GHANA

Table 1	2019
Population, million	30.1
GDP, current US$ billion	67.2
GDP per capita, current US$	2233.0
International poverty rate ($1.9)[a]	13.0
Lower middle-income poverty rate ($3.2)[a]	30.1
Upper middle-income poverty rate ($5.5)[a]	56.3
Gini index[a]	43.5
School enrollment, primary (% gross)[b]	104.8
Life expectancy at birth, years[b]	63.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011 PPPs.
(b) WDI for School enrollment (2019); Life expectancy (2018)

The COVID-19 pandemic ended a strong growth episode and a 2-year disinflation process in Ghana. It also halted the fiscal consolidation program, with an estimated fiscal deficit of 14.5 percent of GDP in 2020, as the Government provided support to protect lives and livelihoods. Poverty is expected to increase in 2020. Medium-term growth prospects have weakened with considerable downside risks, including substantial debt rollover risks, increased spending pressures in the run-up to the 2020 elections, and possible permanent job losses.

Recent developments

The COVID-19 pandemic has put an end to Ghana's strong growth episode (2017-19). The 2020 second quarter GDP contracted by 3.2 percent (Y/Y), the first in 38 years, compared to a 5.7 percent expansion in 2019. The slowdown in Q1 was driven by the oil sector, but services and agriculture showed more resilience. In the second quarter, the impact of the lockdown and health measures was felt in the services and industry sectors, which contracted by 2.6 and 5.7 percent, respectively, while the agriculture sector grew by 2.5 percent. The Bank of Ghana's composite index of economic activity (CIEA) suggests some improvements in April and May, including consumption (proxied by VAT collections) and construction activities (proxied by cement sales).

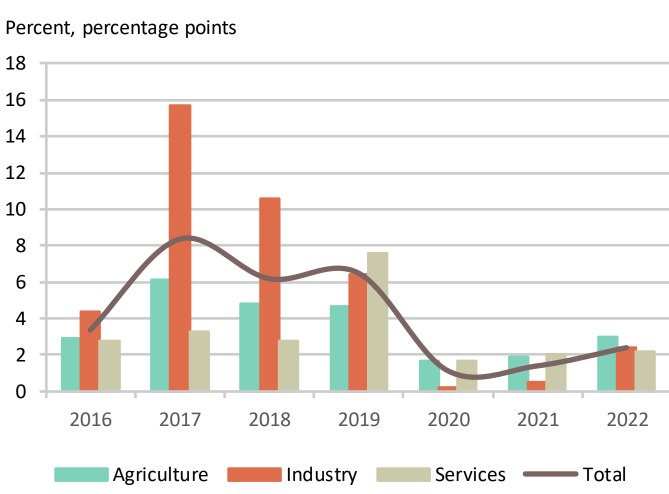
Inflation rose sharply to 11.2 percent in the second quarter of 2020, largely reflecting a 14.4 percent (Y/Y) increase in food prices spurred by panic-buying in April. Inflation had remained in single digits in 2019 and was below 8 percent in the first quarter of 2020, thanks to a tighter monetary policy stance, a moratorium on central bank financing of the fiscal deficit and lower non-food inflation. Although inflation expectations have trended upwards in recent months, in April 2020, the Monetary Policy Committee of the Bank of Ghana (BOG) lowered the policy rate from 16 to 14.5 percent to help mitigate the impact of the crisis on economic activity.

The fiscal deficit (excluding the energy and financial sector costs) widened to 6.3 percent of GDP in June, double what had been programed before the COVID-19 pandemic. This resulted from lower revenues and higher spending in response to the crisis. To close the fiscal gap, total domestic financing reached 5.7 percent of GDP (89.5 percent of the total financing) as the Government turned to the domestic market including the BOG. The June 2020 primary deficit, at 3.3 percent of GDP, was much higher than the 0.01 percent target, indicating adverse debt dynamics going forward.

The COVID crisis weighed on the demand for credit. This prompted the BOG to reduce the Primary Reserve Requirements from 10 percent to 8 percent and the Capital Adequacy Ratio from 13.0 percent to 11.5 percent. Yet, credit to public and private institutions fell in the first five months of 2020 due to the uncertain outlook. As a result, growth in banks' after-tax profits slowed sharply and the ratio of NPLs increased to 15.2 percent in May 2020 from 14.3 percent in December 2019.

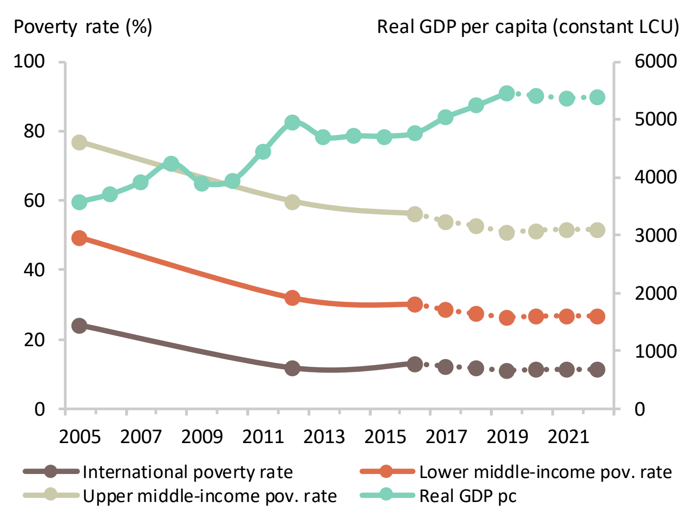
Ghana's current account deficit narrowed to 0.8 percent of GDP (US$556.3 million) for the first half of 2020, slightly lower than the 1 percent (US$661.1 million) recorded for the same period in 2019, mainly due to lower investment income outflows, particularly lower profits and dividends in the extractive sectors. As exports decreased faster than imports, the Trade Balance for January-June 2020 registered a lower surplus (US$963 million) than the US$1,355 surplus recorded in the same

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



Sources: World Bank and Ghana Statistical Service.

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



Source: World Bank

period in 2019. The COVID-19 crisis adversely affected FDI inflows, especially to the extractive sectors, as well as portfolio investment inflows. Gross International Reserves were equivalent to 4.3 months of imports in June 2020.

Poverty (measured by the international poverty line, US$1.9 PPP) declined from 13.0 percent to 11.1 percent between 2016 and 2019 as a result of strong GDP per capita growth. The pandemic and lockdown resulted in significant job and income losses of 70 percent and 78 percent respectively. Households dependent on non-farm businesses were the most adversely affected, compared to those with incomes from the government, such as pensioners and safety net beneficiaries.

Outlook

The COVID-19 pandemic weighs heavily on Ghana's short-term outlook, with significant uncertainty around the pace of recovery over the medium-term. The crisis is expected to lead to a sharp slowdown from the pre-COVID-19 forecast of 5.8 percent to just 1.1 percent. The short-term negative impact will come through a decline in external demand, lower commodity prices, and lower FDI and tourism receipts.

The economic recovery is likely to be modest as the global economic recession is expected to continue into 2021. Trade, investment, and tourism activities may take longer to recover to pre-crisis levels. Non-oil activities, including agriculture and agribusiness, are likely to be more resilient. Growth is expected to average 1.7 percent over the medium term. To mitigate the impact of the pandemic on households and businesses, the Government is implementing poverty and social programs, including food and utilities subsidies, as well as a business support program for selected industries (e.g., pharmaceutical sector supplying COVID-19 drugs and equipment).

The fiscal deficit (excluding the energy sector and financial sector costs) is expected to widen to 11.4 percent of GDP in 2020. If the energy sector and financial sector costs are included, the fiscal deficit will be as high as 14.5 percent of GDP. In anticipation of the fiscal shock, the Government suspended the fiscal rule, which mandates a fiscal deficit below 5 percent of GDP. Over the medium term, the Government plans to maintain fiscal support for the economy, including infrastructure projects in the health sector, while revenues are only expected to return to pre-COVID-19 levels by 2022. As a result, the fiscal deficit is expected to remain above 5 percent over 2020-2022.

Ghana's medium-term poverty projections indicate a modest increase in poverty with the slowing economy and a prolonged recovery. The poverty rate (as measured by the US$1.9, 2011 PPP) is projected to remain largely unchanged during 2020-2022 (Figure 2).

Risks and challenges

A prolonged COVID-19 pandemic, with lower oil prices and subdued economic activity, poses a major risk to Ghana's macroeconomic outlook and could cause poverty levels to stagnate for a prolonged period, especially if employment does not rebound strongly. Prior to the COVID-19 pandemic, Ghana's public debt faced a substantial rollover risk - especially Eurobonds and short-term domestic debt. This risk has been heightened given higher financing needs in 2020 and the erosion of investors' confidence toward emerging economies. In addition, there is the risk of fiscal slippage due both to the upcoming 2020 elections and the considerable contingent liabilities from the energy sector.

TABLE 2 Ghana / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	8.1	6.3	6.5	1.1	1.4	2.4
Private Consumption	1.7	9.4	4.2	-9.7	-0.3	4.1
Government Consumption	-10.8	1.8	5.4	4.2	-10.4	-9.4
Gross Fixed Capital Investment	1.0	13.2	-10.0	30.8	9.0	1.5
Exports, Goods and Services	16.5	10.3	6.7	-2.3	-3.2	1.0
Imports, Goods and Services	7.9	4.6	1.7	-2.3	-3.0	0.4
Real GDP growth, at constant factor prices	8.4	6.2	6.5	1.1	1.4	2.4
Agriculture	6.1	4.8	4.6	1.8	1.9	3.0
Industry	15.7	10.6	6.4	0.2	0.5	2.4
Services	3.3	2.7	7.6	1.6	2.0	2.2
Inflation (Consumer Price Index)	12.4	9.8	7.9	11.5	9.8	9.6
Current Account Balance (% of GDP)	-3.4	-3.1	-2.9	-4.0	-3.8	-3.1
Fiscal Balance (% of GDP)	-4.7	-7.0	-7.6	-14.5	-9.7	-8.3
Debt (% of GDP)	57.3	59.0	63.9	71.6	69.6	68.9
Primary Balance (% of GDP)	0.5	-1.4	-1.9	-7.9	-2.4	-1.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	12.3	11.7	11.1	11.2	11.3	11.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	28.5	27.4	26.5	26.7	26.8	26.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	54.1	52.7	51.0	51.4	51.7	51.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on 2016-GLSS-VII. Actual data: 2016. Nowcast: 2017-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2016) with pass-through = 0.7 based on GDP per capita in constant LCU.