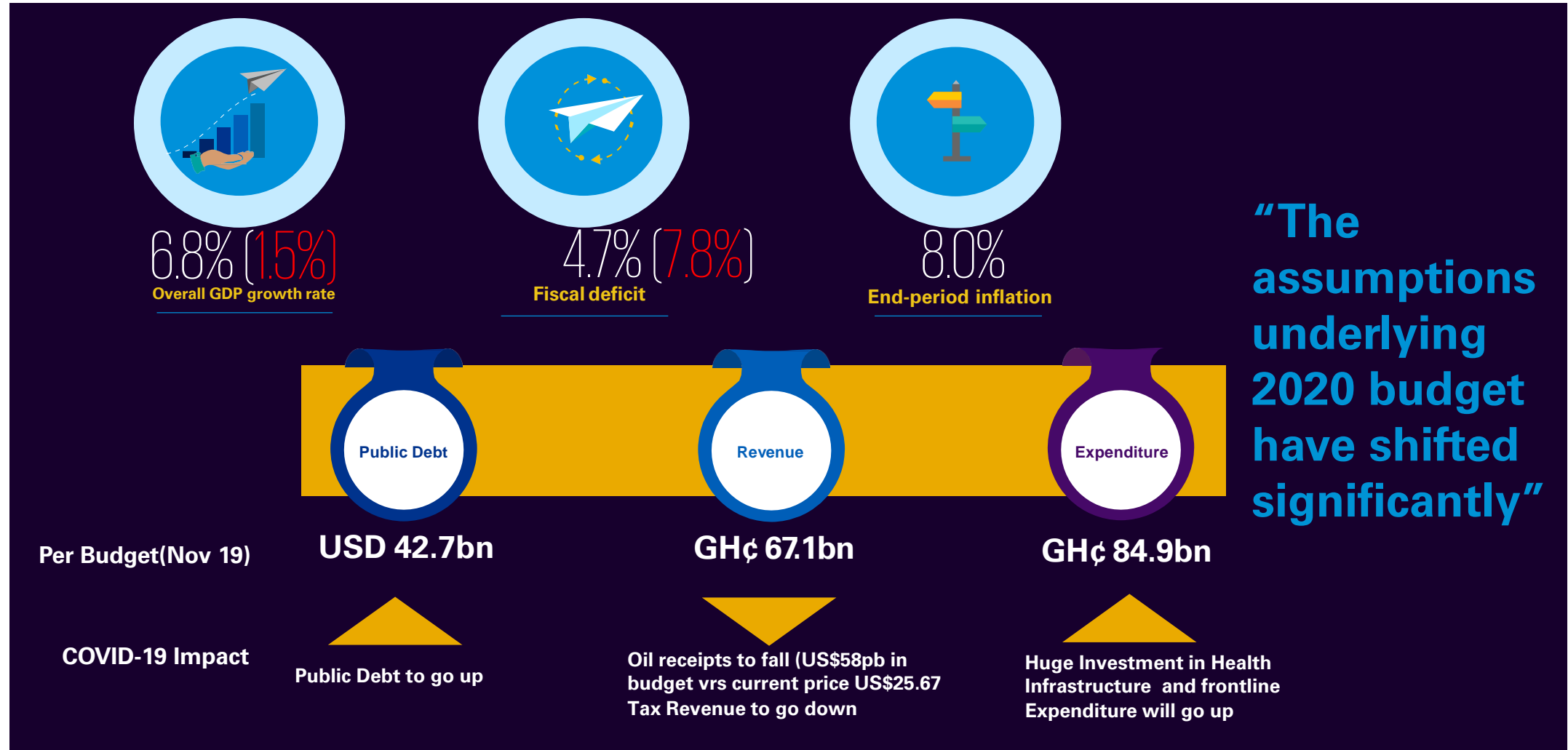
Sources: 2019 Mid Year Budget Review/2020 Budget



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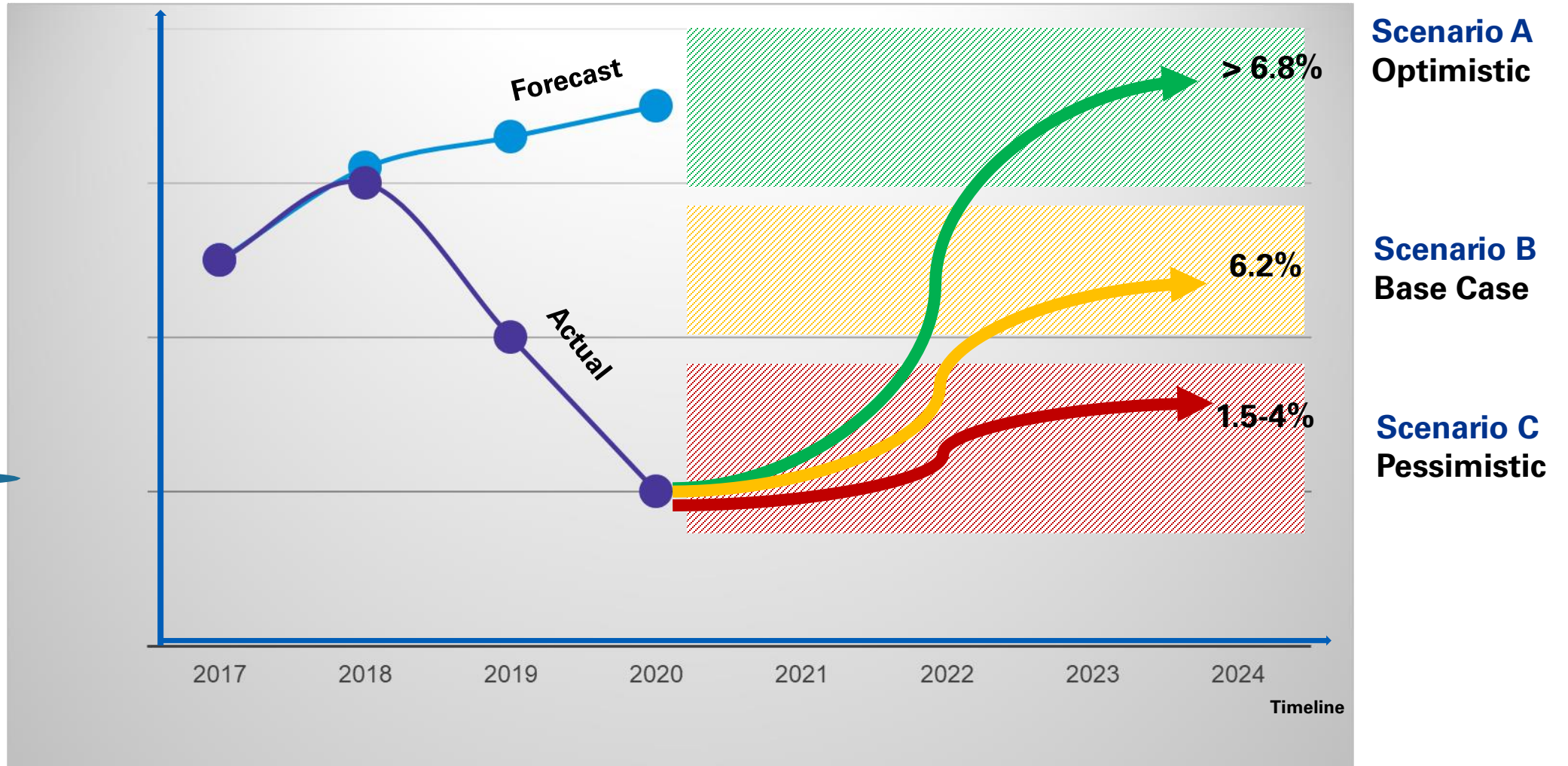
2020 Budget at a Glance and potential COVID impact



Source: 2019 & 2020 Budget Statements, Bloomberg

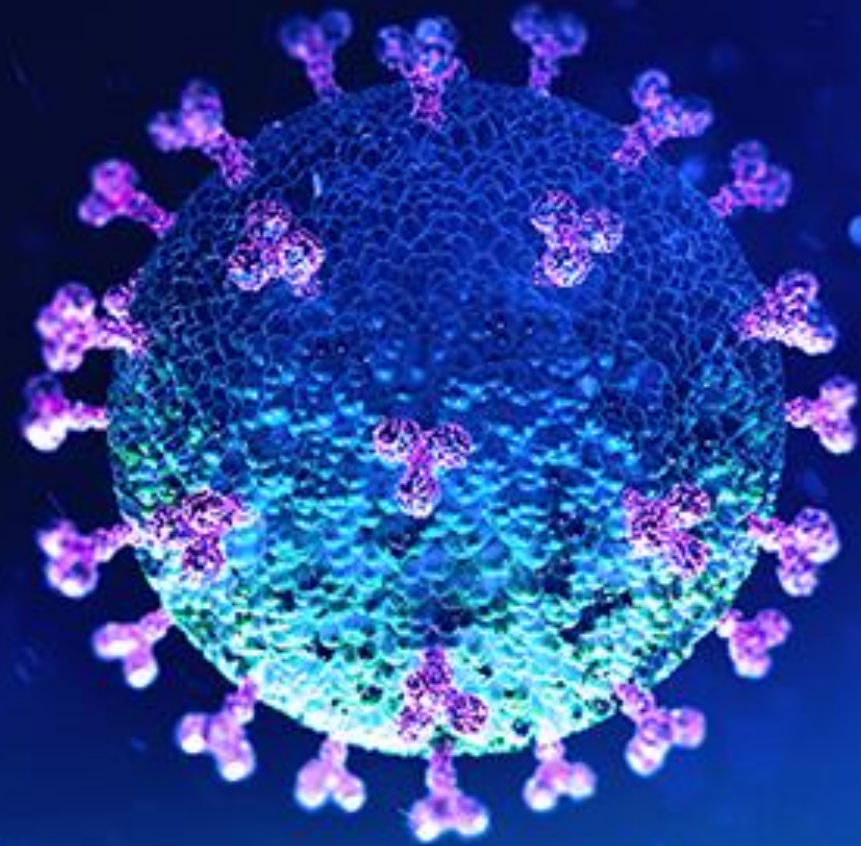
3 possible scenarios/pathways for Ghana's economy, new normal

GDP Growth





COVID-19 and Sector Impacts



Different economic sectors will impacted in different ways....



Agriculture

- Supply chain industry heavily impacted
- Reduction in export value (farmer's access to seeds)
- Panic buying and hikes in food prices



Industry

- Some FMCG & Pharmaceutical manufacturing companies have seen a spike in revenue
- Other manufacturing companies also continue to face disruption in the supply of raw materials

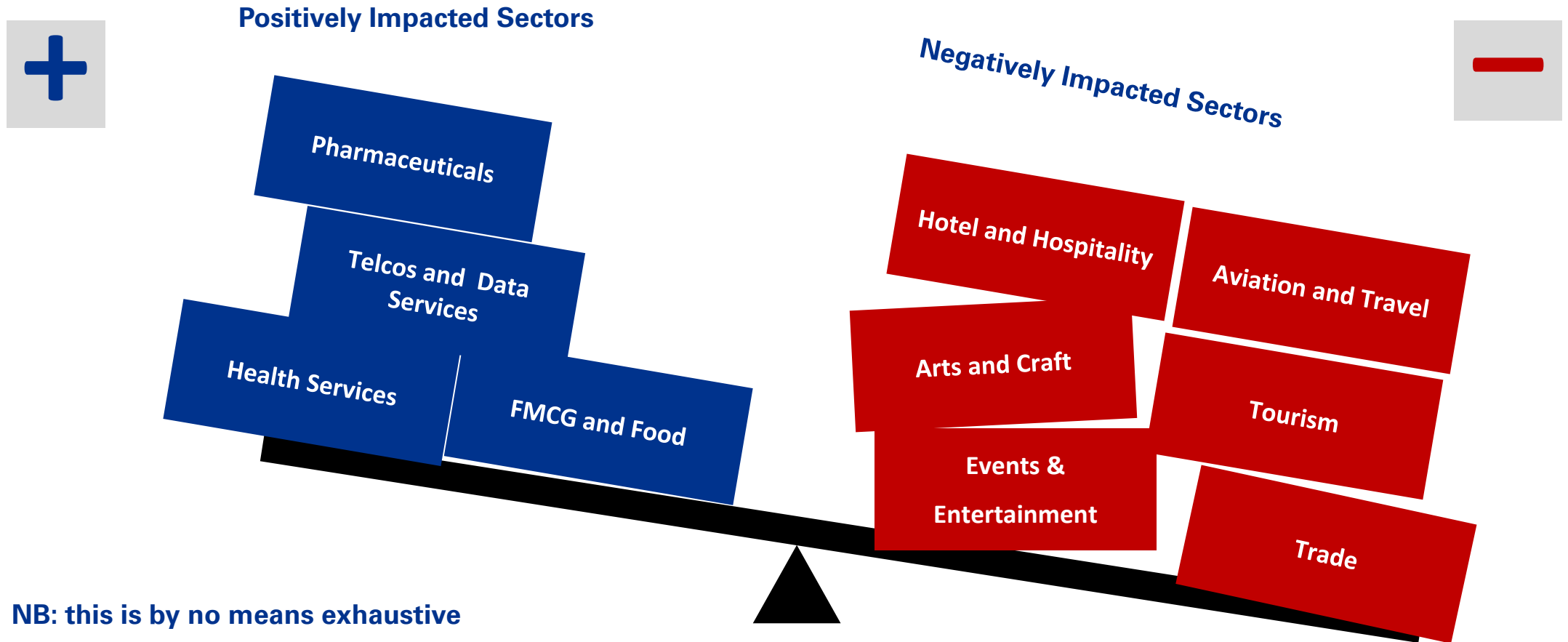


Services

- Hotels and tourism value chain disruption
- Schools have closed down, some schools are adopting online classes
- Increasing demand for data and telecom services
- Potential increase in non-performing loans within the banking sector

Source: MoF presentation to Parliament on 30 March 2020, FAO, AFAP, KPMG Analysis

... and COVID-19 impact will create some winners and losers...



NB: this is by no means exhaustive



Occupancy rates of hotels are expected to decline from 70% to below 30%

Cancellation of programmes/scheduled meetings contributed to loss of confirmed bookings

Decline in tourism, resulting from border closures, airline suspensions, and cancellation of regional and global events.

**Decrease in interest rates, cost of funds,
currency depreciation, heightened risk and
uncertainty**

New and innovative digital firms and increased cyber security risks. Home school as working from home becomes the new and next normal

FMCG & Pharmaceutical manufacturing companies have seen a spike in revenue

Increase demand for telco and data services, increase in revenues and profits ; price hikes

Micro, Small and Medium businesses will need bailouts

Impact of the shocks in select sectors ^(1/3)

Impact Points	Agriculture	Manufacturing	Aviation & Hospitality	Trade	Financial Institutions
Revenue	Impact on export, causing a reduction in the volume of the main agricultural exports.	Syndication facility of GH¢3 billion to support industry including manufacturing sector	Reduced revenue as travel restrictions are placed and flights cancelled	Limited revenue growth as import of goods are limited and prices get hiked. Malls over open market preferences	Improve liquidity for banks. Potential increase on fee income from use of banking Apps for online transfers.
Cost of Production	Increased cost of fertilizers (import restrictions) set to affect cost of production. Food imports likely to be significantly affected	Supply chain challenges likely to increase cost of production or stall manufacturing activities.	Likely to fall due to lower energy prices	Import restrictions likely to increase cost of importation and invariably cost of goods/ services	Acceleration of digital economy and applications to release cost efficiencies
Investments/ Funding	Limited investment inflows due to high risks and uncertainty from offshore and private investors	Expensive funding options	Reduced investment due to increased uncertainty Reduced International travel and spending	Expensive funding options	High uncertainty and trust deficit between customers and financiers
Balance Sheet	Inventories may be depleted as supply shock hit	Inventories may be depleted as supply shock hit	Neutral	Neutral	Asset quality deterioration

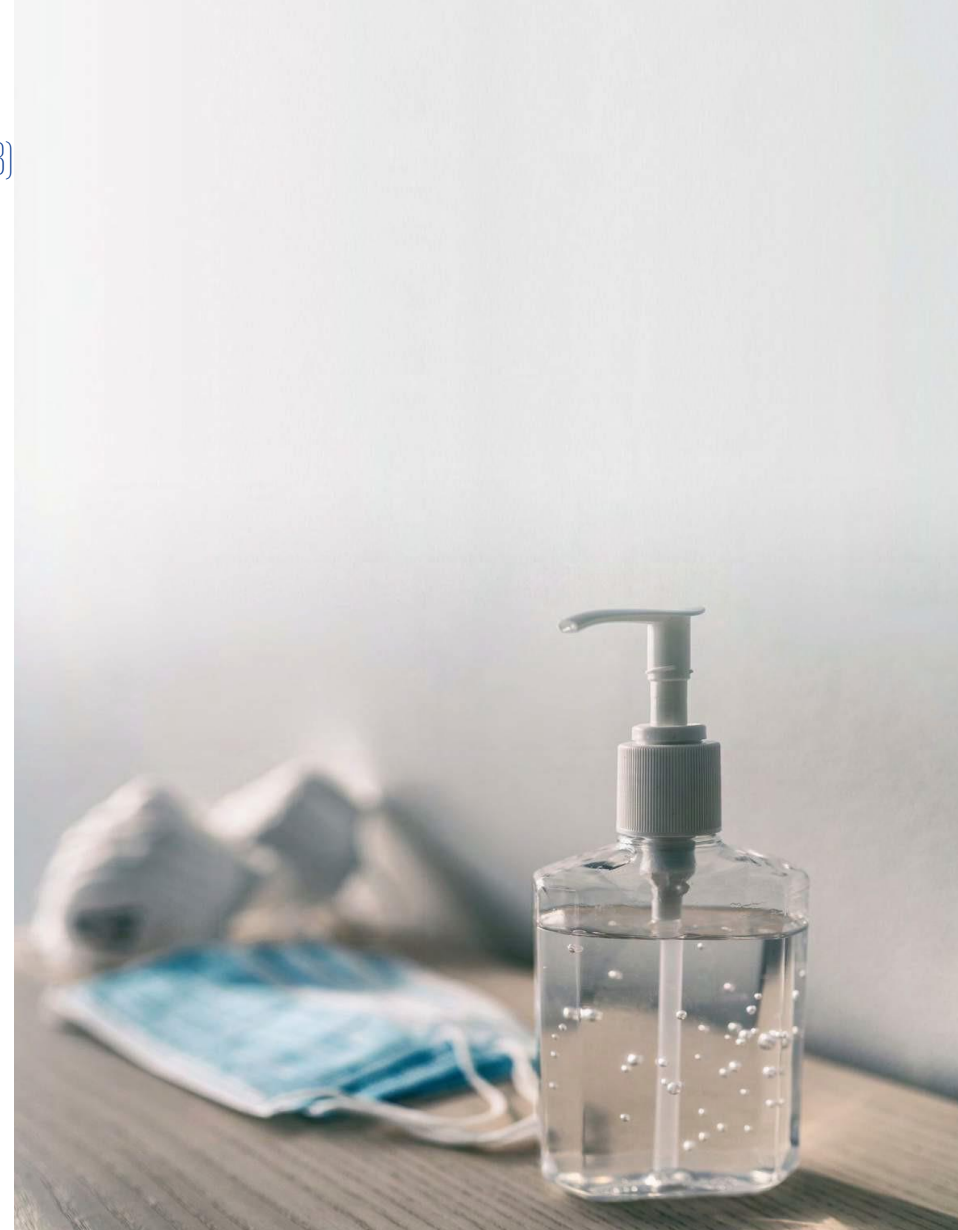
Impact of the shocks in select sectors ^(2/3)

Impact Points	Technology, Media and Telecommunications	Oil and Gas	Pharmaceuticals	Education	Real Estate
Revenue	Telcos, data and value added services(VAS)cash in as home working increases. Supply shock could hinder 4G/5G implementation, hurting Revenues	Given the reduction in pump price. However, consumption may reduce in the short term given the potential lockdown in activities as schools, airlines, others are shutting down across the country	Pharmaceutical industry has been tasked to make available more PPEs and sanitizers. This presents a potential boost in revenue.	Limited revenue growth as economic activities slow and unemployment spikes	Although some materials are manufactured locally, the global supply chain shocks could result in a shortage of construction material
Cost of Production	Supply shock to raise prices of necessary hardware	Supply shock to raise prices of necessary PPE.	Syndication facility of GH¢3 billion to support industry including the pharmaceutical sector	Neutral	Difficult access to raw materials to boost cost of production
Investments / Funding	Heightened uncertainty over the adverse impact of COVID-19 means that expected investments could be delayed	Limited Investment opportunities due to increased uncertainty	CAP Business Support Scheme to support MSMEs and support those support COVID-19 Containment efforts	Limited Investment opportunities due to increased uncertainty and forex availability	Limited Investment opportunities due to increased uncertainty
Balance Sheet	Neutral	Decline in asset valuation	Neutral	Neutral	Neutral

Impact of the shocks in select sectors ^(3/3)

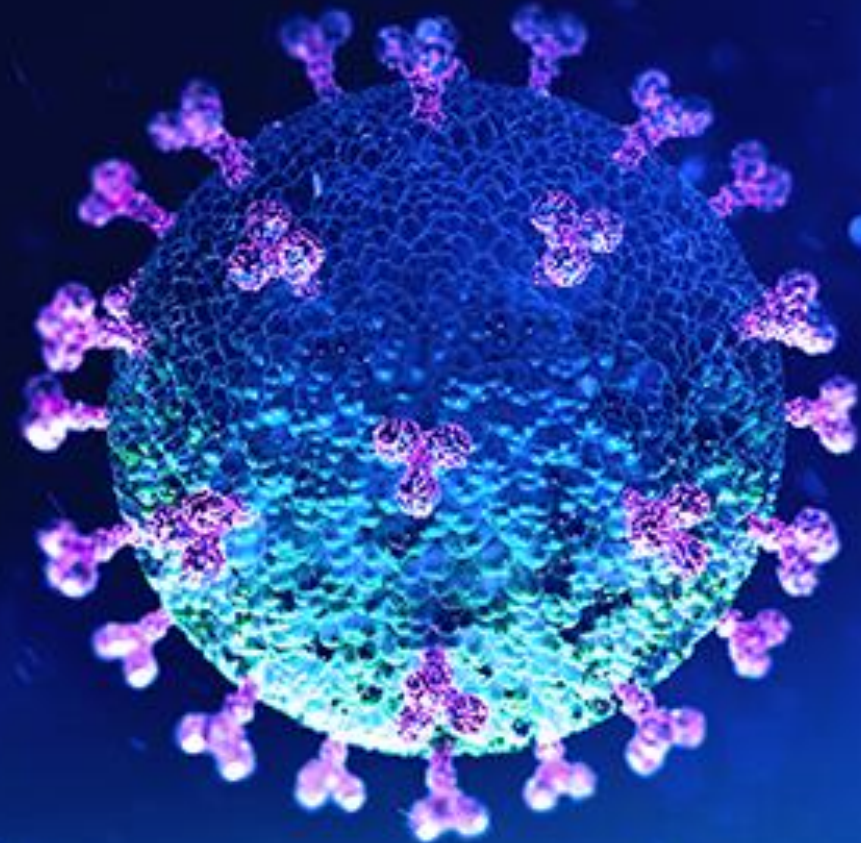
Industries	Supply Shock	Demand Shock	Financial Shock
Agriculture	High	Moderate	High
Trade	High	High	High
ICT	High	Low	Low
Manufacturing	High	High	High
Oil and Gas	High	Moderate	High
Finance and Insurance	Moderate	High	Moderate
Professional Services	Moderate	Moderate	Low
Real Estate	High	High	High
Education	Moderate	High	Moderate
Health	High	High	Low

High
Moderate
Low










What's your COVID-19 Response Strategy?



Stress test your strategy - COVID-19 presents both opportunities and challenges

Your strategy stress testing should focus on critical elements of your financial, business and operating models...

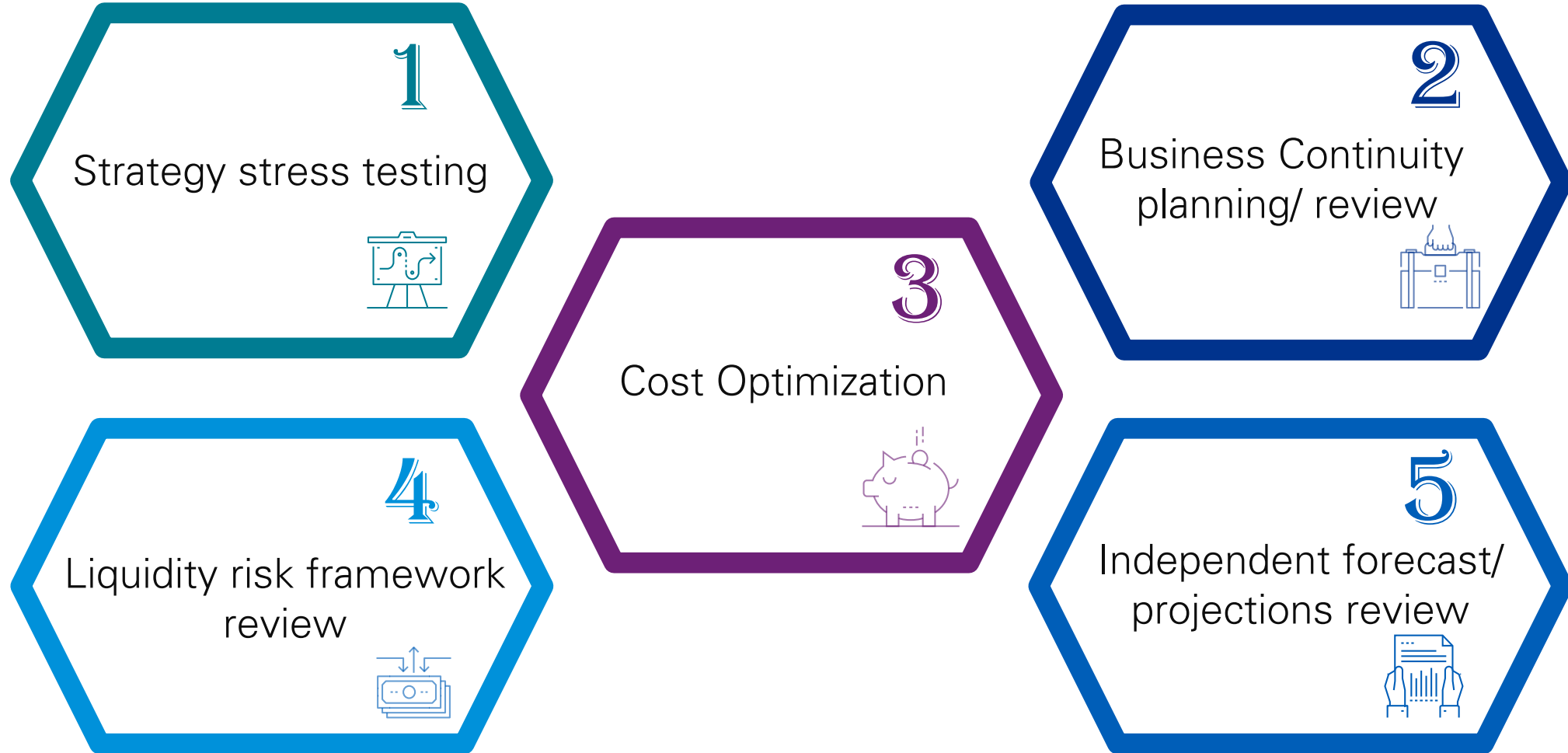


-  Plan for scenarios. Overlay your base case with COVID-19 risks. Take advantage of Governments and regulatory policy interventions e.g. stimulus package , rate drops, tax or loan repayment deferment etc.
-  The pandemic has reinforced that cash is king. Build a robust financial resilience strategy by optimising cost and stress testing liquidity in light of changing revenue
-  **At the heart of your strategy is to role model empathetic organisation to your customers and employees. Certainly, pay special attention to customer segments that will survive the storm**
-  Be agile, innovative and leverage technology to maximize value. As new and remote working become imperative, digital and innovation mindset is critical
-  Look up and down to reimagine your supply chain. Your business continuity will depend on managing risks around suppliers and and inventory planning

“One goal to focus on in the short-term (next 6months) is- cash flow survival”

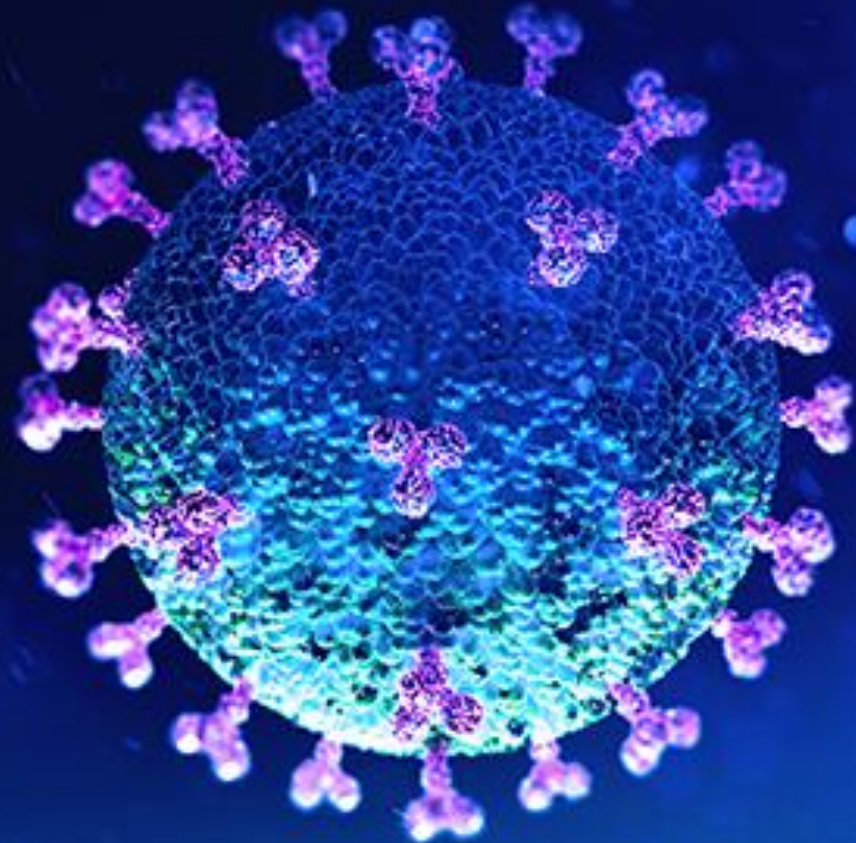
How KPMG can assist ...

The economic shocks from the pandemic are not permanent and do not represent structural changes to industries or a major rethinking of long-range corporate strategies.






In conclusion...



Closing thoughts

- | | | |
|---|--|---------------------|
| 1 | A more coordinated global and regional approach required | Missing leadership |
| 2 | It's a health crisis with significant economic impact | Health Vs Economics |
| 3 | Flattening or Steepening Curve for Ghana ? | Peak or No Peak |
| 4 | Budget assumptions shifted, GDP growth trend reversed | U or L or W shaped |
| 5 | Business to stress test strategy – irrespective of sector | Winners and Losers |
| 6 | A future- uncertain and unpredictable | Change we must |

COVID-19 presents change in many ways....



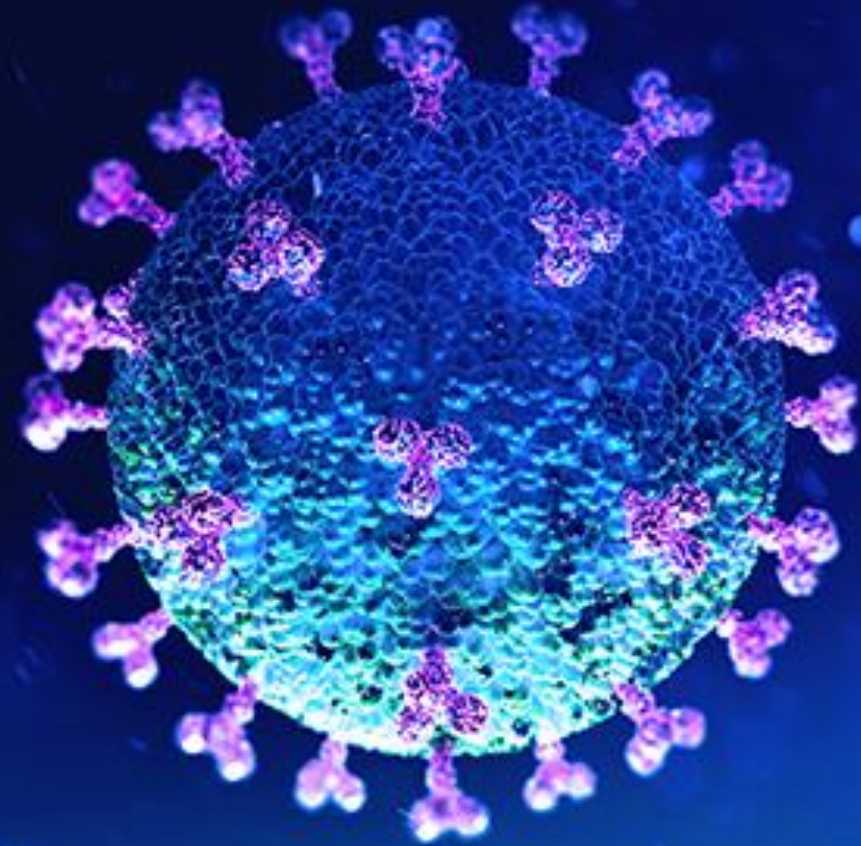
“If we do not take
change by the hand, it
will surely take us by
the **throat.**”

Sir Winston Churchill

UK Prime Minister
1940 to 1945; 951 to 1955



Thank you



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