Recent developments

Real GDP grew 6.3 percent in 2018 and projected to reach 7.5 percent in 2019. The 2018 expansion was largely spurred by the 10.5 percent growth in the mineral sector. First quarter 2019 GDP growth was estimated at 6.7 percent (YOY), driven by a 6 percent increase in the non-oil economy (up from 4.2 percent last year) and a 7.2 percent growth in the services sector (up from 1.2 percent last year).

Ghana’s average inflation rate has been in single digits since 2018. Inflation reached 9.1 percent in June 2019. The moderation in headline inflation is due to lower food inflation and continued monetary restraint. The lower inflation allowed the Bank of Ghana (BoG) to cut its policy rate to 16 percent in January 2019. Financial sector stability was threatened in 2018 as several banks became insolvent. In response, the BoG closed five domestically-owned universal banks at a total fiscal cost equivalent to 3.3 percent of GDP. In the first half of 2019, the BoG continued the reforms, withdrawing licenses from 347 insolvent Microfinance companies, 39 insolvent Microcredit companies and 25 insolvent Savings and Loans companies. The cost of the reforms in 2019 is expected to be equivalent to 1.6 percent of GDP.

In 2018 the fiscal deficit was 3.9 percent of GDP. In the first half of 2019, the BoG continued the reforms, withdrawing licenses from 347 insolvent Microfinance companies, 39 insolvent Microcredit companies and 25 insolvent Savings and Loans companies. The cost of the reforms in 2019 is expected to be equivalent to 1.6 percent of GDP.

Economic growth remained robust in 2018, reaching 6.3 percent, while inflation fell to single digits and fiscal and external balances improved. Medium-term growth prospects remain strong, at above 6 percent, but key downside risks include potential adverse fiscal shocks from liabilities in the financial and energy sectors, and increased spending pressures in the run-up to the 2020 elections. As growth increasingly relies on natural resources, poverty reduction has stagnated, and regional disparities have persisted. A more diversified economy will be critical.

FIGURE 1 Ghana / Real GDP growth and contributions to real GDP growth

FIGURE 2 Ghana / Actual and projected poverty rates and real GDP per capita

Source: Ghana Statistical Service and World Bank.

Outlook

Economic growth is projected to accelerate to 7.5 percent in 2019 but could slow over the medium-term. The acceleration is based on both strong oil and non-oil sector growth, the latter, spurred by agriculture and agribusiness, and a rebound in the financial sector. But growth is expected to slow to 5.2 percent in 2021, reflecting a slowdown in oil output due to maintenance-related stoppages over the next two years. With a rebound in oil production in 2022, the medium-term growth rate is projected to stabilize at around 6 percent. Inflation is expected to remain in single digits in 2019, and within the Bank of Ghana target range of 6-10 percent over the medium term.

The overall fiscal deficit is projected at 4.5 percent of GDP in 2019 (excluding financial sector clean-up) and is expected to remain within the fiscal rule ceiling of 5 percent of GDP over the medium-term. A primary deficit is projected for 2019, reflecting the financial sector clean-up costs, but the primary balance could shift to a surplus in 2020 and for the medium-term.

Ghana’s economy faces three risks in the short-to-medium term: First, contingent liabilities from the financial and energy sectors. The fiscal outlook assumes that the financial sector restructuring can indeed be completed in 2019; and the Energy Sector Recovery Program (ESRP) foresees contributions from the budget to achieve its goal of no new accumulation of sector arrears, which is only feasible if generation cost can be reduced and sector revenues be increased simultaneously. Second, staying on a sustainable fiscal path through the 2020 election cycle will be an acid test of the efficacy of the newly implemented fiscal responsibility law. There is a risk that Government will increase off-budget expenditure to maintain the fiscal deficit ceiling. Finally, a key downside risk for growth comes from the global uncertainty around the US-China trade tensions and possible subdued global investment, as a result, implying weaker demand for Ghana’s exports.

Risks and challenges

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