

GHANA

Table 1 **2020**

Population, million	31.1
GDP, current US\$ billion	69.6
GDP per capita, current US\$	2239.4
International poverty rate (\$ 19) ^a	12.7
Lower middle-income poverty rate (\$3.2) ^a	29.3
Upper middle-income poverty rate (\$5.5) ^a	55.1
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) Most recent WDI value (2018).

Ghana's increasing dependence on commodities and limited structural transformation left it vulnerable to shocks.

COVID-19 hit the economy in 2020, leading to a significant decline in per capita GDP for the first time since 2013 and to a rise in poverty. The government's response helped contain the crisis, but the fiscal deficit and public debt skyrocketed. Economic activity is expected to remain subdued until 2023, with recovery threatened by a COVID-19 rebound and the recent Ebola outbreak in Guinea.

Key conditions and challenges

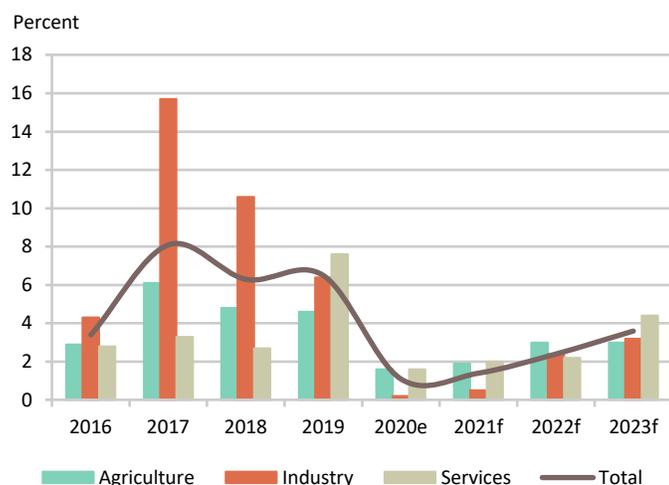
After thirty years of strong economic growth, Ghana's economic model has shown some vulnerabilities over the past decade, despite real GDP growth averaging 6.8 percent per annum. The economy has become increasingly reliant on primary commodities, with limited diversification or growth-enhancing structural transformation, resulting in fast depletion of natural capital and increased vulnerability to external shocks. Per capita GDP growth over the past decade has slowed down (averaging 3.3 percent), reflecting the sustained high average population growth rate of 2.3 percent per annum. Ghana has also suffered from repeated episodes of macroeconomic instability, linked to election-cycle overspending and commodity price volatilities and, more recently, an energy crisis and a weak financial sector. Over the past decade, the pace of poverty reduction has slowed, in large part reflecting limited creation of productive jobs. Uneven regional distribution of social and physical infrastructure has increased spatial disparities making it difficult for the poor to escape poverty. In 2016, the poverty rate was 29.3 percent (using the lower middle-income threshold) and by 2019 had fallen to 27.0 percent. However, the COVID crisis significantly impacted household welfare and poverty has jumped to 30.4 percent in 2020. Surveys administered in May-June 2020 suggest

that three-quarters of households saw a decrease in their incomes, especially from self-employment, remittances, and private transfers. Ghana has suffered a slowdown in many services sectors, such as wholesale and retail trade and hospitality. The poverty and social effects are also being felt through loss of incomes in agriculture, particularly in the cocoa sector, and manufacturing, despite public support programs.

Recent developments

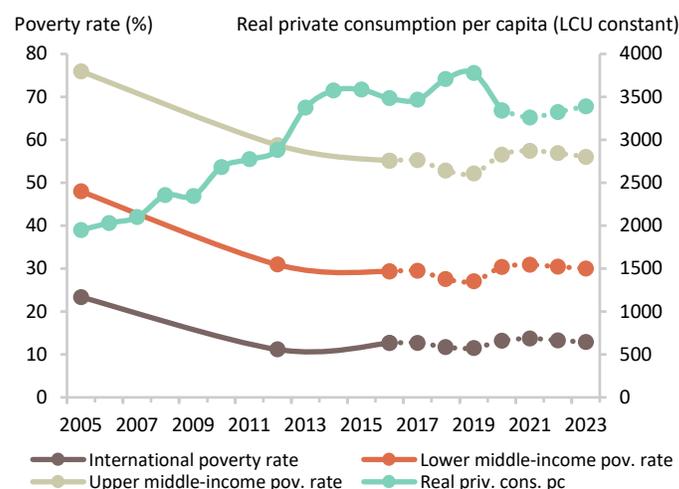
Ghana's economy contracted by 3.2 and 1.1 percent in the second and third quarters of 2020, respectively, pushing the country into a recession for the first time in 38 years. However, a modest growth of 1.1 percent is estimated for the full year of 2020 thanks to a strong 4.9 percent growth in Q1, at the onset of the COVID-19 crisis. The Government attempted to mitigate the pandemic's impact on households and businesses by enacting the Corona Virus Alleviation Plan (CAP) and the medium-term COVID-19 Alleviation and Revitalization of Enterprises Support (CARES) program in mid-2020. But the low growth in 2020, coupled with high population growth, has pushed real per capita incomes 1 percent lower than in 2019. Government financing needs increased substantially during the pandemic, pushing the Government to resort to central bank financing, resulting in sharp increases in debt and debt service cost. Fiscal pressures arose from costly financial sector

FIGURE 1 Ghana / Real GDP growth and real sectoral growth rates



Sources: Ghana Statistical Service and World Bank.

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



Source: World Bank. Notes: see Table 2.

reforms in 2018-2020 and the Energy Sector Recovery Program (ESRP), started in 2019. The overall fiscal deficit, including energy and financial sector costs, was therefore already elevated at 7.6 percent of GDP in 2019 and the debt-to-GDP ratio at 63.9 percent. The COVID-19 crisis and election related spending led to the suspension of the fiscal rule and the fiscal deficit is estimated at 16.2 percent of GDP in 2020. While debt remains sustainable, the April 2020 Debt Sustainability Analysis (DSA) concluded that Ghana remains at high risk of debt distress.

Ghana's current account deficit widened to 3.0 percent of GDP at the end of 2020 from 2.9 percent in 2019, reflecting a lower trade surplus and higher services outflows. However, stronger remittance inflows and lower net investment income outflows, especially from the extractive sector, helped moderate the impact on reserves. The Ghana Cedi depreciated at a much slower rate of 3.9 percent against the US dollar in 2020, compared with 12.9 percent in 2019. This reflected the improved risk sentiment in the global financial market, increased inflows from mining, remittances, and BOP support which helped ease demand pressures.

Inflation has been kept in check in 2020, despite a slight acceleration at the end of the year. The year-on-year change of the

Consumer Price Index was 10.4 percent in December, above the upper limit of the central bank's target range of 6-10 percent, mainly due to higher food inflation. To minimize the pandemic's impact on the economy and the banking sector, the Bank of Ghana (BoG) lowered the Monetary Policy Rate (MPR) by 150 basis points to 14.5 percent, and reduced the Primary Reserve Requirements and the Capital Adequacy Ratio. Yet, net private credit growth slowed to 5.8 percent at the end of December 2020, sharply down from 23.8 in December 2019. Overall, however, the banking sector's performance remained strong during 2020.

Outlook

Ghana's economy showed early signs of recovery in the second half of 2020 as business sentiments improved with the ending of the lockdowns. The economic contraction was smaller in Q3 than Q2, thanks to strong year-on-year performance in the agriculture, manufacturing and tradable services sectors. The medium-term negative impact of the pandemic on growth will continue to be felt through low external demand, low commodity prices, particularly of oil, and lower FDI

and tourism receipts. However, continued recovery could spur growth to 1.4 percent in 2021 and further to 3.6 percent by 2023. With relative stability in the exchange rate and the central bank's gradual return to a tighter monetary policy stance, inflation is expected to moderate to the central bank's target range. The fiscal and current account balances are expected to improve only slowly over the medium term (see Table 2), largely reflecting adverse external factors and a slow return to normalcy in domestic revenue mobilization. Against this backdrop of economic slowdown and new restrictions, poverty is likely to continue to rise in 2021 to 30.9 percent before declining as private consumption growth recovers.

The two major short-to-medium term risks are health related. First, risks stem from the second pandemic wave already affecting some African countries with more virulent variants of the COVID virus. There has been a sharp rebound in cases in Ghana requiring further restrictions. A fast vaccine rollout could help mitigate this risk. Second, the Ebola outbreak in Guinea in mid-January poses significant health and economic risks for Ghana given the very porous land borders. Ghana's fiscal position is also a major risk factor with rising domestic and external debt, including Eurobonds.

TABLE 2 Ghana / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	6.3	6.5	1.1	1.4	2.4	3.6
Private Consumption	9.4	4.2	-9.7	-0.3	4.1	4.1
Government Consumption	1.8	5.4	6.4	-11.0	-10.0	-10.1
Gross Fixed Capital Investment	13.2	-10.0	34.5	9.2	1.8	5.1
Exports, Goods and Services	10.3	6.7	-2.3	-3.2	1.0	1.0
Imports, Goods and Services	4.6	1.7	-2.3	-3.0	0.4	0.4
Real GDP growth, at constant factor prices	6.2	6.5	1.1	1.4	2.4	3.6
Agriculture	4.8	4.6	1.8	1.9	3.0	3.0
Industry	10.6	6.4	0.2	0.5	2.4	3.2
Services	2.7	7.6	1.6	2.0	2.2	4.4
Inflation (Consumer Price Index)	9.8	7.9	10.4	9.8	9.6	6.8
Current Account Balance (% of GDP)	-3.1	-2.9	-3.0	-3.3	-3.1	-3.0
Fiscal Balance (% of GDP)	-7.0	-7.6	-16.2	-12.1	-11.1	-10.7
Debt (% of GDP)	59.0	63.9	78.7	78.9	80.1	81.0
Primary Balance (% of GDP)	-1.4	-1.9	-9.8	-4.5	-4.1	-3.8
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	11.7	11.5	13.2	13.7	13.2	12.9
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	27.5	27.0	30.4	30.9	30.5	30.0
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	52.8	52.1	56.5	57.4	56.9	56.0

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: 2017-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2016) with pass-through = 0.7 based on private consumption per capita in constant LCU.