**PERFORMANCE OF THE MINING INDUSTRY IN 2013**

In a year blighted by bouts of short-fall in energy supply, uncertainties from the land mark election petition and severe fiscal imbalance, GDP expanded from GH₵ 30,343 million in 2012 to GH₵ 32,507 million in 2013 (in constant 2006 prices). The growth outturn of 7.1 percent compares favourably with the global and Sub-Saharan African growth rates of 3.0 percent and 5.1 percent respectively. However, it fell-short of the 8.0 percent target announced in the 2013 budget and the previous year's growth rate of 8.8 percent.

The main propeller of growth in the economy was the Services sector whose share in GDP increased from 48.4 percent in 2012 to 49.5 percent in 2013. Industrial sector's share in GDP was unchanged at 28.6 percent in 2013 while the Agricultural sector suffered a 1 percent decline in its share of GDP to 22 percent in 2013. Mining and quarrying subsector's contribution to GDP increased from 9.5 percent in 2012 to 9.8 percent, largely on account of increased production in the downstream oil sector. Conversely, growth in the extractive sector slowed down from 16.4 percent in 2012 to 11.7 percent in 2013.

Movements in the price level generally trended upwards in 2013 due to hikes in utility tariffs, fuel prices and variation in the composition of the basket used in measuring the Consumer Price Index (CPI). Inflation increased steadily to an average rate of 13.5 percent, higher than the targeted 9 percent and the fastest since 2008. In order to mitigate heightened inflationary risk to the economy, the BoG maintained its policy rate at an average of 15.8 percent in 2013, relative to 14.6 percent in 2012.

External pressures, resulting from weak prices for the country's major export commodities deteriorated the current account position from 12.1 percent of GDP to 12.3 percent of GDP. Notably, receipts from export of gold and cocoa ebbed by 12 percent to $ 4.2 billion and 33.5 percent to $ 1.3 billion respectively. Revenue from the export of crude oil, on the other hand, grew by 30.9 percent to $ 3.2 billion as a result of increased production. At an unchanged import value of US$ 14.7 billion, the recession in export earnings induced a 14.6 percent (year-on-year) depreciation of the local currency.

The interplay of rising government expenditure and shortfalls in projected revenue, stemming from poor commodity prices, delayed disbursement of grants and budget support from Development Partners and reduced domestic tax revenue, forced government unto the competitive loanable funds market. Specifically, government financed over 68 percent of the overall budget balance of GH¢7,334.5 million from domestic sources. A corollary effect of government's strong appetite for in-country funds was reduced credit to the private sector. Not surprisingly, the November 2013 Monetary Policy Committee (MPC) report observed a general tightening of all forms of credit inflow to firms and households. According to the report, growth in real private sector credit slowed to 10.5 percent in 2013 as compared to 30.5 percent in 2012.

## Ghana's Mining Industry in 2013

In line with developments on the global mining landscape, outturn in the country's solid mineral sector in 2013 was subdued relative to the previous year. Ghana's output, in terms of gold, increased by 2.1 percent to 97.8 tonnes in 2013 but its share in total gold output remained constant at 3 percent. In the event, the country to slip to the position of ninth leading gold producer in 2013 relative to eighth in 2012.

In spite of the hydra-headed challenges besetting the minerals sector, it continues to exert significant influence on the country's current account position and national fiscus. Contributing 37.6 percent of total merchandize exports in 2013 as compared to 43 percent in 2012, the minerals sector continued to be a leading source of foreign exchange for the country. The role of this inflow in propping up the value of the currency cannot be underestimated. Without doubt, the downswing in mineral export revenue was a major causal factor for the steep depreciation of the local currency in 2013.

Furthermore, the mining and quarrying sub-sector maintained its position as the foremost contributor to domestic revenue in 2013. According to the GRA, total outflows from the sector to the nation's purse was approximately GH₵ 1.1 billion in 2013. This amount represented 18.7 percent of direct tax and 14.3 percent of total domestic revenue mobilized by the GRA in 2013. Declines in revenue and profit levels were the main drivers of the subdued tax revenue performance in 2013 as compared to GH₵ 1.5 billion in 2012. PAYE, company tax and royalty receipts were quoted at GH₵ 220 million, GH₵ 518 million and GH₵ 364 million respectively by the GRA. It is instructive to note, however, that Newmont Ghana Gold and Gold Fields Ghana were the largest payers of company tax in 2013 respectively.

## Local Impact across the Value Chain

Aside the fiscal contributions to macroeconomic indicators, mining can also be assessed based on its direct impact on the local Ghanaian economy. As a net-import country, regular inflow and access to foreign exchange have important implications for the stability of the currency, inflation, interest rates and monetary policy setting as a whole. Accordingly, voluntary repatriation of proceeds from the export of minerals beyond the statutory requirement is crucial to the health of the financial system. In 2013, the share of mineral revenue returned to the country through Bank of Ghana and other commercial banks was 68 percent, evidently above the statutory floor of 25 percent. Specifically, about US$ 2.1 billion was repatriated through the commercial banks while the Bank of Ghana also accounted for about US$ 1 billion.

The estimated US$ 3.1 billion returned through the payments and settlement system was used in financing fiscal obligations, community development projects and purchase of inputs. Compared to the US$ 550 million paid to the state, other shareholders received US$ 49 million. Also, expenditure on diesel and electricity and local purchases approximated US$ 805 million and US$ 1 billion respectively. Again, about US$ 354 million was spent on imported consumables while US$ 118 million was used in amortizing loans. Producing member companies spent US$

313 million in procuring plants, machinery and other capital equipment to facilitate their operations.

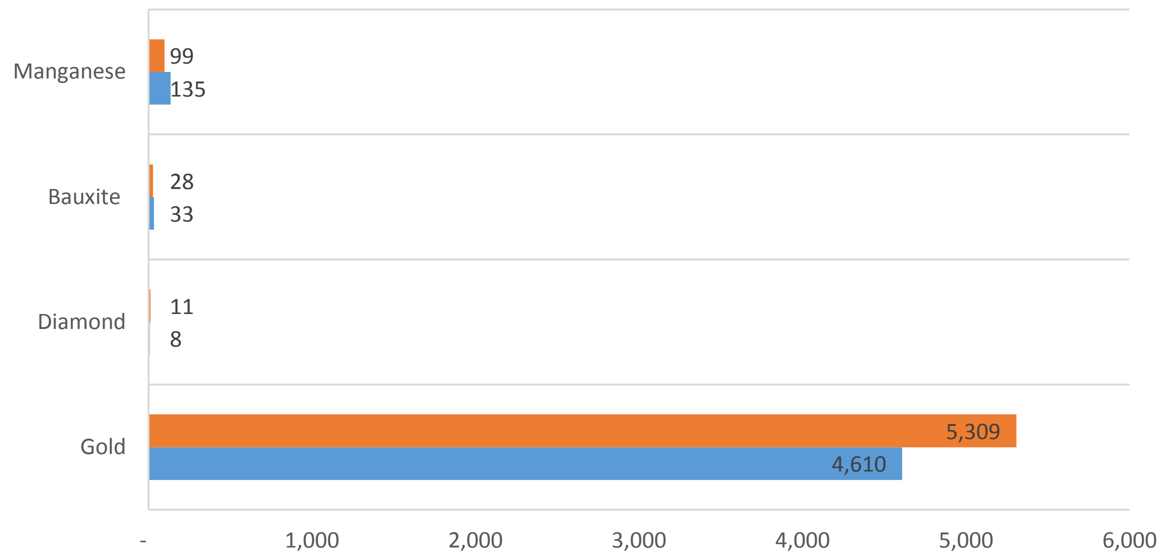
Compensation, wages and salaries to personnel in the mining industry amounted to US$ 670 million. The total workforce in the minerals industry stood at 17,103 at the end of the year. This was made up of 16,819 Ghanaians and 284 expatriates, the latter representing only 1.6 percent of employees.

Also, producing member companies of the Chamber voluntarily invested US$ 12 million in a variety of social projects that were intended to enhance the living conditions of their host communities. These included schools, potable water systems and clinics.

Mineral revenue from the producing members of the Chamber in 2013 departed from the upward trajectory observed since 2004. Total mineral receipts fell from US$ 5,447,306,422 in 2012 to US$ 4,786,714,504 in 2013. This 12 per cent contraction in mineral export revenue came against the backdrop of record industry output level within the last two decades, particularly gold. The thirty-year highest slump in price of Ghana's dominant mineral, however, robbed the sector of the benefits of increase in gold output. Tailwinds to the distressed minerals sector was supplied by the bulk minerals, bauxite and manganese, whose respective revenue appreciated by 15 and 37 per cent.

Even though the 2013 outturn in gold output was significantly high, it represented a marginal 1 percent increment over that recorded in 2012. The rapid withering of the yellow metal's price combined with the lethargic growth in output to set the stage for a tumble in revenue. While gold production increased to 3,192,648 ounces in 2013 from 3,166,483 ounces in 2012, earnings from its export plunged by 13 per cent to US$ 3,192,648 in 2013, a development driven largely by the 10 per cent nose-dive in the average realized price of the metal (see Fig 1.0).The downturn in gold revenue motivated a percentage point reduction in the share of gold in total mineral revenue, from 97.5 per cent in 2012 to 96.3 per cent in 2013.

**Fig 1.0: MINERAL REVENUE IN 2013 (US$ MILLION)**



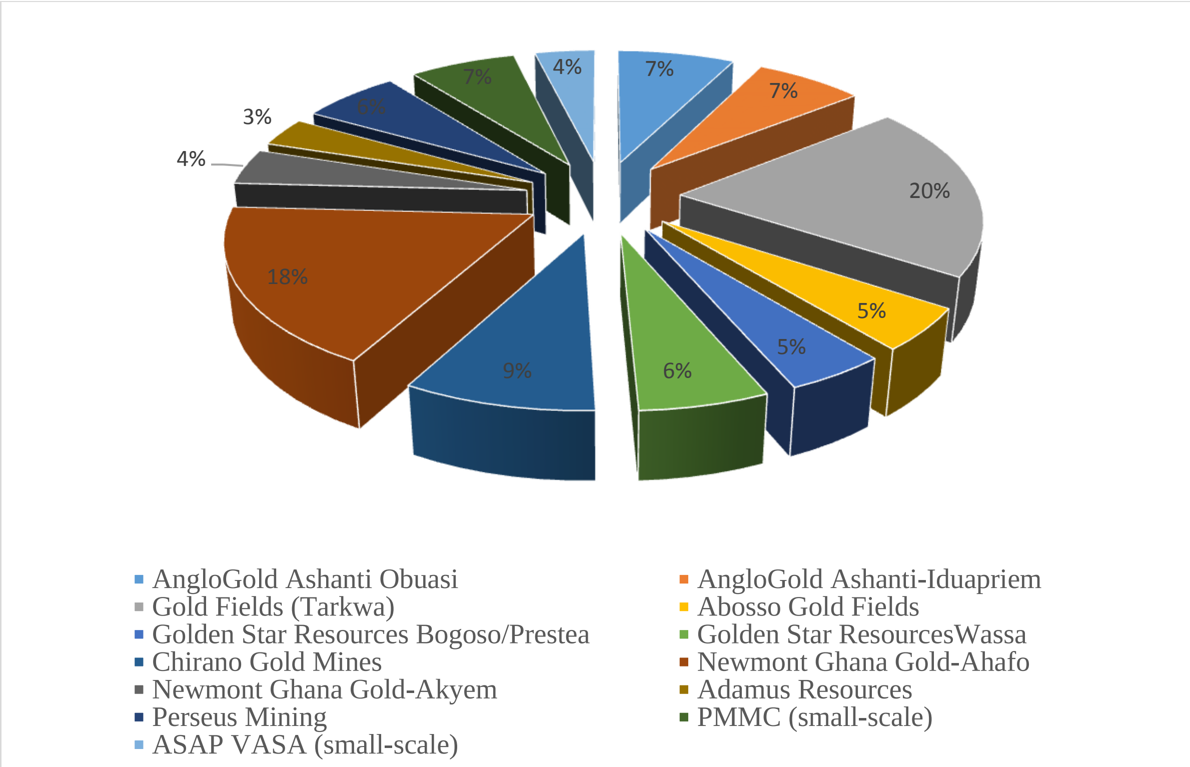

| | Gold | Diamond | Bauxite | Manganese |
|---|---|---|---|---|
| 2012 | 5,309,042,207 | 11,163,107 | 28,495,592 | 98,605,517 |
| 2013 | 4,610,284,057 | 8,030,808 | 32,923,689 | 135,475,951 |

Source: Ghana Chamber of Mines (2013)

The rather unimpressive 1 per cent growth in output was attributable to declines in production from AngloGold Ashanti Obuasi, Gold Fields Tarkwa, Gold Fields Damang, Golden Star Bogoso Prestea Limited, Chirano Gold Mines as well as purchases by the PMMC. On the upside, Newmont Akyem poured its first gold in the last quarter of 2013 while AngloGold Ashanti Iduapriem, Golden Star Resources Wassa, Newmont Ghana Ahafo, Adamus Resources, and Perseus Mining registered improvements in their output.

Gold Fields Ghana group, comprising Gold Fields Tarkwa and Gold Fields Damang, recorded an 11 per cent dip in its total output, which was the single largest decline by a producing member company. Illegal industrial action, premature closure of the Damang mines due to safety concerns, closure of Tarkwa's South Heap Leach and poor ore grade explained the contraction in output. While production in Gold Fields Tarkwa declined by 12 per cent to 632,244 ounces that of Gold Fields Damang shrank from 166,488 ounces in 2012 to 153,177 ounces in 2013. Regardless of the slump, the Gold Fields group retained its position as the leading gold producer in the country. However, it pared 3 per cent of its 2012 market share to end 2013 with a stake of one-quarter of total industry output as shown in Fig 2.0.

**Fig 2.0: SHARE OF GOLD PRODUCTION IN 2013**



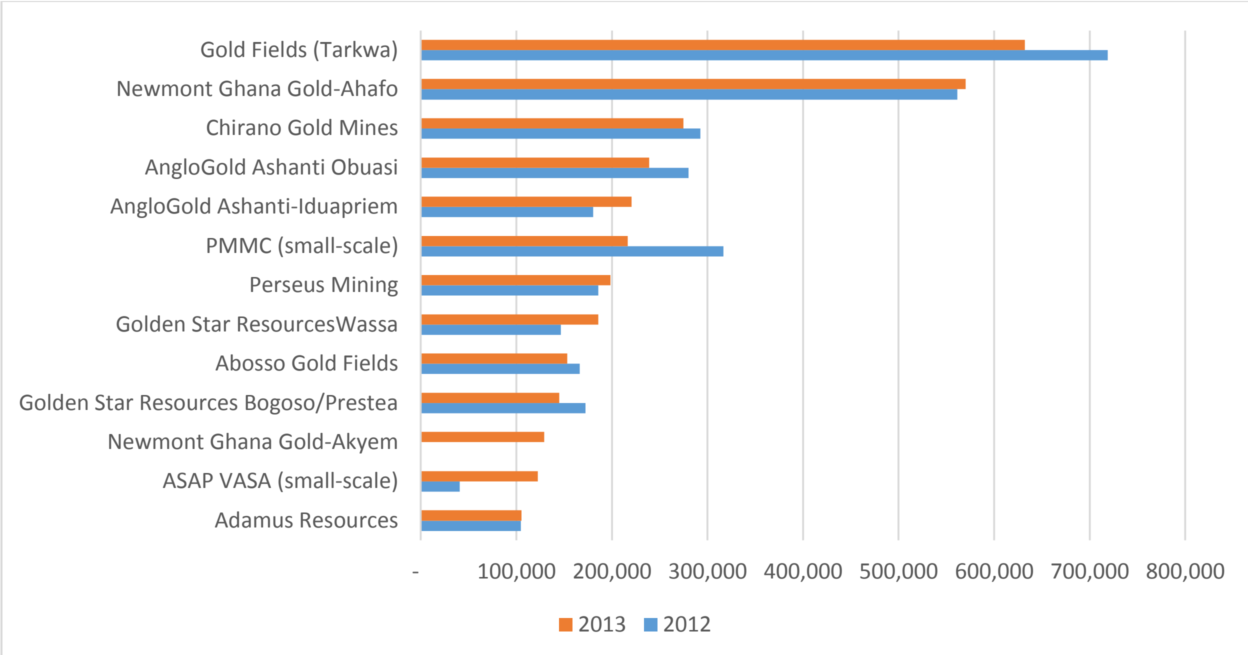

Source: Ghana Chamber of Mines (2013)

The decline of output at AngloGold Ashanti Obuasi as a result of operational challenges lingered in 2013. Total output from the erstwhile mining power house plummeted by 16 percentage points, from 280,084 ounces in 2012 to 239, 052 ounces. On the other hand, AngloGold Iduapriem's output increased from 180,238 ounces in 2012 to 220,658 ounces in 2013, representing a growth of 22 per cent. The significant dip in output at the Obuasi mine led to a 100 basis points reduction in the market share of AngloGold Ashanti, from 15 per cent in 2012 to 14 per cent in 2013 (see Fig 2.0).

Relative to 2012, production at the Golden Star Resources operated Bogoso/Prestea mine waned by 16 per cent in 2013. Total output decreased from 172,379 ounces to 145,000 ounces in the respective periods. The Wassa Mine, also in the Golden Star Resources group, however, saw a 27 per cent jump in its outturn to 185,807 tonnes in 2013. On the balance, the growth in output from the Wassa mine pushed the aggregate output from the Golden Star Resources group from 319,082 ounces in 2012 to 330,806 ounces in 2013, an increase of 4 percent (see Fig. 3.0)

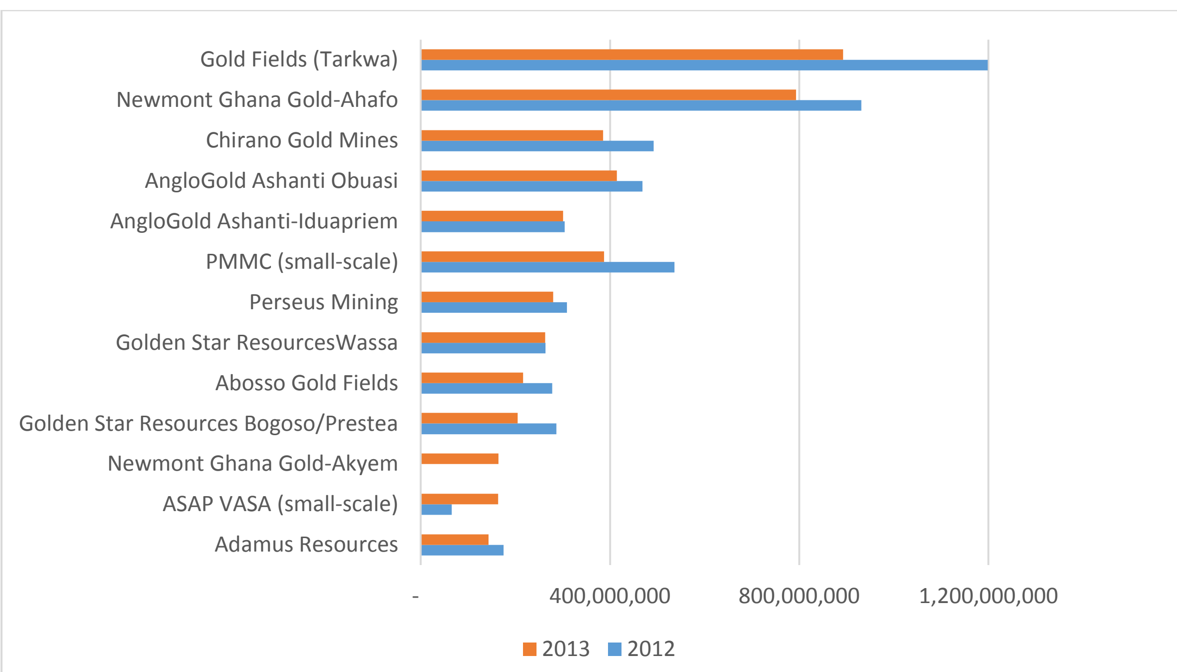
Chirano Gold Mines' output decreased by 6 per cent to 274,683 ounces in 2013. This was as a result of transition challenges with shifting from contract mining to owner mining during the period.

**Fig 3.0: GOLD PRODUCTION BY COMPANIES 2012 VS 2013 (OUNCES)**




Source: Ghana Chamber of Mines (2013)

**Fig 4.0: GOLD REVENUE BY COMPANIES 2012 VS 2013 (US$ MILLIONS)**




Source: Ghana Chamber of Mines (2013)

With the commencement of production at the Akyem mine and a 2 per cent increase in output at the Ahafo mine, Newmont's share in total gold output of producing members of the Chamber improved by 4 percentage points to 22 per cent. Output from the Ahafo mine grew modestly from 561,356 ounces in 2012 ounces to 570,155 ounces in 2013. This was supplemented by fresh output of 129,211 ounces from the Akyem mine which commenced production in fourth quarter of the year.

In its second year of production, Perseus Mining witnessed a 7 percent surge in its output in 2013. As compared to the output of 185,740 in 2012, Perseus' production in 2013 increased to 198,608 ounces. The company's output in 2013 represents a full years' production.

Production at Adamus Gold Resources increased by a nominal value of 586 ounces over its 2012 output level of 104, 629 ounces, representing a growth rate of 0.6 percent.

On the back of injection of fresh liquidity by its off-shore partners, ASAP VASA's purchases and export of gold from small scale miners increased from 40,794 ounces in 2012 to 122,518 ounces in 2013. This signified a 200 percent increase in its total purchases over the period.

PMMC's purchases and export of gold from small scale-miners receded by 32 percent. The company explained that the slump in purchases and export of gold from 316,699 ounces in 2012 to 216,381 ounces in 2013 was on account of renewed government's clamp down on illegal mining, falling price and low recovery from the small-scale miners.

Similarly, steep price falls and poor yield reduced exports and purchases of diamonds attributable to the PMMC by 26 percent, from 215,118 carats in 2012 to 159,074 carats in 2013.

Following Ghana Manganese Company's strategic decision to focus on mine development in the final quarter of 2012, the Nsuta based company saw significant growth in its output in 2013. Total exports expanded by approximately 35 percentage points from 1,485,239 tonnes in 2012 to 1,997,911 tonnes in 2013. In the same vein, its revenue outturn increased from US$ 98,605,517 in 2012 to US$ 135,475,951 in 2013 (see Fig 1.0), a lift of 37 percent.

Revenue accruing to Ghana Bauxite Company from the shipment of bauxite swelled by 16 percent, from US$ 28,495,592 in 2012 to US$ 32,923,689 in 2013. This was mainly due to an increase in its stock of shipment from 752,771 tonnes in 2012 and 826, 994 tonnes in 2013 coupled with a 5.2 percent increase in realized average price of its product.

## Challenges

### Rail Infrastructure

As a result of years of limited investment in the railway infrastructure, there is only some limited rail haulage between Nsuta and the Takoradi Port. Ghana Manganese Company is therefore the last industrial user of the railway infrastructure in the country.

In the absence of a well-functioning railway system, the bulk mining companies (Ghana Manganese Company and Ghana Bauxite Company) continued to make use of the more expensive road haulage from their respective mines, which adversely impacted on their operations.

It must be noted that the rehabilitation of the railway network would not inure to the benefit of the mining companies alone but also provide a cost effective alternative for transporting life and goods for the other sectors of the economy.

In the 2014 Budget and Economic Statement, government announced its intention to sequester the revenue realized from the 2.5 percent increment in VAT into a dedicated infrastructure fund. Although the statutory framework for the Fund is yet to be firmed up, we would implore the government to consider including the rail network as a part of the pool of projects to be financed under the Fund.

**Illegal Mining**

The upsurge of illegal mining with its related widespread destruction of livelihoods, water bodies, flora and fauna in 2013 necessitated the formation of a Presidency-backed taskforce to curtail the menace. With representations from the Police Service, Ghana Armed Forces, National Security and District Assemblies, the National Security Sub-Committee on Lands and Natural resources has worked strenuously to stem the tide of illegal mining. Its efforts resulted in the arrest and deportation of foreigners involved in the illicit activity as well as prosecution of unlicensed Ghanaian nationals.

However, the sustenance of the National Security campaign against illegal miners would come at a great cost to the tax payer on account of the non-tax paying status of such persons. Furthermore, the primary zone of the illegal menace is the cocoa growing belt. No doubt, should the illegal mining activity continue unabated, revenue from the country’s main cash crop will slump with dire consequences for the economy.

In no uncertain terms, small scale mining has the potential to play a significant role in the Ghanaian economy. This argument is evidenced by the sub-sector’s share, both regulated and unlicensed, in total gold output. Within the context of heightened state crack down on illegal mining in 2013, the Minerals Commission attributed nearly 35 percent of total gold output to the sub-sector. Indeed, this is 10 percent higher than the output of the Gold Fields Group, the largest mining company in the country. It is in this light that the Chamber continues to urge government to mainstream and formalize small-scale mining to ensure that the country optimizes benefits from the sub-sector whilst managing the adverse impact. The Chamber would continue to partner government in its effort to sanitize the minerals industry.

**Rationalization of Labour**

The downturn in the price of gold and ever-rising input cost in 2013 imperiled the operations of most mining companies. A natural response was therefore to rationalize inputs, including labour, which resulted in the laying off of about 3,000 persons. However, it must be stressed that retrenchment is typically the least favoured option considering its cost implications. Compensation payments to the affected workers were done in accordance with the laws of the country. As well, organized labour, Ghana Mine Workers Union, was actively engaged in the process and equally urged to assist with the proper management of compensation payments which were evidently quite significant.

**Cost Environment**

Starting from 2011, the fiscal regime in the minerals industry has been altered in an attempt to rake in more revenue for the state. At the same time, expenses on labour, electricity, diesel, chemical reagents, plant and equipment, which are the typical drivers of cost at the mines keep on rising. Coupled with the withering of gold prices in 2013, the cost environment within which mining takes place was exacerbated. The average cash cost[1], which is the operating cost of producing an ounce of gold in Ghana, grew from US$ 809 per ounce in 2012 to US$ 951 ounce in 2013, a hike of 18 percent. Relative to other mining jurisdictions and the global average, Ghana's growth rate in cash cost was the highest. Likewise, all-in sustaining cost at the global scale, which comprises depreciation, depletion, amortization as well as cash cost, was estimated at US$ 997 while that of Ghana was US$ 1,378. Moreover, Ghana's average all-in-cost of US$ 1,473, the GFMS proprietary metric that includes ongoing all-in sustaining, capital, indirect and corporate costs exceeded that of the world average by $123. Based on these metrics, Ghana appears to be a relatively costly destination for mining investments.

**VAT Refunds**

Perennially, the mining industry has an inordinately large amount of surplus VAT to be refunded by the Ghana Revenue Authority. Although government has intimated in recent budget statements its intent to allow companies to set-off their liabilities to government against their surplus VAT, the enabling legislation for this to be implemented is yet to be finalized. Consequently, the mining companies suffer severe cash flow constraints which has been worsened by the recent dip in the price of gold. Also, the recent decline in the value of the Cedi has depreciated the value of these funds. The situation is not healthy for private enterprise and only compounds the escalating cost of doing business in Ghana. We urge government to expedite action in putting in place the requisite legislation to allow the set-off as intended.

**Outlook for 2014**

[1] Cash cost is measured as the sum of on-site mining costs, on-site general and administrative cost, royalties and production taxes, realized gains/losses on hedges due to operating cost, community cost related to current operations, permitting costs related to current operations, 3rd party smelting, refining and transport cost, non-cash remuneration (Site-Based), stock-piles inventory write down, operational stripping costs, by-products credits.

Global economic conditions in 2014 remains upbeat but also subdued due to the shift from monetary accommodation to fiscal consolidation in the US and Japan. The spill-over effect of this variation in economic policy may lead to rise in global interest rate, with an inherent potential to increase the real cost of debt servicing. Again, it may aggravate the trade balance of most developing countries via appreciation in domestic currency. On account of the challenges confronting the global economy, total output is projected to expand by 3.7 percent in 2014 compared to 3 percent in 2013.

Recovery form the downturn in the bullion market may be delayed due to strong investor appetite for liquid financial instruments and projected stable price levels. Consequently, gold prices are expected to remain bearish for most of 2014. On the local front, cost pressures emanating from the on-going input rationalizing measures in the mining industry, proposed change in excise tax model on petroleum products from specific to ad-valorem, projected short-falls in energy supply and increases in utility tariffs, as well as the proposed increase in ground rent, are expected to further deteriorate the mood of the minerals industry.

More so, the imminent, albeit temporary shutdown of AngloGold Ashanti's Obuasi mine for rehabilitation may significantly blight the fortunes of the minerals industry in 2014. Similarly, output at Golden Star's Wassa mine is projected to decline to between 130,000 and 140,000 ounces in 2014 on account of on-going rationalization of production.

On the upside, however, output at Newmont Ghana Gold's Akyem mine is expected to increase in line with a full year's production. The completion of the push back of the Chujah pit wall at Golden Star Resources' Bogoso mine in the first quarter of 2014 is also expected to translate into higher output.

On the balance, the mining sector is projected to be less buoyant in 2014.