

Recent macroeconomic and financial developments

GDP growth is estimated at 5.0% in 2021, up from 0.4% in 2020, supported by increased household consumption and commodity exports on the demand side and a rebound in services on the supply side. Inflation slowed from 9.9% in 2020 to 10.0% in 2021 given low food inflation, which was 47.7% of total inflation. The fiscal deficit is expected to narrow from 15.2% of GDP in 2020 to 12.1% in 2021 due to increased revenue collection. The country remains at high risk of debt distress with a debt-to-GDP ratio of 77.5% in September 2021, against 76.1% in December 2020.

The current account deficit is estimated to have narrowed to 2.1% of GDP in 2021 from 3.1% of GDP in 2020, given the merchandise trade surplus. Foreign exchange reserves increased from \$8.6 billion in December 2020 to \$9.7 billion in December 2021 (4 months of imports). The Ghana cedi depreciated further against the dollar in 2021, by 4.1% after 3.9% in 2020, both years due to foreign exchange demand–supply mismatches. The banking sector remained strong in 2021 with a capital-adequacy ratio of 20.8% at end-June 2021, nearly double the regulatory minimum of 11.5%. Poverty declined from 12% in 2020 to 11% in 2021, given GDP per capita growth of 2.3%, from a contraction of 1.7% in 2020. However, unemployment increased by 2.3 percentage points to 13.4% in 2015–21. The country has committed the SDR allocation of \$1 billion to finance the 2022 budget deficit.

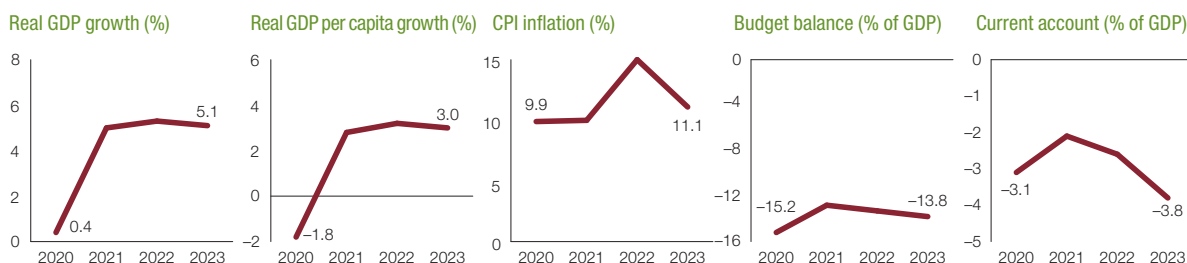
Outlook and risks

The outlook remains positive, with projected GDP growth of 5.3% and 5.1% in 2022 and 2023 supported by the Ghana COVID-19 Alleviation and Revitalization

of Enterprises Support Program. Potential inflationary pressure exists due to increased energy and food prices associated with the impact of the Russia–Ukraine. Inflation is projected to surge to 15% in 2022 before falling to 9.1% in 2023. The Bank of Ghana is expected to adopt a tight monetary policy stance. The fiscal deficit is projected to narrow further to 12.8% of GDP in 2022 and to 10.3% in 2023, spurred by revenue-enhancing reforms. The current account deficit is projected to narrow to 1.6% of GDP in 2022 and 3.3% in 2023, on increased exports.

Climate change issues and policy options

Climate change—stemming from erratic rainfall, rising temperatures, drought, floods, a rising sea level, and tidal waves—presents significant threats to agriculture and energy, as well as climate-induced migration. Agriculture and energy (given its large dependence on hydropower) both depend heavily on rainfall and are thus highly susceptible to fluctuating rainfall. Drought-like conditions in the Northern Savannah Ecological Zone have prompted migration to the south. Ghana is 42 on the 2021 GCRI. At COP26, Ghana launched its updated NDC. It is a member of the Vulnerable Twenty Group of Ministers of Finance committed to supporting carbon pricing and the Coalition of Finance Ministers for Climate Action to facilitate engagement in accelerating resilience to climate change. The government requires \$9.3 billion to finance updating the NDCs in 2021–30. Recognizing limited fiscal space, the government is exploring more results-based climate financing options, including carbon markets, climate impact bonds and leveraged private participation. Ghana is making progress in achieving SDG 13 on climate action by 2030.



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.