Ghana

Recent macroeconomic and financial developments

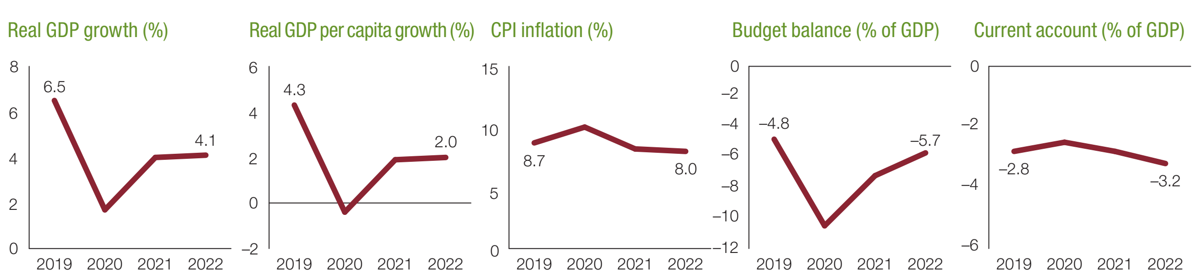
The COVID–19 pandemic significantly curtailed Ghana's economic growth momentum. Real GDP growth was estimated to decelerate from 6.5% in 2019 to 1.7% in 2020, due to the slump in oil prices and weakened global economic activity. Nonetheless, growth will be sustained by a budding recovery in construction and manufacturing sectors, combined with favorable gold and cocoa prices. Inflation is expected to reach 10% in 2020 from 8.7% in 2019 due to pandemic-related interruptions in supply chains and expansionary monetary policy aimed at mitigating the economic impacts of COVID–19. The fiscal deficit is expected to widen to 10.5% of GDP in 2020 from 4.8% in 2019 due to revenue shortfall from weak economic activity and unanticipated increased health expenditure. The current account deficit is expected to narrow to 2.5% of GDP in 2020 from 2.8% in 2019 because of reduced demand for imports. Foreign exchange reserves maintained the previous year's level of 4.0 months of import cover as of October 2020. The Ghana cedi depreciated by 3.1% in 2020, compared with a 10% depreciation in 2019. Ghana remains at high risk of debt distress in the International Monetary Fund's 2019 Debt Sustainability Analysis because of solvency and liquidity risks. The public debt-to-GDP ratio reached 71% in September 2020 from 63% a year earlier. A banking sector reform, including recapitalization of banks and liquidation of insolvent financial institutions, has enhanced the overall resilience of the sector. Firm and household surveys reveal that during the partial lockdown, about 770,000 individuals experienced reduced wages, and 42,000 lost their jobs.

Outlook and risks

The economic outlook is good in the short to medium term, contingent on an increase in demand for Ghana's exports, improved business confidence, and successful implementation of the Ghana COVID–19 Alleviation and Revitalization of Enterprise Support program. Growth is projected to increase to 4% in 2021 and 4.1% in 2022. Inflation is expected to ease to 8.2% in 2021 and 8%, in 2022—in the midpoint of the Bank of Ghana's target band of 6%–10%. The fiscal deficit is projected to narrow to 7.2% in 2021 and 5.7% in 2022, driven by an expected increase in revenue collection in a recovering economy. However, the current account deficit is expected to widen to 2.8% of GDP in 2021 and 3.2% in 2022 as import volumes resume their prepandemic levels. Downside risks to the outlook emanate from a possible second wave of the virus and heightened fiscal and debt pressures.

Financing issues and options

Ghana's ability to push economic growth to its precrisis level is expected to be constrained by fiscal and debt risks. The country is only expected to return to its fiscal responsibility budget deficit threshold of 5% of GDP in 2024. The public debt as at the end of 2019 had cost escalation risks because almost 50% of external debt was commercial. It also showed refinancing and foreign exchange rate risks, since 90% of the domestic debt has short- to medium-term maturities, and 70% of the foreign currency debt was denominated in US dollars. To overcome these risks, domestic resource mobilization needs to be complemented with external financial assistance, including concessional loans. While maintaining the foreign exchange reserves buffer, government should actively engage its creditors in exploring other financing options including renegotiating and restructuring debt, and debt service suspension.



Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.