IEA Economic Outlook Report

November – December 2024

IEA Ghana

Special features: Expectations of the 2025 Budget

The Institute of Economic Affairs (IEA Ghana)

Economic Outlook Report
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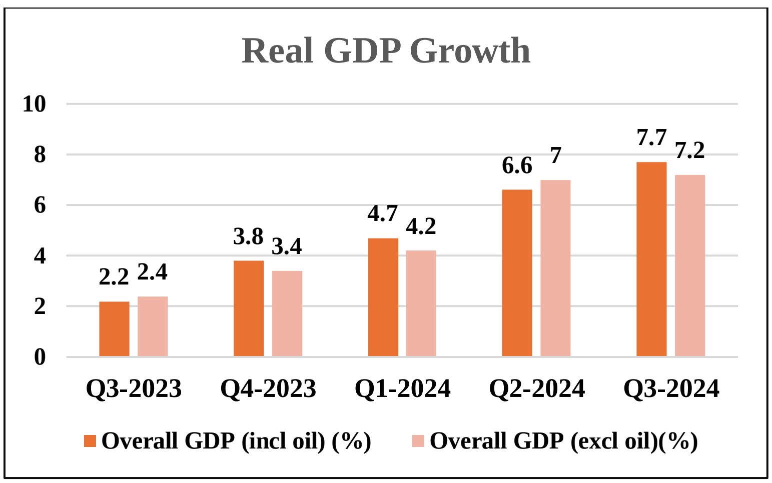
1. Introduction

This edition of IEA's bi-monthly Economic Outlook covers the two last months of 2024. It discusses trends in the usual key macroeconomic indicators—economic growth, inflation, public debt and exchange rate—over the period, while also looking forward to the future. This edition also anticipates the 2025 Budget, which will be the first to be delivered by the new Mahama administration in March.

2. Economic Growth

The latest data on economic growth available from the Ghana Statistical Service (GSS) is for Q3-2024. During the quarter, year-on-year real GDP growth was 7.7%, which was much higher than the 2.2% recorded in the same period of 2023 (Fig 1). Non-oil real GDP growth was a little lower at 7.2%. The strong growth recorded in overall real GDP in Q3-2024 was fueled by extractives, largely oil and gold.

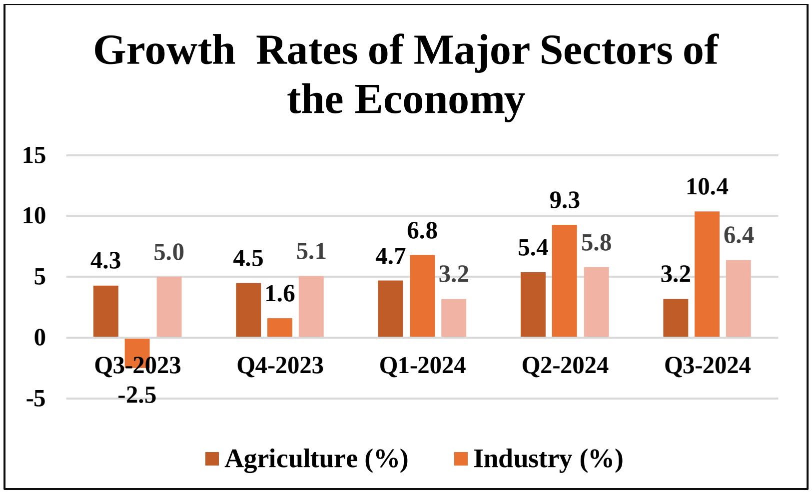
Fig 1: Overall Real GDP Growth



Source: Ghana Statistical Service

In terms of the sub-components of GDP, industry, which includes oil and mining, recorded the highest growth rate of 10.4%, followed by services, 6.4% (Fig 2). The growth rate of agriculture was, however, subdued at 3.2% (Fig 2).

Fig 2: Growth Rates of Major Sectors of the Economy



Source: Ghana Statistical Service

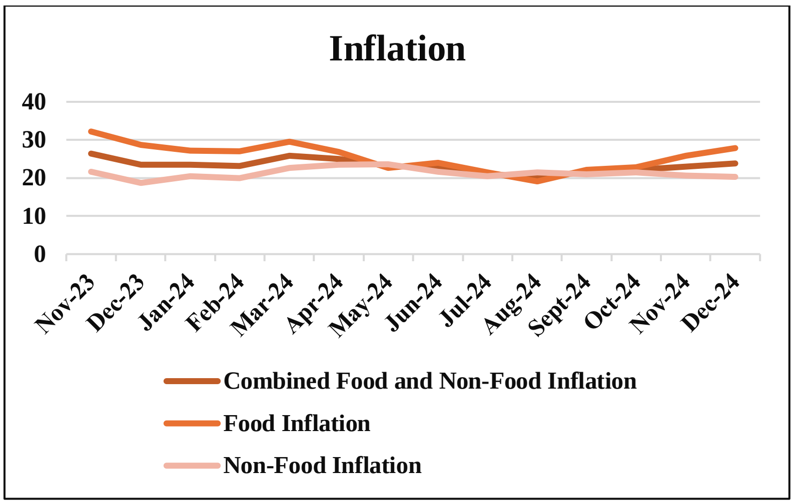
In spite of the strong—and rising—growth during Q1-Q3 of 2024, growth for the year as a whole is projected at just 4.0% (Ghana: Third Review of the Extended Credit Facility, IMF). This suggests that growth would slow down considerably in Q4-2024. The reason behind this slowdown is, however, not immediately known. It could be due to projected decline in the value of some of Ghana's major commodities from lower volumes and/or prices. The projected growth of 4.0% for 2024 is slightly higher than the growth rates of 2.9% and 3.8% recorded in 2023 and 2022 respectively. Real GDP growth is projected in the IMF programme to rise to 4.4% in 2025, 4.9% in 2026 and then plateau at 5.0% during 2027-29. These growth rates are, however, below the country's potential. Ghana has excess resources and capacities to enable it grow at higher rates, which are needed to accelerate the country's development and poverty alleviation. What is required is to leverage the resources to increase investments in physical capital, human capital and technology to drive economic growth.

3. Inflation

The year 2024 ended with inflation of 23.8%, slightly higher than the rate of 23.0% recorded in November. The end-year inflation was also higher than the 18.0% projected under the IMF-supported programme. Throughout the year, inflation remained stuck in the low twenties, far above the Bank of Ghana's target of 8 +/- 2%. Under the IMF programme, inflation is projected to drop to 8.0% in 2025, the Bank of Ghana mid-point target. This would imply a drop of 15.8 percentage points from the 2024 rate. This drop, would, however, seem a bit optimistic, given the poor historical record. A more likely outcome would be 15-17%. During 2026-29, inflation is projected to remain at 8.0%. This would appear to be a more realistic scenario, although it would require strong policy measures to achieve those outcomes.

In December, food inflation was 27.0%, much higher than non-food inflation of 20.3%. Indeed, throughout the year, food inflation was almost consistently higher than non-food inflation and overall inflation (Fig 3). This indicates the importance of food, which accounts for 43% of the Consumer Price Index (CPI) basket, in determining overall inflation and the cost of living in the country.

Fig 3: Inflation



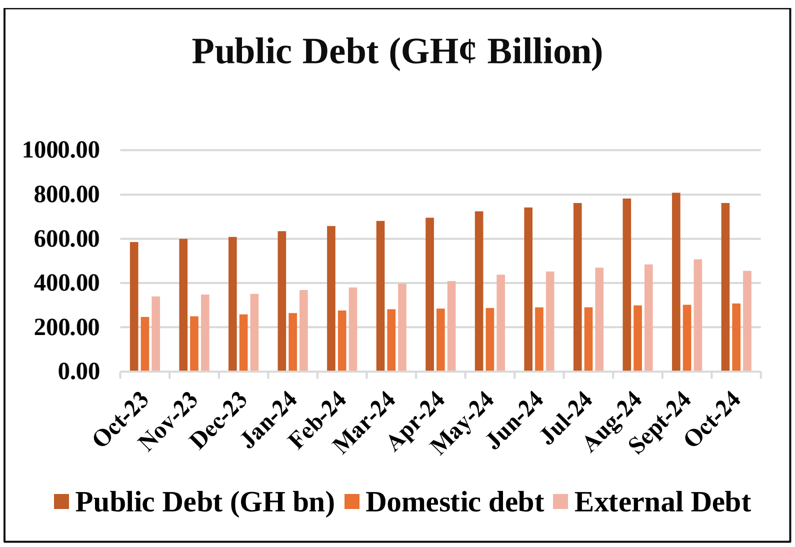
Source: Ghana Statistical Service

The importance of food, along with energy and the exchange rate, in driving inflation recently is well-known. In spite of this knowledge, however, the Bank of Ghana continued to maintain a tight monetary policy, keeping its prime Policy Rate (PR) in a narrow range of 27-30%. Obviously, the PR, being, essentially, a demand-management tool, is not the sole answer to Ghana's inflation that is fueled by strong supply and cost factors. It is anticipated the Monetary Policy Committee will maintain the PR at current level of 27.00% at its meeting this week. However, this will be another wrong decision since it will fail to address the problem. What needs to be done to reduce inflation significantly is for the Bank of Ghana and Government to collaborate to target directly food prices, energy prices and the exchange rate. This is all the more important since. even if the inflation projection of 8.0% for 2025-29 is achieved, Ghana's inflation would still be higher than those of its major trading partners, rendering the country uncompetitive. This means that inflation would have to be reduced even further through stronger intervention measures.

4. Public Debt

At the end of December 2024, the total public debt decreased to GHS761.0 billion from GHS807.8 billion at the end of November 2024 (Fig 4). The decrease was driven entirely by the external component. The external debt dropped from GHS506.3 billion to GHS453.7 billion, ostensibly due to the debt restructuring exercise. The domestic debt, however, increased from GHS301.5 billion to GHS307.3 billion, reflecting increasing resort by Government to domestic borrowing, given Ghana's continued lack of access to international capital markets.

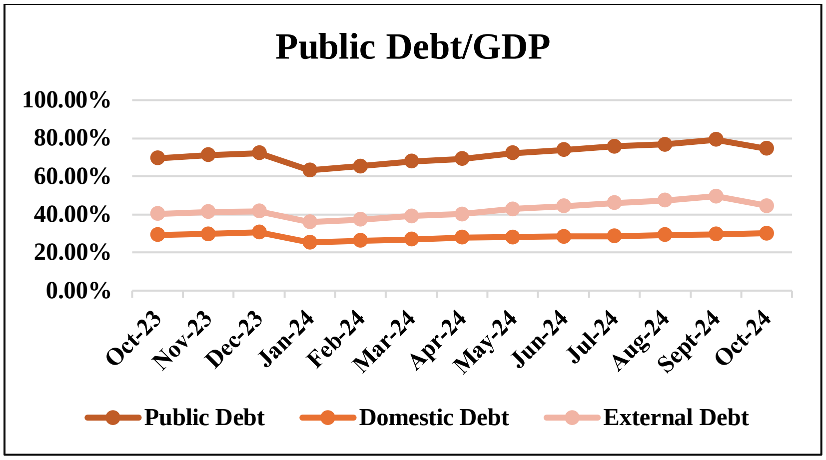
Fig 4: Public Debt (GHS'Billion)



Source: Bank of Ghana

As a ratio of GDP, the total public debt declined from 79.2% at the end of September to 74.6% at the end of October (Fig 5). The external debt/GDP dropped from 49.6% to 44.5%, while the domestic debt/GDP rose from 29.6% to 30.10%.

Fig 5: Public Debt /GDP

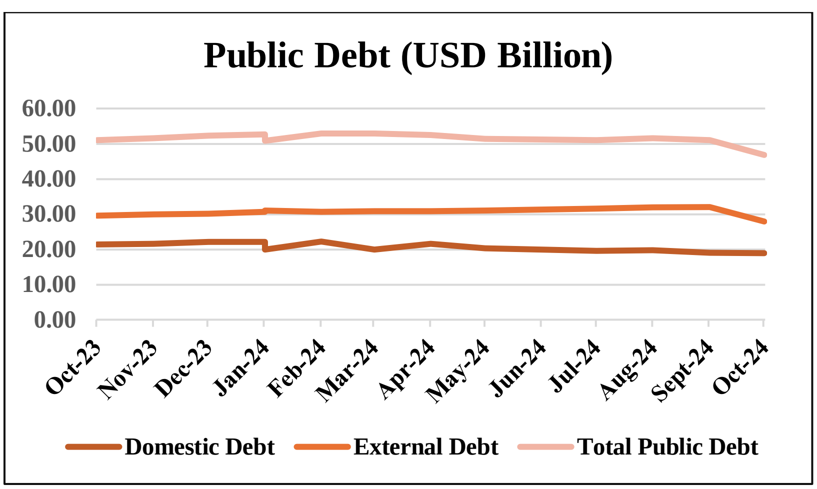


Source: Bank of Ghana

In the IMF programme, total public debt is projected at 78.0% for end-December 2024 and is to decline progressively to 56.8% at the end of 2029. The end-2029 figure of 56.8% is deemed a sustainable level. Achieving the projected debt trajectory will require sustained fiscal consolidation aided by a successful restructuring of the external debt.

In US dollar terms, the public debt dropped from USD51.0 billion at the end of November to USD46.8 billion at the end of December. (Fig. 6). The external debt component contributed almost entirely to the drop as it declined from USD32.0 billion to USD27.9 billion, which the domestic debt decreased marginally from USD19.0 billion to USD18.9 billion.

Fig 6: Public Debt (USD'Billion)

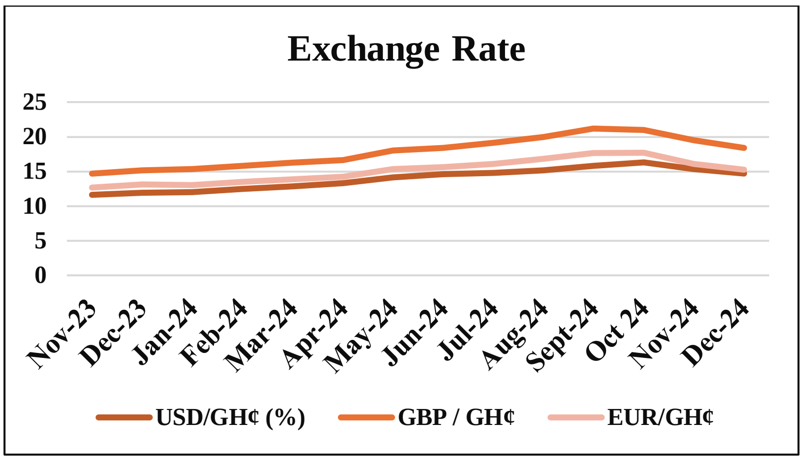


Source: Bank of Ghana

5. Exchange Rate

After peaking at 16.30 in October, the GHS/USD exchange rate declined to 15.37 in November and further to 14.70 in December. The GHS/GBP and GHS/EUR rates followed the similar patterns (Fig. 7). The decline in the rates was presumably due to stepped-up intervention by Bank of Ghana ahead of the 2024 election. In fact, by October, before the intervention, the GHS/USD had risen to 16.30. The question is whether the appreciation in the rate in November and December could be sustained. The fact is that, as indicated below, Bank of Ghana's intervention alone cannot ensure a lasting exchange rate stability without far-reaching reform measures.

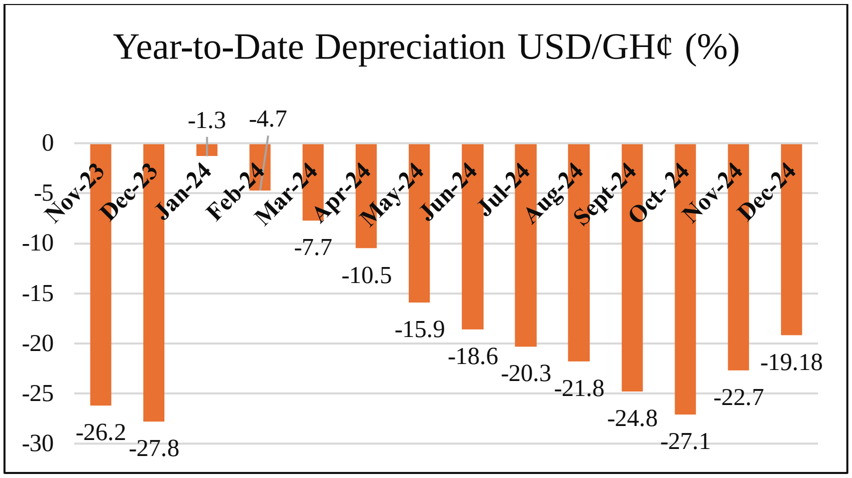
Fig 7: Exchange Rate



Source: Bank of Ghana

The year-to-date depreciation of the cedi against the dollar peaked at -27.1 in October before declining to -22.7% in November and further to -19.18% in December (Fig 8). The deprecation in 2024 followed a further depreciation of 27.8% in 2023 (Fig.).

Fig 8: Year-to-Depreciation



Source: Bank of Ghana

The cedi has a history of chronic depreciation. This is the result of the persistent gap between foreign exchange (FX) demand and supply. Closing the gap requires policies to limit FX demand and increase FX supply. On the FX demand side, it is necessary to actively promote domestic production of import substitutes to reduce demand for FX for imports; entrench fiscal and monetary discipline to reduce demand pressures in the economy, including demand for FX; and enforce domestic FX market regulations to reduce demand for FX. On the FX supply side, there is a need for: active promotion of exports to increase supply of FX; promotion of remittances to increase supply of FX; and greater Ghanaian ownership of resources and economic assets to increase supply of FX in the economy. These proposals are not really new, except that we do not seem to pay them the needed attention. This is the reason for reiterating them here.

6. Expectations of the 2025 Budget

The 2025 budget is expected to conform generally to the ECF programme. In particular, the ECF's fiscal consolidation stance is expected to be followed to sustain the macroeconomic stabilization effort. In this regard, it is noted that the overall deficit is appropriately set to decline further to -2.7% from the projected -3.5% in 2024, while the primary surplus will increase to 1.5% from 0.5%. The tight fiscal stance is in line with the debt sustainability trajectory envisaged under the programme. Moving along this path is necessary to avoid another painful debt restructuring, while engendering investor confidence in the economy.

In line with Government's pre-election promise, a couple of taxes are expected to be abolished, including the e-levy, Covid tax, emissions tax and betting tax. The abolition of the taxes will ease the burden on the few tax-paying households and businesses. The resulting loss in revenue is expected to be offset by reinforced efforts to plug the numerous tax loopholes, broaden the tax net and strengthen tax administration, among other measures. Compensatory expenditure savings are also expected to be made, including from Government's promise to set up a leaner administration, cuts in other wasteful spending and lower debt service costs resulting from the restructured public debt. What is not clear, however, is the timing of the resumption of the servicing of the external debt suspended in December 2022. Resuming the debt service will put pressure on the budget and the exchange rate, effects that should be accordingly anticipated and compensated for.

It is our expectation that the 2025 budget will mark the beginning of turning around budgetary allocations to capital expenditure (CAPEX). Over the years, CAPEX has been squeezed to 3-4% of GDP, with growing recurrent expenditure. This situation is inimical to the long-term growth of the economy. CAPEX should be progressively increased to at least 10% of GDP over the medium-term towards accelerating Ghana's growth and fostering job creation and improving living standards.

The budget should propose a revival strategy for the cocoa sector, including entrenching a living producer price to spur production, a new approach to financing cocoa purchases while phasing out the failed syndication scheme, dealing with the threat of "galamsey" to the sector and reining in operational costs of Cocobod to restore the organisation to financial viability.

The budget should specify a comprehensive plan for addressing the huge legacy debt in the energy sector, while returning the sector to financial sustainability. There should also be a plan to ensure stable and less-costly power to boost the competitiveness of the economy.

Finally, the budget should recognize the lack of fiscal space to support economic development due to limited Government revenue. While taking steps to increase the tax intake, it will be important also to recognize the potential of the natural resource sector to provide resources for development. Tapping this potential will require changes to the natural resource fiscal regimes towards increasing Ghanaian ownership and benefits. Local value-addition to natural resource products should also be given priority attention so as to increase receipts from the resources.

APPENDIX

Table 1. Economic Growth (GDP)

Period	Q3-2023	Q4-2023	Q1-2024	Q2-2024	Q3-2024
Overall GDP					
Real GDP Growth (incl oil) (%)	2.2	3.8	4.7	6.6	7.7
Real GDP Growth (excl oil)(%)	2.4	3.4	4.2	7.0	7.2
Sub-components of GDP					
Agriculture (%)	4.3	4.5	4.7	5.4	3.2
Industry (%)	-2.5	1.6	6.8	9.3	10.4
Services (%)	5.0	5.1	3.2	5.8	6.4

Source: Ghana Statistical Service

Table 2: Inflation

Data	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug 24	Sept 24	Oct 24	Nov 24	Dec 24
Combined Inflation	26.4%	23.5%	23.5%	23.2%	25.8%	25.0%	23.1%	22.8%	20.9%	20.4%	21.5%	22.1	23.0%	23.8%
Food Inflation	32.2%	28.7%	27.1%	27.0%	29.6%	26.8%	22.6%	24.0%	21.5%	19.1%	22.1%	22.8%	25.9%	27.8%
Non-Food Inflation	21.7%	18.7%	20.5%	20.0%	22.6%	23.5%	23.6%	21.6%	20.5%	21.5%	20.9%	21.5%	20.7%	20.3%

Source: Ghana Statistical Service

Table 3: Public Debt (GH¢Billion)

Public Debt (GH¢ bn) (% GDP)	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sept-24	Oct-24
Domestic Debt	245.6 (29.20%)	250.70 (29.80%)	257.3 (30.60%)	265.6 (25.30%)	275.80 (26.20%)	282.90 (26.90%)	284.80 (27.90%)	287.00 (28.10%)	290.00 (28.40%)	290.90 (28.5%)	299.10 (29.3%)	301.50 (29.6%)	307.30 (30.10%)
External Debt	340.20 (40.40%)	348.40 (41.40%)	351.10 (41.70%)	367.70 (36.00%)	380.20 (37.30%)	398.40 (39.10%)	409.80 (40.20%)	438.10 (42.90%)	452.20 (44.30%)	470.30 (46.10%)	483.80 (47.40%)	506.30 (49.60%)	453.70 (44.50%)
Total Public Debt	585.9 (69.60%)	599.0 (71.20%)	608.4 (72.30%)	633.30 (63.20%)	656.00 (65.40%)	681.40 (67.90%)	694.60 (69.20%)	725.10 (72.20%)	742.20 (73.90%)	761.20 (75.70%)	782.90 (76.70%)	807.80 (79.20%)	761.00 (74.60%)

Source: Bank of Ghana

Table 4: Public debt (USD Billion)

Public Debt (USD bn)	Oct23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May24	Jun24	Jul-24	Aug-24	Sept-24	Oct-24
Domestic Debt	21.4	21.6	22.1	22.1	22.2	20.0	21.5	20.3	19.9	19.5	19.7	19.0	18.9
External Debt	29.6	30.0	30.1	30.6	30.7	30.9	30.9	31.1	31.0	31.6	31.9	32.0	27.9
Total Public Debt	51.0	51.6	52.2	52.7	52.9	52.9	52.4	51.4	50.9	51.1	51.6	51.0	46.8

Source: Bank of Ghana

Table 5: Exchange Rate

Exchange Rates	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug- 24	Sept- 24	Oct-24	Nov-24	Dec-24
USD/GH¢ (%)	11.62	11.88	12.03	12.46	12.87	13.27	14.13	14.59	14.78	15.18	15.80	16.30	15.37	14.70
GBP / GH¢	14.68	15.13	15.30	15.80	16.26	16.62	17.99	18.43	19.10	19.92	21.18	20.97	19.49	18.40
EUR/GH¢	12.67	13.13	13.05	13.52	13.90	14.19	15.33	15.62	16.11	16.78	17.61	17.69	16.12	15.21

Source: Bank of Ghana

Table 6: Year-to-Date Depreciation Rate

Exchange Rates	**Nov-23**	**Dec-23**	**Jan-24**	**Feb-24**	**Mar-24**	**Apr-24**	**May-24**	**Jun-24**	**Jul-24**	**Aug-24**	**Sept- 24**	**Oct- 24**	**Nov-24**	**Dec-24**
USD/GH¢ (%)	-26.2	-27.8	-1.3	-4.7	-7.7	-10.5	-15.9	-18.6	-20.3	-21.8	-24.8	-27.1	-22.7	-19.18

Source: Bank of Ghana