REPUBLIC OF GHANA

MINISTRY OF FINANCE

NATIONAL ECONOMIC DIALOGUE

PRESENTATION ON THE STATE OF THE GHANAIAN ECONOMY

by

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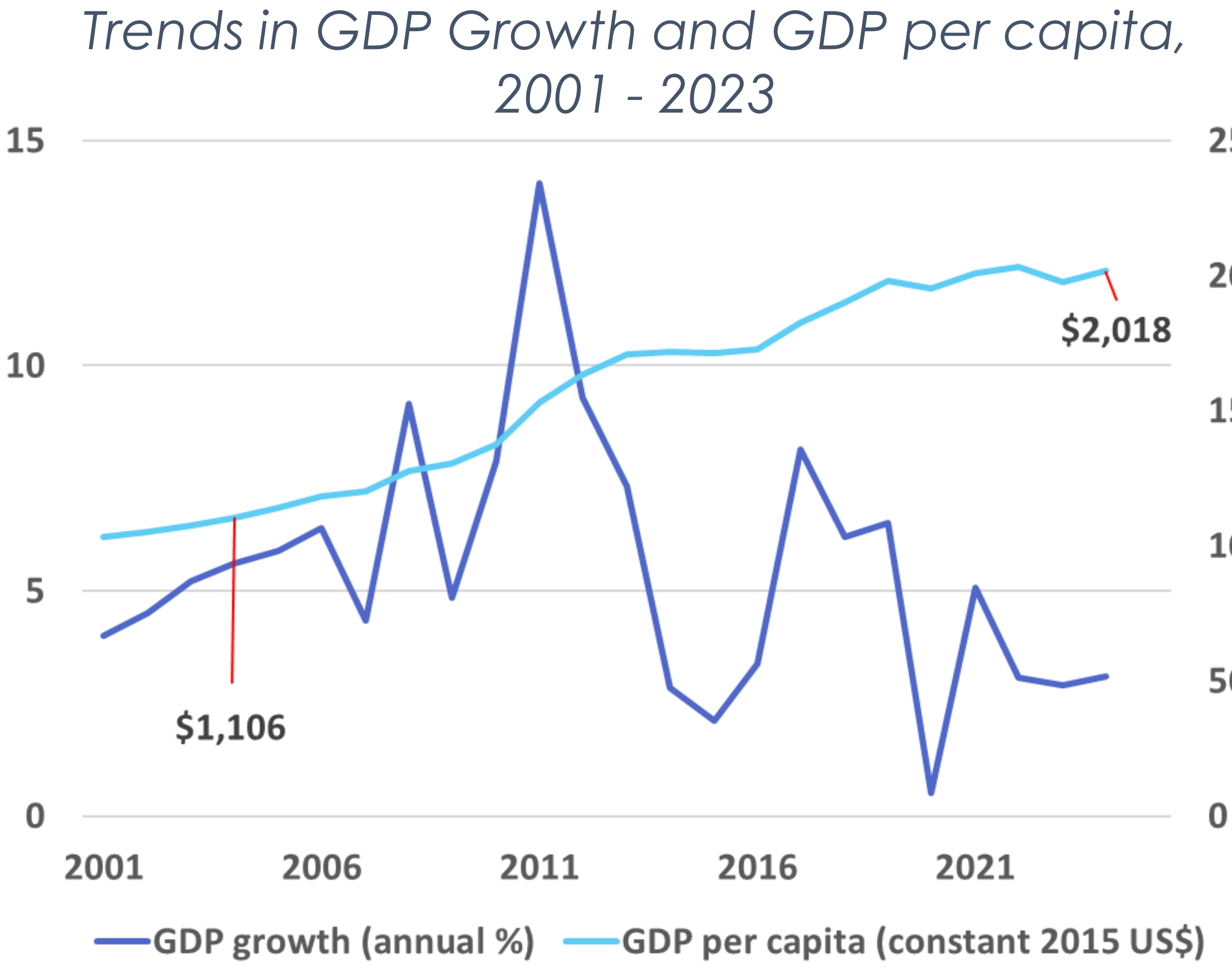
Outline

- ❑ Economic Growth
- ❑ Long-term trends and the urgent need for a reset
- ❑ Fiscal Challenges and Opportunities to Support the Reset
- ❑ The Way Forward

ECONOMIC GROWTH

The causes of the 2022 macroeconomic crisis can be traced well before COVID-19 and the deterioration of global economic conditions. When these shocks struck, the Ghanaian economy was already in a precarious state.

Ghana has experienced strong growth since the 2000s



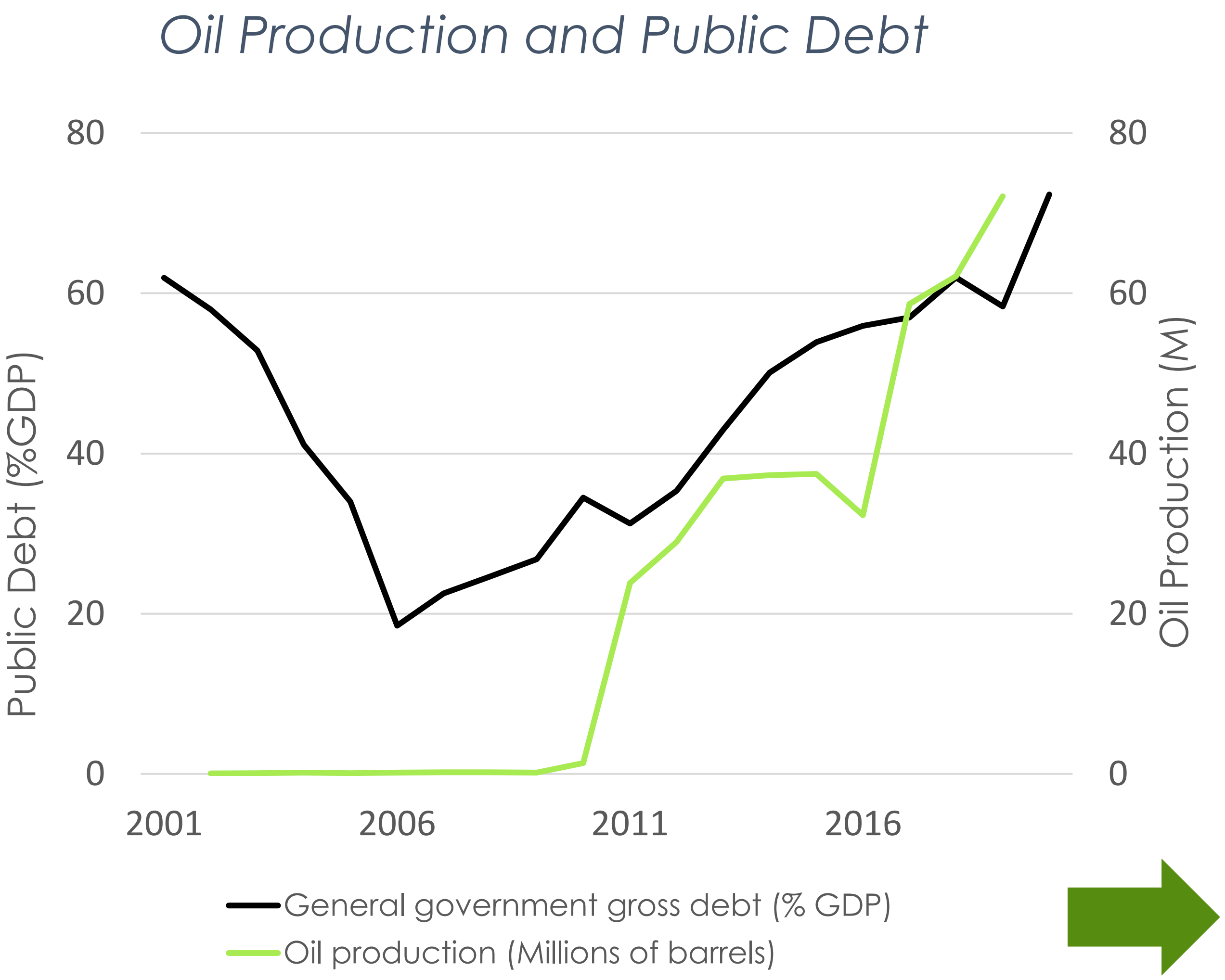
- Strong economic growth over the past two decades placed Ghana in the top ten fastest growing countries in Sub-Saharan Africa (SSA), reaching middle income status in 2011.

- Between 2008-2019, Ghana's economy expanded by about 6.8% per year— above regional and global averages of 4.4% and 2.7%, respectively.

- GDP per capita doubled (averaging 3% growth per year).

Source: WB WDI and IMF WEO

However, growth was driven by oil and mining, accompanied by debt accumulation



- Oil production began in 2011 and contributed steadily to economic growth, representing 5% of GDP on average.
- Moreover, between 2013 and 2019, nearly 20% of GDP growth was directly attributable to the mining sector.
- Simultaneously, the growth acceleration was sustained by increasing fiscal imbalances, which fueled debt accumulation. The fiscal deficit averaged around 4% of GDP between 2008 and 2019—more than twice as much as in 2000–2007. Public debt went from 20% of GDP in 2006 to 93% in 2022.
- **All these factors led to increased vulnerability to commodity-price shocks and global financial conditions**

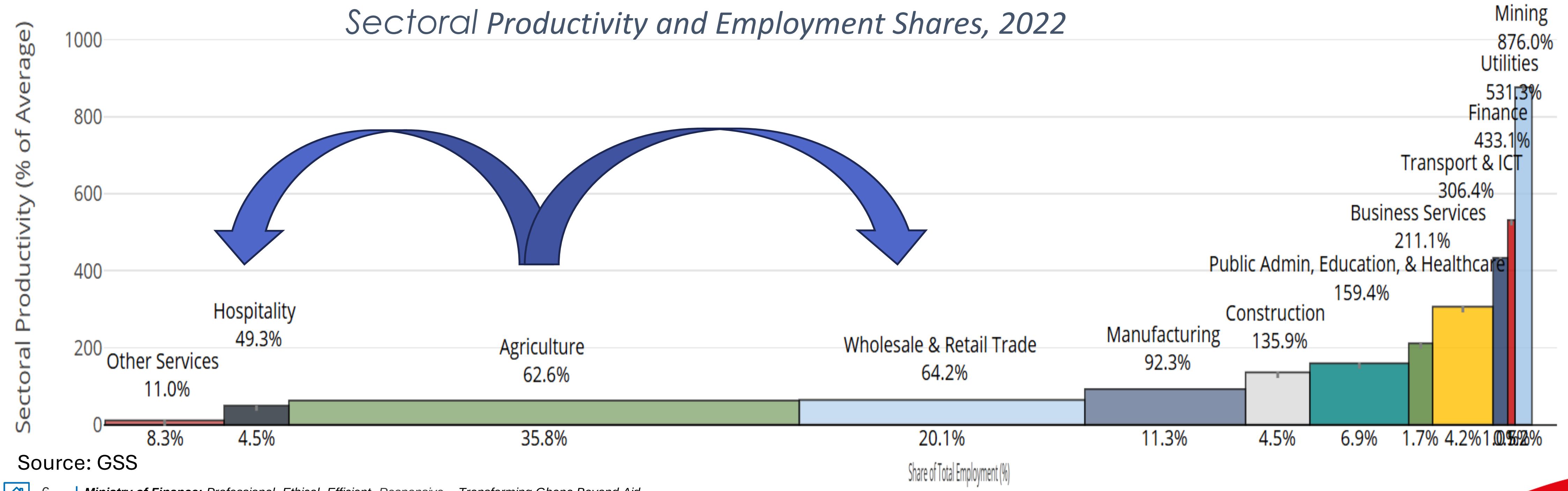
Growth has not translated into structural transformation & productivity

There has been limited progress in structural transformation with the agriculture sector still representing one-fifth of GDP and one-third of the labour force.

Manufacturing productivity remains relatively low and higher productivity sectors in industry, such as commercial mining and construction, employ few people. The informal sector and self-employment have absorbed a large share of the labor force, even among higher income quintiles.

Contrary to the experience of advanced economies, the release of workers from agriculture has been absorbed mainly by low productivity services (such as hospitality and wholesale & retail trade) comprising a quarter of the labour force.

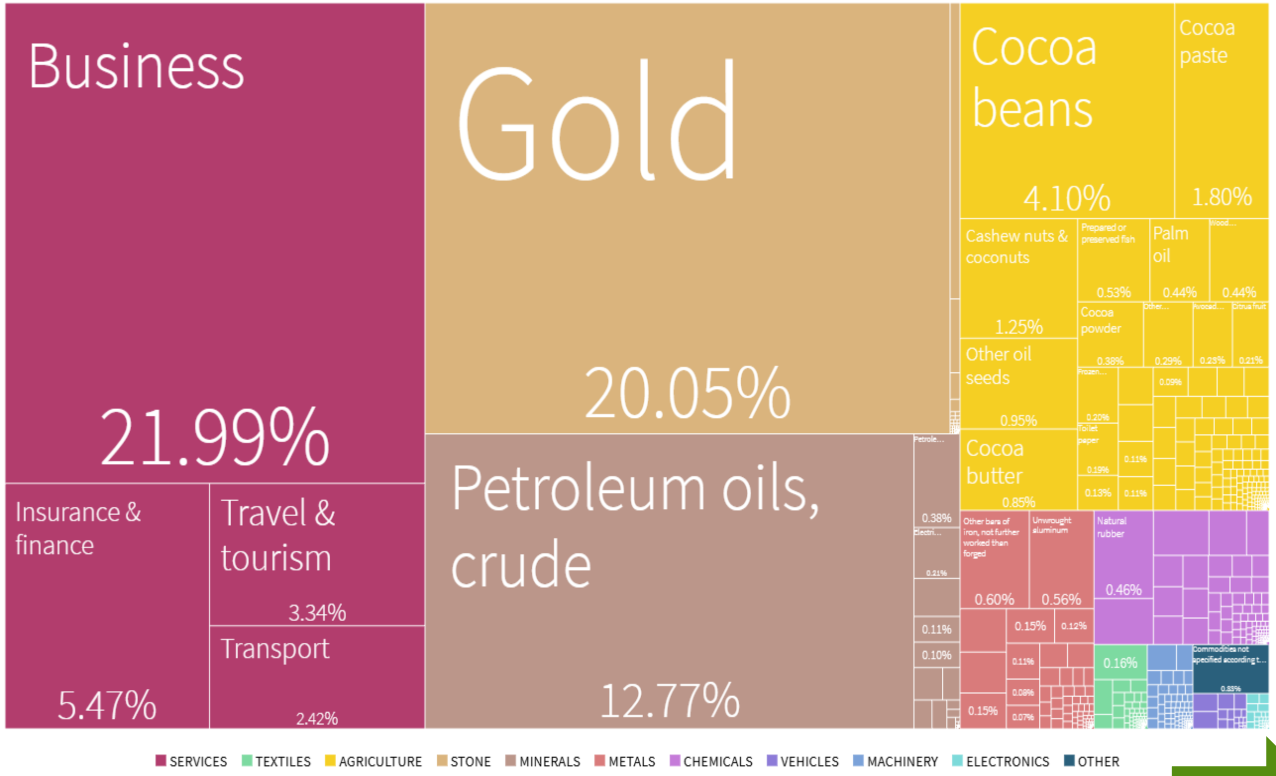
Sectoral Productivity and Employment Shares, 2022



Source: GSS

Ghana's export basket has remained concentrated in simple products with low value-added

Ghana Export Basket 2022

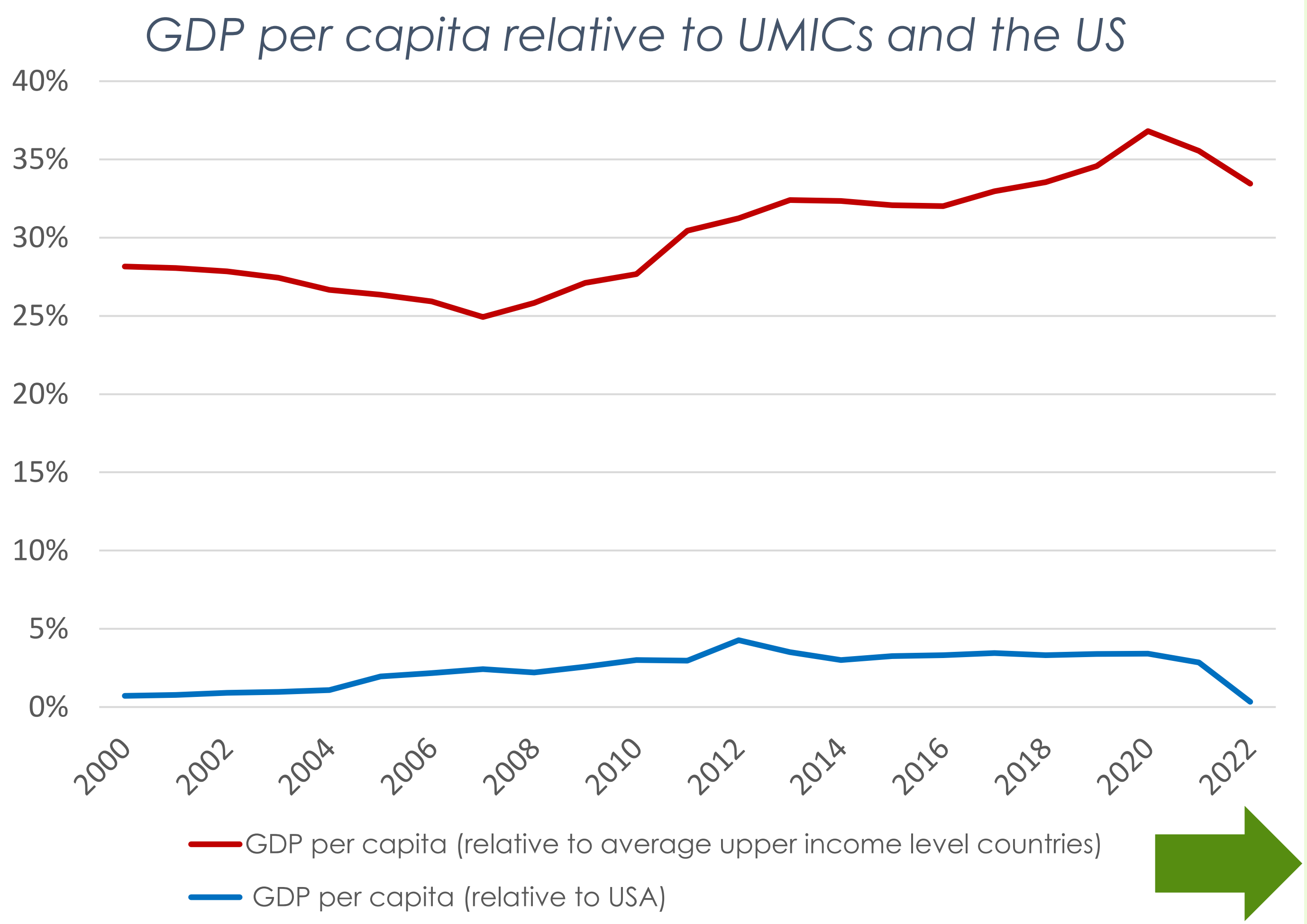


Source: Growth Lab, Harvard University. UN COMTRADE (HS 1992) and the IMF's WEO

- The economy is dominated by primary products with limited value addition, which restricts the potential for economic diversification and growth.
- Ghana's top three exports (gold, crude oil, and cocoa beans and products) accounted for 85.1% of the country's total exports in 2024.
- High Productivity manufacturing is relatively small and has not exploited trade opportunities (ECOWAS, AGOA, EPA, AfCTA..)

This reliance on primary commodities highlights the need for strategic efforts to diversify the economy and reduce dependency on a narrow range of products, taking advantage of global value chains.

Despite recent growth, economic convergence has been limited and has not supported substantial income catching-up

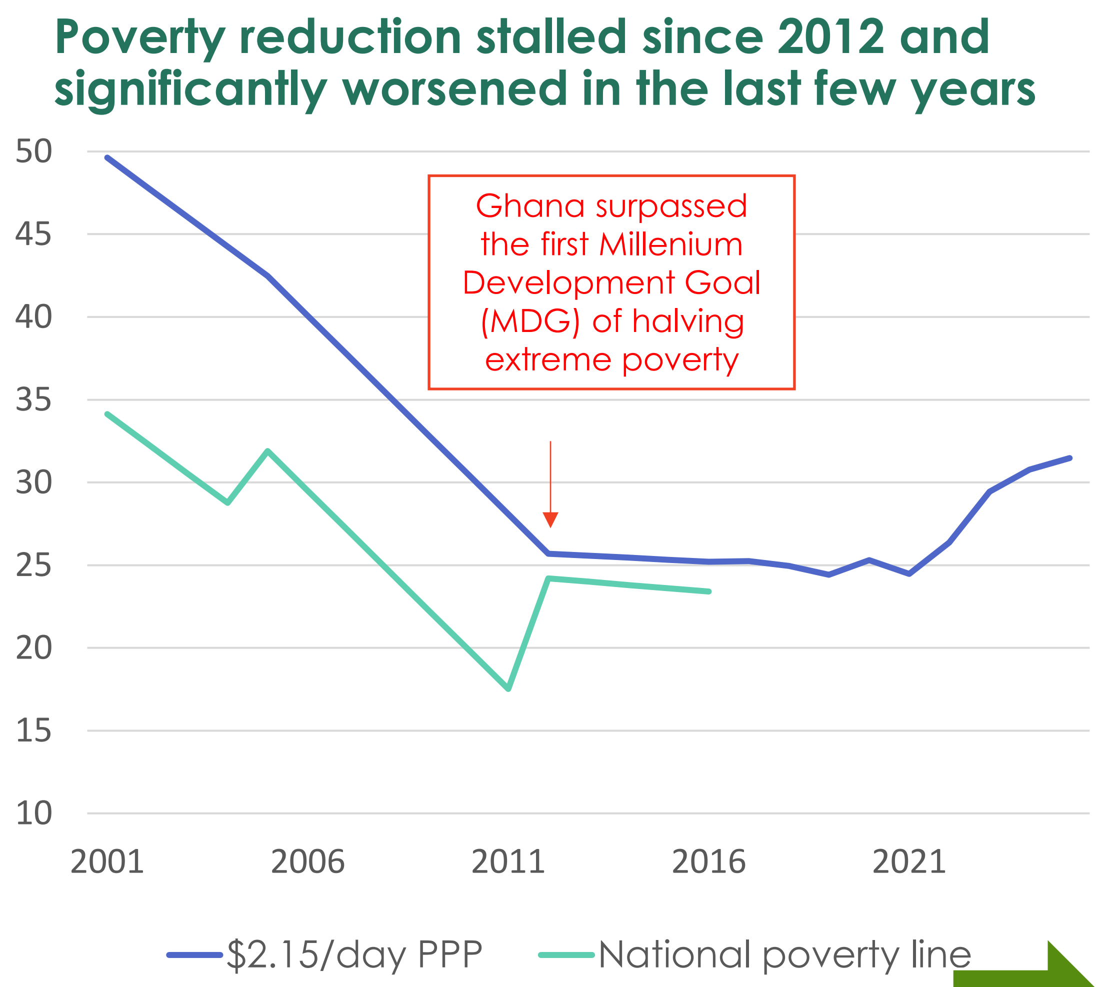


Note: GDP per capita is measured in constant 2017 USD at PPP.
Sources: WDI Indicators and Penn World Tables 10.01.

- When compared to other Sub-Saharan African countries, Ghana fairs better in catching up to their per capita levels.
- Ghana's per capita GDP increased from a record low of 25% of the average income of upper middle-income countries in 2007 to just 33% in 2022.
- Today, GDP p.c. is only 2.6% of that of the United States – well below the level when Ghana attained independence (5.9%).

At current growth rates, it would take up to 24 years to reach upper middle-income countries.

The impact of growth on poverty reduction has declined

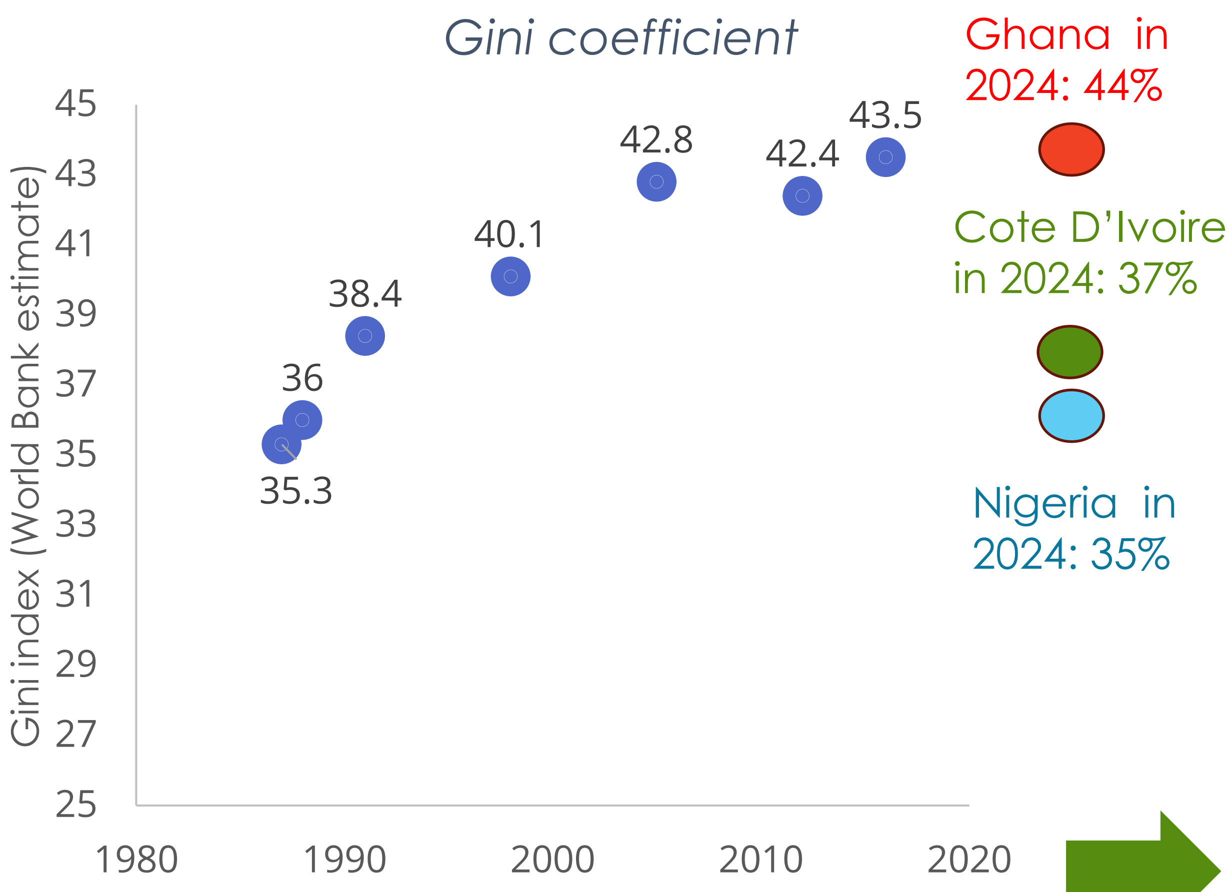


Source: GSS and WB

- Growth has significantly become less pro-poor due to limited job opportunities in high-productivity activities and capital-intensive industrial development.
- Poverty reduction paused after 2012, despite continued GDP per capita growth. The bottom 40% of the population saw almost no consumption growth; with consumption dropping by 5% for the Bottom 10%
- Past gains in poverty reduction have been reversed due to high inflation and slower economic growth since 2019.
- Structural fiscal weaknesses have limited the fiscal response to mitigate impacts on the population, especially the poor.

Income per capita stagnated around US$2,200 and about a third of the population is below the international poverty line.

Income inequality has progressively worsened



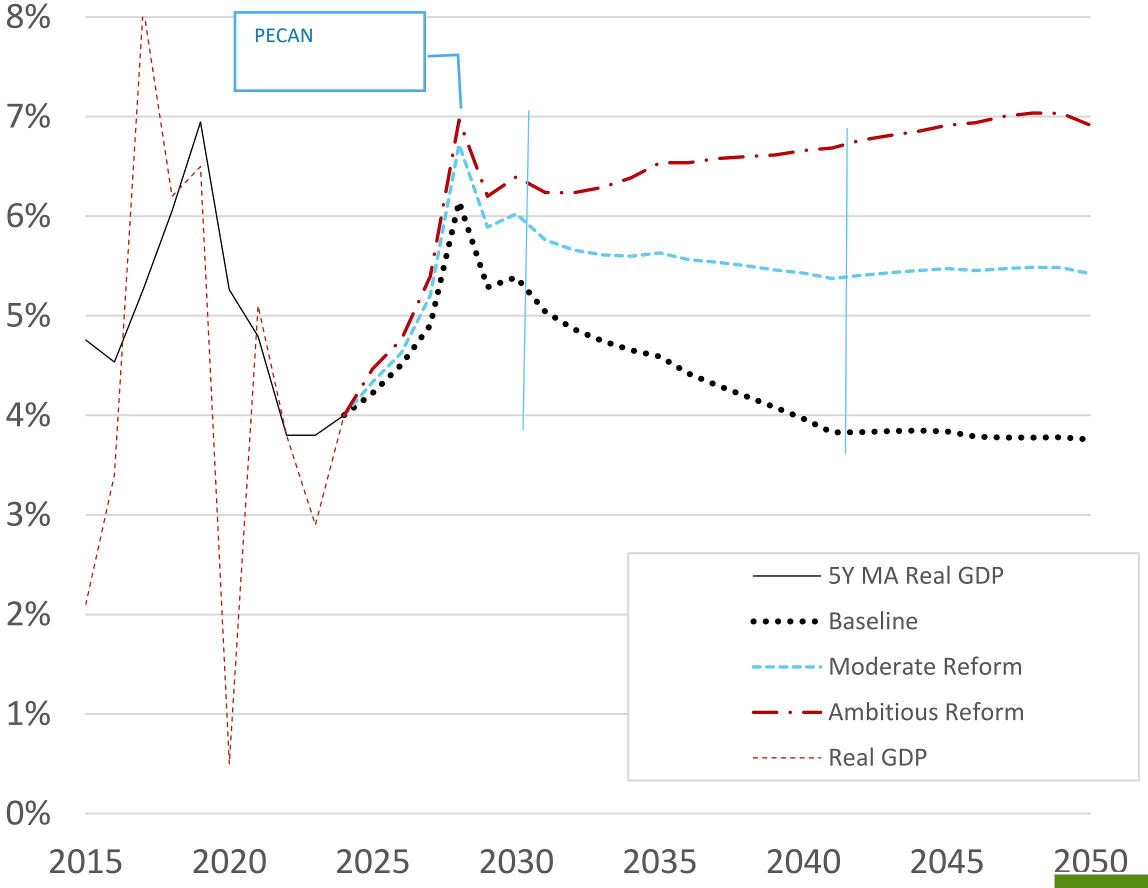
- Inequalities across regions persist due to lack of economic convergence, disparities in service delivery, and environmental degradation.
- Poverty rates in Upper East, Upper West, and Northern regions remain above 50%.
- Rapid urbanization has led to rising disparities within cities. Although urban poverty rates have dropped over the last decade, the number of urban poor has not decreased.
- Poverty is more prevalent in lower-elevation slums, where communities experience higher fertility, lower school attendance, very low access to sanitary services, and vulnerable to natural disasters.

In 2024 Ghana's inequality was worse than Cote d'Ivoire, Nigeria, Benin, Togo and other neighboring countries

Source: GSS and WB

LONG-TERM TRENDS AND THE URGENT NEED FOR A RESET

The current growth model will not be sufficient to meet Ghana's needs and aspirations

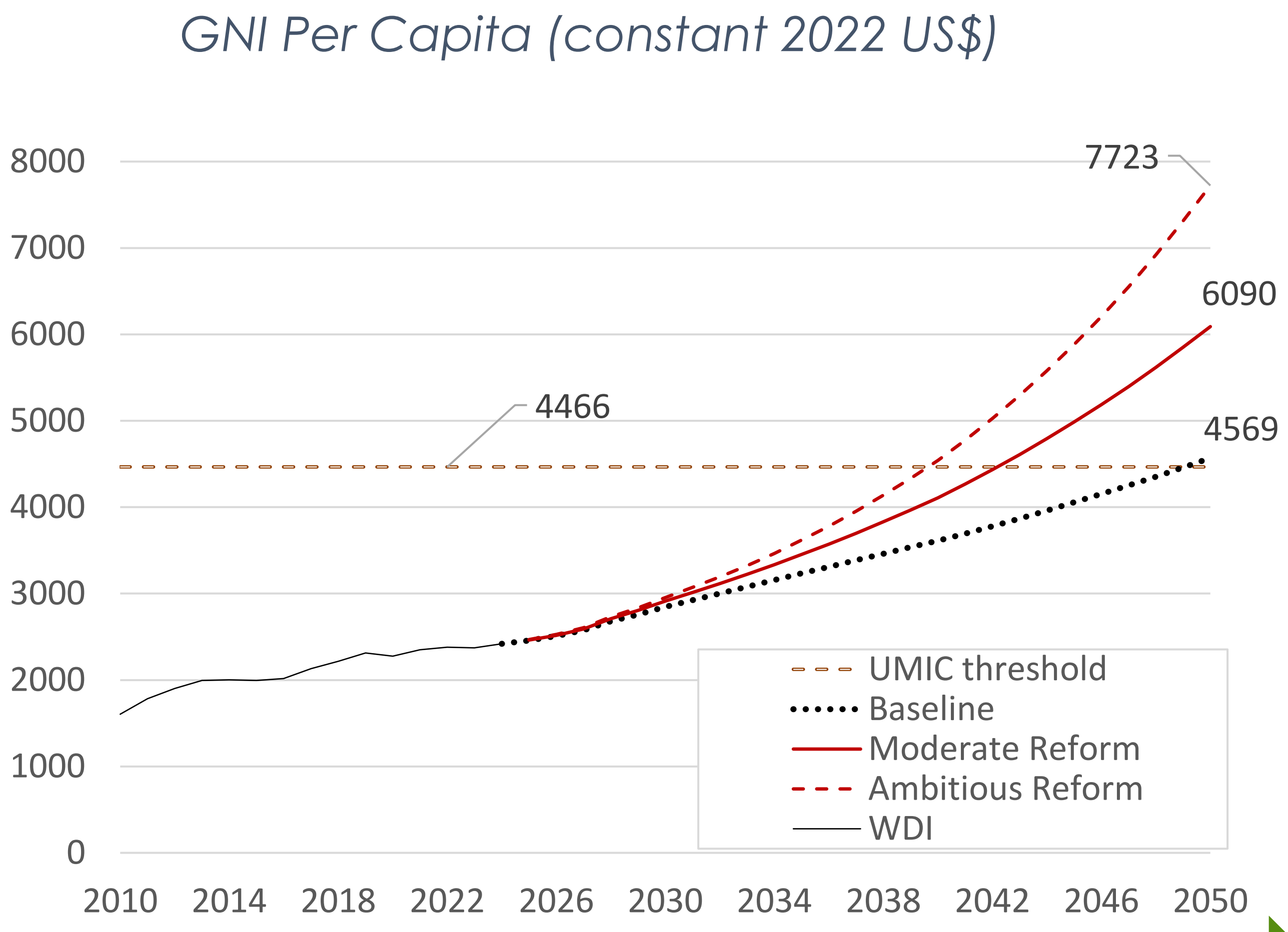


Source: World Bank LTGM-NR

- Ghana needs to take advantage of its "demographic dividend," with 500,000 young people joining the labor force each year.
- With the current growth model, growth will reduce to only 3.8% (2.4% GDP per capita) in less than 15 years
- There is an urgent need to implement ambitious reforms to reset the economy in the next four years.
- Transforming Ghana's economic growth from one based on factor accumulation and natural resource depletion to one driven by productivity and human capital is critical.

Economic growth can be sustained over 6.5%, fully offsetting headwinds from demographic trends and the decline in natural resources.

Without comprehensive reforms, Ghana will only achieve Upper Middle-Income Status after 2050



Source: World Bank LTGM-NR

- There is an urgent need for comprehensive policies and institutional reforms that enhance productivity, improve the quality of infrastructure, services, and elevate human capital and workforce skills.

- These reforms have the potential of transforming Ghana within a generation, tripling its per capita income by 2050.

THERE IS THE NEED TO REORIENT FISCAL POLICY TO SUPPORT GROWTH AND STRUCTURAL TRANSFORMATION.

Urgent need for economic transformation to "Reset Ghana"

Chapter 1: Resetting the Economy and creating prosperity for All

Chapter 2: Jobs for All

Chapter 3: Ghana Framework For Industrialisation, Revitalisation, Support And Transformation (Ghana First)

Chapter 7: Deepening International Relations and Foreign Policy

Chapter 4: Powering Growth through Infrastructural Development

Chapter 5: Investing in People for Inclusive Growth

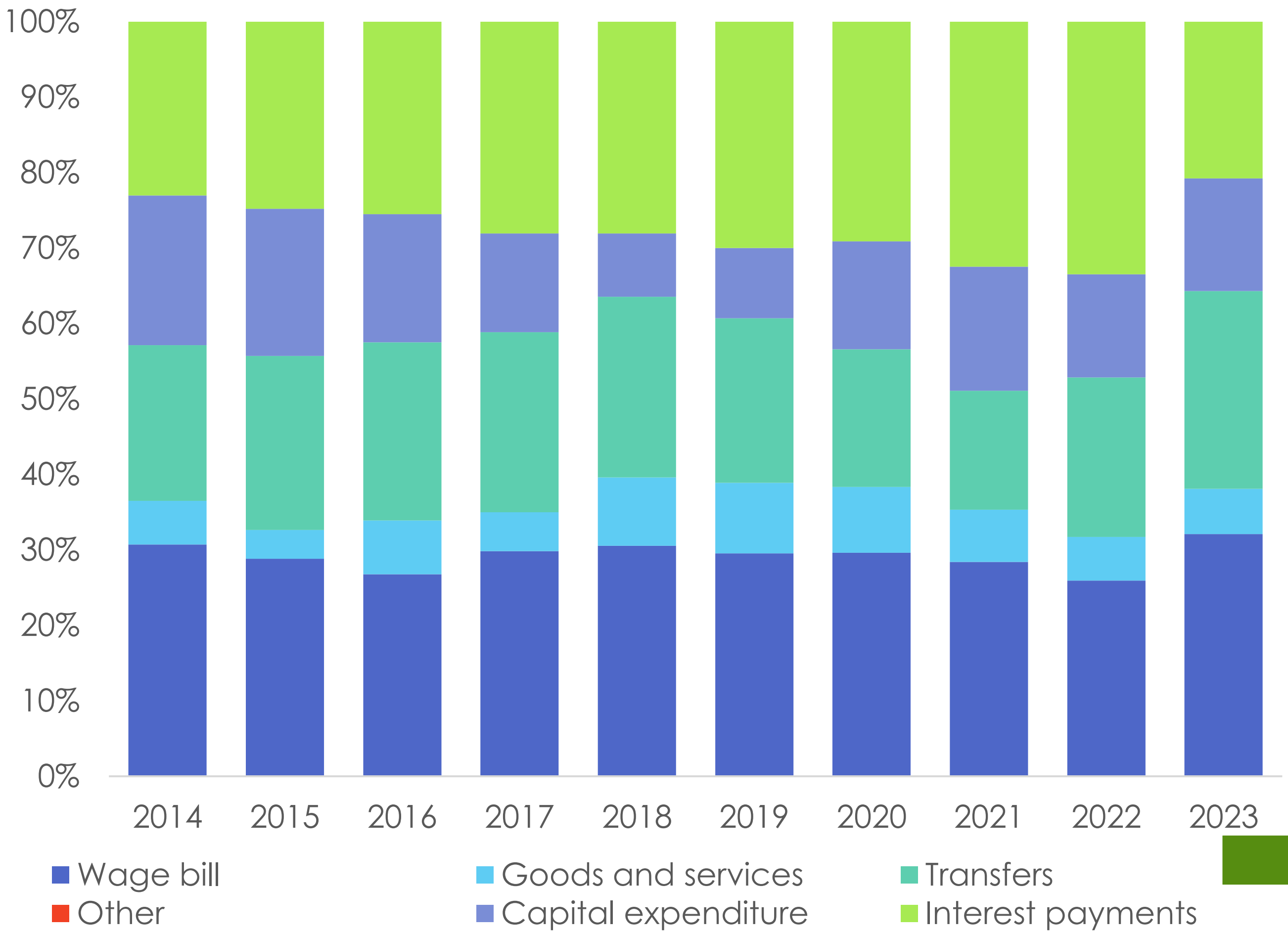
Chapter 6: Restoring Good Governance and Combating Corruption

FISCAL CHALLENGES AND OPPORTUNITIES TO SUPPORT THE RESET:

PUBLIC SPENDING

Fiscal space is constrained by high interest payments, high energy subsidies, and mounting rigidities

Government spending by economic category, 2014–2023,
As a share of Total Expenditure (constant, 2010)



- Government expenditure grew faster than GDP over the past decade.
- Non-discretionary spending severely limited the fiscal space due to:
  - High wage bill
  - High energy subsidies
  - Ballooning interest payments
  - Spending indiscipline and weak expenditure controls, including commitments

Three categories of Non-discretionary expenditures (public sector wages, interest payments, and earmarked funds) account for 70 percent of total expenditure.

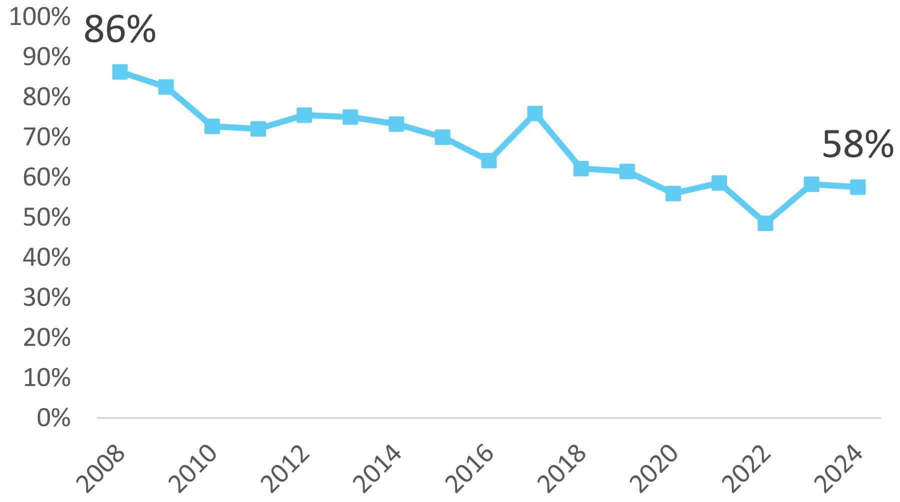
At the expense of Capital Expenditure

Social spending is low and often misused

National Health Insurance Scheme (NHIS) faces financing shortfalls and also gross misuse of resources

- Financing shortfalls for NHIS: The NHIS no longer receives its full National Health Insurance Levy (NHIL) allocation, due to the capping law
- Additionally, resources increasingly diverted towards non-core activities hinder efficiency. Today, less than 60% of NHIS budget goes to claim payments.

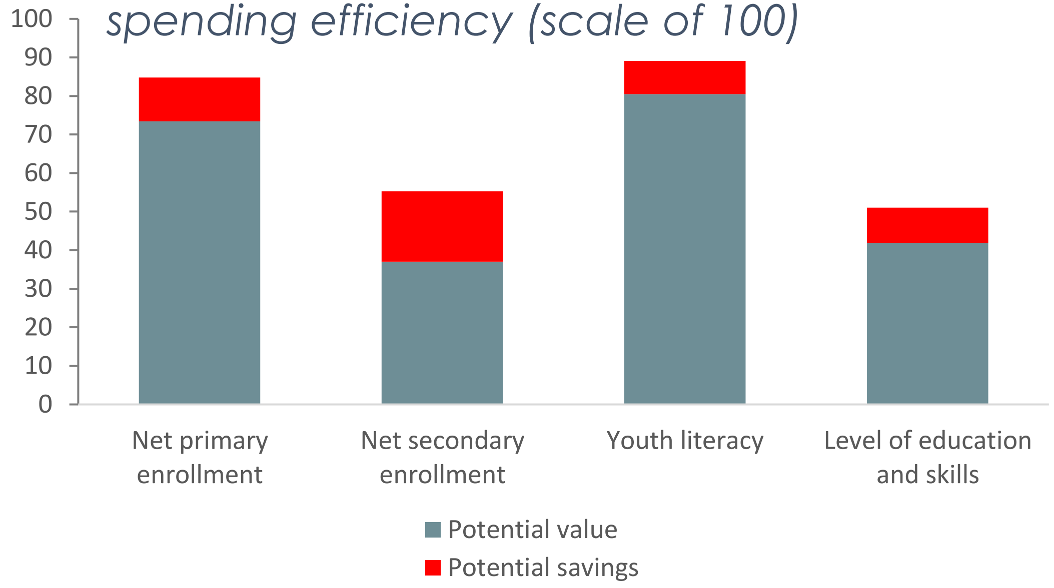
Claims as % of total NHIS expenditures



Public spending on education is inefficient, and skewed toward secondary and tertiary levels

- Only about one-quarter of government education spending goes to pre-primary and primary levels
- Most funds go to staff compensation, leaving little for classroom materials or infrastructure improvements

Education gains from improvements in spending efficiency (scale of 100)



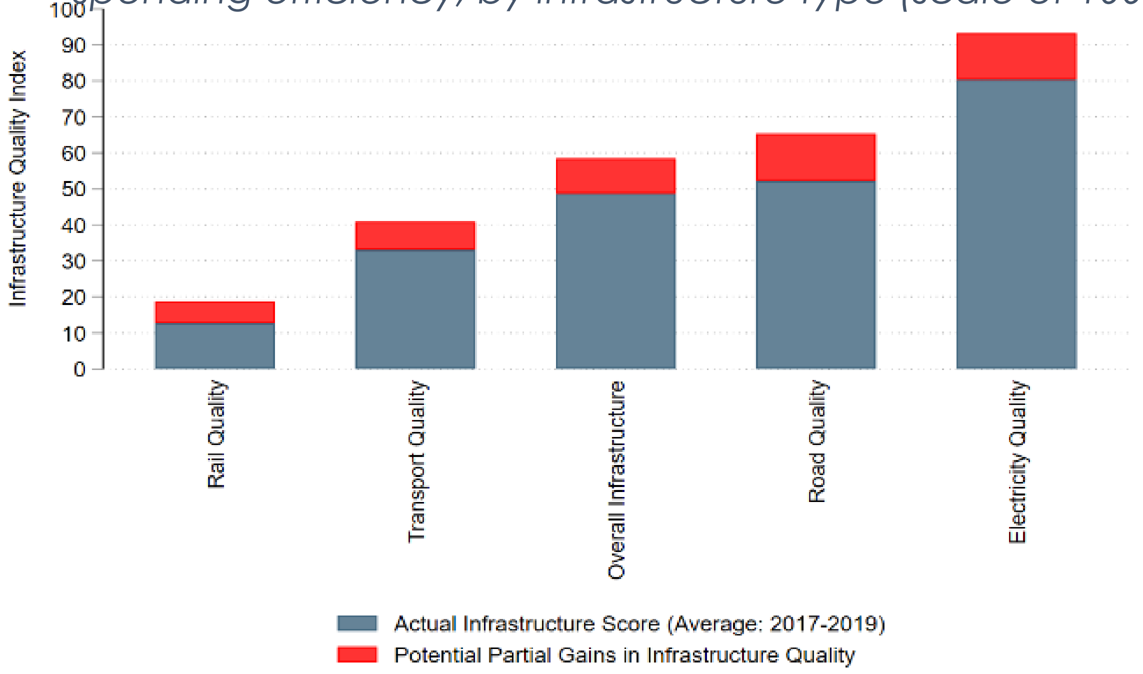
Source: NHIS and WB estimates

Infrastructure spending is highly inefficient and mostly uncompleted

Even a small improvements in spending efficiency could lead to significant progress in infrastructure quality.

For example, an increase in efficiency to match best performing emerging markets would deliver about 20 percentage point improvement in the quality of Ghana's road quality.

Infrastructure quality gains from partial improvements in spending efficiency, by infrastructure type (scale of 100)

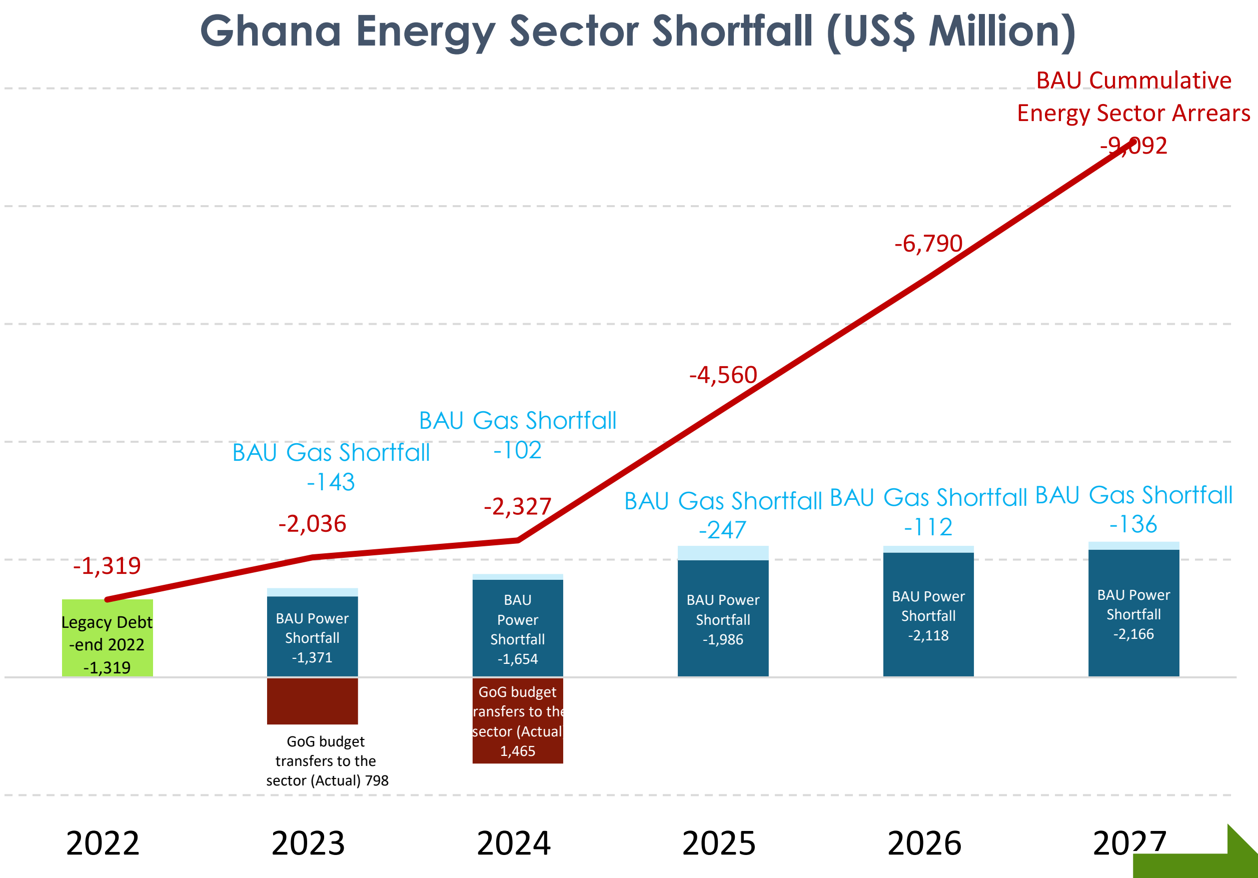


Source: Ministry of Finance (MoF)

- Spreading resources on too many projects without completing any.
  - For example, Agenda 111 where US$400 million have been spent in the last four years without a single hospital in operation, with about US$1.5 billion needed for completion.
  - The amount spent could have completed 22 functional hospitals.
- Maintenance is cheaper than new infrastructure but funds to road maintenance is inadequate
  - For example, only 41% of the primary roads were in good condition in 2021.
  - Funds for road maintenance cover only 45% of maintenance needs

The energy sector in Ghana has become a "ticking time-bomb", costing about 2 percent of GDP annually

Annual sectoral shortfall estimated at US$2.2 billion in 2025



Source: ESRP Model, World Bank Estimates

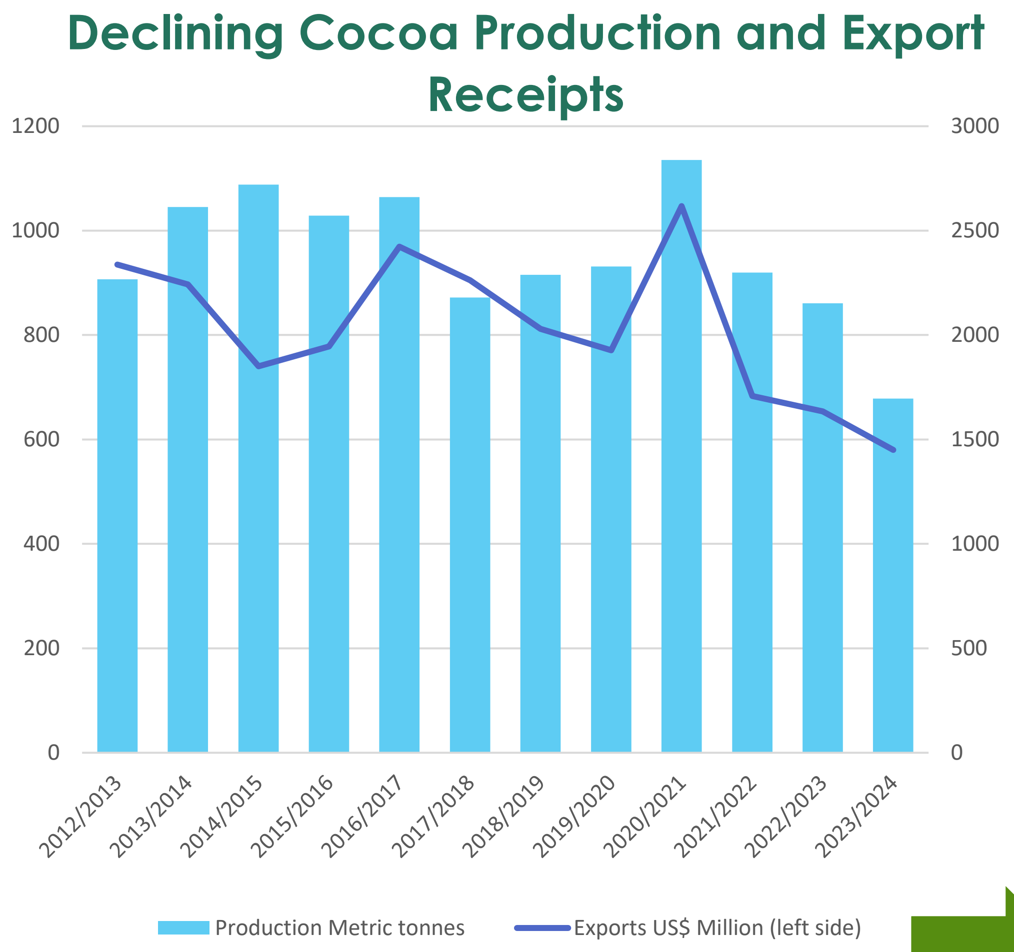
The objectives of the Energy Sector Recovery Program (ESRP) are completely off-track. Fixing the sector requires radical measures:

- High Generation Cost due to lack of competition and limited renewable capacity in the generation mix.
- High distribution and collection losses of ECG; only 62% of total energy purchased by ECG is collected and of that amount only about 65% is used to pay suppliers through the Cash Water Mechanism
- Non-cost-reflective tariffs: about 50% of the cost-of-service provision.
- However, tariffs should not be used to reward ECG's and other inefficiencies.

Unpaid legacy arrears at end of 2022 were US$1.3 billion; Annual cumulative sector shortfall in 2024 stood at US$2.2 billion despite government transfers of US$ 2.1 billion in 2023 and 2024.

Projected cumulative financial shortfall for energy sector is over US$9 billion by 2026, without interventions.

The Cocoa sector also poses elevated fiscal risks



Source: Bank of Ghana, GSS

Declining Cocoa Production with Record-High Prices

- Cocoa production has dropped nearly 50% over the past three years. The 2023/2024 crop season, COCOBOD could not supply 330 thousand tonnes of cocoa contracts.
- Existing forward sales contracts locked in lower prices than current market rates. Revenue losses of US$840 million for both COCOBOD and the Ghanaian farmer.
- Additional US$495 million losses for the rolled-over contracts.

Market Price Differentials & Smuggling Risks

- Large gaps between market prices and farmer payments encourage smuggling and threaten long-term sustainability.
- This implies that for every tonne of cocoa delivered this year in fulfilment of the rolled-over contracts, COCOBOD and the Ghanaian farmer would lose US$4,000 in revenue.

COCOBOD's Extra-Budgetary Spending & Fiscal Risks

- **Total debt of GHS32.5 billion, of which GHS9.7 billion is due to be paid at the end of September 2025.**
- **Outstanding cocoa road contracts reached GHS21 billion (US$1.3 billion) in 2024, of which only GHS4.4 billion accounted for in COCOBOD financial statements**
- **Supplier arrears difficult to quantify because of lack of transparency**

SOEs and JVCs show mounting operational and financial

S/N	Name of Entity	2021 (GHS'm)	2022 (GHS'm)	2023 (GHS'm)
1	Electricity Company of Ghana	-1,458.78	-8,068.47	-5,964.00
2	Ghana Grid Company	300.05	-93.52	-86.56
3	Volta River Authority	112.76	-277.18	-380.82
4	PSC Tema Shipyard (Subsidiary of GPHA)	0.00	-25.53	-21.91
5	Ghana Railway Company Limited	298.81	-28.49	-9.37
6	Ghana Cylinder Manufacturing Company Limited	-4.24	-0.63	-6.95
7	GIHOC Distilleries	1.27	-25.13	-25.63
8	GNPA Limited	-1.91	-0.94	-0.87
9	Precious Minerals Marketing Company	-12.45	-2.73	12.12
10	Accra Digital Centre	-0.39	-3.97	-4.29
11	AirtelTigo Ghana Limited	439.13	-434.60	-599.74
12	Ghana Post Company Ltd.	-4.52	-1.20	0.77
13	Graphic Communications Group Ltd	-3.04	-4.34	-15.18
14	Ghana Cocoa Board	-2,437.89	-3,835.39	2,286.09
15	Consolidated Bank Ghana	72.26	-1,505.46	-542.96
16	Ghana Commodity Exchange	-5.00	-6.64	3.71
17	Ghana Integrated Aluminium Development Corporation	2.76	-7.10	-0.71
1	Kumasi Abattoir Comp. Ltd.	-0.44	-1.64	0.11
2	ADB Bank Limited	81.60	-371.28	-402.75

In 2023, Cocobod's apparent profitability was due to the suspension of debt service payments during debt restructuring.

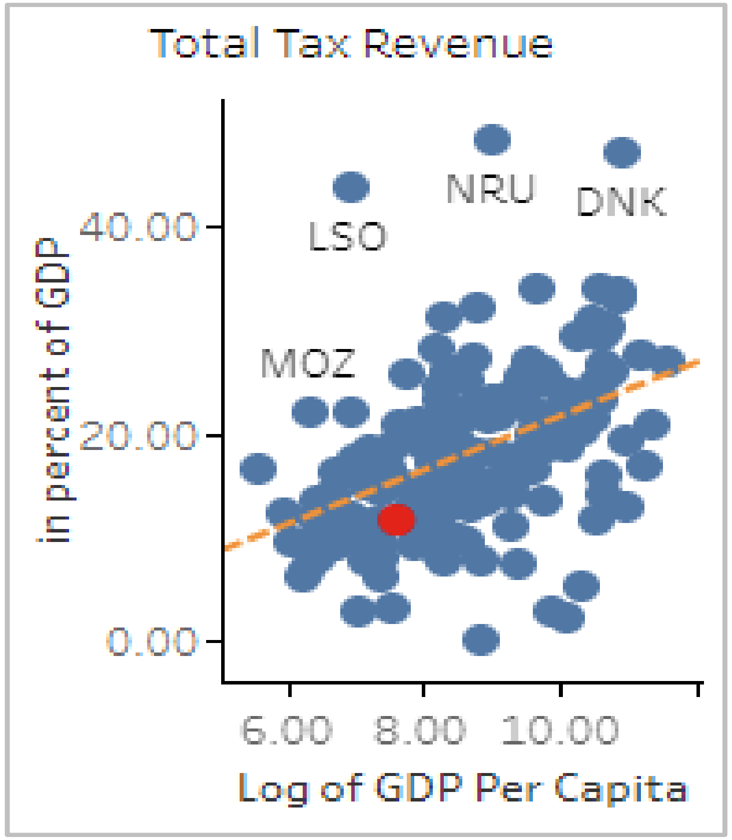
Source:SIGA

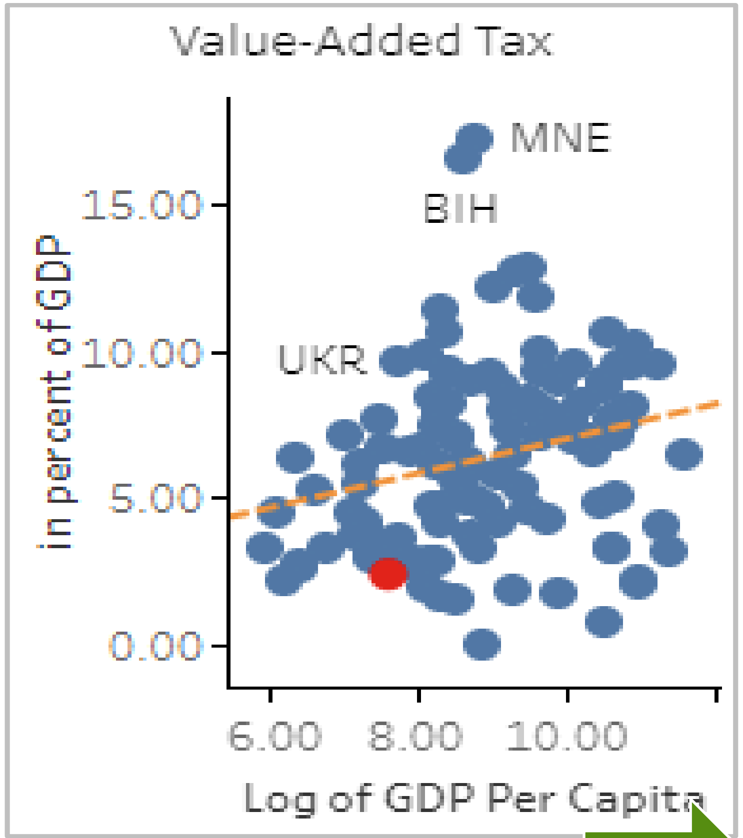
FISCAL CHALLENGES AND OPPORTUNITIES TO SUPPORT THE RESET:

REVENUE

Ghana has not performed well in revenue mobilization compared to its peers

Total tax revenue and value-added tax is below countries with similar levels of GDP per capita and trade.





Source: World Bank

Ghana's domestic revenue mobilization (DRM) has stagnated in the last decade and remains below our peers.

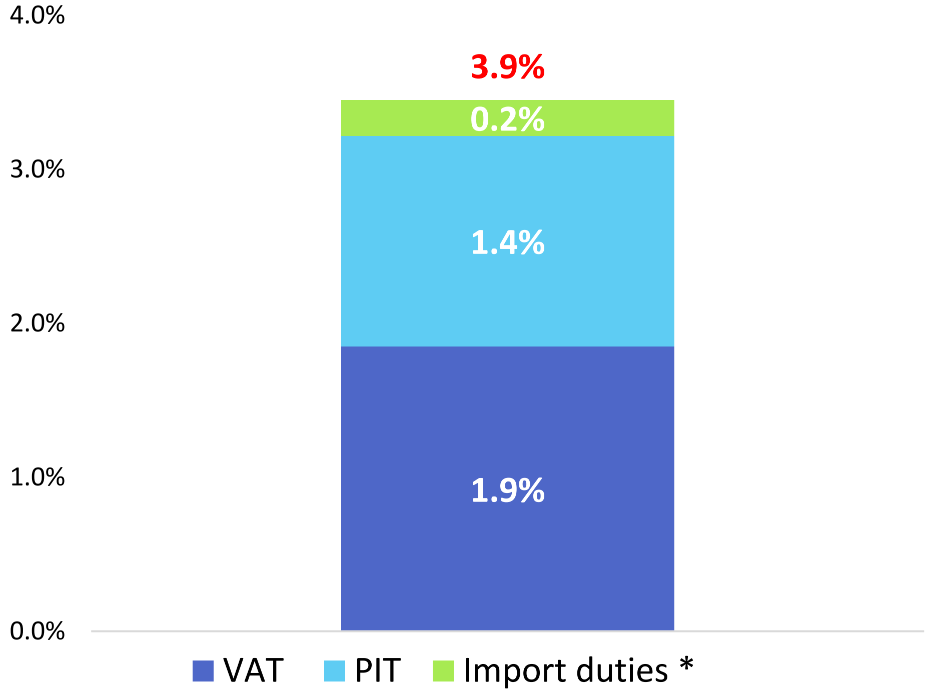
- Collected revenues reached 13.5% of GDP in 2023.
- Collection from all major taxes remain low, especially VAT, as compared to our peer countries.

Numerous exemptions and the complexity of the tax system have a detrimental impact on revenues.

Tax administration challenges also contribute to a compliance gap.

The fiscal cost of tax expenditures calls for rationalization while mitigating its impact on the poor

Tax expenditures in Ghana by tax instrument, 2021 (as a share of GDP)



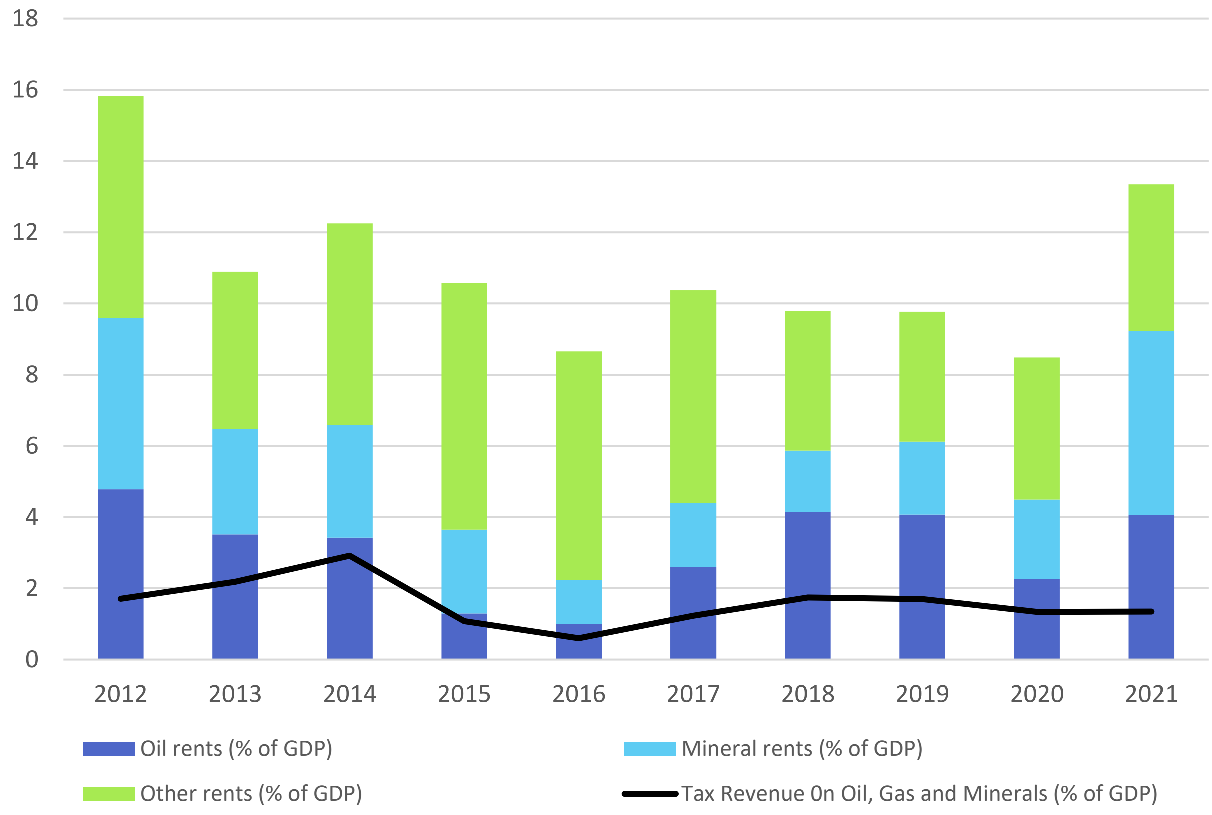
Source: World Bank elaboration. Data on tax expenditures for CIT and excises not available. * Estimate based on 2022 data.

- The Tax Exemptions Act, 2022, sets out clear criteria and guidelines, but other legislations introduce further tax incentives that deviate from the notional tax benchmark.
- Tax exemptions from VAT, PIT, and import duties are estimated to generate a loss in revenue of 3.9% of GDP. This does not include tax exemptions on CIT.
- While these exemptions offer some relief, they are costly, and they create leakages, complexity and distortions.

The largest source is VAT forgone revenue is the VAT exemption on the supply of dwellings and land (33 percent of overall cost).

Ghana has not sufficiently capitalized on its extractive sector to generate revenues to support development and diversification

Rents and Fiscal resources from extractive sector, as a share of GDP



Note: Natural resources rent is calculated as the difference between the revenue of a commodity and the average cost of producing it.

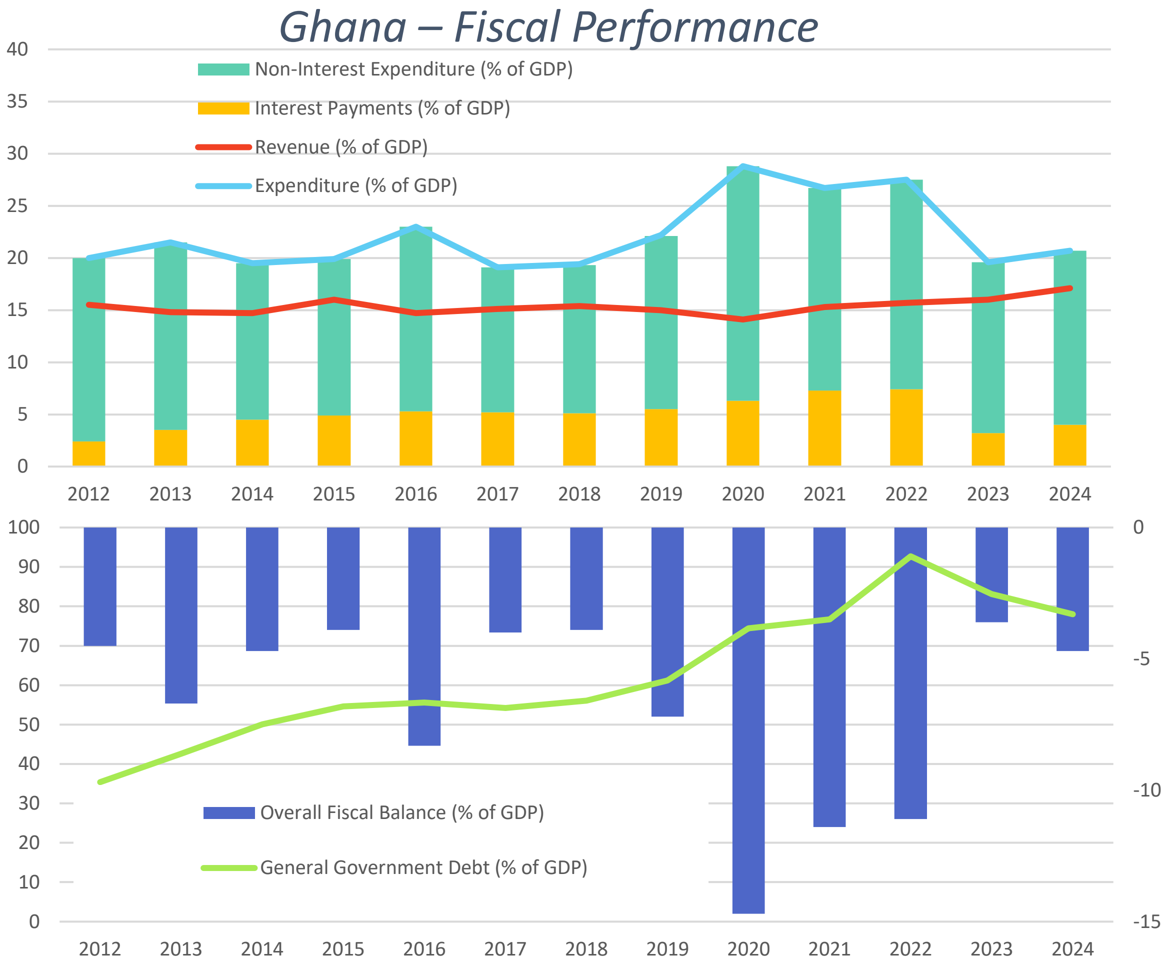
We struggle to leverage our natural wealth, capturing its rents and channeling it towards productive infrastructure and human capital.

- Natural resources rent is the difference between the revenue of a commodity and the average cost of producing it. It is about 14% of GDP in Ghana.
- Fiscal revenues from extractive industries are around 1.5% of GDP because we fail to fully capture the economic rent of our natural resources

FISCAL CHALLENGES AND OPPORTUNITIES TO SUPPORT THE RESET:

OTHER CONSIDERATIONS

Institutional reforms and corresponding policy directions



Source: Ministry of Finance, Ghana

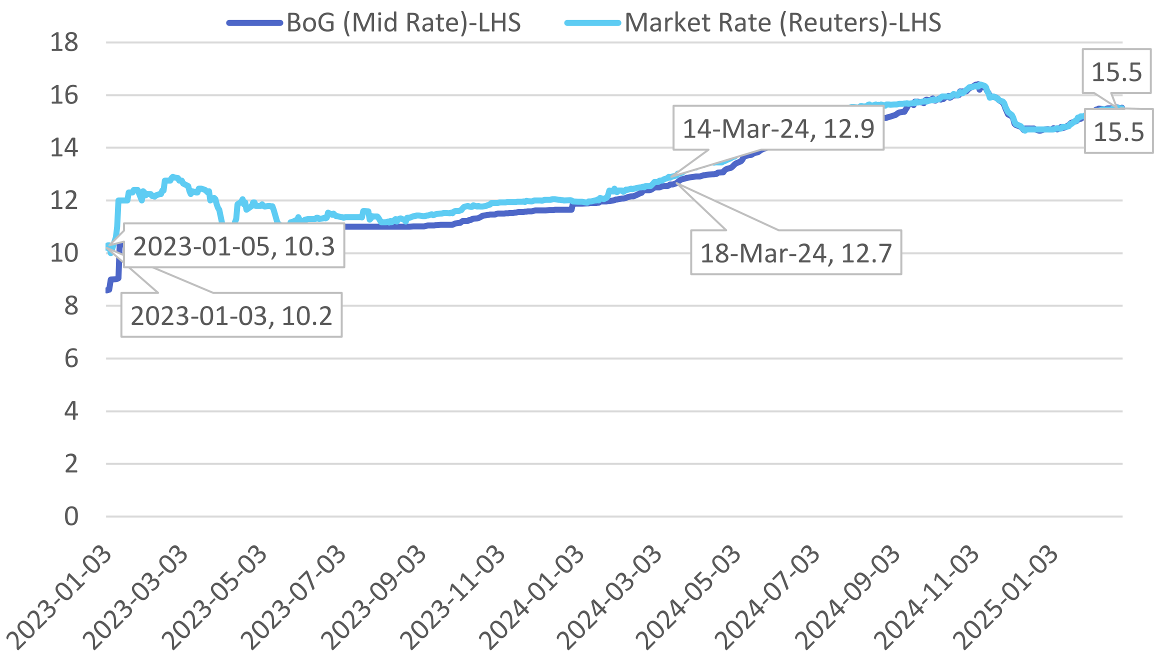
- **Fiscal Rule:** Fiscal Responsibility Act (2018) failed to contain debt Accumulation
  - Lack of Enforcement & Credibility Issues
  - Limited Counter-Cyclical Flexibility
- **SOEs reform:** Poorly performing SOEs in energy and agriculture sectors burden public finances. Growing fiscal risks from contingent liabilities and quasi-fiscal operations
- **PFM and Procurement systems:** Urgent need for fiscal discipline and reforms to ensure long-term stability

Boarder macroeconomic framework: containing high Inflation and stabilizing the cedi is key for fiscal action and growth

Inflation remains stubborn around 23 percent since May 2024. Climate issues, such as droughts in key agricultural areas and delayed rainfall, have harmed production, while supply chain challenges have further impacted food costs.

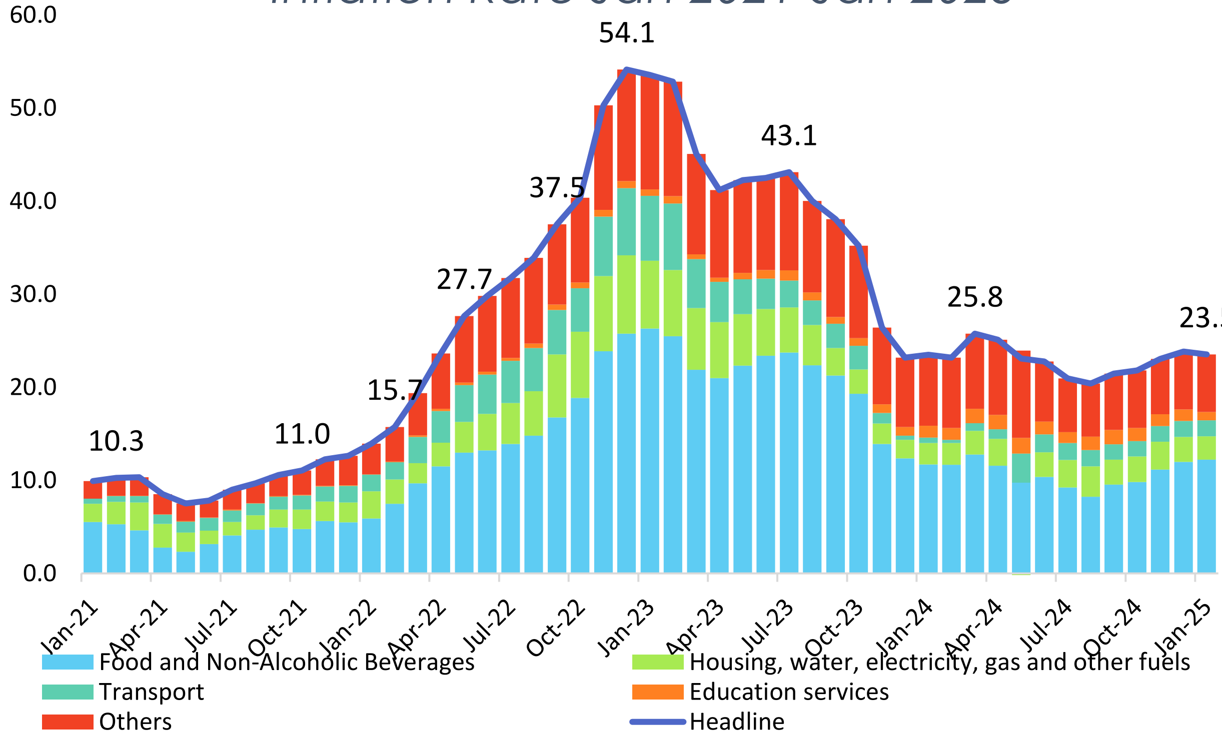
High inflation reduces cost of living and worsens food insecurity, particularly for the most vulnerable; tight monetary policy stance is essential to control inflation limits, reduce risk premium and improve credit to private sector; and exchange rate stability is essential to contain the debt service and passthrough on imported prices.

Nominal Exchange Rate, Jan 2023 to Feb 2025



Source. Bank of Ghana and Reuters

Inflation Rate Jan 2021-Jan 2025



THE WAY FORWARD

Fiscal policy has been ineffective in recent years. As a result, the macroeconomic situation remains fragile. It is imperative that we build a momentum of reforms. The quality of adjustment will be key to support growth and protect the poor and the most vulnerable.

Focus Areas

1. Enhancing domestic revenue mobilization: balancing equity, simplicity and efficiency.
2. Pursuing a qualitative fiscal consolidation: ringfencing growth enhancing spending and social programmes.
3. Ensuring compliance with public financial management and public procurement laws, implementing robust commitment controls, to maximize value for money and ensure fiscal discipline.
4. Enhancing the efficiency of public spending in social programs and public infrastructure.

5. Phasing out costly, regressive and ineffective subsidies to the energy sector while increasing targeted social programmes.

6. Reforming State-Owned Enterprises that create contingent liabilities and quasi-fiscal spending (eg: Cocobod, ECG).

7. Strengthening Ghana’s fiscal framework by redesigning the fiscal rule, strengthening automatic stabilizers, while containing budget rigidities and revenue earmarking.

THANK YOU