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Ghana

8th Ghana Economic Update

Strengthening Domestic Revenue Systems for Fiscal Sustainability

June 2024

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Acknowledgements

This report was prepared by Kwabena Gyan Kwakye (Economist and Task Team Leader), Elijah Gatuanjau Kimani (Economist), Djeneba Doumbia (Economist) and David Elmaleh (Senior Economist). It benefitted from inputs from Moses Misach Kajubi (Senior Public Sector Specialist), Carlos Leonardo Vincente (Senior Financial Sector Economist), Tamoya Annika Lois Christie (Senior Economist) and Theo Braimah Awanzam (Consultant). Kennedy Fosu (External Affairs Officer) provided guidance on public outreach. Abebe Adugna (Regional Director for Africa West and Central), Robert R. Taliercio (Country Director for Ghana), Sandeep Mahajan (Practice Manager, Macroeconomics, Trade & Investment Global Practice), Tracey Marie Lane (Practice Manager, Governance GP), Stefano Curto (Lead Economist), Raymond Muhula (Lead Public Sector Specialist) and Michelle C. Keane (Operations Manager for Ghana), provided overall guidance. The report benefitted from administrative support from Pinar Baydar (Operations Analyst), Gregoria Dawson-Amoah and (Program Assistant), Irene Sitienei (Program Assistant). The peer reviewers were Kemoh Mansaray (KM), Senior Economist (EEAM1), and David Vilar Ferrenbach (DV), Senior Energy Specialist, Program Leader (ILCDR)

Abbreviations and Acronyms

BoG	Bank of Ghana
CIT	Corporate Income Tax
COCOBOD	Ghana's Cocoa Board
COVID-19	COVID-19 Pandemic
CRR	Cash Reserve Requirement
DDEP	Domestic Debt Exchange Program
DSA	Debt Sustainability Program
ECF	IMF Extended Credit Facility
ECG	Electricity Corporation of Ghana
ECOWAS	Economic Community of West African States
EMDES	Emerging Market and Developing Economies
ESRP	Energy Sector Recovery Program
GDP	Gross Domestic Product
GEU	Ghana Economic Update
GHANEPS	Ghana Electronic Procurement System
GIFMIS	Ghana Integrated Financial Management System
GNPC	Ghana National Petroleum Company
GRA	Ghana Revenue Authority
GSFP	Ghana School Feeding Program
ITAPS	Integrated Ta Application and Preparation System
IMF	International Monetary Fund
ISSER	Institute of Statistical, Social and Economic Research
LEAP	Livelihood Empowerment Against Poverty
LMIC	Lower Middle-Income country
MoU	Memorandum of Understanding
MTRS	Medium-Term Revenue Strategy
NDA	Net Domestic Assets
NFA	Net Foreign Assets
NPLs	Non-Performing Loans
OCC	Official Creditor Committee
OPEC	Organization of Petroleum Exporting Countries
PAYE	Pay-As-You-Earn
PFR	Public Financial Review
PIT	Personal Income Tax
SOE	State Owned Enterprise
SSA	Sub-Saharan Africa
TADAT	Tax Administration Diagnostic Assessment Tool
TEs	Tax Expenditures
TRIPS	Total Revenue Integrated Processing System
VAT	Value Added Tax

About

This is the eighth edition of the Economic Update for Ghana. The objective of the Ghana Economic Update is to inform public discussion on economic issues and policy trade-offs and facilitate the dialogue among stakeholders to build consensus on necessary reforms to enhance macroeconomic management and accelerate progress towards a sustainable and inclusive growth. The Economic Update provides an update on the recent economic developments in Ghana, the medium-term economic outlook and potential risks going forward (Part I). This edition focuses on tax policy dimensions that are pivotal for achieving improved fiscal outcomes, particularly in the realms of personal income tax (PIT) policy and administration, as well as tax expenditures (TEs) related to value added tax (VAT), PIT, and customs duties (Part II). More information and details are available in the upcoming Public Financial Review (PFR).

Executive Summary

Recent Economic Developments and Outlook

Ghana has made steady progress toward economic stabilization, tackling the severe macroeconomic imbalances that peaked in 2022. A surge in public debt, driven by fiscal response to external shocks and a loss of access to international financial markets, had pushed the country into debt distress, with shrinking international reserves and escalating inflation. Significant macroeconomic policy adjustments, including initiation of a comprehensive debt restructuring program, fiscal consolidation, and a substantial program of structural reforms, are supported by an IMF Extended Credit Facility (ECF) program approved in May 2023 and the World Bank's Development Policy Operations. The crisis has taken a toll on poverty reduction efforts due to weak growth and constrained government spending, affecting living standards and bringing poverty levels (measured at the international poverty line of US$2.15 a day) to an estimated 30.3 percent in 2023, a worsening of 3.5 percentage points since 2022, with expected further deterioration to 33.2 percent by 2025.

2023 saw modest economic recovery, assisted by solid agricultural output and rebounding household consumption. Economic growth decelerated in 2023 to a modest 2.9 percent, following 3.8 percent in 2022, reflecting the impact of the crisis and macroeconomic adjustment on economic activity. A contracting industrial sector (shrinking by 1.2 percent), as delays in the development of new oil fields failed to shore up oil and gas production, combined with growth in services (5.5 percent), and in agriculture (4.5 percent), where output would have been even higher but for breakout of swollen shoot disease in cocoa and overall lower crop yields. On the expenditure side, resilient household consumption growth of 7.8 percent and reduced imports (1.2 percent below 2022 levels) were offset by flat exports of goods and services, and a notable deceleration in both private and public capital investments, as gross capital formation shrank by 14.7 percent year-on-year.

Fiscal consolidation was broadly on track in 2023, with a rapid expenditure reduction along with the implementation of comprehensive debt restructuring and revenue enhancing policies. A sizable, front-loaded fiscal consolidation plan has been initiated, predominantly driven by a significant reduction in expenditures by 7.9 percent of gross domestic product (GDP) from 2022 levels. In particular, the restructuring of domestic debt and the implementation of a moratorium on external debt servicing generated a marked decline in interest payments from 7.4 percent of GDP in 2022 to 3.2 percent in 2023. Other than interest payments, expenditures in 2023 were modestly restrained, with the authority's wage negotiations moderating public sector wages while public procurement improvements helped reduce spending on goods and services and investment. At the same time, revenue policies contributed to an uptick in revenues in 2023 of 0.3 percent of GDP, as enhanced direct tax collections more than offset the impact of weak economic activity and a shortfall in oil revenues. Provisional fiscal data for the first quarter of 2024 show a fiscal deficit of 1.8 percent of GDP, slightly above the target of 1.7 percent, due to lower revenues.

The recent clean-up of the financial sector was expensive, and large losses in the power sector pose an ongoing fiscal burden. Financial sector recapitalization amounted to an estimated 7.1 percent of GDP in fiscal costs during 2017-2021. Then, banks' capital was impaired by domestic debt restructuring in 2022. While bank's capital has been recently strengthened thanks to high profitability, rising nonperforming loans pose ongoing fiscal risk. Moreover, the power sector has emerged as a significant fiscal burden,

costing an average 1.7 percent of GDP annually due to persistent losses. Surplus installed capacity engaged under expensive take-or-pay contracts, underpricing of electricity, and the subpar performance of distribution companies have led to growing sector arrears. Delayed settlement of these arrears has further undermined the reliability of power supply, imposing costs on and constraining the output of Ghana's business sector.

Significant contingent liabilities also pervade the cocoa sector, emanating from Ghana's Cocoa Board (COCOBOD). The Board is a state-owned company solely responsible for Ghana's cocoa industry, controlling the purchase, marketing, and export of all cocoa beans produced in the country. As such, COCOBOD obtains its revenues almost entirely from selling cocoa beans. COCOBOD regularly pre-sells about 80 percent of its crop production or about 800 thousand tons a year. However, cocoa production fell to around 670 thousand tons last season and is not expected to exceed 500 thousand tons this season due to swollen-shoot disease. While the price surged from US$2.39 per kilogram in 2022 to a record high of US$5.56 per kilogram in February 2024, the rollover of the presale contracts for the unmet volume over the past two seasons makes it challenging for COCOBOD to pre-sell production for future seasons. Moreover, COCOBOD has accumulated large losses in past years due to high rollover cost of outstanding cocoa bills, high operational costs, fertilizer provision, and rural roads development.

Ghana has made progress on debt restructuring in the last year, but its public debt remains unsustainable without completion of external bilateral and commercial debt restructurings. At the end of 2022, public debt reached 92.2 percent of GDP (about US$66.5 billion), with domestic public debt at 50 percent of GDP and external debt at 43 percent. The completion of domestic debt restructuring in September 2023 helped reduce public debt to 82.9 percent of GDP by the end of the year, and an agreement in principle was reached with external official creditors in January 2024 and with external commercial creditors in June 2024. However, Ghana remains in debt distress and debt remains unsustainable without the completion of external debt restructuring in line with the joint Debt Sustainability Analysis (DSA) parameters.

A firm monetary policy tamed high inflation last year and allowed a stable exchange rate, but some inflation pressures have reemerged in 2024. The disinflationary trend of 2023 was driven by a rigorous monetary policy stance, in particular the progressive increase of the monetary policy rate by 1,100 basis points between March 2022 and year end and another 200 basis points during 2023. The resulting disinflation contributed to relative stability in the exchange rate. In the first quarter of 2024, rising food prices and exchange rate depreciation have contributed to an uptick in inflation, and given perceived upside risks, the Bank of Ghana is maintaining its tight monetary stance.

Bank credit to the private sector has continued to contract in real terms, albeit at a slower pace than in 2023, due to crowding out and high interest rates. In April 2024, bank credit to the private sector contracted by 11.4 percent in real terms, only a modest improvement from the 15.2 percent contraction recorded a year earlier, while bank holdings of government bills and bonds surged. With the government relying on Treasury bills for the funding of the budget, short-term money market rates showed broadly upward trends. At the same time, tight liquidity management efforts decelerated the annual growth in monetary aggregates, with broad money supply (M2+) expanding by 25.5 percent in February 2024, compared to the 43.9 percent growth observed in February 2023.

The banking sector is stronger and better capitalized than in the period immediately after the Domestic Debt Exchange Program (DDEP), but some risks remain. Bank profitability has improved, with the capital adequacy ratio reaching 13.9 percent in December 2023, surpassing the revised prudential minimum of 10 percent. Of banks affected by the DDEP in 2023, more than half are fully capitalized as at first quarter of 2024, ahead of schedule. The Bank of Ghana expects that early completion of recapitalization efforts will lead to more resilience of the banking sector and position it to provide stronger support for real sector recovery. However, non-performing loans continue to rise, hitting 20.7 percent of total gross loans in December 2023 and 25.7 percent in April 2024, as part of the lagged impact of the 2022 macroeconomic crisis.

The balance of payments improved in 2023 thanks to higher remittance inflows and decreased outflows from the debt standstill. 2023 witnessed a reduced trade surplus, with merchandise exports down by 9.3 percent (with lower oil and cocoa but higher gold exports), and imports down by 4.2 percent. Ghana's main export commodities, including cocoa, crude oil, and gold, remain subject to market volatility and global shocks. Higher remittance inflows and lower interest payments on public debt because of the external debt standstill helped reduce the current account deficit to US$1.1 billion in 2023, below the US$1.7 billion recorded in 2022. The capital and financial account witnessed net inflows of US$129 million, a significant improvement from the US$2.2 billion net outflows recorded in 2022. Ghana's balance of payments deficit for 2023 totaled US$1.98 billion, a significant improvement from the deficit of US$3.6 billion recorded in 2022[1]. Portfolio investment net inflows amounted to US$2.5 billion compared to 2022's net outflow of US$2.2 billion, a dramatic shift due mostly to reclassification.[2] With the domestic gold purchase program and improved foreign exchange purchases from mining and oil companies, the stock of gross international reserves continued its upward trajectory in early 2024 (to 2.8 months of imports) after ending 2023 on a high.

After a period of relative stability in 2023 supported by a stronger balance of payments and tight monetary policy, the cedi depreciated by about 16.7 percent between January and June 2024. After severe fluctuations at the beginning of 2023, the Ghanaian cedi remained relatively stable through the rest of the year as the balance of payments improved and tight monetary policy helped maintain stability. However, the foreign exchange market has faced pressures in first half of 2024, largely due to the strengthening of the US dollar in international markets and payments in the energy and corporate sectors.

Growth prospects for 2024 are subdued at 3.1 percent but will be stronger in the medium term as stabilization and recovery fully take hold and policy reforms are completed. Ongoing fiscal consolidation measures and tight monetary policy will constrain private consumption and investment in 2024. Economic growth is then expected to regain momentum, as the impact of stabilization policies fades and growth-oriented structural reforms bear fruit, recovering to its long-term potential of about 5 percent by 2026.

a. Ongoing tight **monetary policy** is expected to drive a continued gradual decline in inflation to the central bank's target of 8 (plus-or-minus 2) percent by the end of 2025 while credit to the private sector is projected to remain subdued, hampered by high non-performing loans.

[1] This includes Errors and Omissions of deficit of US$ 985 million.

[2] 2023 recorded a net inflow of portfolio investment amounting to US$2.5 billion compared to 2022's net outflow of US$2.2 billion, a dramatic shift due mostly to reclassification of the unwinding of collateralized assets of the BoG and from errors and omissions to portfolio flows.

b. Meanwhile, the **current account** deficit is expected to widen in the near term, but foreign direct investment flows will help finance it in the medium term. Export performance is expected to be weak, especially in cocoa and oil, while imports are likely to expand with economic recovery. Augmented by resumed interest payments on public debt, the current account deficit is expected to reach about 2.5 percent of GDP in 2024 and then remain at around 2 percent of GDP. The capital and financial account should turn positive by 2026 as foreign direct investment increases to an average of 2.8 percent of GDP. As a result, the balance of payments is expected to register a deficit of 2.9 percent of GDP in 2024, which will turn to surplus by 2027.

c. Achieving the **fiscal consolidation** plan hinges on addressing long-standing revenue mobilization and budget control weaknesses while scaling up social spending to support the poor and vulnerable groups. The fiscal deficit for 2024 is forecast at 4.7 percent of GDP with a corresponding primary surplus of 0.5 percent of GDP, underpinned by measures aimed at generating an additional 1 percent of GDP in revenues while keeping expenditures stable. The target is to achieve an improvement in the primary deficit of almost 6 percentage points of GDP during 2023-26, raising revenue from 15.7 percent of GDP to 18 percent and reducing spending from 27.5 percent of GDP to about 21 percent. Expenditure will need to be contained while preserving growth-enhancing public investment and expanding social safety nets such as the Livelihood Empowerment Against Poverty (LEAP) program and the Ghana School Feeding Program (GSFP). Over the medium term, efficiencies in public programs and reduced energy sector subsidies will generate additional savings.

d. Until 2027, Ghana will rely mainly on multilateral and other bilateral lenders for **external financing** because of its lack of international market access.

e. Importantly, Ghana's macroeconomic outlook is subject to significant downside **risks,** contingent upon the successful completion of comprehensive debt restructuring and the achievement of the monetary and fiscal targets under the IMF program. Persistent high inflation, despite monetary tightening by the Bank of Ghana, poses a challenge. Spending pressures prior to the elections in 2024 may affect fiscal discipline. High non-performing loans may further constrain the banking sector's ability to provide credit to the private sector and support economic recovery. Higher-than-expected contingent liabilities from the energy sector and agriculture could result in additional financing needs. Finally, a fraught global economic environment could have knock-on effects on Ghana, especially through its impact on commodity prices and flight-to-safety of financial capital.

To reach and sustain Ghana's economic potential, fiscal weaknesses that threaten future macroeconomic crisis need to be addressed. This can be achieved through revenue mobilization and expenditure management, and structural reforms to promote robust and inclusive growth.

a. The momentum of **macroeconomic stabilization policies** needs to be maintained to consolidate last year's achievements, especially reestablishing fiscal rules, strengthening public financial management, and accelerating revenue mobilization**.** To ensure fiscal discipline, the country needs to strengthen its fiscal framework and institutions, including overhauling and reinstating the existing fiscal rule, as agreed as part of the IMF ECF program. Public financial management systems require reforms to address weak budget planning and preparation, poor budget execution (including weak commitment controls), and overall budgetary indiscipline that leads

to noncompliance with the fiscal rules, which together have allowed recurring accumulation of large arrears over the years.

b. The full implementation of **revenue measures** proposed in the 2024 budget is an important first step. Additional recommended revenue measures include procuring an integrated tax administration system and implementing the new Tax Exemptions Act. In the medium term, the full implementation of measures identified under Ghana's Medium-Term Revenue Strategy could substantially strengthen revenue collection. See next section for details.

c. Improvements in **expenditure management**, in particular public financial management and procurement, are key for the sustainability of the fiscal effort. Fast-track actions are needed to integrate all spending accounts into the Treasury Single Account and improve cash forecasts to aid effective cash management and prevent the accumulation of arrears. To minimize arrears for capital expenditures, fast track measures are also necessary to capture multi-year commitments and contracts in line with Medium-Term Expenditure Framework ceilings, starting with the road sector, and further ensure that all entities use the GHANEPS for all procurement activities. Going forward, it is imperative to swiftly re-establish a fiscal rule that is transparent, measurable, and legally binding, supported by an empowered and independent Fiscal Council. Improving existing citizen engagement mechanisms within the budgetary process and amplifying accountability by strengthening parliamentary oversight is key to enhance fiscal transparency and accountability.

d. At the same time, reforms to achieve the **financial sustainability of the agriculture and energy sectors** are paramount from both a fiscal and a growth perspective, given the fiscal burden and contingent liabilities emerging from these sectors and role they play in the economy. In this context, it is also key to substantially improve COCOBOD's and ECG's operational and financial performance to restore profitability and financial viability. Similarly, it is important to continue the efforts to rebuild capital buffers in the financial sector to both help with the increasing nonperforming loans and support financial intermediation.

e. Lastly, comprehensive **structural reforms** are essential to foster economic diversification and promote long-term inclusive growth in Ghana. Key reform areas include special economic zones, long-term finance, foreign direct investment, the energy sector, digitalization, and the Africa Continental Free Trade Agreement. These efforts should be complemented by initiatives to expand targeted social protection programs to promote social inclusion.

Special Focus: Strengthening Domestic Revenue Systems for Fiscal Sustainability

Tax revenue in Ghana is well below Sub-Saharan African peers but also starkly lower than countries with the same level of income. This highlights systemic inefficiencies within Ghana's tax policy and compliance. The low levels of tax revenue not only affect efforts towards macroeconomic stability but also undermine the capacity of the country to generate sufficient resources to support long-term growth and poverty reduction. Enhancing Ghana's revenue mobilization is therefore imperative in the current economic context. In this regard, a comprehensive look at tax policy and administration would help identify measures that could be deployed in the short and medium term by the authorities. Below are some examples of areas that could be considered.

The complex personal income tax (PIT) with numerous exemptions, has negatively impacted revenue collection. PIT accounts for approximately 15 percent of Ghana's total tax revenues and only 2 percent of GDP, below the SSA averages of 18 percent of revenues and 3.5 percent of GDP. PIT revenue has failed to keep pace with GDP growth, largely due to over-reliance on payroll taxes, which make up more than 99 percent of total proceeds. In 2022, fewer than 25 percent of adult Ghanaians paid payroll taxes under the Pay-As-You-Earn (PAYE) scheme. The PIT system, although progressive with a seven-band rate structure, is undermined by a range of exemptions that shrink the tax base, including the exemption of retirement funds. The complexity of the tax system and insufficient enforcement efforts further contribute to poor compliance.

There are a number of areas where PIT could be enhanced. Low hanging fruits that could generate revenue include revising the definition of employment income to include allowances and compensation currently excluded; limiting tax avoidance opportunities and expand the tax base by setting common 15 percent tax rate on rental income from residential and commercial properties; enabling capital gains taxation on personal assets that can appreciate; ensuring that capital losses can only be offset against capital gains; and limiting carry-forward of capital losses. On tax administration front, the government could eliminate the obligation to file annual PIT return for those who only earn employment income from a single source or set an income threshold below which employees do not need to file a return to reduce the administrative burden on the GRA.

Other taxes have also seen a decline in their contribution to overall revenues, partly due to exemptions. The VAT's share of Ghana's total tax revenues dropped from 34 percent in 2015 to 17 percent in 2021, contrasting with global trends. This decline is partly attributed to a reduction in the standard VAT rate in 2018, which was reversed in 2023. Although the VAT rate is now in line with regional peers, additional levies and exemptions on certain items, such as agricultural products and utilities, complicate the revenue picture. Excise duties contribute about 1.8 percent of GDP, below the 2.1 percent average across low-income countries and at the lower end of the SSA region. More than 90 percent of Ghana's excise tax revenues are derived from petroleum products, through the energy fund and road fund levies. The absence of a robust track-and-trace system and factory-gate flow meters likely contributes to non-compliance.

Ghana's corporate income tax (CIT) revenue performance has improved over the past decade, averaging 2.2 percent of GDP during 2015-2021. However, CIT performance still lags behind regional and structural peers and significantly below the best performing SSA countries. The statutory CIT rate of 25 percent is lower than those of key structural peers. Furthermore, the complex regime of 22 reduced CIT rates complicates tax administration, lowers the effective tax rate, and fosters a misallocation of resources as businesses engage in aggressive tax planning.

The fiscal cost of tax expenditures, estimated at 3.9 percent of GDP, underscores the need for rationalization while mitigating negative welfare impacts. Ghana's tax exemptions from VAT, PIT, and import duties offer fiscal relief but create complexity and distortions. The Tax Exemptions Act, 2022, provides clear criteria and guidelines, but other legislation introduces further tax incentives that deviate from the notional tax benchmark. In 2021, the fiscal cost of VAT exemptions was estimated at 1.9 percent of GDP, or more than 72 percent of actual VAT revenue, with the largest source of forgone revenue being the VAT exemption on the supply of dwellings and land. PIT exemptions cost an estimated 1.4 percent of GDP in 2021, about 62 percent of PIT revenues, with significant impacts from exemptions for cocoa

farmers and pension contributions. Import duty exemptions in 2022 cost an estimated 0.2 percent of GDP, about 21 percent of actual revenues, with the most expensive being those granted by parliament to specific taxpayers.

Rationalizing tax expenditures requires striking the balance between reducing revenue losses and the potential distributional and social impact. Policy makers should assess the impact of exemption removals on poverty and suggest appropriate mitigating measures. For example, removing the VAT exemption on locally produced foodstuffs could harm smallholder farmers, while removing the VAT exemption on land and dwellings would likely have minimal impact on poverty. Eliminating the PIT exemption for cocoa farmers could be complemented with the introduction of more targeted instruments to mitigate welfare losses. Similarly, rationalizing PIT exemptions on pension contributions could be achieved without exacerbating poverty.

Global Economic Context, Recent Economic Developments, and Outlook

Global and Regional Context[3]

1. **The global economy decelerated in 2023 amid the lingering effects of widespread monetary policy tightening, worsening financial conditions, and trade disruptions.** Global economic activity is estimated to have expanded by 2.6 percent in 2023, a 0.4 percentage point decrease compared to 2022 (Figure 1.1). GDP growth in advanced economies slackened, absorbing the ongoing impact of higher interest rates and higher energy prices. GDP in emerging market and developing economies (EMDEs) is estimated to have grown by 4.2 percent, up from 3.7 percent in 2022. However, impacted by softening of global conditions, growth in EMDEs excluding China is estimated to have decelerated to 3.4 percent. Economic activity in Sub-Saharan Africa (SSA) slowed to 3.0 percent from 3.8 percent in 2022, affected by various country-specific challenges including, for example, an energy crisis in South Africa, increased input prices for businesses in Nigeria, lower oil production on the back of maturing oil fields in Angola, and increased violence in Sudan, Chad, and Niger. As elsewhere, weaker external demand and monetary policy tightening in advanced economies also contributed to the overall economic slowdown in SSA.

2. **Global headline inflation declined significantly in 2023, amid lower prices of most commodities and containment measures adopted by central banks in many advanced countries but remains elevated** (Figure 1.2)**.** While the recent conflict in the Middle East has heightened uncertainty about the geopolitical environment and commodity markets, its impact on commodity prices has, so far, been subdued. Aggregate commodity prices have increased in recent months after declining in 2023, remaining above pre-pandemic levels (Figure 1.3). Crude oil prices decreased to US$83/bbl, on average, compared with US$100/bbl in 2022. Metals and food commodity prices also fell in 2023, owing to weaker demand from major economies and ample supplies of major crops (grains, in particular), respectively. Overall, headline inflation remains above the targeted level in most inflation-targeting advanced economies and about half of inflation-targeting EMDEs. In SSA, inflation decreased in 2023 but remained

[3] This section draws on World Bank Global Economic Prospects (GEP), January 2024 World Bank Commodity Markets Outlook, April 2024

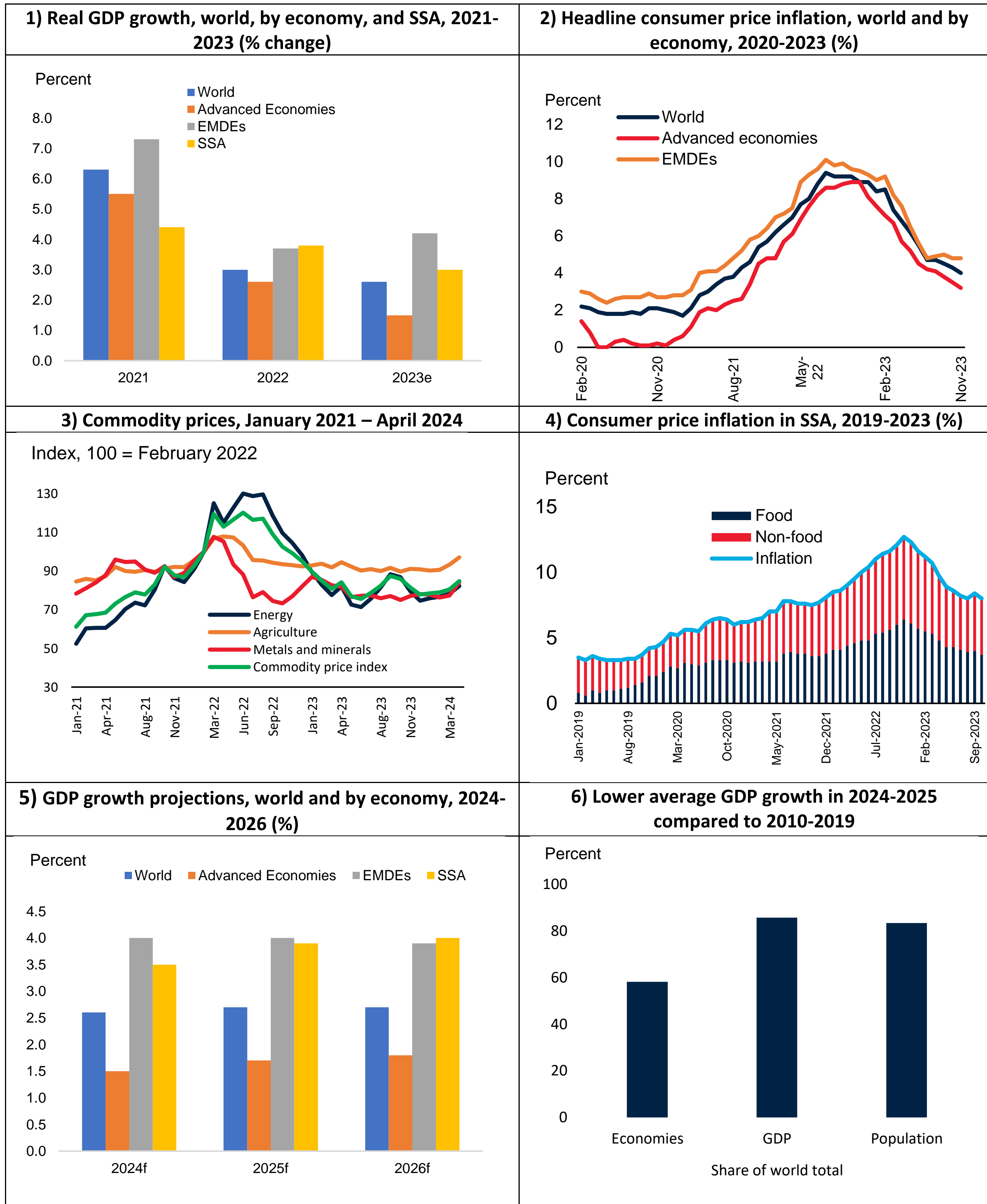
elevated (Figure 1.4). High consumer prices continue to impact living conditions and food security in the region.

3. **Elevated debt levels and increased borrowing costs contributed to narrowing fiscal space in many countries, particularly in EMDEs with weaker creditworthiness.** Recent overlapping crises, including the COVID-19 pandemic and Russia’s invasion of Ukraine, have led to rising debt levels and a shift in public spending away from investment toward shorter-term support for firms and households. In EMDEs, median public debt was estimated at 53 percent of GDP in 2023 with debt-to-GDP ratios higher than pre-pandemic decade averages in most countries. Borrowing costs increased to well above nominal growth rates in many EMDEs, particularly those with weak credit ratings (one-fourth of EMDEs), due to rising interest rates. These countries face high financing costs and very limited access to market-based issuances.

4. **Global growth is forecast to hold steady at 2.6 percent in 2024 despite flaring geopolitical tensions and high interest rates.** Global activity firmed in early 2024 with growth envisaged to be higher this year than previously expected, due mainly to the continued solid expansion of the U.S. economy. In 2025-2026, global growth is expected to reach 2.7 percent as inflation gradually subsides, policy rates decline, and trade growth firms (Figure 1.5). In 2024-25, growth is expected to underperform its average pace in the 2010s in nearly 60 percent of economies, representing more than 80 percent of global output and population (Figure 1.6). Risks to the outlook, tilted to the downside, include heightened geopolitical tensions which could undermine growth through commodity markets, trade, and financial linkages; further trade fragmentation; more persistent inflation; weaker-than-expected growth in China; and climate change-related disasters.

5. **In SSA, growth is expected to rebound to 3.5 percent in 2024 and accelerate further to 4.0 percent in 2025-26 as inflationary pressures wane and private consumption and investment improve** (Figure 1.5)**.** Growth in the largest SSA economies is set to accelerate from 1.8 percent in 2023 to 2.4 percent in 2024 and an average of 2.6 percent in 2025-26 but lagging the rest of the region and below historical trends*.* The expected increase in per capita income is insufficient to significantly reduce poverty in the region. Risks to the outlook include a further deterioration in regional political stability; increasing global geopolitical tensions, for instance intensification of the conflict in the Middle East; increased frequency and intensity of adverse weather events; a sharper-than expected global economic slowdown; and heightened public debt distress.

Figure 1. Developments in the Real Sector (Global Context)



Source: World Bank, Global Economic Prospects, January and June 2024.
Note: In Figure 1.6, "Economies" refers to the share of countries, "GDP" refers to the share of world GDP, and "population" is the share of the world population.

Recent Economic Developments

6. **Over the past year, Ghana has made steady progress toward restoring economic stability and tackling the severe macroeconomic imbalances that materialized in 2022.** In 2022, the country faced significant external shocks that exacerbated existing fiscal and debt vulnerabilities. Prior to this, it had lost access to international markets as investor confidence waned, and combined with limited domestic financing options, resulted in an increased reliance on the central bank's financing of the national budget. These developments led to a substantial surge in public debt levels during 2019 to 2022 (Table 1). The depletion of international reserves, depreciation of the Cedi, escalating inflation, and a notable decline in investor confidence eventually triggered an acute crisis and pushed Ghana into debt distress. In response, a series of significant macroeconomic adjustments have been undertaken. These efforts include the initiation of a comprehensive debt restructuring program and the implementation of reforms aimed at fostering economic stability and resilience. However, persistent challenges remain, notably characterized by elevated inflation, subdued growth, and substantial pressure on public finances and debt sustainability.

7. **Ghana's policy efforts are supported by an IMF Extended Credit Facility (ECF) program approved in May 2023 and the World Bank's Development Policy Operations**. The program is geared towards reinstating macroeconomic stability and ensuring debt sustainability over the medium term. Specifically, the key objectives of this program include attaining a moderate risk of debt distress over the medium term and replenishing the foreign exchange reserves of the Bank of Ghana (BoG) to cover three months' worth of imports by the conclusion of the program.

8. **The crisis has taken a toll on poverty reduction efforts.** The pace of economic growth decelerated to 2.9 percent in 2023 from 3.8 percent in 2022 and is projected to remain weak in 2024. Despite efforts to protect the vulnerable, social conditions are challenging, which is fueling citizen opposition to some reforms (including the implementation of some revenue measures included in the 2024 budget). Weak growth and constrained public spending have bolstered poverty levels and undermined the living standards of the population. Poverty—measured at the international poverty line of US$2.15 a day—is estimated at 30.3 percent in 2023, a worsening of 3.5 percentage points since 2022. Overall, the combination of insufficient growth, fiscal consolidation measures, and downside risks suggests a challenging environment for poverty reduction efforts in Ghana. Adjustments to the country's main cash transfer program, Livelihood Empowerment Against Poverty (LEAP), are expected to help the poorest of the poor, yet more is needed. Poverty is expected to increase to 33.2 percent by 2025 (from 27 percent in 2022), owing to erosion of real incomes for those at the bottom of the distribution.

Table 1: Selected Macroeconomic Indicators, 2022-2027

	2021 Actual	2022 Actual.	2023 Prel.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.
National accounts and prices	(annual percentage change, unless otherwise indicated)						
GDP at constant prices	5.4	3.8	2.9	3.1	4.4	4.9	5
Non-extractive GDP	8.4	3.1	3	3	4.4	5	5
Extractive GDP	-12.1	8.9	2.5	3.9	3.8	4.3	4.4
Real GDP per capita	3.3	1.6	0.4	0.6	1.8	2.3	2.4
GDP deflator	11.2	28.2	33.1	17.5	11.1	7.9	7.9
Consumer price index (end of period)	12.6	54.1	23.2	15	8	8	8
Consumer price index (annual average)	10	31.9	39.2	19.5	11.5	8	8
Central government budget	(percent of GDP, unless otherwise indicated)						
Revenue	15.3	15.7	16	16.9	17.4	18	18
Expenditure (commitment basis)1	27.4	27.5	19.6	21.6	21.1	21.1	20.8
Overall balance (commitment basis)1	-12.1	-11.8	-3.6	-4.7	-3.7	-3.1	-2.8
Primary balance (commitment basis)	-4.8	-4.3	-0.3	0.5	1.5	1.5	1.5
Non-oil primary balance (commitment basis)	-5.7	-6.3	-1.8	-1	0.1	0.2	0.3
Public debt (gross)	86.9	92.6	82.9	82.5	79.5	76.1	72.5
Domestic debt	43.6	49.7	38.6	34.2	31	29.7	27.4
External debt	43.2	43	44.3	48.3	48.5	46.4	45.1
Money and credit	(annual percentage change, unless otherwise indicated)						
Credit to the private sector (commercial banks)	11.1	31.8	10.7	22	13	14.9	15
Broad money (M2+)	12.5	32.9	38.7	17.4	16.9	16	16
Velocity (GDP/M2+, end of period)	3.4	3.4	3.4	3.5	3.4	3.4	3.3
Base money	19.9	57.3	29.2	7.5	12	13.6	11.5
Policy rate (in percent, end of period)	14.5	27	30	…	…	…	…
External sector	(US$ million, unless otherwise indicated)						
Current account balance (percent of GDP)	-3.2	-2.3	-1.4	-2.5	-2	-2	-2.2
Balance of payments financing gap 2	…	…	3,351	3,094	3,643	1,766	1,563
IMF	…	…	600	1,320	720	360	0
World Bank	…	…	30	679	428	374	0
African Development Bank	…	…	59	44	0	0	0
Arrears to commercial external creditors	…	…	1,826		0	0	0
Arrears to official bilateral creditors	…	…	836		0	0	0
Exceptional financing to cover residual financing gap3	…	…	0	1,051	2,495	1,032	1,563
Gross international reserves (program)	…	1,454	3,661	5,116	6,851	7,604	9,165
in months of prospective imports	…	0.7	1.7	2.2	2.8	3	3.5
Memorandum items:	…						
Nominal GDP (₵, millions)	…	614,336	841,633	1,020,180	1,183,393	1,339,842	1,518,045

Sources: Ghanaian authorities; and Fund staff estimates and projections.

1 Additional financing needed to gradually bring reserves to at least 3 months

2 Program definition excludes oil funds, encumbered and pledged assets.

3 BoG definition includes oil funds, encumbered, and pledged assets.

Real Sector Developments

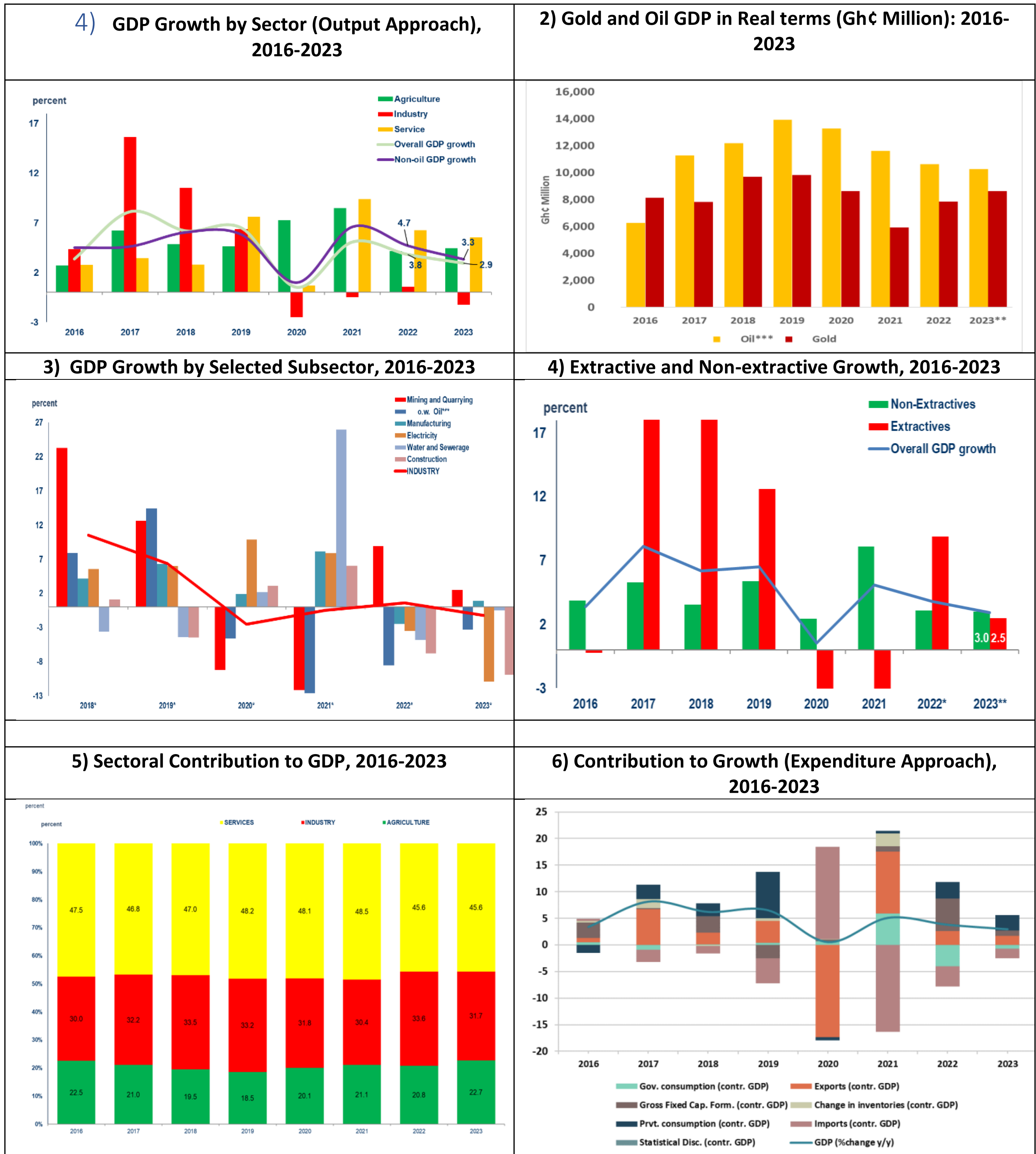
Economic recovery was resilient in 2023.

9. **In 2023, economic growth was subdued, reflecting the impact of the crisis and macroeconomic adjustment on economic activity.** GDP registered modest 2.9 percent growth year-on-year in 2023, compared to the 3.8 percent recorded in 2022. This deceleration resulted from a confluence of factors, including a contracting industrial sector, weaker growth in services, and a small improvement in agriculture (Figure 2.1).[4] The industrial sector, which shrank by 1.2 percent, registered particularly weak performance, with declines in electricity, water, oil and gas, and construction as well as weak manufacturing (Figure 2.3). Lower output in the oil and gas subsector, due to delays in the development of new oil fields to shore up production, undermined overall growth in the extractive sector although a recovery in gold output provided some offset (Figure 2.2 and 2.4). Agriculture, on the other hand, saw growth of 4.5 percent, although this was below the 6.1 percent average since 2020, hampered by issues such as swollen shoot disease in cocoa and overall lower crop yields. The services sector's growth rate also slowed to 5.5 percent, with a noticeable deceleration in information and communication, financial and insurance activities, as well as in the trade, repair of vehicles, and household goods subsectors. Despite differing growth rates, sectoral shares in GDP have stayed relatively stable (Figure 2.5).

10. **On the expenditure side, despite resilient household consumption and reduced imports, these gains were offset by a notable deceleration in capital investments.** In 2023, the nation began to show signs of recovery from the prior year's macroeconomic challenges driven by inflation and exchange rate fluctuations. Consumption growth rebounded to 7.8 percent year-on-year. However, the economy faced persistent hurdles as both the private and public sector cut capital investment due to investor sentiment and fiscal constraints, respectively. As a result, gross capital formation shrank by 14.7 percent year-on-year, and this is also reflected by the weak growth in electricity, water, and construction (on the production side). Consequently, domestic demand growth further decelerated to 2.5 percent year-on-year from 4.1 percent in 2022. Externally, exports were flat, with just 0.1 percent growth, a slight decrease from 0.2 percent in the previous year, primarily due to slower growth in cocoa and crude oil. The lag in exports was mitigated by a significant deceleration in import growth to -1.2 percent from 1.5 percent in 2022, driven by ongoing depreciation of the cedi, which adversely affected import volumes (see Annex Table 2). All components of expenditure continued to exert the same direction on growth as in 2022 but at more moderate levels (Figure 2.6).

[4] However, overall growth for 2023 was higher than the growth of 2.3 percent projected by the World Bank in October 2022.

Figure 2: Developments in the Real Sector



Source: **2.1-2.8**: World Bank (Macro Poverty Outlook) and Ghana Statistical Service (GSS)
*Note: *** Oil means "Oil and Gas"*

Fiscal Policy and Performance

Fiscal Performance

The fiscal consolidation program is broadly on track, spearheaded by rapid expenditure reduction …

11. **Fiscal consolidation was broadly on track in 2023, thanks to the implementation of debt restructuring, revenue enhancing policies, and rapid expenditure reduction to return to pre-pandemic levels**. The 2023 budget deficit (on a commitment basis) of 3.6 percent of GDP was considerably lower than the 2022 outturn of 11.8 percent. A sizable, front-loaded fiscal consolidation plan has been initiated, predominantly driven by a significant reduction in expenditures amounting to 7.9 percentage points of GDP from the 2022 levels, along with a modest increase in tax revenues, contributing 0.3 percentage points of GDP. A notable aspect of this fiscal adjustment was the marked decline in interest payments, which decreased from 7.4 percent of GDP in 2022 to 3.2 percent in 2023. This reduction was facilitated by the restructuring of domestic debt and the implementation of a moratorium on external debt servicing. The pace of fiscal consolidation in 2023 was in line with the objective of enhancing the primary balance from a deficit of 4.3 percent of GDP in 2022 to a surplus of 0.5 percent of GDP in 2024, and further to 1.5 percent of GDP from 2025 onward—a cumulative adjustment of 5.8 percentage points over a three-year period. The main financing sources for the 2023 budget were the issuance of Treasury bills and loans from multilateral and bilateral development institutions.

12. **Revenue policies contributed to an uptick in revenues in 2023, despite the impact of weak economic activity on tax revenue collection and a shortfall in oil revenues**. An improvement in tax revenues was primarily attributed to an enhancement in direct tax collections, which increased by 0.5 percentage points of GDP, while other tax categories remained stable compared to the previous year (Figure 3.1). A new Medium-Term Revenue Strategy formulated and disseminated in 2023, which incorporates revenue measures aimed at augmenting the non-oil revenue-to-GDP ratio by 2.8 percent over the period 2022-2026. Guided by the Strategy, fiscal measures outlined in the 2023 and 2024 budgets included: (i) an increase in the value-added tax rate from 12.5 to 15 percent;(ii) elimination of the discount policy on import valuation for various products; (iii) reinforcement of income and excise taxation; and (iv) elimination of tax expenditures on selected items.

13. **Non-interest expenditures in 2023 were modestly restrained across public sector wages, goods and services, and capital spending.** Government spending on compensation of employees, albeit still high, fell from 6.4 percent of GDP in 2022 to 6.0 percent, an outcome of the authority's favorable wage negotiation strategies even while net employment levels have mostly been maintained. Goods and services spending for 2023 was cut to 1 percent of GDP compared to 2 percent on average in 2020-2022 while capital expenditures were also squeezed to 2.3 percent of GDP in 2023 from 3.9 percent in 2022 (Figure 3.2 and annex, Table 1). Significant efforts were made to clear arrears valued at 1.2 percent of GDP in 2023, much higher than the budgeted amount equivalent to 0.7 percent. However, in the same period, new arrears were accumulated amounting to 1.7 percent of GDP leading to net accumulation of 0.4 percent of GDP.

14. **Provisional fiscal data for the first quarter of 2024 show a fiscal deficit (on commitment basis) of 1.8 percent of GDP, slightly above the target of 1.7 on account of lower revenues while expenditures remained on target.** On a cash basis, the first quarter fiscal deficit was equivalent to 2.6 percent of GDP, above the target of 1.9 percent (and higher than the 1.9 percent of GDP deficit recorded in the first quarter

of 2023). The lower revenue for the first quarter of 2024 is attributed to personal income tax and corporate income tax which fell short of their targets by 0.5 percent of GDP and 0.3 percent, respectively. In addition, the value-added tax and excise taxes each underperformed by 0.1 percent of GDP. On the expenditure side, less is spent on interest payment (in the context of the ongoing external debt servicing standstill), as well as public investment, while energy sector subsidies and clearance of arrears have increased (0.6 percent of GDP more). The cash deficit was financed mainly from domestic sources.

Fiscal Policy and risks

…but there is a need to maintain momentum on macroeconomic stabilization and consolidate the achievements made over the last year.

15. **Ghana's fiscal policy has gone through repeated periods of overspending over the years: to ensure fiscal discipline, the country needs to strengthen its fiscal framework and institutions. In 2023,** t Efforts were made to integrate public procurement approval processes with the Ghana Integrated Financial Management Information System (GIFMIS) to curb off-budget expenditures, while also containing transfers to Statutory Funds by lowering their ceiling from 25 to 17.5 percent of tax revenue.[5] Furthermore, the implementation of an Energy Sector Recovery Program was extended with the goal of reducing losses in the power sector. Concurrently, through the Public Utilities Regulatory Commission, a multi-year tariff order has been initiated to set parameters for tariff adjustments on a quarterly basis, thereby limiting the need for future budget subsidies.

16. **The existing fiscal rule, which has been suspended since the beginning of the COVID-19 pandemic, is poorly designed and needs an overhaul**. The government has committed to amend the Fiscal Responsibility Act, reintroducing a fiscal rule and the Fiscal Council to enable it to assess independently the credibility of the macro-fiscal assumptions and compliance with fiscal rules.

17. **Ghana continues to experience lapses in its public financial management systems, which have led to recurring accumulation of large arrears over the years.** Arrears are caused by weak budget planning and preparation, poor budget execution (including weak commitment controls), and overall budgetary indiscipline that leads to noncompliance with the fiscal rules (The World Bank 2022). Most existing arrears are transactions within the Ghana Integrated Financial Management and Information System (GIFMIS) that did not reach the final stage of payment and were processed outside the GIFMIS. The Public Financial Management Act mandates sanctions, including penalties, for entities that exceed their allocated budgets. Nevertheless, ministries, departments, and agencies frequently incur expenditures outside the GIFMIS and the Ghana Electronic Procurement System (GHANEPS). Efforts is being made to incorporate large statutory funds into the budget planning and accounting framework by enrolling their spendings on the GIFMIS, but these are still not fully functioning. Furthermore, internally generated funds entities face inadequate expenditure controls as they continue to spend realized funds outside the budget, leading to budget overruns. Efforts to strengthen budget execution and reporting through the expansion of the Treasury Single Account and improved oversight of financial transactions have progressed slowly. Over the years, weaknesses in public investment management have resulted in the proliferation of projects, often prioritizing new initiatives leading to a long list of "legacy" projects

[5] In 2017, the Parliament of Ghana passed the Earmarked Funds Capping and Realignment Act, 2017 (Act, 947) to ensure that transfers to Statutory Funds from the National Budget do not exceed 25 percent of revenues to free up funds for more discretionary spending. Subsequently, this ceiling was reduced further to 17.5 percent of tax revenue.

without funding. Additionally, the budget process does not effectively utilize existing frameworks such as the Medium-Term Expenditure Framework and program-based budgeting while sole sourcing and restricted tendering together continue to account for over 40 percent of procurement by value.

Financial sector and power sector losses are a significant source of fiscal risks.

18. **The recent clean-up of the financial sector was expensive.** The fiscal implications of the financial sector recapitalization, estimated to have amounted to 7.1 percent of GDP over the period 2017-2021, resulted in an escalation of both the fiscal deficit and debt. Given their exposure to government securities accounted for about 40 percent of the banking system's assets, banks recorded Domestic Debt Exchange Programme (DDEP)-related impairment charges of ₵16.3 billion (US$1.5 billion) in 2022 (Bank of Ghana. 2023).[6] As a result, the industry incurred an aggregate loss of ₵8 billion (US$696 million), with only six banks out of 23 recording a profit in 2022. Half of the system's regulatory capital was wiped out by the impact of DDEP in December 2022, and the average capital adequacy ratio without regulatory relief fell below the minimum of 13 percent. Domestic-owned banks (state-owned and private) were the most affected due to their higher exposures to public debt and lower capital buffers. Strong profitability[7] has helped rebuild capital since early 2023, with the average capital adequacy ratio including regulatory reliefs reaching 13.9 percent in December 2023 and 13.6 percent in February 2024.[8] Still, some banks are yet to meet the 13 percent capital adequacy ratio requirement and require additional capital to swiftly do so. Moreover, the nonperforming loan ratio within the industry increased to 20.7 percent in December 2023, compared to 16 percent in December 2022, and further to 25.7 percent in April 2024. It is important to monitor closely the evolution of nonperforming loans and promptly deploy resources in case of further deterioration.

19. **The power sector has emerged as a significant fiscal burden, costing about 2 percent of GDP annually due to persistent losses**. The power crisis from 2012 to 2016, precipitated by the failure of the West African Gas Pipeline, led to severe energy shortages. In response, high-cost thermal power was rapidly procured, engaging private independent power producers under take-or-pay agreements. This approach resulted in surplus installed capacity and financial commitments for power that was neither consumed nor compensated through revenues or tariffs. Coupled with the underpricing of electricity and the subpar performance of distribution companies, this situation has led to growing sector arrears. At the end of 2022, the accumulated power sector arrears (legacy arrears) were estimated at US$1,319 million;[9] and the power sector shortfall for 2023 alone was US$1,528 million.[10] The gas sector contributed an additional US$128 million in losses, bringing the total energy sector shortfall for 2023 to US$1,656 million. Since 2019, an average of 1.7 percent of GDP each year has been transferred from the budget to address the sector's recurring financial deficits. It is anticipated that these annual shortfalls will continue to be covered through fiscal transfers in the foreseeable future unless a firmer implementation of the Energy Sector Recovery Program (ESRP) is in place that permanently closes the sector financial shortfalls.

[6] Impairments related to phase 1 of the DDEP were fully reflected at end-2022.

[7] Return-on-equity after tax reaching 34.2 percent in December 2023, up from -34.4 percent in December 2022, while the return-on-assets rose to 5.4 percent from -3.8 percent during the same period.

[8] Capital adequacy ratio without regulatory reliefs (11.5% in April 2024 vs 7.6% in April 2024). This improvement follows the capitalization of 2023 profits, but masks variability among institutions.

[9] Deloitte 2022 Legacy Debt Validation Report for MoF.

[10] According to the ESRP model.

20. **Reliable power supply remains a significant constraint on economic activities in Ghana**. Global evidence underscores that a well-functioning power sector is essential for rapid economic growth and improvements in quality of life. All economic sectors, including the resource sector, depend on power for the operation of heavy machinery, which enables faster and more efficient production. Manufacturing relies on electricity to power factories and equipment, while the services sector requires electricity for lighting, heating, cooling, and the operation of computers and business equipment. Without reliable power, the infrastructure critical for development—including within the agriculture, transportation, technology, communication, and other essential services—cannot operate efficiently. The World Bank's 2021 Country Economic Memorandum for Ghana underscores firms' challenges of coping with unreliable power supply and the significant impact on economic output (The World Bank 2021). Firms continue to suffer from power outages: the Firm-Level Adoption of Technology survey, which included firms with five or more employees, revealed that 97 percent of these firms experience power outages, with a median of 13 outages per month. Consequently, many firms resort to using very expensive generators and battery-stored power for backup which has a negative impact on their output.

21. **Accumulated arrears to the power sector further exacerbate the risk to power supply reliability, which in turn poses as significant threat to medium- and long-term economic growth.** Fiscal constraints have led to delayed settlement of arrears owed to independent power producers and fuel suppliers, often resulting in threats of plant shutdowns and fuel shortages. This situation has caused sporadic power supply in parts of the country, damaging economic activities across all sectors and undermining growth. Historical data illustrate the economic impact of power outages: the World Bank estimates that Ghana lost approximately 1.8 percent of GDP during the 2007 power crisis, while a 2014 study by the Institute of Statistical, Social and Economic Research (ISSER) at the University of Ghana estimated that power crises cost Ghana about US $2.1 million per day (or US $55.8 million per month) in lost production ((ISSER) 2015).

Ghana's revenue performance still lags its peers.

22. **Ghana's fiscal landscape is characterized by a tax-to-GDP ratio that lags regional and global peers, registering at approximately 12.5 percent in 2022, significantly lower than the sub-Saharan African average of 16 percent (IMF, 2023; World Bank, 2023)**. This shortfall is even more pronounced when compared with the tax revenue performances of South Africa and Kenya, which stand at 28 percent and 18 percent of GDP, respectively. Such discrepancies underscore the systemic inefficiencies in Ghana's tax policy and administrative frameworks, which undermine its fiscal capacity and economic stability.

23. **Ghana's tax policy architecture also lags the more effective systems employed by its peers**. Countries such as South Africa and Kenya have adopted more progressive tax regimes with higher levies on upper-income echelons, thereby harnessing a larger share of economic wealth. Conversely, Ghana's tax structure has been less progressive over the years, with lower rates and substantial exemptions that dilute the tax base.[11] For instance, Rwanda and Senegal have instituted comprehensive value-added tax (VAT) systems with minimal exemptions, resulting in augmented VAT collections. Ghana's VAT framework, while structurally similar, is beleaguered by pervasive evasion and extensive exemptions that compromise its yield (World Bank, 2023). Further, Ghana has yet to fully capitalize on diversifying its tax revenue streams through the introduction of environmental levies, property taxes, and taxes on digital services,

[11] However, Ghana's income has gradually been made progressive in recent years with the upper band raised to 35 percent on all incomes of more than ₵ 600,000 (approx. US$50,000) per year in 2023.

unlike some of its peers. For example, Rwanda and Uganda have implemented successful property tax regimes and environmental taxes, which have contributed to their higher tax-to-GDP ratios. Diversifying revenue streams is critical for enhancing Ghana's fiscal resilience and sustainability.

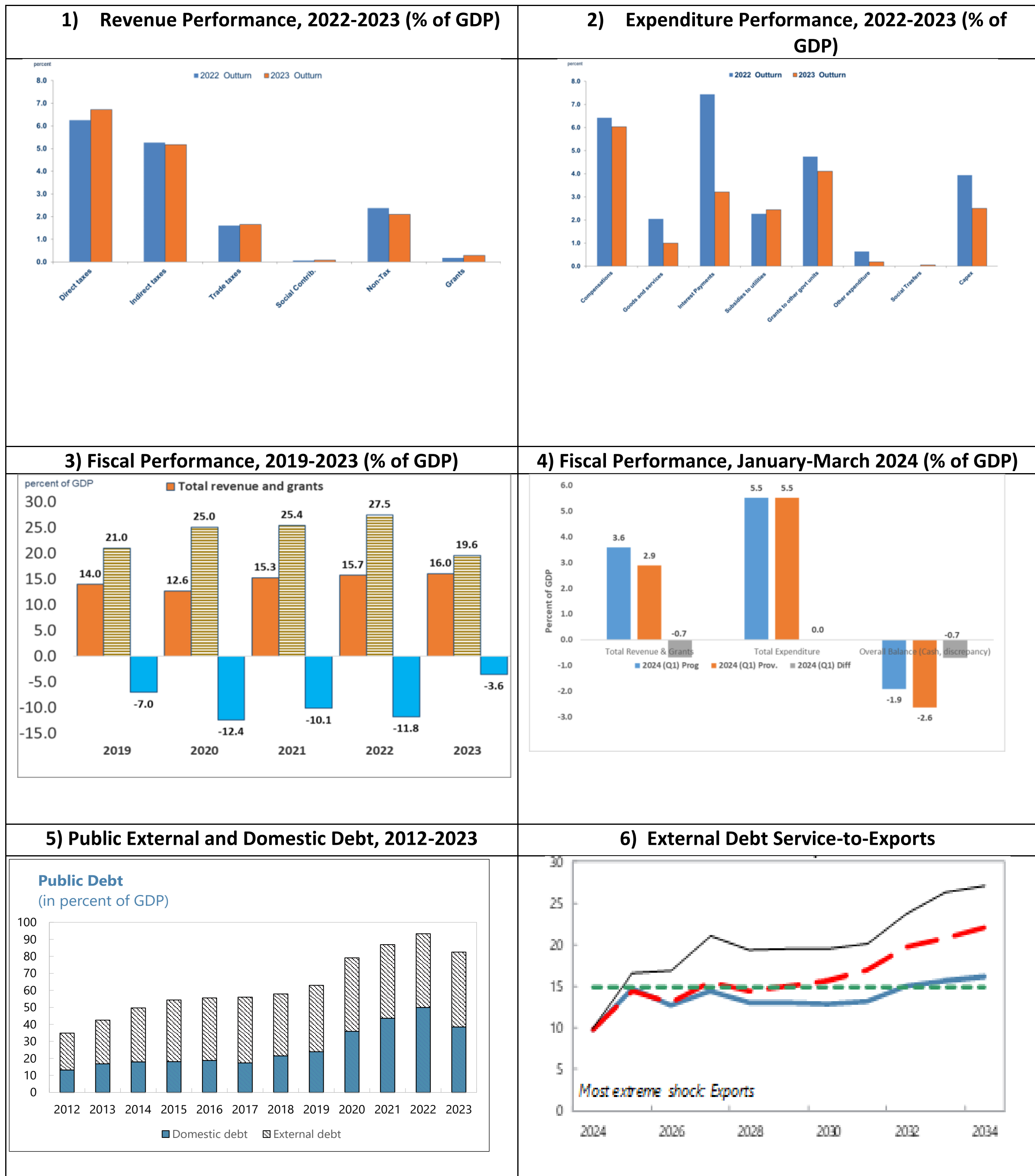
24. **Efficient tax administration is crucial for effective revenue collection, but Ghana still faces challenges such as suboptimal compliance, obsolete technological infrastructure, and a lack of robust taxpayer education and support mechanisms**. The Ghana Revenue Authority (GRA) is encumbered by deficiencies in data management and audit proficiency, which are critical impediments to its tax collection efficacy.[12] The pervasive informal sector in Ghana's economy exacerbates these administrative hurdles, as a considerable segment of economic transactions eludes the formal taxation framework (IMF, 2023). In contrast, countries like Rwanda and Cote d'Ivoire have made advancements in modernizing their tax administration systems. Rwanda has notably harnessed technology to bolster tax compliance through digital filing and payment systems, thereby curtailing evasion and enhancing compliance. Kenya, too, has strengthened its revenue authority with improved audit functions and taxpayer services, which have improved compliance and increased revenue streams (World Bank, 2023).

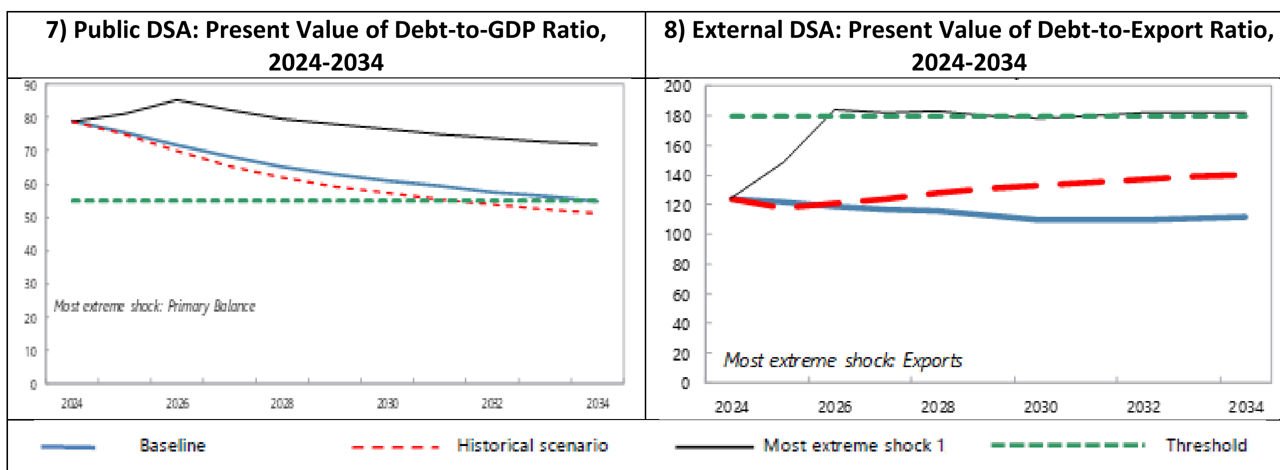
25. **Despite these challenges, Ghana has made some progress in improving its tax administration and tax policies, albeit with varying degrees of success**. The Ghana Revenue Authority (GRA) has implemented various initiatives aimed at enhancing tax collection and compliance including the adaptation of digital solutions such as the Integrated Tax Application and Preparation System (Itaps) and the Total Revenue Integrated Processing System (TRIPS) aimed at streamlining tax filing and payment processes, reduce administrative bottlenecks, and minimize human interactions that often lead to corruption. Ghana has also made efforts to improve its tax policy framework by amending its Value-Added Tax (VAT) laws to reduce exemptions and improve compliance. The introduction of the Excise Tax Stamp policy, which mandates the affixing of tax stamps on specified excisable goods, is another step toward curbing tax evasion and enhancing revenue collection. Further, the enforcement of Transfer Pricing Regulations is a strategic move to counteract profit shifting and ensure equitable tax contributions from multinational entities (IMF, 2023). Finally, the government has developed a Medium-Term Revenue Strategy (MTRS) focused on tax policy and revenue.

26. **Improving on Ghana's revenue mobilization for fiscal sustainability requires pragmatic solutions that broadens the tax base, enhance tax administration while diversifying revenue sources.** The Special Focus of the Economic Update delves into the intricacies of Ghana's tax mobilization efforts and posits that the implementation of strategic policy reforms could significantly uplift revenue levels. A comprehensive analysis of critical tax policy dimensions are pivotal for achieving improved fiscal outcomes, particularly in the realms of personal income tax (PIT) policy and administration, as well as tax expenditures (Tes) related to VAT, PIT, and customs duties. The proposed reforms in PIT and Tes are projected to be instrumental in augmenting revenue collection and fostering fiscal sustainability (World Bank, 2023).

[12] The World Bank's Ghana Economic Management Strengthening Project supported Datawarehouse and business intelligent modules at GRA in 2018-2022. However, full implementation was delayed and is now being supported by the new Ghana PFM for Service Delivery PforR Program.

Figure 3: Developments in the Fiscal Sector





Source: 3.1-5: Ghanaian Ministry of Finance, IMF and World Bank; 6-7: Joint IMF-World Bank DSA (May 2024)
Note: 6-7: The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented. The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Debt Sustainability and Debt Management

Ghana's public debt remains unsustainable without a successful completion of the external commercial debt restructuring

27. **Pre-existing macro-fiscal vulnerabilities have been exposed by the effects of recent external shocks, leading to a severe economic and financial crisis in 2022**. The COVID-19 pandemic, tightening global financial conditions, and geopolitical conflict intensified fiscal and debt vulnerabilities in Ghana. Confronted with significant development challenges and intricate social and political dynamics, the fiscal policy response was not sufficient to sustain investor confidence. Ghana lost access to international markets in 2021 due to a notable decline in market confidence, a significant increase in market spreads and difficulty in rolling over domestic debt and central bank liabilities resulting in reliance on the central bank's financing of the national budget. At the end of 2022, public debt reached 92.2 percent of GDP (about US$ 66.5 billion) from 63 percent of GDP in 2019. Domestic debt reached 50 percent of GDP in 2022, of which 16 percent of GDP was held by the Bank of Ghana,[13] while public external debt stood at 43 percent of GDP. Liquidity pressures have risen, with the debt service-to-revenue ratio hitting 127 percent in 2020[14] but subsequently fell to 117.5 percent in 2022 due to higher revenues. Before the debt service suspension in December 2022, 69 percent of external debt payments went to private creditors and 20 percent to bilateral creditors. Gross financing needs were 19.5 percent of GDP in 2022, above the 14 percent benchmark, but eased in 2023 due to the suspension.

28. **Faced with these pressures, the country has embarked on macroeconomic stabilization plan and has made progress on debt restructuring in the last year, completing the process for domestic debt and reaching agreement in principle with external creditors.** A debt moratorium on external commercial and bilateral debt was announced in 2022. Domestic debt restructuring (DDEP) was completed in September

[13] Bank of Ghana's holding of domestic debt (marketable, non-marketable, SDRs on-lent and overdraft) increased from 11 percent of GDP in 2019 to 16 percent of GDP in 2022.
[14] the highest in Sub-Saharan Africa

2023, achieving the target of 85 percent of eligible bonds participation (Box 1), helping Ghana's public debt to decrease to 82.9 percent of GDP in 2023 from 92.6 percent in 2022. Consequently, the share of external debt in the overall debt portfolio increased to 57.0 percent, while the share of domestic debt declined to 43.0 percent. In January 2024, an agreement in principle – with the official creditor committee (OCC) was reached for a comprehensive restructuring of US$5.4 billion of debt under the G20 Common Framework. Consequently, on June 12, 2024, an agreement with the Official Creditor Committee (OCC) on a Memorandum of Understanding (MoU) was reached to restructure bilateral external debt pending signing of bilateral agreements with each member of the OCC. The agreement paves the way for the IMF Executive Board on June 28 to approve the second review of Ghana's IMF program and the third tranche disbursement of US$360million, which would bring total program disbursements to US$1.6 billion so far. Without access to international markets while the zero (monetary) financing from the Bank of Ghana continues, the main sources of financing for the 2023 budget were continuous issuance of Treasury bills and external borrowing on concessional terms from multilateral and bilateral development partners.

29. **However, Ghana remains in debt distress and debt remains unsustainable without the completion of the external commercial debt restructuring in line with the joint Debt Sustainability Analysis (DSA) parameters.** Even by taking into account for the fiscal consolidation efforts and the outcome of the domestic debt restructuring and the agreement in principle between Ghana and its OCC, the present value of external debt-to-GDP breaches its threshold until 2026, while the external debt service-to-revenues exceeds its thresholds throughout the full-time horizon of the DSA. The present value of external debt service-to-exports ratio breaches its threshold from 2032 to 2034 and later from 2040 to 2043, and the debt-to-exports ratio remains below its threshold under the baseline throughout the full-time horizon of the DSA. The present value of public debt-to-GDP, which reflects the outcome of the domestic debt restructuring and OCC agreement in principle, breaches its 55 percent benchmark until 2033 (Figure 3.8)[15].

30. **On June 24, 2024, the Government announced Ghana's agreement in principle with its commercial creditors to restructure US$13 billion in Eurobond debt.** Following this, the Ministry of Finance has announced preparation to launch the consent solicitation and the exchange memorandum on the international capital market, which is expected to commence from July to September 2024. The restructuring of *the* Eurobond debt will complete the government's comprehensive debt restructuring aimed at achieving debt sustainability under the ongoing International Monetary Fund (IMF) program. The completion of the external commercial debt restructuring, which represents about a third of all outstanding debt, is key to further address financing needs and bring debt back to a sustainable path. Ghana's external debt is composed by 26 percent of multilateral debt (12.9 percent of GDP), 17 percent of bilateral debt (7.5 percent of GDP; of which 65.3 percent is Paris Club), 42 percent *bonds* (18 percent of GDP), and 14 percent of commercial debt (5.4 percent). In addition, developments over the past few years and stress tests highlight the sensitivity of the debt trajectory to commodity prices, exports and exchange rate shocks. Therefore, achieving debt sustainability requires both the finalization of external commercial debt restructuring and the successful implementation of a credible reform plan that meet monetary target of bringing down inflation to BOG target of 8 percent +/-2 percent in 2025 and fiscal

[15] The baseline accounts for the outcome of the domestic debt restructuring and the agreement between Ghana and its Official Creditor Committee but does not incorporate the impact of the contemplated restructuring of external commercial claims.

targets of bringing the primary balance to a surplus of 0.5 percent of GDP in 2024, and 1.5 percent of GDP from 2025 onward.

Box 1*: Ghana:* *The Fully Restructured Domestic Debt*

The restructuring of domestic debt in Ghana encompassed all domestic debt except Treasury bills. The restructuring process involved the completion of exchanges for medium-term debt denominated in local currency, including government Treasury bonds, debt issued by the Energy Sector Levy Act, and Daakye. Additionally, it covered government bonds denominated in US$, Cocobills issued by Cocobod (Ghana Cocoa Board), and non-marketable debt held by the Bank of Ghana. As a result of the restructuring, Ghana is expected to achieve approximately US$8 billion in debt service savings over the period 2023-2026. Furthermore, the present value of overall public debt-to-GDP is projected to decrease by 9 percentage points by 2028.The restructuring process for medium-term marketable debt denominated in Ghanaian cedi provided various options for debt holders:

*For **Holders other than Individuals and Pension Funds**, approximately 90 percent of their debt was voluntarily exchanged into new bullet bonds maturing between 2027 and 2038, with coupons of up to 10 percent. A portion of the coupons was capitalized rather than paid in cash in 2023 and 2024.*

***Individuals,** representing 62 percent participation, were offered slightly more favorable terms. Individuals below 60 years of age could exchange their bonds into bonds amortized between 2027 and 2028, with a cash coupon of 10 percent. Those aged 60 and above were offered similar instruments but with a cash coupon of 15 percent.*

*Despite initial resistance from labor unions, **Pension Funds**, with 95 percent participation, voluntarily exchanged their holdings of medium-term debt on substantially better terms. Old debt was exchanged for bonds maturing in 2027 and 2028, issued during the February 2024. Debt and Debt Exchange Program, at a 115 percent exchange ratio. Additionally, pension funds were provided with additional strip coupons of 10 percent for the same maturities.*

*Most **Government Bonds Denominated in US$**, representing 92 percent participation, were voluntarily exchanged for new bullet bonds maturing in 2027 and 2028, with coupons of 2.75 and 3.25 percent, respectively. Similarly, most Cocobills, with 97 percent participation, were exchanged for new bullet bonds issued by Cocobod, maturing between 2024 and 2028, with a 13 percent coupon.*

*Furthermore, the government exchanged the Bank of Ghana's holdings of **Non-Marketable Debt**, including existing non-marketable securities and the current overdraft balance of the government, into the 2038 bond utilized in the completed domestic debt exchange, at a 50 percent exchange ratio. However, the US$1 billion loan related to the Bank of Ghana's use of the recent Special Drawing Rights allocation to Ghana was not included in the restructuring process.*

Source: Ministry of Finance, IMF and World Bank

Monetary Policy and Financial Sector Developments

Headline inflation fell rapidly in 2023, while the disinflation process has slowed in early 2024

31. **A firm monetary policy tamed high inflation last year, but some inflation pressures have reemerged in 2024.** Inflation began decelerating in 2023, following a dramatic tightening of monetary policy, declining to 23.2 percent year-on-year by December 2023 (Figure 4.1). This disinflationary trend was driven by a rigorous monetary policy stance and relative stability in the exchange rate. Headline inflation had overshot the Bank of Ghana’s medium-term inflation target range of 8 (plus-or-minus) 2 percent in 2022, reaching 54.1 percent year-on-year. In response, BoG progressively raised the monetary policy rate starting in March 2022, by 1,100 basis points in 2022 to reach 30.0 percent in January 2023 and another 200 basis points throughout 2023 (Figure 4.4). As inflation eased, the BoG was able to lower

its policy rate by 100 basis points to 29 percent in January 2024 and maintained at the same level in May 2024. In addition to adjustments to the monetary policy rate, to further enhance monetary policy effectiveness, the BoG has intensified its operations to absorb surplus liquidity, thereby ensuring better alignment between the policy rate and interbank rates. Additionally, the BoG has successfully eradicated monetary financing over the past year. Concurrently, the rate of depreciation of the US$/₵ exchange rate moderated compared to the previous period. In the first quarter of 2024, inflation began to tick up again, to 25.8 percent by end-March, mainly due to rising food prices, but then eased to 25.1 percent in April, as seasonal food supplies improved, despite higher non-food inflation from exchange rate effects.[16] Core inflation measures, excluding energy and utility prices, continued to decline, falling to 24.8 percent in April from 26.3 percent in March. Despite these developments, the Bank of Ghana's Monetary Policy Committee opted to maintain the policy rate at 29.0 percent during the March 2024 meeting (Figure 4.4).[17] This decision was predicated on perceived upside risks, including potential upward revisions in transport fares, adjustments in utility tariffs, higher ex-pump energy prices, and exchange rate depreciation, all of which could impact the inflation forecast.

Real credit growth has continued to slow, albeit at a slower pace than in 2023

32. **Bank credit to the private sector remains weak.** As of April 2024, private sector credit growth stood at 10.8 percent of GDP, contrasting starkly with the 19.8 percent growth observed in April 2023. In real terms, credit growth contracted by 11.4 percent in April, only a modest improvement from the 15.2 percent contraction recorded a year earlier, reflecting the persistence of risk aversion among banks (Figure 4.2) due to the macroeconomic crisis and consequent increase in non-performing loans (NPLs) of banks. Conversely, by February 2024, banks' allocations to Government and BoG instruments had surged to ₵53.6 billion, marking a significant year-on-year increase of 67.6 percent, surpassing the 36.9 percent increase recorded for the corresponding period in 2023. This trend raises concerns as it underscores the phenomenon of crowding out private sector borrowing, with potential adverse implications for overall economic growth prospects.

33. **With the major reliance of Government on Treasury bills for the funding of the budget, short-term interest rates on the money market showed broadly upward trends**. In April 2024, the rates for 91-day and 182-day Treasury bills reached 25.7 percent and 28.0 percent, respectively, from 19.7 and 22.3 percent in April 2023 (Figure 4.3). The 364-day Treasury bill rate rose to 28.6 percent in April 2024, up from 27.0 percent in April 2023. The interbank weighted average rate remained within the policy corridor, rising to 28.7 percent in April 2024 from 25.9 percent in April 2023. In contrast, average lending rates of banks decreased slightly to 31.3 percent in April 2024 from 31.7 percent in April 2023.

34. **In April 2024, there was a significant slowdown in the annual growth of M2+ compared to April 2023 and December 2023 reflecting central bank's determination to tighten liquidity**. The tight monetary policy stance led to a sharp decrease in the expansion of Net Domestic Assets (NDA) among depository corporations from 51.6 percent year-on-year growth in April 2023 and 20.1 percent in December 2023 to a low 6.7 percent in April 2024. On the other hand, the Net Foreign Assets (NFA) of these institutions improved significantly due to the sharp appreciation in exchange rate recorded in

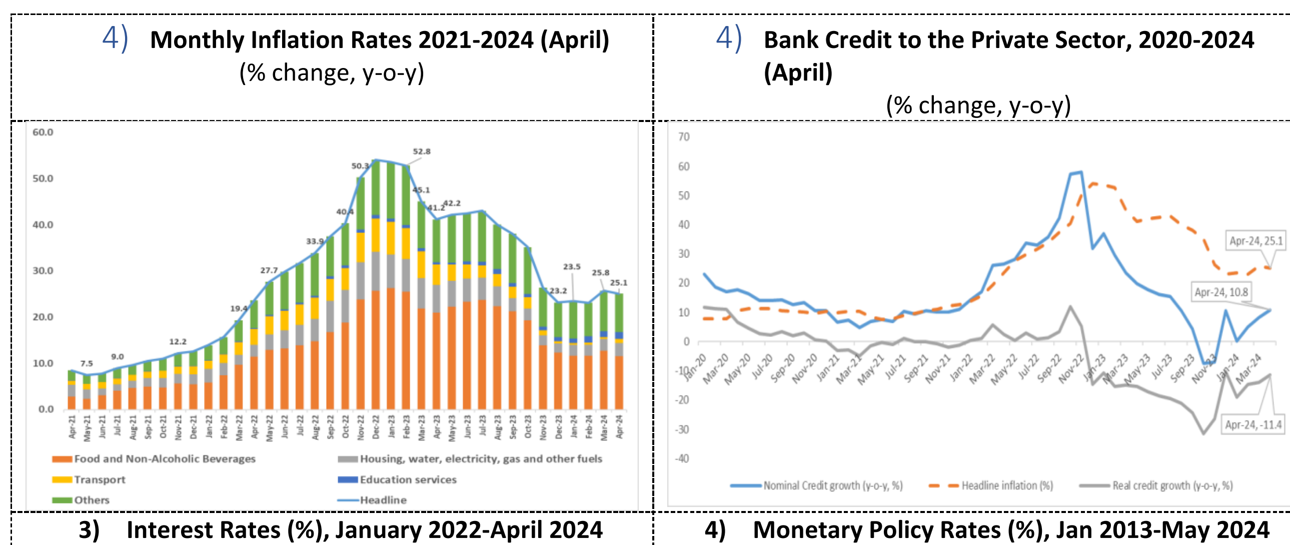
[16] Food inflation dropped to 26.8 percent in April from 29.6 percent in March, while non-food inflation rose to 23.5 percent from 22.6 percent.
[17] The BoG had reduced the Monetary Policy Committee rate by 100 basis points in January 2024 in response the steep disinflation in 2023.

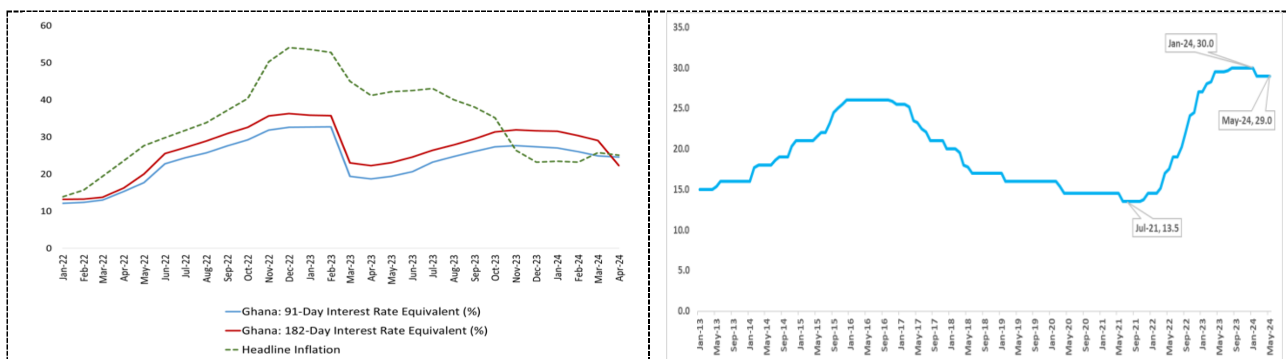
December 2022, which induced a base drift effect. Thus, annual M2+ growth dropped to 29.9 percent in April 2024, down from 45.6 percent in April 2023. Looking at M2+ components, the slowdown in growth mainly came from lower contributions from currency outside banks, savings and time deposits, and foreign currency deposits. However, contributions from demand deposits increased, influenced by bond conversions under the DDEP and fiscal sector inflows in the latter part of 2023. Commercial banks' reserves with the Central Bank surged following implementation of the dynamic Cash Reserve Requirement (CRR). As at the end of April 2024 reserve money growth, on a year-on year basis, had increased to 51.9 percent (mainly due to the changes in regulatory reserves) relative to a growth of 46.5 percent in April 2023.

The banking sector has demonstrated resilience following the Domestic Debt Exchange Program (DDEP), but trends in key financial soundness indicators were mixed.

35. **The banking sector is stronger and better capitalized than during DDEP, with higher profitability but also some emerging risks.** Bank profitability has improved, with the return-on-equity after tax reaching 34.2 percent in December 2023, up from -34.4 percent in December 2022, while the return-on-assets rose to 5.4 percent from -3.8 percent during the same period. The capital adequacy ratio is relatively high at 13.9 percent in December 2023, surpassing the revised prudential minimum of 10 percent because losses from the domestic debt restructuring were not fully accounted for due to regulatory relief. The non-performing loan ratio within the industry increased to 20.7 percent in December 2023, compared to 16.0 percent in December 2022, and further to 25.7 percent in April 2024, a development attributable to heightened credit risk stemming from the lagged impact of the 2022 macroeconomic crisis. Banks affected by the DDEP in 2023 continue to implement their approved capital restoration plans in line with BoG's requirements. Out of a total of 23 Banks, more than half are fully capitalized and have no need for recapitalization. Furthermore, within one year, most of the outstanding banks met more than two-thirds of the required recapitalization expected to be completed in a three-year period. The Bank of Ghana expects that early completion of recapitalization efforts will lead to more resilience of the banking sector and position it to provide stronger support for real sector recovery.

Figure 4: Inflation and Bank Credit Growth





Source: 1) GSS; 2-4) BoG.

External Sector

The balance of payments improved in 2023 as higher remittance inflows and decreased outflows from the debt standstill contributed to positive developments in the capital account.

Trade and Market Dynamics of Export Commodities

36. **In 2023, Ghana experienced a trade surplus of 2.2 percent of GDP, albeit 37 percent lower than in 2022 (Figure 5.2).** Total export earnings amounted to US$15.7 billion or 20.6 percent of GDP, down from 23.6 percent recorded in 2022, mainly due to reduced exports of crude oil and cocoa products, partially offset by higher gold exports driven by increased volume and prices. Total imports in 2023 decreased by 4.2 percent to 18.3 percent of GDP, driven by reductions in both oil and non-oil imports. As a result, the current account registered a deficit of US$1.1 billion in 2023, a notable improvement from US$1.7 billion in 2022. This improvement reflects decreased outflows related to external debt payments. While interest payments on public debt decreased, inward transfer flows grew by 16.1 percent to US$4.15 billion.

37. **Ghana's main export commodities, including cocoa, crude oil, and gold, continue to face market volatility and global shocks.** In 2023, international crude oil prices experienced a 17 percent decline but began to recover in early 2024 due to OPEC production cuts, reaching US$80.55 per barrel by February 2024 from US$75.72 per barrel in December 2023. Cocoa prices surged from US$2.39 per kilogram in 2022 to US$3.28 per kilogram in 2023, peaking at a record high of US$5.56 per kilogram in February 2024. However, production challenges in Ghana, such as swollen-shoot disease, have impacted output and global prices. Cocoa production fell to around 670 thousand tons last season and expected not to exceed 500 thousand tons this season. Gold prices increased by 8 percent in 2023 but slightly declined in early 2024 to US$2,025.73 per fine ounce, influenced by a strong US dollar and elevated bond yields. In 2023, Ghana's export earnings totaled US$15.7 billion, a decrease of 3.4 percent compared to 2022. Specifically, exports of crude oil and cocoa products decreased by 26.4 percent and 6.4 percent, respectively, while gold exports increased by 15 percent. The total import bill decreased by 4.2 percent to US$14.01 billion in 2023. Overall, Ghana's trade balance remained in surplus in 2023, slightly decreasing from US$2.7 billion in 2022 to US$1.7 billion in 2023.

Capital and Financial Account

38. **The capital and financial account saw net inflows of US$129 million in 2023, a significant improvement from the US$2.2 billion net outflows recorded in 2022**. Notably, there was a shift in

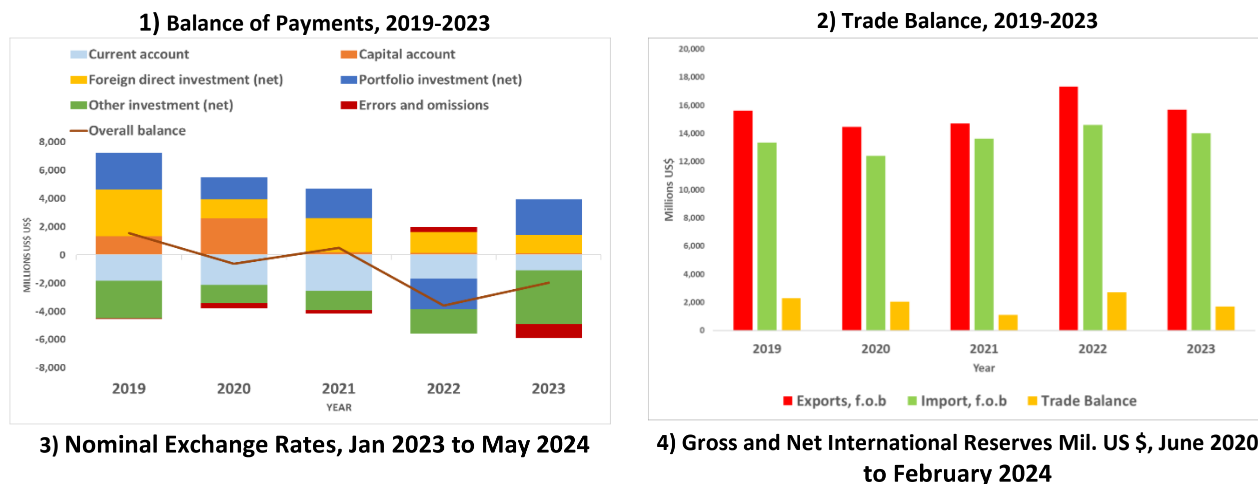
portfolio investment, with a net inflow of US$2.5 billion compared to a net outflow of US$2.2 billion in 2022 (Figure 5.1). This change was primarily due to the reclassification of unwinding collateralized assets of the Bank of Ghana and adjustments in portfolio flows.

Balance of Payments, Current Account, and External Reserves

39. **As a result, deficits in Ghana's balance of payments and current account showed improvement in 2023, despite the weaker trade surplus**. Ghana's balance of payments deficit for the year totaled US$1.98 billion, a marked improvement from US$3.6 billion in 2022 (Figure 5.1). This positive trend was driven by reduced income payments and lower financial outflows, supported by net inflows in portfolio investment, while foreign direct investment remained stable. Policy measures such as the domestic gold purchase program led by the Bank of Ghana (BoG), increased foreign exchange purchases from mining and oil sectors, disbursements from the IMF ECF program, higher remittance inflows, and reduced outflows from debt repayment contributed significantly to this improvement.

40. **The stock of gross international reserves continued its upward trajectory in early 2024 after ending 2023 on a high**. Gross international reserves saw an increase in 2023, to US$5.91 billion at the end of December, equivalent to 2.7 months of imports cover for goods and services. Excluding pledged assets and the Ghana Petroleum Fund, reserves stood at US$3.67 billion, equivalent to 1.7 months of imports cover. By the end of February 2024, reserves had further improved to US$6.2 billion (equivalent to 2.8 months of imports), or US$4.0 billion (1.8 months of import cover) excluding pledged assets and the Ghana Petroleum Fund (Figure 5.4). This boost was primarily driven by the gold for reserves program and the disbursement of the second tranche from the IMF ECF.

Figure 5: Developments in the External Sector

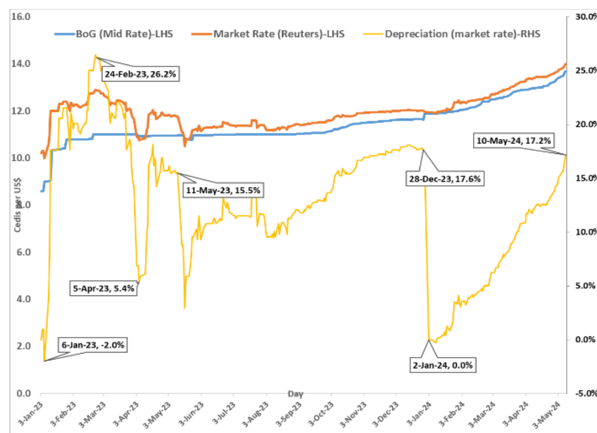


1) Balance of Payments, 2019-2023

2) Trade Balance, 2019-2023

3) Nominal Exchange Rates, Jan 2023 to May 2024

4) Gross and Net International Reserves Mil. US $, June 2020 to February 2024



Source: 5.1-2: World Bank, IMF, and BoG; 5.3: BoG and Rauters
Notes: 5.3: positive means depreciation

Exchange Rate Dynamics

After a period of relative stability, the cedi has depreciated by about 17.2 percent since January 2024.

41. **After severe fluctuations at the beginning of 2023, Ghana cedi remained relatively stable in the last part of 2023.** This stability was supported by various factors, including increased inflows from the IMF ECF program first tranche, domestic gold purchases, remittances, and foreign exchange purchases by mining and oil companies. The release of the Cocobod (Ghana Cocoa Board) loan facility in December 2023 provided further support. Additionally, monetary policy tightening contributed to maintaining stability and, in line with the targets outlined in the IMF program, interventions by the Bank of Ghana (BoG) in the foreign exchange market were constrained, facilitating the accumulation of reserves. Except for a significant depreciation of 20.6 percent in January, the Ghana cedi experienced an appreciation of 2.7 percent against the US dollar from February to December 2023 (Figure 5.3).

42. **However, the foreign exchange market has faced pressures in first four months of 2024, largely due to the strengthening of the US dollar in international markets and payments in the energy and corporate sectors**. These pressures were compounded by delays and uncertainties surrounding the second tranche of cocoa loan inflows and disbursements from the World Bank's Development Policy Financing program. Despite these challenges, continued inflows from remittances, mining companies, and the domestic gold purchase program helped mitigate some of the pressures. As of May 10, 2024, the Ghanaian cedi had experienced a depreciation of 17.2 percent against the US dollar since January (Figure 5.4 and Box 2).

Box 2: Ghana: Exchange Rate Regime

Ghana has maintained a floating exchange rate regime since 1983, with the establishment of an interbank market in April 1992. Despite the floating regime, the Bank of Ghana (BoG) occasionally intervenes to manage the float, a practice that has at times affected reserve accumulation significantly, as observed in 2022. In line with its 2019 guidelines, the BoG has been conducting foreign exchange forward auctions on the Ghanaian interbank foreign exchange market. These auctions aim to facilitate price discovery, enhance market depth, and mitigate uncertainty regarding future foreign exchange availability. In 2023, the Bank of Ghana continued its foreign exchange auctions, specifically targeting critical sectors such as bulk oil distributors (oil importers) to alleviate foreign exchange pressures; and. BoG's foreign exchange interventions for 2023 are estimated to total US$560 million. These measures contribute to stabilizing the foreign exchange market and ensuring the availability of foreign exchange for essential sectors of the economy.

While the exchange market has faced pressures in recent months depreciating in nominal terms by over 17 percent between January and May 2024, the Real Effective Exchange Rate (REER) has remained relatively stable (Fig. 1). A steady depreciation of the nominal exchange rate can be expected given the high level of inflation over the past year, while the real effective exchange rate has stayed relatively stable. The REER's stability indicates that Ghana's export competitiveness has not deteriorated. As it adjusts for relative inflation vis-à-vis trading partners, the REER would have experienced a real appreciation (loss of competitiveness) without a depreciation of nominal exchange rate.

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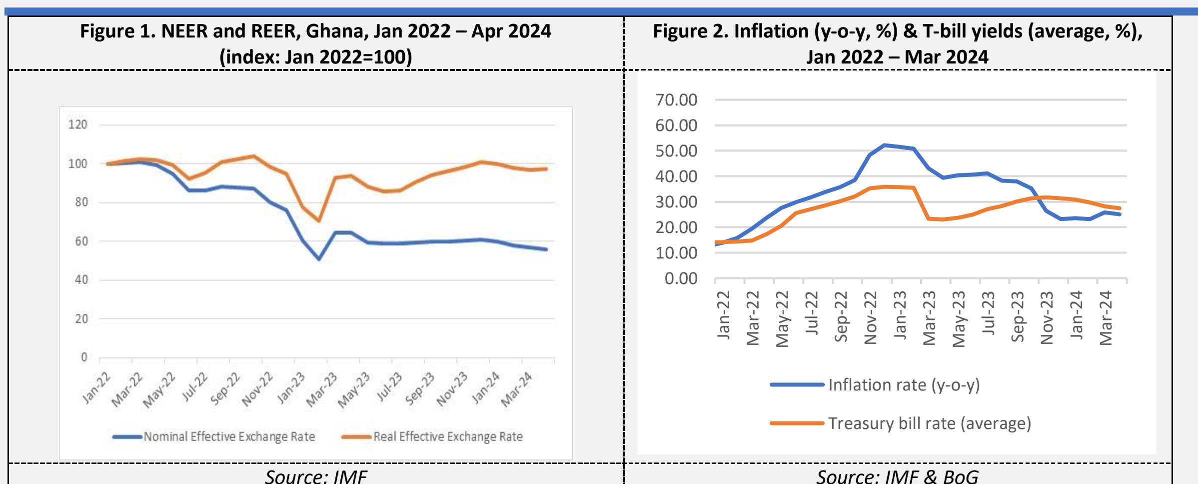
The evolution of the REER (nominal exchange rate and inflation) is crucial for debt sustainability. High inflation and a stable exchange rate (REER appreciation) can improve debt sustainability by reducing the real value of debt stock. However, REER appreciation can undermine the country's ability to repay debt by reducing competitiveness, which is essential for supporting exports, the current account balance, and international reserves. Similarly, a negative real interest rate can reduce the real value of domestic debt but may deter domestic savings and affect the nominal exchange rate. The net impact of these dynamics is reflected in the DSA debt-creating flows, where growth and primary surplus drive sustainable public debt, while real exchange rates and real interest rates play a smaller role in balancing these trade-offs.

The nominal exchange rate is expected to depreciate until it stabilizes due to declining inflation, anticipated monetary easing by advanced economies, and reduced domestic uncertainties regarding the economy, fiscal consolidation, and debt restructuring. To address this, it is essential for the BoG to (i) maintain current policy rates to anchor inflation expectations and support the exchange rate, and (ii) refrain from intervening in the forex market beyond agreed limits due to low reserves and the need to guard against speculative attacks. Closely monitor the deficit and ensure compliance with the IMF program is paramount to provide market confidence.

Figure 1. NEER and REER, Ghana, Jan 2022 – Apr 2024 (index: Jan 2022=100)

Figure 2. Inflation (y-o-y, %) & T-bill yields (average, %), Jan 2022 – Mar 2024



Source: IMF

Source: IMF & BoG

Macroeconomic Outlook and Risks

Full implementation of stabilization and recovery reforms should help gradually restore growth to its long-term potential in the medium term.

43. **Growth prospects for 2024 are subdued at 3.1 percent but will be stronger in the medium term**. The combined effects of fiscal consolidation, economic stabilization, structural reforms, and increased confidence among consumers and businesses can significantly enhance Ghana's economic growth by creating a stable, efficient, and attractive environment for investment and consumption in the medium term. In the short term, the ongoing fiscal consolidation measures, corrective monetary policies, persistently high inflation rates, elevated interest rates, and lingering macroeconomic uncertainties will constrain private consumption and investment in 2024, limiting non-extractive growth and resulting in overall growth projected at 3.1 percent. However, economic growth is expected to regain momentum as the Impact of fiscal consolidation diminishes (and the economy adjust to the lower public expenditure), the economy stabilizes, structural reforms yield results, and confidence among consumers and businesses rebounds with improved private consumption and investments (Figure 6.2). With the stabilization of the economy, lower inflation would improve purchasing power and consumer confidence, boosting private consumption; while exchange rate stability would reduce uncertainty for businesses in trade and investment which promotes predictable environment for business planning and investment, fostering long-term growth. Growth should gradually recover to its long-term potential of approximately 5 percent by 2026, supported by strengthening non-extractive growth projected at 5.0 percent by 2027. Over the same period, favorable commodity prices, resurgence in small-scale gold mining, and the exploitation of untapped gold and oil reserves is anticipated to boost growth in extractive industries to an average of 5.0 percent over the next five years (Figure 6.1).

44. **In the medium-to-long term, growth prospects are expected to be further bolstered by growth-oriented structural reforms**. The Post-COVID Program for Economic Growth is expected to enhance productivity and attract private investment. The program encompasses initiatives aimed at enhancing the business environment, such as reducing minimum capital requirements for foreign direct investment and revising the Public-Private Partnership Act. Additionally, efforts to bolster export competitiveness, foster entrepreneurship, improve public sector governance, accelerate digitalization, and implement climate change adaptation policies are integral parts of this reform agenda.

45. **Ongoing tight monetary policy is expected to drive a continued gradual decline in inflation while credit to the private sector is projected to remain subdued in 2024, hampered by high non-performing loans**. With the stabilization of international commodity prices and the exchange rate, inflation is expected to approach the central ban''s target of 8 (plus-or-minus 2) percent by the end of 2025. It is expected that the BoG will maintain a policy stance that firmly anchors inflation expectations and contributes to exchange rate stability, mitigating inflationary pressures from second-round effects that could entrench inflation. Credit flows will also be moderated in 2024. At approximately 8.4 percent of GDP, credit to the private sector is expected to remain at the same levels as in 2023, as banks focus on rebuilding capital buffers eroded by the DDEP and invest in profitable Treasury bills. If non-performing loans, which stood at 25.7 percent in April 2024, increase further, they would weaken banks' capital positions and constrain credit growth. At the same time, the general recovery of economic activities will help tone down on NPLs in the medium term. Nevertheless, it is important to monitor closely the evolution of nonperforming loans and promptly deploy resources in case of further deterioration.

46. **The current account deficit is expected to widen as economic recovery causes imports to rise, and as public debt interest payments resume but will be offset in the medium term by foreign direct investment flows strengthening the capital and financial accounts**. Export performance is expected to be weak in 2024, particularly in the crude oil and cocoa sectors. Oil production is projected to average 130,000 barrels per day for 2024, far below what had been projected before, and cocoa output for 2023/24 is expected to be almost 40 percent below target due to swollen shoot disease.[18] Imports are likely to grow with stronger domestic demand. The services account should remain steady, but net income payments are expected to rise by over 25 percent due to resumed interest payments on public debt. From 2024 to 2026, the current account deficit is expected to reach US$1.8 billion in 2024 or about 2.5 percent of GDP and then remain at around 2 percent of GDP. The capital and financial account should turn positive by 2026 as foreign direct investment increases to an average of 2.8 percent of GDP, driven by reforms and better economic sentiment. Until then, external debt disbursements will mainly come from multilateral and bilateral partners. As a result, the balance of payments is expected to register a deficit of 2.9 percent of GDP in 2024, which will gradually diminish over the medium term and turn to surplus by 2027, driven by enhanced net capital inflows (Figure 6.4).

The achievement of the ambitious fiscal consolidation plan hinges on addressing long-standing revenue mobilization and budget control weaknesses.

47. **Fiscal deficit on a commitment basis for 2024 is forecasted at 4.7 percent of GDP, with a corresponding primary surplus of 0.5 percent of GDP**. This outcome is underpinned by measures aimed at generating an additional 1 percent of GDP in revenues while keeping expenditures stable.[19] In the medium term (by 2026), the goal is to achieve a primary surplus of 1.5 percent of GDP, reflecting a fiscal adjustment surpassing 4 percentage points of GDP from 2023 to 2026. To this end, within that period, the objective is to raise the revenue-to-GDP ratio to over 18 percent from 15.7 percent in 2022. The strategy includes streamlining VAT exemptions, enhancing excise taxes, and reinforcing tax compliance and revenue administration. In addition, expenditure will need to be contained, particularly in the short term, while preserving growth-enhancing public investment, expanding social safety nets, and eliminating extra-budgetary spending and the build-up of arrears. Additional savings over the medium term will come from more efficient expenditure allocation and a reduction in the large subsidies to the energy sector through tariff adjustments and cost reduction measures—with the latter included in the baseline's projected spending.[20] A plan to clear the large stock of domestic arrears to suppliers has been prepared (Figure 6.3).

In the face of steep fiscal consolidation and inflation, social spending has been scaled up to help mitigate impact on the poor and vulnerable groups.

48. **Expanding social protection measures to mitigate the impact of economic adjustments on vulnerable populations remains a priority**. The 2024 budget has doubled the benefits of the Livelihood

[18] Crude oil production has dipped in the past few years and will continue to remain so until the new 'untapped' fields come on board in the medium term.

[19] In 2022, total expenditures were 27.5 percent of GDP compared to projected average expenditures for 2024-2027 of 21.2 percent.

[20] Transfers to the energy sector are estimated to have increased in 2023, despite the reforms, due to the large depreciation of the currency relative to 2022. In subsequent years, they are projected to decrease gradually thanks to continuous reform efforts.

Empowerment Against Poverty (LEAP) program, increased the Ghana School Feeding Program (GSFP) benefits by 25 percent, and enhanced other social program benefits by over 40 percent. Over the medium term, the goal is to extend LEAP coverage to 20 percent of household'' pre-transfer consumption and increasing the GSFP benefit to meet 30 percent of children's daily caloric needs. With support from the World Bank, the coverage of LEAP beneficiaries is expected to expand while improving the operational efficiency of these social protection programs.

Until 2027, Ghana will rely mainly on multilateral and other bilateral lenders for financing.

49. **Because of Ghana's lack of international market access, financing during 2024-26 is expected to be limited to the multilateral and bilateral partners and domestic Treasury bills**. During 2023 to 2026, the World Bank is expected to disburse about US$3 billion, including about US$1.5 billion for project loans, US$1.15 billion for budget support, and US$400 million for other projects. Over the same period, the African Development Bank is assumed to disburse US$338 million, of which US$200 million is project loans and grants and US$103 is budget support during 2023-24. On the domestic side, a reintroduction of medium and long-term domestic debt issuance is foreseen in 2025 as the domestic bond market is restored.

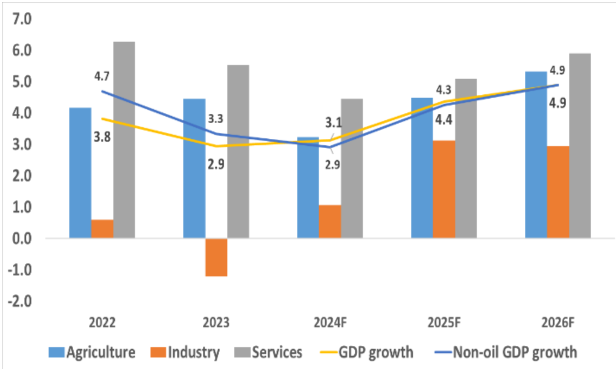
Ghana's macroeconomic outlook is subject to significant downside risks.

50. **Ghana's economic outlook is fraught with significant downside risks, contingent upon the successful completion of comprehensive debt restructuring and reform implementation, including meeting revenue mobilization targets**. Persistent high inflation, despite monetary tightening by the Bank of Ghana, poses a challenge. Moreover, domestic debt restructuring continues to pose risks to financial sector stability, while exchange rate, credit, and liquidity risks amplify vulnerabilities. While bank's capital has been recently strengthened thanks to high profitability, rising nonperforming loans pose ongoing fiscal risk. Continued uncertainty surrounding the exchange rate trajectory, substantial domestic financing requirements, and potential policy deviations leading up to the end-2024 general elections constitute additional domestic vulnerabilities [see Box 3 on Ghana's Fiscal Volatility and Election Cycles]. Furthermore, Ghana Cocobod poses fiscal risks related to the contingent liabilities deriving from its operations.[21] Finally, a fraught global economic environment, marked by conflicts, subdued growth, elevated inflation pressures, and rising trade restrictions could have ripple effects on Ghana (and other developing countries), especially through its impact on commodity prices and flight-to-safety of financial capital.

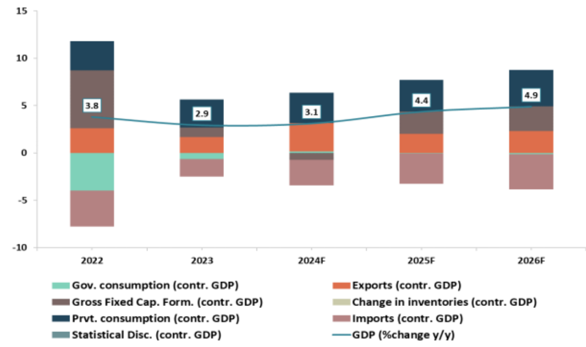
[21] An upcoming World Bank Public Finance Review (PFR) and Sector Policy Notes will delve much deeper into the fiscal risks posed by the operations of Cocobod.

Figure 6: Economic Outlook

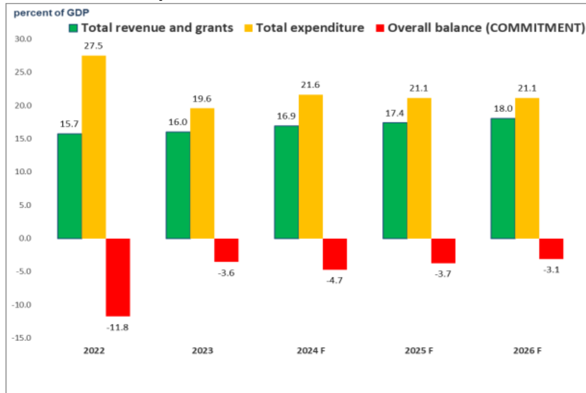
1) GDP Growth (Supply Side), 2022-2026



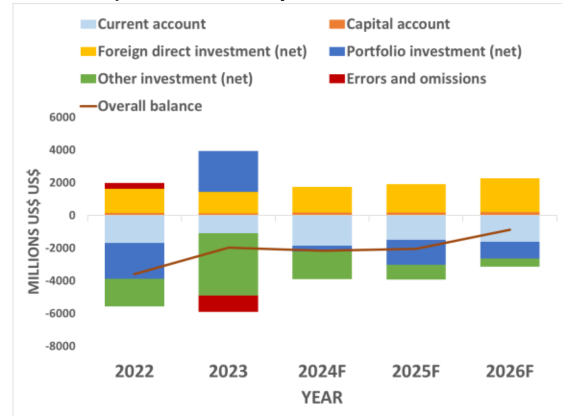
2) Contribution to Growth (Demand Side), 2022 -2026



3) Fiscal Balance, 2022-2026



4) Balance of Payment, 2022-2026



Source: 6.1: GSS and World Bank; 6.2: GSS and World Bank; 6.3: World Bank; 6.4: Ministry of Finance and World Bank; 6.5: GSS; 6.5-7: World Bank Staff Estimates

Box 3: Fiscal Volatility and Election Cycles in Ghana (2000-2020)

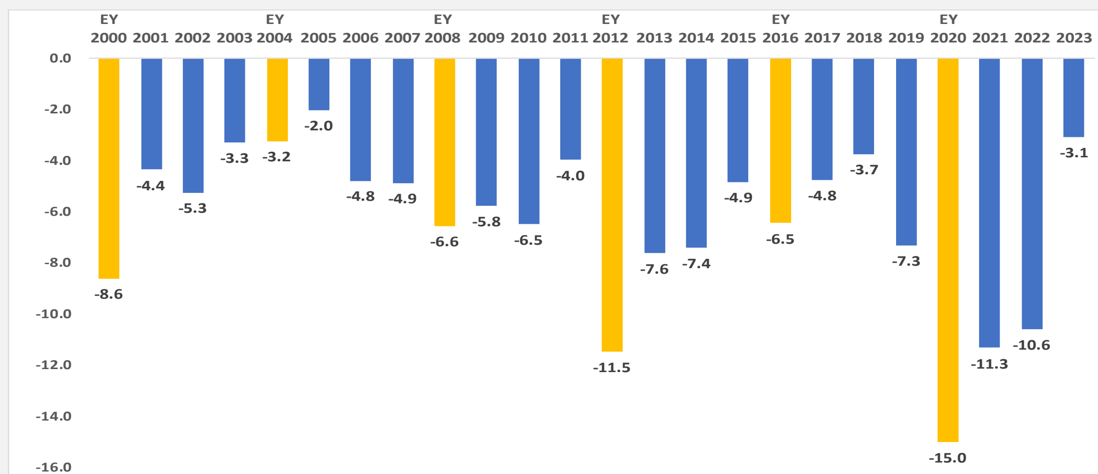
Election years in Ghana are often associated with fiscal expansions and slippages, requiring consolidation measures afterward. The fiscal expansion before the December 2000 elections contributed to high inflation and currency depreciation, coupled with a sharp decline in commodity terms of trade. By then, gross international reserves could cover only one month of imports. Post-2000 elections, the government prioritized restoring macroeconomic stability, adopting a quasi-fiscal rule that shifted policy toward fiscal consolidation and monetary discipline within a medium-term framework.

The year 2004 stands as an exception in the period under review, supported by the HIPC Program. However, the positive performance of 2004 was not replicated in subsequent elections. In 2008, the government overspent, exacerbating existing challenges. In response, the new government in January 2009 quickly implemented a multi-year stabilization program. Despite these efforts, the 2012 election year saw the budget deficit rise again to 11.3 percent of GDP, necessitating further stabilization measures.

In 2016, fiscal slippage in Ghana was significantly higher than in previous cycles due to revenue shortfalls and election-related expenditures, prompting a renewed fiscal adjustment program with the IMF, extended until 2018. The year 2020, coinciding with the Covid-19 pandemic, mirrored previous election years, with the fiscal deficit doubling to 15 percent of GDP.

2024 marks another year of national elections, posing inherent risks. However, a number of factors could collectively contribute to a more controlled fiscal environment in 2024 compared to previous election cycles: (i) Ghana's current engagement with the IMF includes strict fiscal targets and oversight, potentially curbing excessive pre-election spending (ii) Increased awareness and scrutiny from international and domestic stakeholders in the context of debt restructuring is a potentials may encourage the government to maintain fiscal discipline.

Figure1: Fiscal Deficit 2000-2023



Source MOF; EY=Election Year

Policy Priorities

In addition to managing the immediate impacts of the crisis, there is a need to enact structural reforms to tackle its root causes and build economic resilience.

51. **The full implementation of revenue measures proposed in the 2024 budget are an important first step but more needs to be done to ensure sufficient resources are generated for priority development spending and closing the structural fiscal deficits**. The implementation of the 2024 budget has already seen some setbacks as the immediate implementation of the value-added tax on electricity for residential customers was suspended (for which the expected revenue yield was 0.17 percent of GDP) following threats from trade unions of nationwide demonstrations. In addition, the Ghana Revenue Authority should expedite procurement of the integrated tax administration system and implement the new Tax Exemptions Act, fully streamlining Ghana's widespread and inefficient tax exemptions. In the medium term, revenue collection could be strengthened by bringing forward the full implementation of measures identified under Ghana's Medium-Term Revenue Strategy.

52. **The improvement of public financial management, public spending efficiency, and procurement practices is key for the sustainability of the fiscal effort.** While a comprehensive look at spending composition is necessary (especially to reduce costly, regressive and ineffective energy subsidies), there is also a clear need to look at the efficiency of public spending and procurement practices to reduce waste, mismanagement, and lack of transparency. Implementing improved expenditure commitment controls, improving cash management, and enhancing budget credibility are also key. Fast-track actions are needed to Integrate into the Treasury Single Account all ministries, departments, and agencies; local metropolitan, municipal, and district assemblies; and internally-generated-fund entities' accounts in BoG and commercial banks. This action, together with effective weekly, monthly, and quarterly cash forecasts, will aid effective cash management and prevent the accumulation of arrears. Considering that a large part of arrears accumulation arises from capital expenditures, Fast track the implementation of the "Blanket Purchase Agreement" is also necessary to capture multi-year commitments and contracts in line with Medium-Term Expenditure Framework ceilings, starting with the road sector, and further ensure that all entities use the GHANEPS for all procurement activities. Over the years, the Public Expenditure Monitoring Unit of the Ministry of Finance has been conducting cash forecasts, but these have not been effective because they are either not accurate or are not fully followed.

53. **At the same time, reforms to achieve the financial sustainability of the agriculture and energy sectors are paramount from both a fiscal and a growth perspective.** Given the fiscal burden and contingent liabilities emerging from agriculture and energy sectors and role they play in the economy, it is also key to substantially improve COCOBOD's and ECG's operational and financial performance to restore profitability and financial viability. Similarly, it is important to continue the efforts to rebuild capital buffers in the financial sector to both help with the increasing nonperforming loans and support financial intermediation.

54. **Efforts on the policy front should be accompanied by strengthening of the institutional fiscal framework.** Going forward, it is imperative to swiftly re-establish a fiscal rule that is transparent, measurable, and legally binding. The fiscal rule should acknowledge the business cycle and economic volatility, containing fiscal spending in good times to generate fiscal space for a more forceful countercyclical actions when needed. The introduction of the fiscal rule should be accompanied by

reinstituting an empowered and independent Fiscal Council. The Council's financial autonomy can be ensured by appointing council members through an open and accountable procedure and delineating explicit mandates. To enhance fiscal transparency and accountability, improving existing citizen engagement mechanisms within the budgetary process is key to create opportunities for public input and dialogue on fiscal policies through public consultations, the publication of a much friendlier citizen budget summaries, and the initiation of participatory budgeting programs. Furthermore, accountability could be amplified by strengthening parliamentary oversight, mandating independent financial audits on timely basis, and enforcing sanctions for non-compliance with established fiscal regulations.

55. **Lastly, comprehensive structural reforms are needed to foster economic diversification and promote long-term inclusive growth in Ghana.** Embarking on long-term structural reforms is a necessary step to enhance private sector growth and bolster the attractiveness of foreign direct investment. Key reforms entail promoting special economic zones, fortifying the insolvency framework, improving access to long-term finance, addressing challenges in the energy sector, and enhancing the business environment by refining the legal and regulatory landscape for foreign investors. The World Bank is supporting Ghana by helping operationalize the Development Bank of Ghana, reducing minimum foreign capital requirements to attract foreign direct investment, and finalizing the new policy for special economic zones. Additionally, expediting digitalization efforts and capitalizing on opportunities presented by the Africa Continental Free Trade Agreement through integration into global value chains are crucial. These efforts should be complemented by initiatives to expand targeted social protection programs, mitigating the adverse effects of the crisis and fiscal consolidation on the impoverished and most vulnerable segments of society. Enhancing social safety nets would help promote social inclusion and accumulate human capital, ensuring its productive use and effective protection.

Special Topic: Enhancing Domestic Revenue Mobilization for Fiscal Sustainability

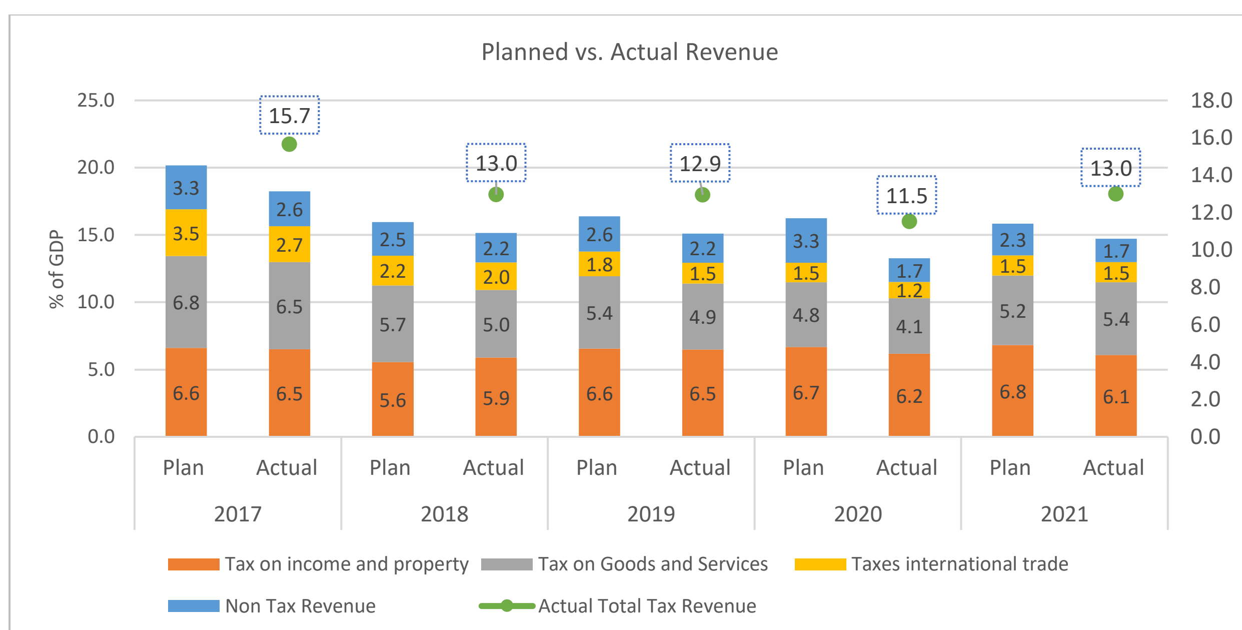
56. **Ghana's tax revenue performance is notably lower than that of its Sub-Saharan African peers, as well as countries with comparable income levels**. This suboptimal revenue collection underscores systemic inefficiencies within Ghana's tax policy framework and compliance mechanisms. The repercussions of these inefficiencies are profound, affecting not only the country's macroeconomic stability but also its capacity to generate the necessary resources to support sustainable long-term growth and poverty reduction efforts. Enhancing Ghana's revenue mobilization is therefore imperative. A thorough and comprehensive review of the existing tax policy and administration is crucial to identify actionable measures that could be implemented in both the short and medium term. Such an approach will be instrumental in addressing the underlying issues and improving overall revenue collection.

Structure of Ghana's Tax System and Recent Revenue Performance

Ghana's recent revenue performance has been lackluster and remains below those of its structural peers.

57. **Ghana's domestic revenue mobilization has substantially dropped in recent years, with revenues collection as a share of GDP declining from 15.7 percent in 2017 to 13 percent in 2021**. Revenue targets were missed by more than 7 percent on average during that period, affecting budget credibility (Figure 7). While greater efforts were made in 2023 and 2024, bold tax policy measures and tax administration reforms are necessary to improve fiscal position and budget credibility. The adoption of an ambitious Medium Term Revenue Strategy (MTRS) for 2024-2027 lays a foundation for even more robust reforms towards fiscal stability and economic prosperity.

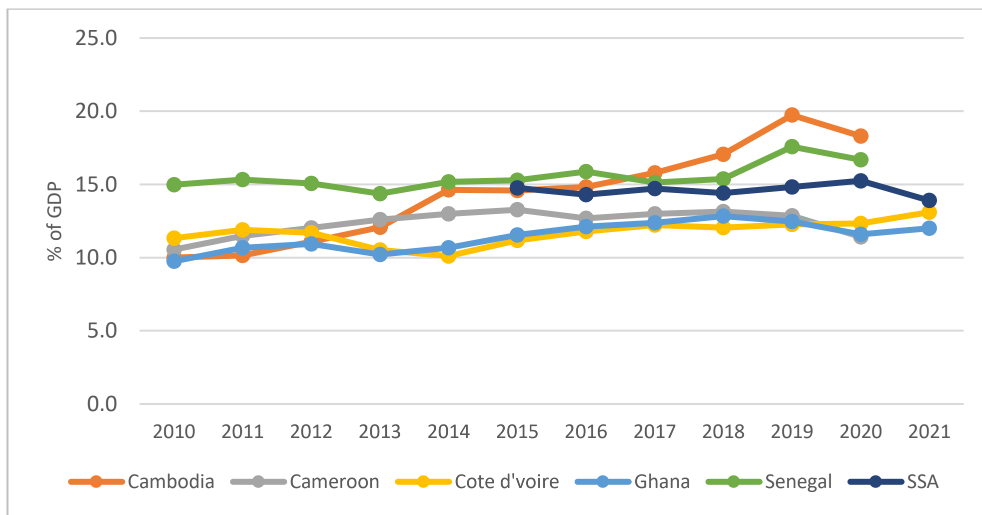
Figure 77: Ghana's revenue collection declined and fell short of targets in 2017-2021.



Source: Ministry of Finance Fiscal Data Reports and World Bank calculations

58. **Ghana's tax collection relative to GDP remains below the levels of its structural peers.** Ghana's average tax collection stood at 13.2 percent of GDP between 2017 and 2021—8 percentage points short of the country's estimated tax capacity (21.2 percent of GDP as of 2018),[22] and below the SSA average. Except for turnover and excise taxes,[23] collection from all major taxes—i.e., value added tax (VAT), corporate income tax (CIT), personal income tax (PIT), and taxes on international trade—declined in recent years (Figure 8).[24] In particular, the persistent fall in revenue from income taxes and VAT stood in direct contrast with the trends observed in peer countries (see below for more detail). Nevertheless, two reforms enacted in 2023—a raise in the standard VAT rate from 12.5 percent to 15 percent, and the introduction of a new high-income PIT bracket taxed at 35 percent—are projected to help revenues. Moreover, a tightening of the Exemptions Act and rationalization of tax expenditures in the 2024 budget are expected to boost CIT revenues.

Figure 88: Ghana's tax take relative to GDP is lower than in structural peers and in SSA at large.



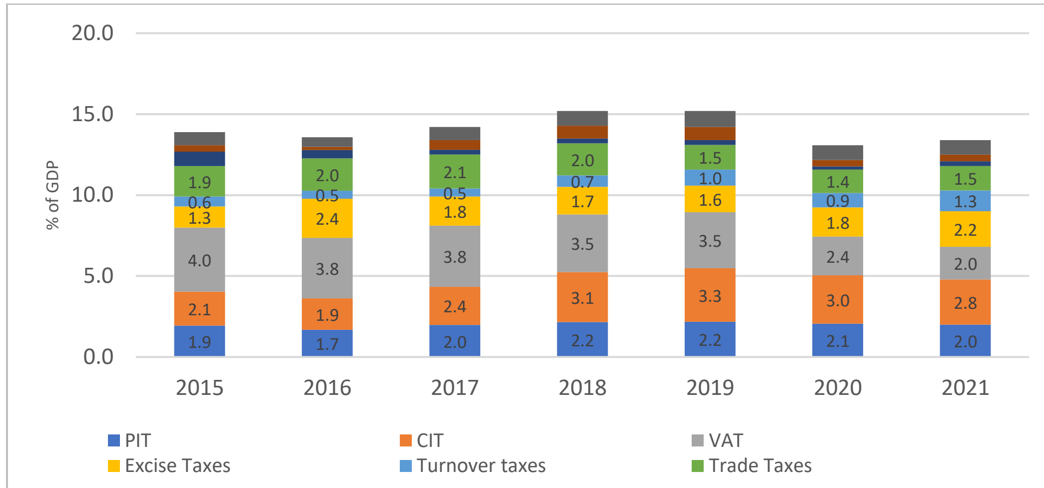
[22] World Bank Revenue Dashboard.

[23] More than 90 percent of excise revenues in Ghana derive from petroleum taxes, i.e., energy and road fund levies.

[24] VAT collection declined from a high of 4.0 percent of GDP in 2015 to 2.0 percent in 2021. CIT and PIT declined from 3.1 percent and 2.2 percent of GDP respectively in 2018, to 2.8 and 2.0 percent in 2021. Taxes on international trade dropped from a high of 2.1 percent of GDP in 2017 to 1.5 percent in 2021.

Source: UNUWider dataset and World Bank calculations

Figure 99: VAT revenues declined significantly between 2015 and 2021



Source: UNUWider dataset, Ministry of Finance Fiscal Reports, and World Bank calculations

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VAT revenues have slipped in recent years and even though the VAT rates have been raised to the levels of Ghana's peers, exemptions and additional levies create numerous distortions …

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59. **VAT's contribution to total tax revenues and VAT performance have been dropping, in contrast with global trends**. VAT's share of Ghana's total tax revenues fell from 34 percent in 2015 to 17 percent in 2021, partly due to a cut to the standard VAT rate (from 15 percent to 12.5 percent) in 2018. By comparison, the average contribution of VAT to total taxes in developing countries averaged 42 percent over 2015-2021 (Figure 9). Moreover, Ghana's VAT productivity[25] declined from 32 percent in 2017 to 16 percent in 2021, a figure below the SSA average (more than 30 percent)[26] and the levels of structural peers (Cambodia: 66 percent, Senegal: 35 percent, Cameroon: 25 percent). VAT collection efficiency[27]—which considers actual tax collection against the amount that would have been collected if the standard VAT rate had been applied to all domestic final consumption (i.e., without exemptions or special rates)—also dropped from 32 percent in 2017 to 20 percent in 2021, versus the SSA average of 39 percent (Figure 10).[28] As noted above, Ghana recently amended the VAT Act to bring the standard VAT rate back up to 15 percent; moreover, streamlining zero-rated items and reviewing VAT-exempt product and services would greatly enhance VAT performance.

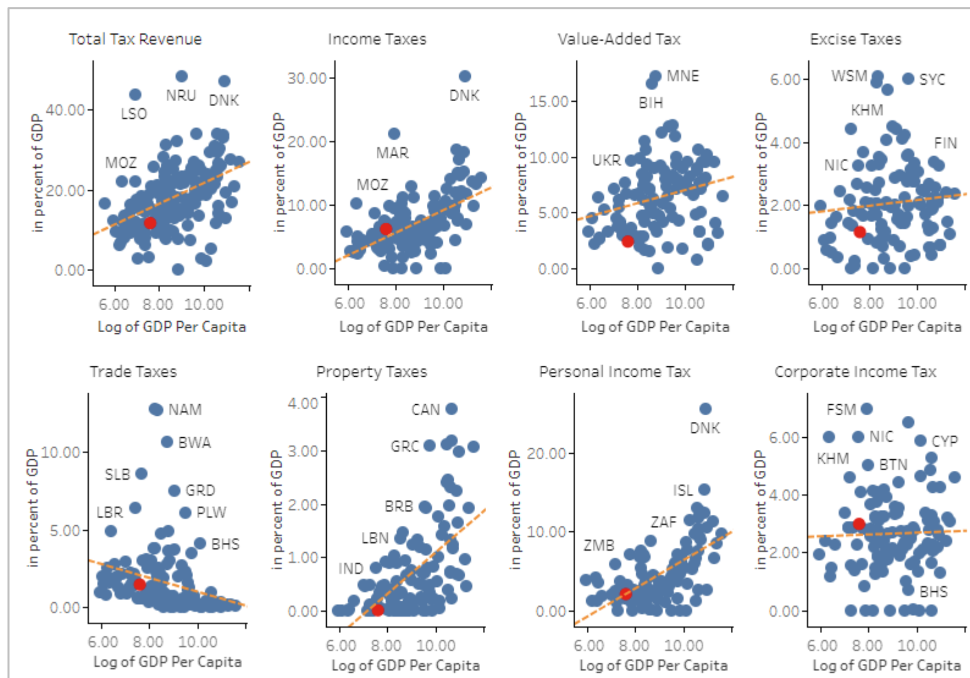
[25] Defined as Net VAT Revenue-to GDP ratio divided by the standard VAT rate, it measures how much a 1 percentage point increase in the VAT rate changes VAT collection in GDP terms.

[26] https://www.imf.org/external/np/fad/tpaf/pages/vat.htm

[27] Collection efficiency = VAT Revenue/ ((Total Final Consumption net of VAT Revenue) *VAT Rate)

[28] https://www.imf.org/external/np/fad/tpaf/pages/vat.htm

Figure 10: Benchmarking Ghana's tax revenue performance against countries with similar levels of GDP per capita and trade



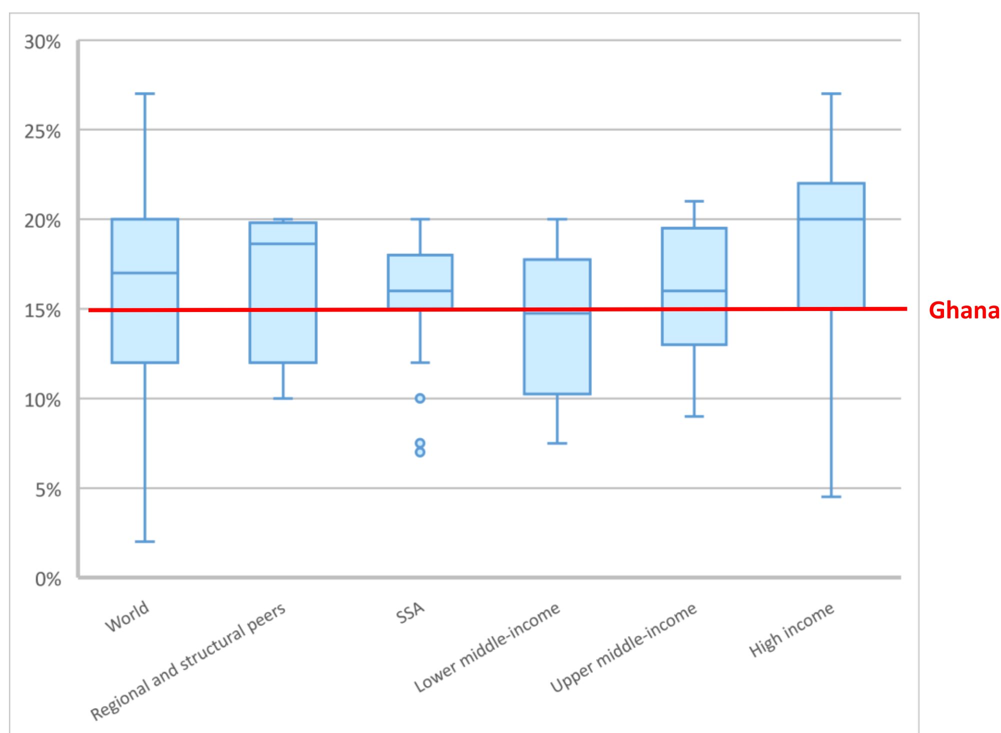
Source: World Bank Revenue Dashboard[29]

60. **Ghana's recently raised statutory VAT rate is broadly in line with the levels of regional peers, but exemptions and additional levies create numerous distortions.** The current standard statutory VAT rate of 15 percent is broadly aligned with the SSA average (15.8 percent) and the lower middle-income country (LMIC) average (15.1 percent) (Figure 11). A reduced VAT rate applies to retailers with sales revenues of between ₵ 200,000 and ₵ 500,000 per year (a structure that effectively amounts to a sales tax). However, several products and services benefit from VAT exemptions (without the right to deduct VAT paid on inputs), including a broad range of agricultural products, animals, and foodstuffs; inputs to agricultural production; water and electricity supply;[30] as well as domestic passenger transport. The World Bank estimates that such VAT exemptions cost Ghana 1.85 percent of GDP per year, and their value is equivalent to about 72 percent of all VAT revenue collected. Although regional and structural peers also grant VAT exemptions on certain goods and services, their scope is generally narrower. Importantly, numerous levies are added to the VAT base rate in Ghana—i.e., the national health insurance levy (2.5 percent), the Ghana education trust fund levy (2.5 percent), and the COVID-19 health recovery levy (1 percent)—effectively raising the consumption tax on certain items well above the statutory rate.

Figure 11: Statutory standard VAT rate in Ghana is aligned with SSA and LMIC levels

[29]https://dataviz.worldbank.org/views/TaxRevenueDashboard/CountryBenchmarking?%3AshowAppBanner=false&%3Adisplay_count=n&%3AshowVizHome=n&%3Aorigin=viz_share_link&%3Aembed=y&%3AisGuestRedirectFromVizportal=y

[30] For households, the exemption applies up to a certain consumption threshold.



Source: World Bank elaboration based on OECD library.
Note: Boxplot displays a five-number summary of rates: minimum, maximum, sample median, and first and third quartiles. Regional and structural peers include Cambodia, Cameroon, Ivory Coast and Senegal.

Table 2: Ghana grants special VAT treatment to more goods and services than most of its peers

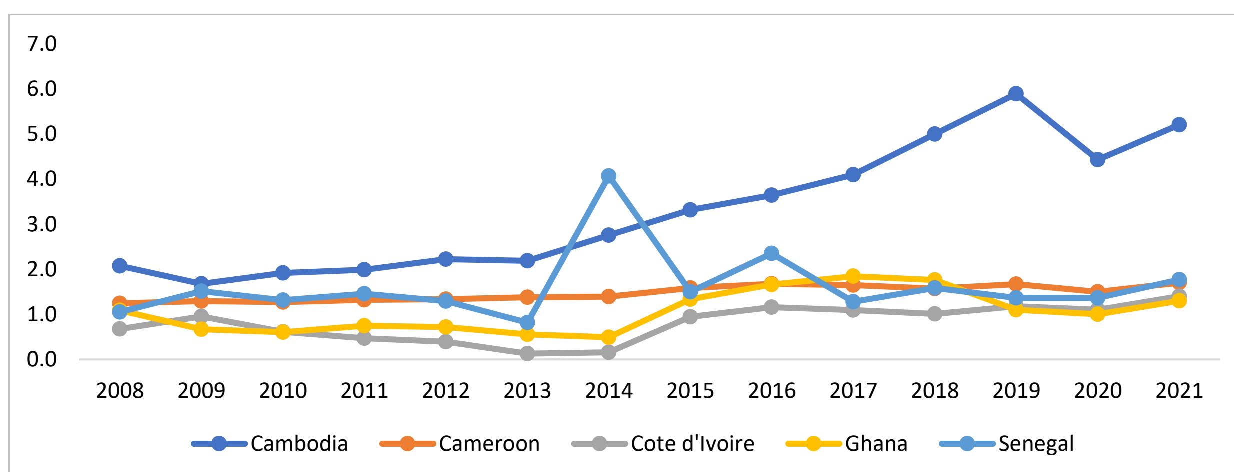
	Agricultural products and foodstuffs	Inputs to agricultural production	Water supply	Electricity supply	Passenger transport	Accommdation and resturants services	Financial services	Health and education
Ghana	Ex/SR	Ex	Ex	Ex/SR	Ex	SR	Ex	Ex
Cameroon	Ex/SR	Ex	Ex	Ex	SR/Ex	SR	SR/Ex	Ex
Cote d'voire	Ex/RR/SR	SR	Ex/SR	Ex/SR	SR/Ex	SR	SR/Ex	Ex
Cambodia	Ex	SR	SR/Ex	SR/Ex	SR/Ex	Ex	Ex	Ex
Senegal	Ex/SR	SR	SR	SR	SR	RR	ST	Ex

Source: World Bank elaboration.
Note: Treatment applicable to majority of goods or services within the group. Ex=exempt without the right to deduct/non-taxable, ST=special tax, RR=reduced rate, SR=standard rate.

61. **Ghana collects less revenue from excise duties than its structural peers (Figure 12-13).** At about 1.8 percent of GDP, Ghana's seven-year average collection rate for excise duties falls below the 2.1 percent average across low-income countries (LICs), and at the lower end of the SSA region—where collection rates range between 6.2 percent and 0.04 percent of GDP. Globally, most countries collect excise duties equivalent to at least 2 percent of GDP (World Bank, 2021; IMF, 2022). More than 90 percent of Ghana's excise tax revenues derive from petroleum products, through the energy fund and road fund levies; collections from traditional excisable products only amount to approx. 0.1 percent of GDP. Overall, the estimated gap between actual and potential excise duty collection in Ghana is equivalent to 2 percent of GDP (Figure 14), pointing to considerable scope to increase rates in pursuit of revenue objectives. At the same time, increasing excise taxes on tobacco and alcohol products would raise their prices and reduce their consumption, contributing to better health outcomes.

62. **Excisable products are subject to a combination of specific and *ad valorem* excises.** The Ghana Revenue Authority (GRA) requires that producers and importers affix tax stamps to their products before delivery ex-factory or at point of entry. However, the absence of a robust track-and-trace system and of factory-gate flow meters likely contributes to non-compliance. The tax base is narrow, mostly comprising tobacco products, alcoholic beverages, non-alcoholic carbonated beverages, and bottled water. An excise on textile products exists but is primarily geared toward helping detect counterfeits and contraband. In this context, an expanded use of inflation-indexed excise taxes could be considered, as *ad valorem* taxes are more difficult to manage and vulnerable to price manipulation. Moreover, the introduction of excises on plastics, sugar-sweetened beverages, environmentally detrimental goods, and motor fuels, among others, could generate significant revenue, while helping mitigate the negative externalities of such products on public health and the environment.

Figure 12: Ghana underperforms its peers on excise revenues (as % of GDP)



Source: UNUWider dataset and World Bank calculations

Figure 13: Excise revenue-to-GDP ratios

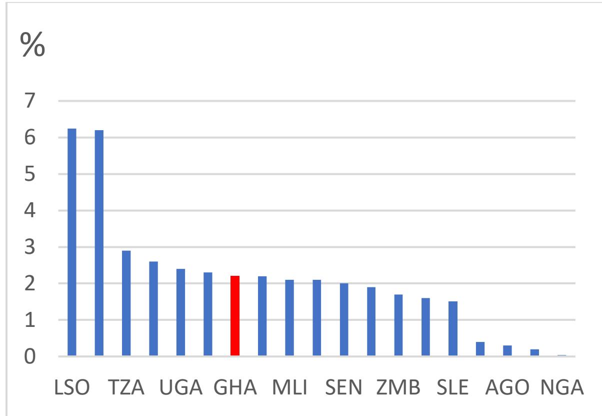
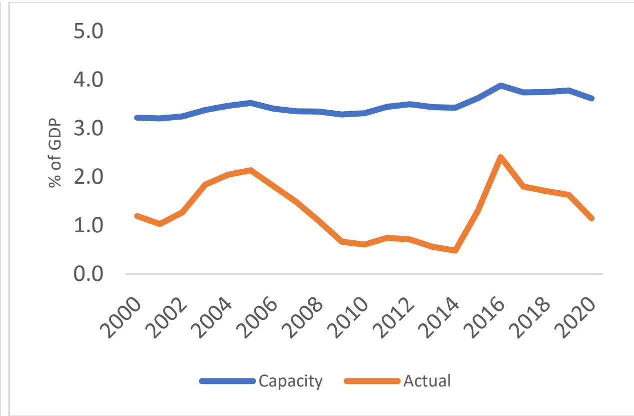


Figure 14: The gap between actual and potential excise duty revenues in Ghana is wide vary considerably in the SSA region

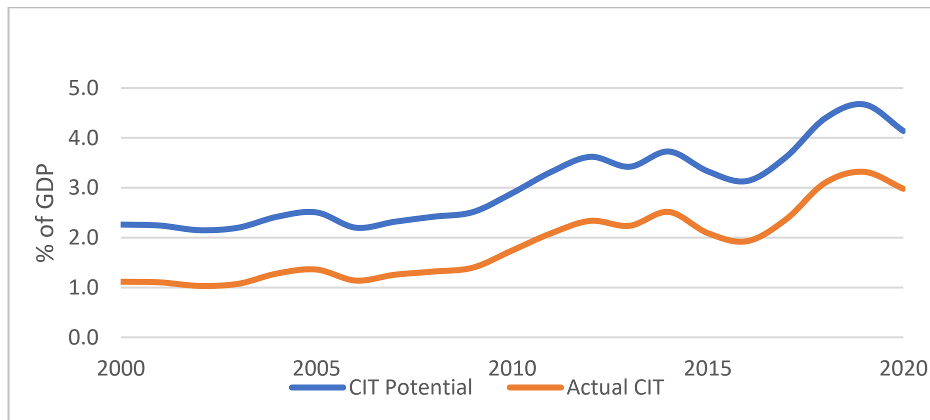


Source: IMF Longitudinal Data Set, World Bank, Budget Profile 2019-2023

...while revenue from corporate income taxes portrays a mixed picture.

63. **CIT revenue performance gradually improved over the past decade reaching a high of 3.3 percent of GDP in 2019, until the COVID-19 pandemic in 2020 triggered a notable slowdown (Figure 15).** CIT's share of total tax revenues increased from 18 percent in 2015 to 24 percent in 2021, with CIT collection averaging 2.2 percent of GDP over that period - less than in regional and structural peers such as Cambodia, Cameroon, and Kenya, and significantly less than in the best-performing SSA countries, such as Mozambique and the Seychelles. The statutory CIT rate of 25 percent is lower than in key structural peers (Cameroon: 33 percent, Senegal and Kenya: 30 percent), while a complex regime of 22 reduced CIT rates (ranging from 1 percent to 22 percent) complicates the administration of taxes, lowers the effective tax rate, and fosters a misallocation of resources as businesses engage in aggressive tax planning.

Figure 15: Since 2000, Ghana has consistently fallen short of its CIT revenue potential.

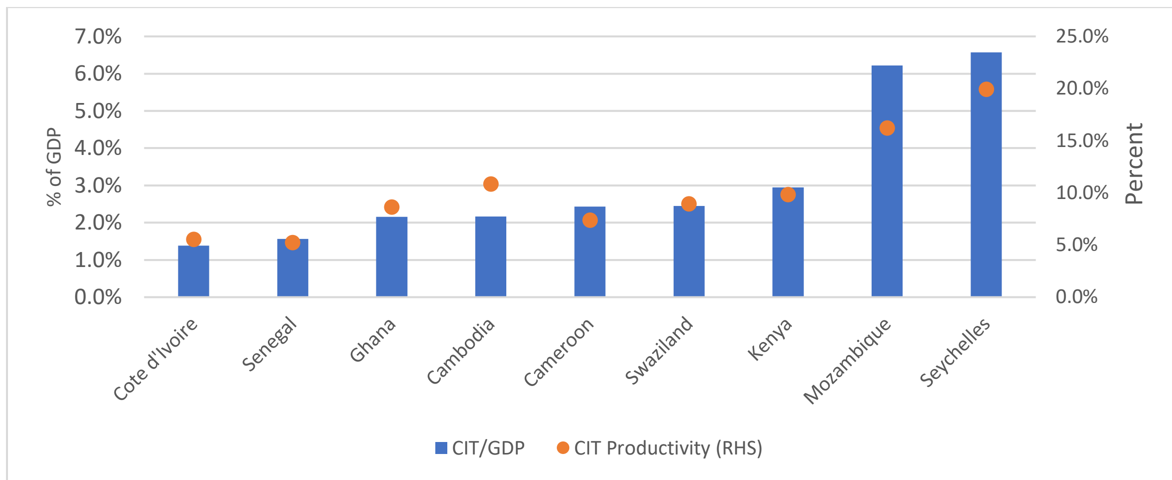


Source: World Bank Revenue Dashboard[31]

[31] https://dataviz.worldbank.org/views/TaxRevenueDashboard/TaxCapacityandTaxPerformanceDashboard?%3AshowAppBanne

64. **Ghana's tax system does not generate as much revenue as it could because there are many reliefs which narrows the corporate income tax (CIT) base (Figure 16)**. Between 2015 and 2020, Ghana has missed out on an average of about 1.3 percent of its GDP in corporate tax revenue each year. Part of the reason for this is that there are more than two dozen different types of tax breaks for companies. According to the World Bank, these tax breaks cost Ghana around 0.5 percent of its GDP in lost revenue each year. By reducing or eliminating some of these generous tax breaks, Ghana could improve its tax system and collect more revenue from corporate taxes.

Figure 16: Ghana's CIT productivity[32] and actual revenues from CIT (as % of GDP) are comparatively low



Source: IMF Longitudinal Data Set, World Bank

Ghana's PIT revenues are comparatively low, slow-growing, and over-reliant on payroll taxes

65. **Personal income tax (PIT) accounts for about 15 percent of Ghana's total tax revenues, below the SSA average of 18 percent (Figure 17)**.[33] As of 2020, Ghana's PIT take was equivalent to 2 percent of GDP (against the SSA average of 3.5 percent),[34] leaving a gap between the country's actual and potential PIT revenue equal to more than 2 percent of GDP (Figure 18). Payroll taxes account for more than 99 percent of total PIT proceeds.[35] All other forms of PIT (e.g., taxes on capital gains, investment income, and business income of the self-employed) make up less than 1 percent of total PIT proceeds—versus more than 30 percent in certain other LMICs, such as India. In 2022, less than 25 percent of Ghanaians of voting age (i.e., aged 18 and older) paid payroll taxes under the Pay-As-You-Earn (PAYE) scheme, and less than 0.2 percent declared any business income. In comparison, in countries with high PIT productivity such as

r=false&%3Adisplay_count=n&%3AshowVizHome=n&%3Aorigin=viz_share_link&%3Aembed=y&%3AisGuestRedirectFromVizportal=y

[32] CIT productivity is calculated as the ratio between CIT collection as a share of GDP and the statutory CIT rate.

[33] *United Nations University UNU- WIDER.*

[34] Tax revenue dashboard.

[35] GRA data and World Bank calculations.

Norway, Sweden, and Canada, almost 100 percent of the voting population files PIT returns. A deep dive into the key issues facing the PIT regime follows in the next section.

Figure 17: Ghana's PIT revenues have stagnated…

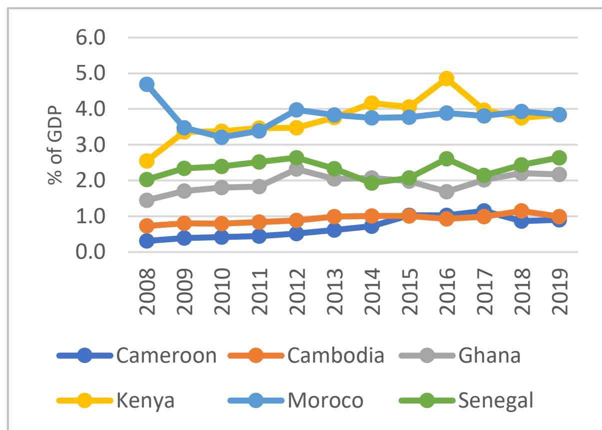
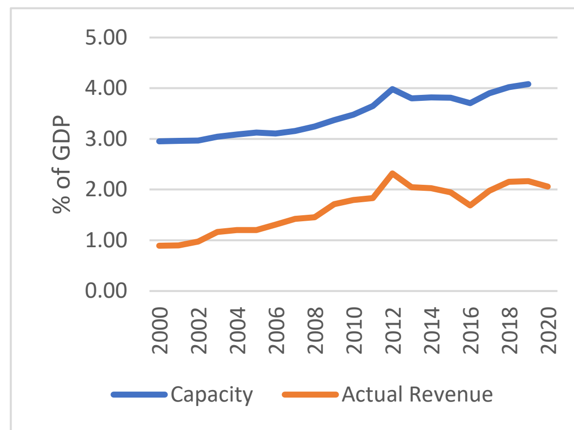


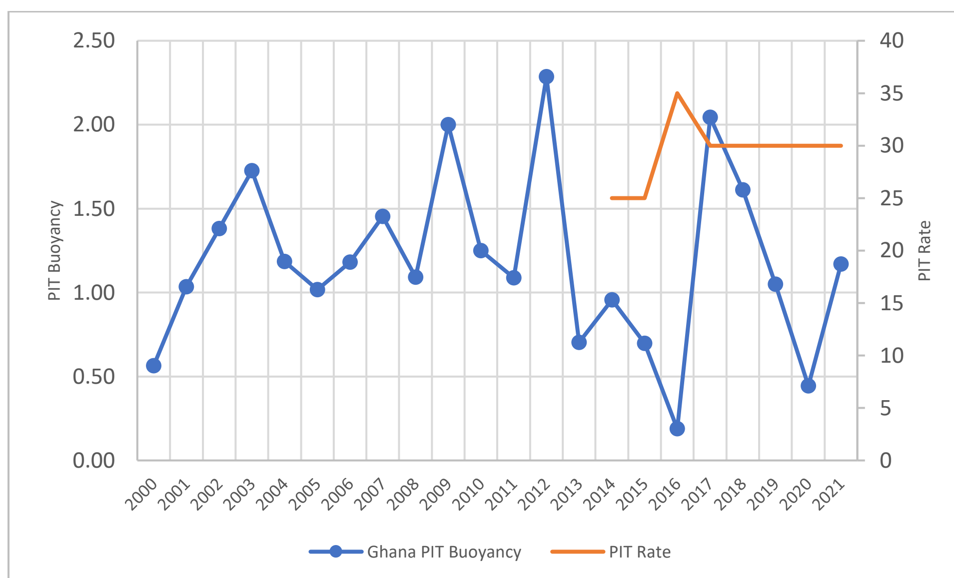
Figure 18: …falling increasingly short of their potential

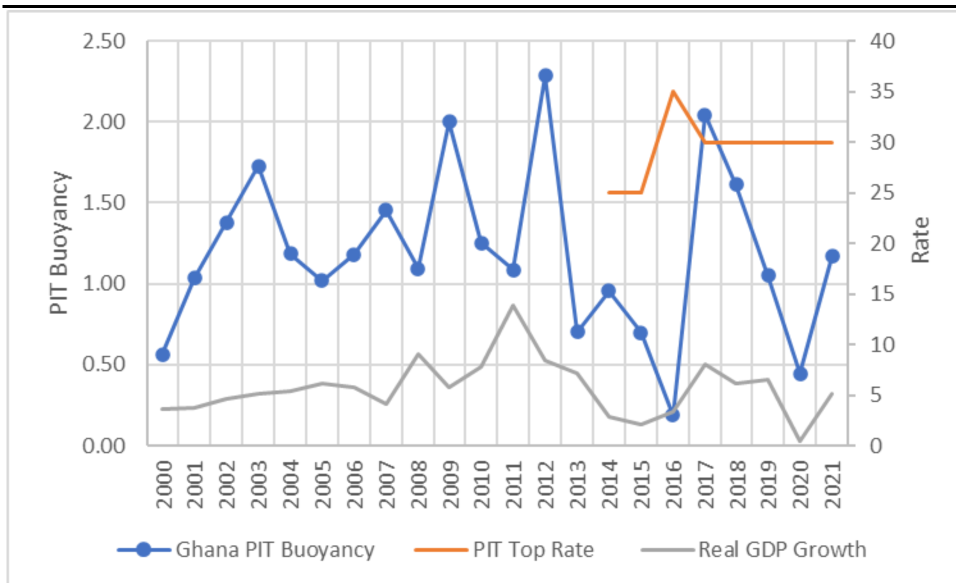


Source: UNUWider database, World Bank calculations

66. **Although Ghana's GDP has almost doubled over the past decade, PIT revenue has failed to grow at a similar rate.** Contrary to revenue from CIT, PIT collection has not kept up with the pace of GDP growth, as underscored by trends in PIT buoyancy—defined as the responsiveness of PIT revenue to changes in national income and to discretionary changes in tax policy over time. Specifically, a tax buoyancy value of 1 implies that a 1 percent increase in GDP would increase tax revenues by 1 percent. In Ghana, the PIT buoyancy value declined throughout most of the past decade, and frequently failed to reach 1. Occasional rebounds were mostly driven by dramatic changes in GDP—such as the rebound of the global oil slump of 2014-2016 and easing of the pandemic-induced lockdowns of 2020 and 2021 (Figure 19).

Figure 19: Ghana's PIT revenue has often failed to grow in line with GDP expansion (as shown by PIT buoyancy < 1)





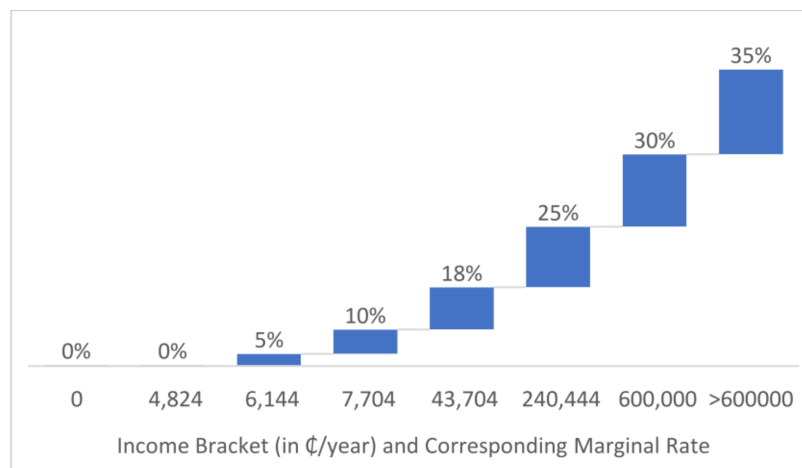
Policy Issues Key to Restore Fiscal Stability

Challenges facing Ghana's Personal Income Tax regime

Numerous and generous exemptions constrain PIT revenues

67. **Ghana's PIT system is progressive, with a seven-band rate structure.** Until 2022, Ghana's top marginal PIT rate stood at 30 percent, in line with the SSA average (30.6 percent). Since then, it has been raised to 35 percent on all incomes of more than ₵ 600,000 (approx. US$50,000) per year. Although only a negligible number of registered PIT taxpayers reach this level of income, greater compliance, more targeted taxpayer registration, and better use of third-party data to determine income can bring about significant gains in the PIT collected from the top income bracket (Figure 20).

Figure 20: PIT income brackets and marginal rates



Source: GRA: https://gra.gov.gh/domestic-tax/tax-types/paye/

68. **A range of PIT exemptions shrink the already narrow tax base even further.** Ghana's definition of personal income for tax purposes includes gains from regular employment, allowances, gifts, and benefits paid in cash or in kind to or on behalf of an employee. Whereas contributions to retirement funds on behalf of an employee or retirement payments received for employment should also be included as part of employment income,[36], exemptions are introduced to this class of income through the National Pensions Act, 2008 (Act 766) making such contributions fully exempt from PIT (See Box 3 for comparative tax treatment of retirement contributions in selected countries). Other items not accounted for as employment income, or whose tax treatment may require clarification, include: reimbursements of medical, dental, and health insurance expenses; employer-provided on-site accommodation in certain sectors;[37] payments made to employees on a nondiscriminatory basis that, by reason of their size, type, and frequency, are unreasonable or administratively impractical for the employer to account for such as meals; allowances paid to members of an employee's family; sums paid in respect to agreement to changes in employment conditions; employment income settled through forms of remuneration other than cash (e.g., company stock); and redundancy pay. In practice, it is difficult for tax authorities to monitor potential abuse of such exemptions.

69. **The tax treatment of retirement funds in Ghana is among the most generous in the world, depriving the government of significant revenues**. Internationally, the key policy options for pension taxation focus on three major choices:

a. Exempt **(E)** or tax **(T)** the contributions made into a retirement fund;
b. Exempt **(E)** or tax **(T)** the interest or gains earned from such funds; and
c. Exempt **(E)** or tax **(T)** withdrawals from such funds during retirement.

In Ghana, no tax is paid on contributions made towards or on benefits received from retirement or pension schemes.[38] Withdrawals of accrued benefits from a provident fund or personal pension scheme are tax exempt.[39] Benefits from the Social Security and National Insurance Trust are also tax exempt.[40] As a result, Ghana runs a generous EEE model. In addition: ***a)*** employer contributions are tax deductible, and ***b)*** additional contributions up to a maximum of 16.5 percent of a contributor's monthly income are tax deductible for the purposes of determining the income of the contributor or their employer effectively lowering the taxable income.

[36] Section 4 (2) (vi) of the Income Tax Act, 2015 896.
[37] For example, timber, mining, building, construction, farming, and petroleum-related operations.
[38] Section 89 of the National Pensions ACT, 2008.
[39] Section 112 (5) of National Pensions Act, 2008. Taxes apply if contributions are made for less than 10 years, or a withdrawal is made before retirement.
[40] Section 54 of the National Pensions Act, 2008.

Box 32: Retirement contributions: Comparative tax treatment in selected countries

Kenya operates a refined TEE model. Employee contributions are considered part of employment income, and individuals can deduct contributions of up to K Sh 240,000. Withdrawals of up to K Sh 600,000 are tax exempt.

Uganda operates a TEE model. Employee contributions are part of employment income, and taxed accordingly. Interest accrued on contributions is tax exempt, as are withdrawals.

Senegal operates a modified EEE model. Pension contributions up to 5 percent of taxable income, or voluntary insurance premiums up to 10 percent of taxable income, are deductible. A total tax-exempt contribution threshold of CFAF 300,000 applies. Interest accrued on benefits is tax exempt, as are withdrawals.

70. **Ghana's legal definition of employee[41] for tax purposes is not fully aligned with international best practice.** For example, corporate directors are not considered employees for payroll tax purposes; instead, fees and/or allowances paid to directors are subject to a non-final withholding tax of 20 percent. Moreover, fees paid to lecturers, invigilators, examiners, and part-time teachers, as well as endorsement fees, attract a final withholding tax rate of 10 percent. This contrasts with international best practice, whereby corporate directors are employees for tax purposes, and fees that add to overall income do not benefit from special treatment.

71. **Several investment income streams, which usually accrue to high-income individuals, are tax exempt—thus reducing the progressivity and efficiency of the PIT regime.** Investment income that is exempt from taxation includes: interest paid to an individual by financial institutions; interest on Ghanaian sovereign bonds; and interest or dividends paid to members of approved unit trusts or mutual funds. Moreover, an extensive withholding tax regime applies to payments from transactions made by business entities, simplifying tax management but also opening up opportunities for potential abuse: for example, rent derived from residential properties attracts a lower withholding rate (8 percent) than that from commercial properties (15 percent), creating an incentive to misclassify commercial properties as residential (Table 3).

Table *3*: Withholding tax rates on various types of investment income

Income source	WHT rate (%)	Final tax
Interest (not applicable to individuals and resident financial institutions)	8	No
Dividends	8	Yes
Rent on residential properties (as investment income)	8	Yes
Rent (on commercial properties (as investment income)	15	Yes
Royalties and natural resource payments	15	No

72. **The PIT and CIT regimes are not fully aligned.** Profits distributable to shareholders are first taxed at a CIT rate of 25 percent; when they are distributed as dividends, a further dividend tax rate of 8 percent applies. Thus, the effective tax rate on returns from equity shares amounts to 33 percent, less than the

[41] For income tax purposes, an employee is an individual engaged in employment. The latter is defined to mean: (a) a position of an individual in the employ of another person; (b) a position of an individual as manager of an entity other than as partner of a partnership; (c) a position of an individual entitling the individual to a fixed or ascertainable remuneration in respect of services performed; and (d) a public office held by an individual.

maximum PIT rate of 35 percent. Any misalignment between the effective PIT and CIT rates leaves room for aggressive tax planning, with taxpayers who own incorporated businesses opting to receive payments via the channel that offers the lower effective tax rate. Additionally, the greater availability of deductions from corporate rather than personal income can further amplify the gap between the effective CIT and PIT rates. In this context, a review of dividend rates could help align the PIT and CIT regimes.

73. **Gains from a capital asset used for business or investment purposes[42] are taxable, while the appreciation of personal assets is not.** Asset gains are realized when the owner parts with the capital asset through sale, exchange, transfer, distribution, redemption, destruction, loss, expiry, person ceasing to exist (e.g., death), or surrender. A realization of an asset is not imputed when it arises out of a merger, amalgamation, or re-organization of a company where there is continuity of underlying ownership of the asset in the measure if at least 50 percent. This implies that gains from the appreciation of personal assets (i.e., not used for business or investment)—such as jewelry, artwork, antiques, or land and dwellings—are tax exempt. In such cases, on conveyance or transfer of property upon sale, only a stamp duty ranging from 0.25 percent to 1 percent is levied—a low rate that does not fully make up for the absence of a tax on capital gains from personal property. The cost or basis of the assets realized is not indexed to inflation. When capital gains derive from assets used for business or investment, they are deemed part of business or investment income and taxed accordingly. However, individuals may elect to pay a 15 percent tax rate on gains from the realization of an investment asset, instead of adding such gains to their business or investment income. This discretionary approach enables aggressive tax planning that reduces the effective PIT rate. Reforms to expand the range of capital assets that can generate taxable gains, index the cost base for capital assets, and limit taxpayer discretion in the choice of applicable tax rates may all boost government revenue.

74. **Ringfencing capital losses may protect a sizable portion of Ghana's tax base.** Losses from the realization of capital assets and liabilities are deductible before ascertaining income, to the extent that the asset was used in the production of income of the business or investment.[43] However, there are no provisions to ensure that capital losses are not offset against other types of earnings (e.g., from business, investment, or employment), or to limit the carry-forward of unused capital losses so that they can only be offset against future capital gains within a set timeframe.

The complexity of the PIT system has a detrimental impact on compliance and revenues.

75. **Ghana's PIT system is complex, and the cost of compliance for taxpayers is high.** Such costs include the time and money spent on book-keeping, tax planning, information gathering, and preparing tax returns, which can be significant. Ghana's PIT system features a seven-band tax rate structure, and multiple levies, credits, exemptions, and allowances—all of which change frequently (seven times just in the last seven years). Unsurprisingly, almost 67 percent of taxpayers perceive the tax system as complex.[44] Self-employed individuals are required to pay taxes monthly, while everyone else must file their returns within four months of the end of the tax year. In addition, primary employers must file returns on behalf of their employees within three months of the end of the tax year. In contrast, international best practice requires less frequent filing/payments for individual taxpayers to reduce the cost of compliance. A simpler

[42] Excluding depreciable assets and trading stock.
[43] Section 15 of the Income Tax Act, 2015
[44] https://doi.org/10.1080/23322039.2020.1782074

tax system can reduce the time and effort that authorities must dedicate to enforcement, while reducing the cost of compliance for taxpayers.

76. **Tax complexity and insufficient enforcement effort from tax authorities contribute to poor compliance with the PIT regime.** A range of statistics illustrate the compliance gap: for example, PAYE filings done by enterprises that use the taxpayer service centers have a 22 percent filing gap; out of the more than 500,000 registered businesses in Ghana, only 45,585 are PAYE registered; and only 68,385 Ghanaian taxpayers are registered as self-employed, in a country whose population exceeds 30 million. Moreover, according to the Tax Administration Diagnostic Assessment Tool (TADAT) 2023 assessment, only 23.2 percent of PIT returns and 46 percent of PAYE returns are filed on time.

Tax Expenditures

The fiscal cost of tax expenditures calls for a rationalization effort.

77. **The estimated value of tax expenditures related to VAT, PIT, and import duties is equal to 3.87 percent of GDP.** Tax expenditures (TEs) are deviations from the benchmark tax system, often used by governments instead of outlay expenditures to offer fiscal relief. TEs may aim to support the achievement of particular social, economic, or equity objectives, but can also result in significant forgone revenues and leakages. In Ghana, TEs are regulated by the Tax Exemptions Act, 2022 (Act 1083), while the Public Financial Management Act, 2016 (Act 921) and the Revenue Administration Act, 2016 (Act 915) mandate annual reporting of such expenditures.

Table 2: Tax expenditures in Ghana by tax instrument, 2021

	Nominal value (₵ million)	Value as share of GDP	Value as share of actual revenue from relevant tax instrument
VAT	8,677	1.85%	72.4%
PIT	6,292	1.37%	61.6%
Import duties*	1,407	0.23%	20.5%
TOTAL	**18,376**	**3.87%**	**37.5%**

Source: World Bank elaboration. Data on tax expenditures for CIT and excises not available. * Estimate based on 2022 data.

78. **The Tax Exemptions Act, 2022 sets out clear criteria for introducing TEs,[45] guidelines for their administration, and a monitoring and reporting framework.** By providing a single overarching legal framework for TEs, the Act is likely to reduce their proliferation and abuse. Importantly, the Act introduced a rigorous approval process, with parliamentary involvement, that curtails the discretionary powers of the Ministry of Finance; it also mandates a post-approval review and validation of TEs by the GRA. However, the new regime does not touch on existing TEs.

[45] Defined as (a) a waiver or variation of a tax, levy, rate, duty, fee, or charge provided for under an enactment, or (b) a variation of the timing of the payment of a tax, levy, rate, duty, fee, or charge which results in a reduction in the effective liability of the taxpayer.

Table 5: Tax benchmarks constructed for TE analysis, by tax instrument

Tax instrument	Tax base	Excluded from tax base	Rate	Variations incorporated in the tax benchmark
VAT	Final domestic use of any goods and services involved in market transactions	Non-market transactions, non-economic activity	Standard VAT rate (12.5% in 2021)[46]	Deliveries exempted by international treaties; supplies of economic operators below the VAT registration threshold (₵ 200,000 in 2021)
Excises	Sales and release for free circulation of selected goods	Goods not covered by laws on excises	Standard or, if relevant, top applicable rate for covered goods	Diplomatic purchases
PIT	All income of all individuals and unincorporated companies (taxed once)	Income from occasional non-economic activity, non-market transfers (e.g., gifts, inheritance, and spousal and child support payments), non-market household services	As per current progressive rates and brackets	Non-taxability of social security expenses or contributions, work-related expenses, income untaxed by international treaties, donations
CIT	All income of incorporated businesses (taxed once)	-	Current standard CIT rate (25%)	Depreciation schedule as per Income Tax Act
Customs duties	All imported goods and services	-	As per ECOWAS tariff schedule	Diplomatic purchases

Source: World Bank elaboration

79. **Although the Tax Exemptions Act, 2022 features a list of applicable TEs, other legislations set out further tax incentives and concessions that deviate from the notional tax benchmark.** To account for this, the analysis in this chapter considered a tax benchmark for Ghana based on a combination of the conceptual and reference law approaches.[47] The resulting benchmark framework is outlined in Table 5.

80. **Due to data limitations, only estimates forgone revenue from TEs on VAT, PIT, and import duties are calculated**. All TEs were classified by type, objective, sector of the economy directly affected, and impact on climate. Due to data limitations, calculation methodologies varied by tax instrument and nature of the TE. Overall, the study used a mix of administrative, national accounts, and survey data. Regardless

[46] VAT rate applicable during the reference year for the data underpinning this analysis. The rate has since increased to 15 percent.

[47] Under the reference law approach, the foundation for the benchmark is the definition of tax base set out in the tax code or in other relevant law. In contrast, the conceptual approach sets a normative benchmark in line with the notional concept of a specific tax instrument (OECD, DIAN and Minhacienda, 2021). Tax authorities do not typically follow a formalized framework to define their tax benchmark.

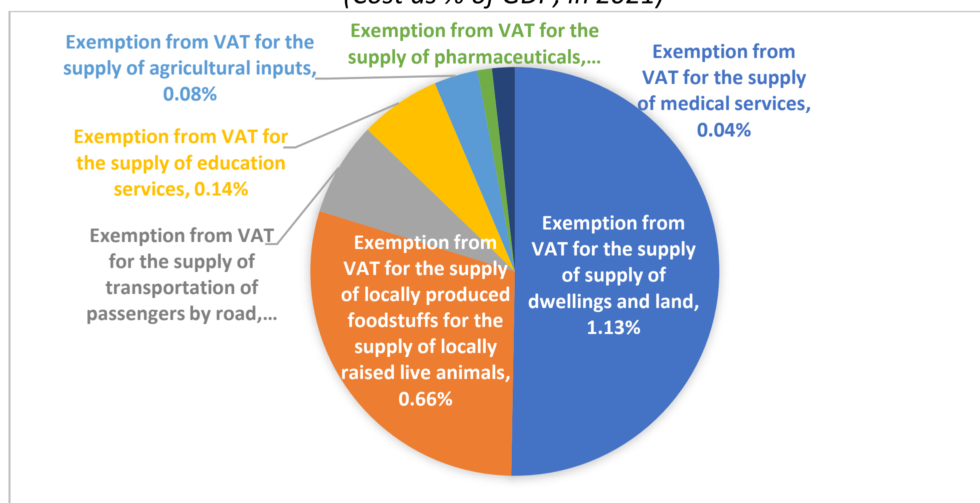
of the data source used, tax liabilities were matched with revenue to account for ineffectiveness of tax collection (Table 4-5).

VAT expenditures

81. **The fiscal cost of VAT TEs in 2021 is estimated at ₵ 8.7 billion, equal to more than 72 percent of Ghana's actual VAT revenue in the same year.** The single largest source of forgone revenue from all TEs was the VAT exemption on the supply of dwellings and land, which accounted for 33 percent of the overall fiscal burden from TEs and cost the equivalent of 1.13 percent of GDP. VAT exemptions on the supply of locally produced foodstuff, locally raised live animals, and agricultural inputs cost the equivalent of 0.66 percent of GDP. Finally, VAT exemptions on domestic passenger transport and on electricity and water supply (other than for industrial use) cost 0.17 percent and 0.02 percent of GDP, respectively (Figure 21).

82. **Counterintuitively, three deviations from the VAT benchmark—namely, VAT exemptions on the supply of crude oil and hydrocarbon products, water for industrial use, and financial and insurance services—might have a relative positive impact on total VAT revenue.** Since the relevant goods and services are mostly used as intermediate inputs, proceeds from the corresponding non-deductible VAT on inputs exceeded the revenue forgone from exempting the final goods and services. Overall, exemptions that come without a right to deduct VAT on inputs create cascading effects, with businesses' use of intermediate inputs often taxed more than once throughout the value-add chain. By imposing a high burden on business inputs, the tax system discourages specialization as businesses consequently prefer to conduct all their operations inhouse disregarding inefficiencies generated but avoiding the high tax burden.

Figure 21: Exemption on supply of dwellings and land was by far Ghana's costliest VAT expenditure.
(Cost as % of GDP, in 2021)



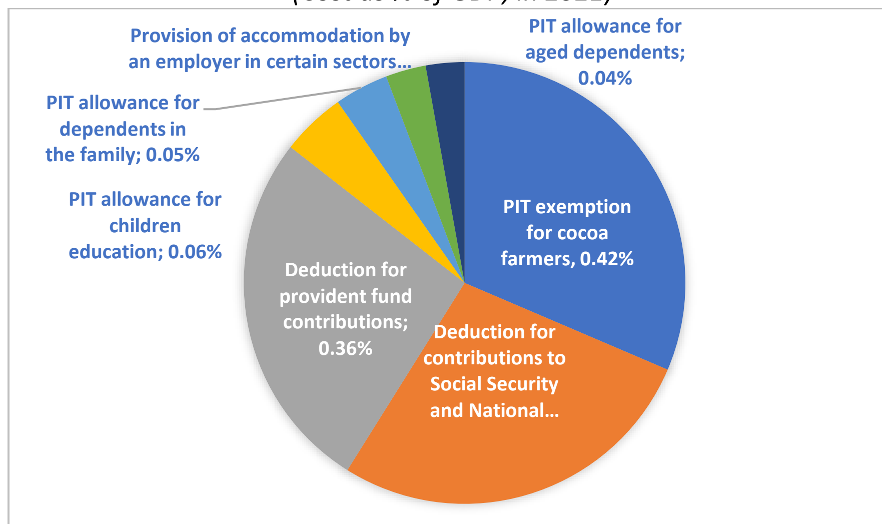
Source: World Bank elaboration. Note: Size of each slice illustrates cost of TE as a share of all VAT expenditures.

PIT expenditures

83. **The fiscal cost of PIT expenditures in 2021 is estimated at ₵ 6.3 billion, equal to about 62 percent of actual PIT revenues in the same year.** The cost of the 12 most sizable PIT expenditures that could be estimated amounted to 1.37 percent of GDP. The PIT exemption for cocoa farmers had the deepest impact

on revenue (0.42 percent of GDP), followed by deductions for pension/social security contributions (0.37 percent of GDP), and by those for provident fund contributions (0.36 percent of GDP) (Figure 22).

Figure 22: Three exemptions accounted for nearly 85% of all PIT expenditures
(Cost as % of GDP, in 2021)

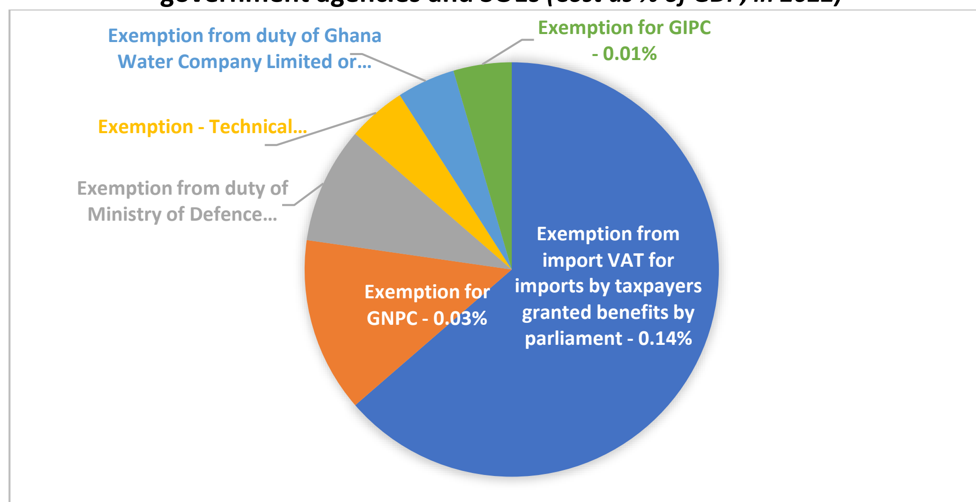


Source: World Bank elaboration. Note: size of each slice illustrates cost of TE as a share of all PIT expenditures.

Import duty expenditures

84. **The fiscal cost of import duties expenditures in 2022 is estimated at ₵ 1.4 billion, equal to about 21 percent of Ghana's actual revenues from import duties that year.** The import duty exemptions that impacted revenues the most were those granted by parliament to specific taxpayers, whose value reached 0.14 percent of GDP. Other significant beneficiaries of such exemptions included a range of government agencies and SOEs—for example, the Ghana Investment Promotion Centre (GIPC), and the Ghana National Petroleum Corporation (GNPC) (Figure 23).

Figure 23: Import duty exemptions apply to taxpayers benefited by parliament and to various government agencies and SOEs ***(Cost as % of GDP, in 2022)***



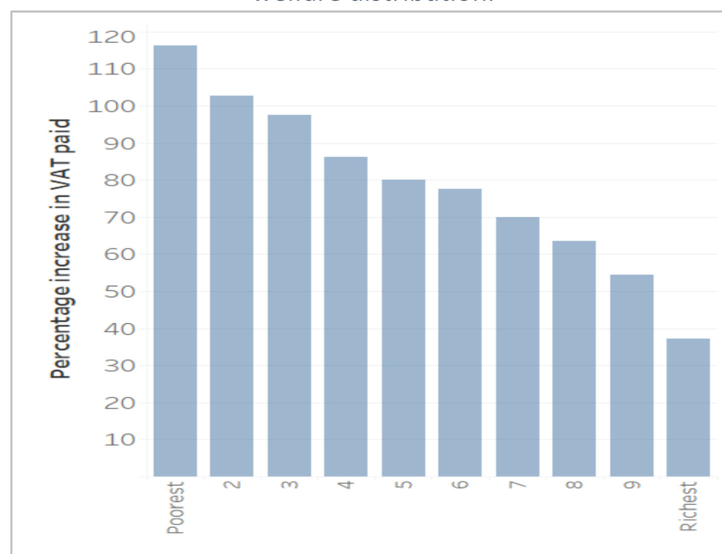
Source: World Bank elaboration. Note: size of each slice illustrates cost of TE as a share of all import duty expenditures.

Rationalizing tax expensditures: the balance between revenue growth and social costs

85. **Rationalizing TEs will entail removing those deemed to be unjustified or falling short of their stated goals.** To avoid potential welfare losses larger than the expected revenue gains from such removals, the Ministry of Finance should first assess the impact of TE removals on poverty—and, if needed, suggest appropriate mitigating efforts, such as targeted social support programs.

86. **Removing the VAT exemption on the supply of locally produced foodstuffs and locally raised live animals would have a negative impact on poverty reduction.** Although the estimated value of the exemption amounts to 0.66 percent of GDP, its potential removal is projected to raise less than that in revenues, while exacerbating poverty among those at the lower end of the income distribution (who devote most of their income to buying food). While such an effect may be less pronounced on the significant share of poor households (especially in rural areas) that produce much of the food they consume, overall welfare losses would still be significant: the removal is projected to increase the share of the population living in poverty from 31.7 percent to 34.8 percent (equivalent to an extra 1 million people), and the share of those in extreme poverty from 12.8 percent to 14.6 percent (equivalent to nearly 600,000 more people) (Figure 24).

Figure 24: Removing VAT exemption on food would disproportionately affect those on lower deciles of welfare distribution.



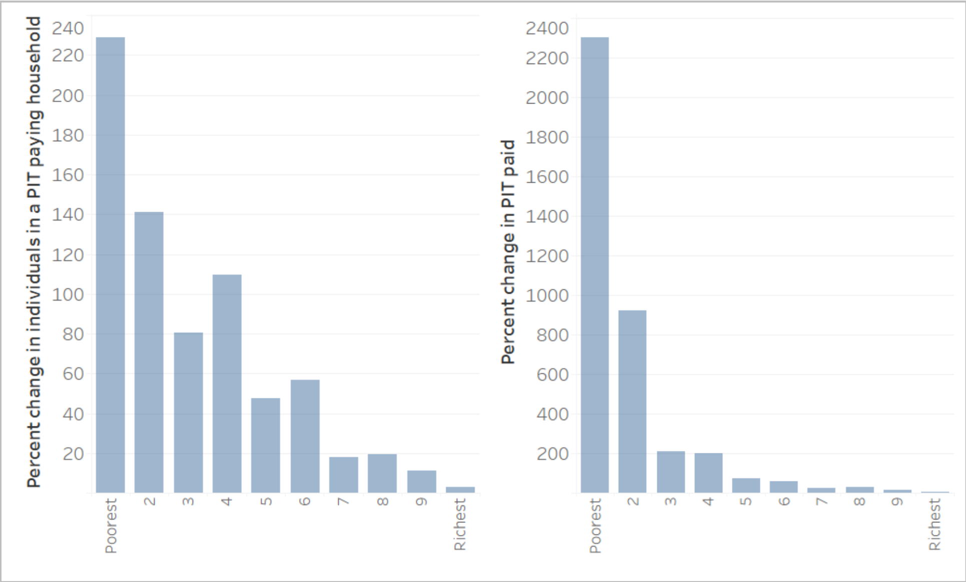
Source: World Bank elaboration based on Ghana Microsimulation tool.

87. **Removing the VAT exemption on the supply of land and dwellings would have a minimal impact on poverty.** With an estimated cost equal to 1.13 percent of GDP in forgone revenues, such exemption is the single largest TE in Ghana across all tax instruments. Moreover, any tax benefits related to land

ownership or land improvement and development are likely to accrue disproportionately to those in the higher deciles of the income distribution. Reforming the taxation on land and housing is a complex endeavor that would require significant political capital, and the lack of reliable data makes it difficult to estimate the number of those potentially affected. However, the removal of such exemption would have a negligible impact on poverty levels, and could be considered as part of TE rationalization efforts.

88. **Eliminating the PIT exemption for cocoa farmers should be complemented with the introduction of more targeted instruments to mitigate welfare losses among key beneficiaries.** The exemption from income taxes on farmers' earnings from cocoa has an estimated value equal to 0.42 percent of GDP, and applies to all farmers regardless of the scale of their operations. Other cash crops do not entitle farmers to the same benefit, and at best enable a one-off exemption for up to five years. The removal of the cocoa-related exemption would enhance market efficiency and improve the allocation of agricultural resources; however, without mitigating action, it would also push close to 75,000 people into poverty, and 55,000 into extreme poverty. Crucially, by boosting PIT revenues by a considerable 12 percent, the removal of the exemption could enable the funding of welfare programs better targeted to reach those most in need of support—i.e., small-scale farmers. While such a reform would have a significant impact on tax revenue, it would be politically sensitive and require strong commitment from the government (Figure 25).

Figure 25: Removing PIT exemption on incomes from cocoa farming would especially increase PIT coverage (left) and amounts paid (right) among the poorest.



Source: World Bank elaboration based on Ghana Microsimulation tool.

89. **PIT exemptions on pension contributions could be rationalized without exacerbating poverty.** Contributions to the Social Security and National Insurance Trust and to provident funds are discounted from taxable income prior to assessment for PIT, resulting in the equivalent of 0.73 percent of GDP in forgone tax revenue. A reform that allowed for income tax to be applied before pension contributions are made would have a negligible impact on poverty, but a significant effect on the amount of PIT revenue collected. Notably, since the population on the lower end of the income distribution does not participate in the pension system, fewer than 2,000 individuals would be pushed into absolute poverty, and fewer than 4,000 into extreme poverty. Overall, it is estimated that after such a reform, PIT revenues would rise

by 32 percent, while pension contributions would fall by 15 percent. Concurrently, pension savings could be incentivized through other means that favor a wider participation among the general public.

Box 4. Sustainably improving DRM – Lessons learnt from successful country experiences.

A 2023 IMF study identifies four recent episodes of countries which successfully increased revenue mobilization (Mauritania, Rwanda, The Gambia, Uganda). Some of the main lessons are as follows:

"The identified cases conducted both tax administration and tax policy reforms as a package. All four identified countries implemented several tax administration measures and tax policy reforms (i.e., tax rate increase, base broadening, and tax incentive rationalizations) in parallel. The literature also supports that a package reform tended to be more successful in revenue mobilization (Akitoby et al, 2019).

All four countries mainly focused on indirect tax (VAT and excise) reforms and reduction of tax exemptions as effective revenue booster. The Gambia introduced a VAT to replace a sales tax and a specific excise on tobacco products in 2013. […] Uganda increased several excise rates on locally produced spirits from 45 to 60 percent and on cigarettes by almost 60 percent in 2014, as well as reducing many VAT exemptions. Rwanda raised its excise rate on airtime of mobile phones from 5 to 10 percent in 2011-14 and removed incentives granting VAT exemptions on imports for investment certificate holders. These indirect tax reforms contributed to significant revenue gains in the identified episodes.

Tax administration reforms mainly focused on improving compliance through strengthening taxpayer segmentation and automation. Uganda expanded its taxpayer segmentation approach to the medium taxpayer by creating the MTO, combined with "e-tax services" to facilitate taxpayers' registration, filing and payments. The Gambia implemented a detailed "Compliance Improvement Plan (CIP)" for large taxpayers. Rwanda introduced new electronic filing and payment systems during 2010–11 with the implementation of electronic tax registration.

High-level political commitment and buy-in from key stakeholders played a critical role for reform success. Uganda announced and implemented national revenue plans with strong political will, and Mauritania launched social dialogues with civil society and opposition groups, which helped enhance buy-in from key stakeholders and reduce resistance to the reforms.

Source: "Nigeria's Tax Revenue Mobilization: Lessons from Successful Revenue Reform Episodes", Il Jung, IMF, 2023

Policy Priorities

90. The recommendations below only cover PIT and TEs. Subsequent reports such as the Public Financial Reviews (PFR) are expected to cover other aspects of DRM reforms.

91. **Recommendations for PIT reform aim to expand the tax base, lower the cost of compliance for taxpayers, and simplify the administration of the PIT system.** Notably, by laying the foundation for reducing the policy and compliance gap—currently driven by non-filing of tax returns, and by underreporting and/or underpayment of tax liabilities—such reforms have the potential to raise significant revenues.

92. **Recommendations targeting TE reforms ensure that TEs are fit to achieve their intended policy goals, and that revenue losses from their abuse are minimized.** Many TEs are useful to the pursuit of

desirable welfare objectives—e.g., the VAT exception on locally produced food items is crucial to reduce the cost of food for those on low incomes. However, it is important to quantify the benefits of each TE and ascertain whether they could be achieved more efficiently by other means—e.g., in the case of food consumption, through outlay expenditures to subsidize certain food items, or through welfare programs such as food vouchers or cash transfers.

93. **The Ghana MTRS 2024-2027 envisions some immediate critical TE reforms.** With the support of the World Bank, two such reforms are underway: a) the development of regulation on the deployment of tax concessions and incentives, and b) the development and publication of a repository of all TEs, as the first step toward the publication of TEs on an annual basis.

Policy Priority	**Measures**	**Timeframe (ST / MT)**
Personal Income Tax Reforms		
Employee benefits	Review definition of employment income to include: allowances paid in respect of any member of the employee's family; consideration paid in respect to agreement to any changes in conditions of employment; employment income settled through forms of remuneration other than cash and employment benefits; and payments in respect to redundancy or loss of employment.	ST
Employee benefits	Review benefit on motor vehicles based on an appropriate proxy (i.e., the cost of the vehicle) to reflect the true value of the benefit.	ST
Exemption from PIT	Consider company directors as employees for tax purposes, with obligation to file annual PIT returns. Review taxation of fees paid to directors, eliminating preferential rates.	
Exemption from PIT	Eliminate preferential tax rates on fees paid to lecturers and examiners, taxing them instead as part of employment income.	ST
PIT return filing threshold	To reduce the administrative burden on the GRA, eliminate obligation to file annual PIT return for those who only earn employment income from a single source;[48] alternatively, set an income threshold below which employees do not need to file a return.	ST
Exemption from PIT	Reform the generous triple-exemption (EEE) model on contributions to retirement funds, favoring models that include such contributions in the tax base but exempt interest earned on or withdrawals from retirement funds.	MT
Exemption from PIT	Review exemptions on interest income paid by financial institutions, interest on bonds issued by the government, interest or dividends paid by unit trusts or mutual funds to their members or holders.	MT

[48] Individuals who earn employment income from multiple sources should continue filing annual tax returns.

Rental Income	Limit tax avoidance opportunities and expand the tax base by setting common 15 percent tax rate on rental income from residential and commercial properties.	MT
Dividends Withholding	Better integrate the PIT and CIT frameworks and raise the dividend withholding tax rate from 8 percent to 10 percent.	MT
Taxation of capital gains/losses	Enable the taxation of capital gains on select personal assets that can appreciate in value; remove taxpayers' discretion about choice of tax rate applicable to gains from investment assets; ensure that capital losses can only be offset against capital gains; and limit carry-forward of capital losses, so that they can only be offset against future capital gains within a set timeframe.	MT
PIT regime	To simplify the PIT regime and reduce the compliance gap, consider rationalizing and/or reducing the number of available reliefs, tax rates (e.g., overtime tax), and tax bands (from seven to about three).[49]	MT
Tax Expenditure Reforms		
VAT	Removing exemptions that do not allow for the deduction of VAT on inputs would lower the cost of certain goods and services for final consumers and reduce market distortions.	MT
VAT	Removing the VAT exemption on land and dwellings, albeit politically sensitive, could boost revenue by the equivalent of 1.13 percent of GDP.	MT
PIT	***Exemption on earnings from cocoa farming***: The removal of such exemption would generate revenue gains equal to 0.42 percent of GDP. Albeit a politically sensitive reform that would require concurrent mitigating efforts, it would eliminate unfair discretion and discrepancies in the tax treatment of different crops, which induce suboptimal decision-making by farmers and distort the allocation of agricultural resources.	MT
SSC	***Taxation of pension contributions and benefits***: deploying a TEE model for pension taxation would generate revenue gains equal to 0.73 percent of GDP. Despite some potential impact on saving rates, international best practice calls for pension contributions and/or benefits to be taxed. Such a reform would have no impact on poverty levels.	MT

[49] The goals are to simplify the tax regime and increase revenue by targeting high-income earners. In Ghana's current context, adding the 35% bracket for high-income earners in 2023 was logical for immediate revenue increase. However, if an opportunity arises to overhaul the regime, simplifying it by reducing the number of brackets would be beneficial.

Imports	Import duty exemptions granted by parliament exemptions are highly discretionary and leave room for abuse; thus, their scope should be reduced. Moreover, the guidelines under the Exemptions Act 2022 that introduce multiple layers of accountability (MoF, Cabinet, Parliament, and GRA) for the issuance of TEs should be applied to import duty relief.	ST

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Annex

Table A.1: Budgetary Central Government Operations, 2021–27 (GFS 2001, Cash Basis, % GDP)[1]

	2021	2022	2023	2024	2025	2026	2027
	Actual	Actual	Prel.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	**15.3**	**15.7**	**16.0**	**16.9**	**17.4**	**18.0**	**18.0**
Taxes	13.2	13.1	13.5	14.5	14.9	15.5	15.5
Direct taxes	6.1	6.3	6.7	6.9	6.5	6.4	6.3
Indirect taxes	5.6	5.3	5.2	5.8	6.4	7.1	7.1
Trade taxes	1.5	1.6	1.7	1.8	1.9	2.1	2.1
Social contributions	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Nontax revenue	1.7	2.4	2.1	2.1	2.2	2.2	2.2
Grants	0.3	0.2	0.3	0.3	0.2	0.2	0.2
	1.8	2.4	2.2	2.2	2.3	2.3	2.3
Expenditure	**25.4**	**27.5**	**19.6**	**21.6**	**21.1**	**21.1**	**20.8**
Expense	21.7	22.9	16.9	18.4	17.6	17.1	16.7
Compensation of employees	7.1	6.4	6.0	6.2	6.0	6.0	6.0
Purchases of goods and services	1.6	2.0	1.0	1.1	1.1	1.2	1.2
Interest [1]	7.3	7.4	3.2	5.2	5.2	4.6	4.3
Domestic	5.8	5.5	3.1	3.5	3.5	2.9	2.7
Foreign	1.5	1.9	0.2	1.7	1.7	1.7	1.7
Subsidies and transfers	2.2	2.3	2.4	1.6	1.5	1.4	1.3
o/w transfers to energy producers	1.5	0.9	2.4	1.6	1.5	1.4	1.3
Social benefits[2]	0.0	0.0	0.1	0.1	0.3	0.5	0.5
Grants to other government units	3.6	4.7	4.1	4.2	3.4	3.4	3.4
Net acquisition of nonfinancial assets	3.7	3.9	2.5	3.2	3.5	4.0	4.1
Domestic financed	1.2	1.9	1.1	2.3	2.3	3.1	2.8
Foreign financed	2.5	2.0	1.4	0.9	1.2	0.9	1.3
Other expenditure	0.0	0.6	0.2	0.0	0.0	0.0	0.0
Primary balance (commitment basis)	-2.8	-4.3	-0.3	0.5	1.5	1.5	1.5
Overall balance (commitment basis) [1]	-10.1	**-11.8**	**-3.6**	**-4.7**	**-3.7**	**-3.1**	**-2.8**
Payables (net change) [3]	2.9	1.1	0.5	-1.4	-1.0	-0.9	-0.8
Primary balance (cash basis)	0.0	-3.2	0.1	-0.9	0.5	0.6	0.7
Overall balance (cash basis) [1]	-7.3	**-10.6**	**-3.1**	**-6.1**	**-4.7**	**-4.0**	**-3.6**
Memorandum items:							
Public sector debt	86.9	92.6	82.9	82.5	79.5	76.1	72.5
Non-oil revenue (excl. Grants)	2.6	13.6	14.2	15.1	15.7	16.5	16.6
Oil revenue	18.2	2.0	1.5	1.5	1.4	1.3	1.2
Primary expenditure		20.1	16.3	16.4	15.9	16.5	16.5
Non-oil primary balance	-5.7	-6.3	-1.8	-1.0	0.1	0.2	0.3
Nominal GDP (₵, millions)	459,131.0	614,336.3	841,632.9	1,020,294.4	1,183,527.1	1,339,993.2	1,518,217.2

Sources: Ghanaian authorities; and IMF staff estimates and projections.

[1]First review interest expenditure projections corresponded to a post domestic debt restructuring but pre-external debt restructuring scenario. Updated projections correspond to a post-domestic and post-external bilateral debt restructuring but pre-external commercial debt restructuring scenario.

[2] Comprises of government cash transfer program (LEAP) and subsidy for lifeline consumers of electricity

[3] Net payables of the energy and non-energy sectors.

Table A.2: Real GDP Growth by expenditure method, (%) 2016-2023

	2016	2017	2018	2019	2020	2021	2022	2023
Household final consumption expenditure	(1.7)	6.3	3.8	14.2	1.7	6.2	5.7	7.8
General government final consumption expenditure	6.1	-10.8	1.8	5.4	10.1	12.7	0.0	0.5
NPISH final consumption	(0.1)	5.3	3.1	2.6	0.0	101.1	3.3	8.0
Consumption	**(0.9)**	**4.4**	**3.6**	**13.3**	**2.4**	**7.6**	**5.1**	**7.1**
Gross fixed capital formation	12.2	1.0	13.2	-10.0	1.8	5.8	0.8	-14.7
Change in stock: Reforestation	1.0	1.8	9.8	-11.0	-3.1	-21.6	-8.1	8.6
Change in stock: Crude Oil	80.6	158.6	-159.2	-161.5	-219.4	-25.2	30.2	35.2
Change in stock: Livestock	3.6	5.7	4.9	5.2	5.4	4.4	5.1	6.5
Gross capital formation	**12.1**	**1.5**	**11.9**	**(9.4)**	**1.2**	**5.6**	**0.7**	**(14.4)**
Domestic Demand	**2.2**	**3.7**	**5.7**	**7.3**	**2.1**	**7.2**	**4.1**	**2.5**
Exports of goods and services	2.9	23.8	6.6	12.7	(12.8)	(1.2)	0.2	0.1
Imports of goods and services	(1.1)	7.7	5.0	15.9	(8.8)	5.8	1.4	-1.2
net Exports	**-40.7**	**-269.7**	**25.7**	**-17.6**	**-67.2**	**-264.5**	**29.1**	**-25.9**
Gross Domestic Expenditure	**3.4**	**8.1**	**6.2**	**6.5**	**0.5**	**5.1**	**3.8**	**2.9**

Source: Ghana Statistical Service and World Bank (staff estimates)