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NOTES ON GHANA'S 2025 BUDGET

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Overarching Fiscal Policy Since 2023 and the 2025 Budget

Since 2023, the central objective of Ghana’s fiscal policy has been clear: restore macroeconomic stability and achieve debt sustainability. This target became necessary in response to elevated debt levels, persistently high interest costs, and volatile macro indicators such as inflation and exchange rates. In 2024, that medium-term plan continued under the guiding principles of:

Expenditure Rationalisation

Expenditure rationalization (especially through careful targeting of subsidies, improved procurement controls, and containment of non-critical spending).

Resource Mobilisation

Enhanced domestic resource mobilization (strengthening tax administration, expanding the tax net, and digitizing revenue collection).

Debt Restructuring

Our campaigns are backed by analytics and data-driven insights. By constantly monitoring performance metrics, we fine-tune strategies in real-time, ensuring optimal results.

Growth-oriented reforms

Growth-oriented reforms to support the real economy—particularly agriculture, industry, and services—to rebound in a way that is consistent with medium-term fiscal consolidation.

Key Question

How does the 2025 Budget help achieve this overall goal of debt sustainability and macroeconomic stability?

The budget's success will be judged on whether it consolidates the gains made in stabilizing public finances in 2023–2024 and whether it advances the structural reforms needed to keep inflation in check, maintain a stable currency, and pushing debt levels onto a more sustainable path.

Comparing 2024 Outturns vs 2024 Budget Targets

The first step in gauging how the 2025 Budget will contribute to macroeconomic stability is to look back at how 2024 fared compared to its original budget projections. Despite government's best efforts, several 2024 macro-fiscal indicators deviated from the initial targets:

GDP Growth
5.7% vs 3.1% (Budget)

The actual real GDP growth rate of 5.7% significantly surpassed the budget projection of 3.1%. A closer look at the budget shows that mining activities in the industrial sector drove the bulk of this expansion, reflecting favorable commodity prices and higher output. In contrast, agriculture underperformed relative to the previous year, largely due to sector-specific challenges, while services maintained roughly the same growth pace as before. This pattern of growth highlights a potential overdependence on extractives and underscores the need for policies that diversify the growth base—ensuring that agriculture in particular is strengthened for more resilient and inclusive development.

Gross International Reserves (GIR):
4.0 Months of Import Cover vs 3.0 Months

Ghana's gross international reserves climbed to 4.0 months of import cover, surpassing the budget target of 3.0 months. According to the budget, this upturn was primarily bolstered by favorable terms of trade and increased gold production, a key export earner. As a result, export receipts improved, enabling the Bank of Ghana to accumulate more reserves—thereby supporting exchange rate stability and providing additional buffers against external shocks.

Inflation Rate
23.8% vs 15.0% (Budget)

Inflation ended up substantially overshooting the 15% target. Factors include potential second-round effects of currency depreciation during 2023, cost-push inflation (e.g., energy/fuel prices), and more accommodative monetary policies in certain areas.

Comparing 2024 Outturns vs 2024 Budget Targets

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Overall Budget Balance: -7.6% vs -4.2% of GDP (Budget)

Primary Balance: -3.6% vs 0.5% (Budget)

Slippage in both the overall and primary balances points to renewed pressure on public debt accumulation and underscores the importance of revenue mobilization and expenditure restraint in 2025. A negative primary balance also suggests the public sector needed to borrow to meet even its non-interest expenditures.

Total Expenditure: GHS 248.0bn vs GHS 238.3bn; 19.2% vs 21.6% of GDP

In nominal terms, total expenditure exceeded its budget by almost GHS 10bn. However, as a share of GDP, it was slightly lower than projected—19.2% (outturn) vs 21.6% (target)—likely because GDP itself turned out larger than expected. Even if the ratio to GDP is lower, the higher nominal spending intensifies borrowing needs, especially if revenue remains constrained.

Total Revenue: GHS 186.6bn vs GHS 176.4bn; 15.9% vs 16.8% of GDP

Revenues came in above the nominal target, but as a share of GDP, they were lower than anticipated (15.9% vs 16.8%). On the positive side, the nominal outperformance suggests that some tax measures or administrative improvements did bear fruit—particularly an almost 8-GHS billion over the budget figure. However, the pace of GDP expansion outstripped the revenue gains, reducing the ratio to GDP.

Tax Revenue Sub-Category: GHS 151.1bn vs GHS 143.2bn. This better-than-expected outturn indicates the government's push on digitized tax collection and tax compliance may be having an effect, although a lower tax-to-GDP ratio still highlights the need for additional effort on broadening the base.

Summary for 2024: Although growth and reserves were stronger than anticipated, inflation overshot by a wide margin and both the overall and primary deficits worsened considerably relative to targets. Despite nominal improvements in revenue, public spending pressures and interest costs remained high, thereby jeopardizing fiscal consolidation efforts.

The 2025 Budget vs. the 2025 Indicative Budget (from the 2024 Budget)

A second way to assess how the 2025 Budget advances its overarching goals is to compare it with the 2025 indicative projections set out in the 2024 Budget. The 2024 Budget laid the groundwork for achieving debt sustainability and macroeconomic stability by 2028, so examining the actual 2025 Budget against those indicative figures highlights whether we remain on the planned trajectory toward those longer-term objectives. Essentially, by contrasting the final 2025 Budget with the indicative 2025 targets, stakeholders can gauge the budget's alignment with—and contribution to—the path already established to meet the 2028 goals.

Total Revenue: GHS 224.9bn (2025 Budget) vs GHS 211.0bn (2025 Indicative);

Total revenue as a % of GDP: 16.1% (2025 Budget) vs 17.3% (2025 Indicative).

- While nominal revenue is higher in the final 2025 Budget than initially indicated (GHS 222.3bn vs 211.0bn), its ratio to GDP is lower (16.1% vs 17.3%)—again, reflecting the robust GDP growth assumptions for 2025. This highlights the tension between rapid nominal expansions in the economy and the ongoing need to strengthen tax collection to ensure that revenues keep up with or surpass GDP growth rates.

- Government projects an additional ~GHS 12bn in revenue above the indicative figure, with corporate income tax singled out as a main driver. This may derive from tightened compliance, changes in tax policy (e.g., adjustments to corporate tax rates or thresholds), or assumptions of higher profitability within Ghana's corporate sector. While this is a positive sign for revenue mobilization, it will require consistent enforcement and robust monitoring so as not to deter private investment

Primary Balance: 1.5% of GDP for both

The fact that the primary balance target remains the same (1.5% of GDP) in the final 2025 Budget underscores government's commitment to generating enough revenue to at least cover non-interest expenditures, with the goal of stabilizing and eventually reducing the debt-to-GDP ratio.

Total Expenditure: GHS 268.8bn vs GHS 258.1bn. Total Expenditure as a % of GDP: 19.2% vs 21.2%.

Similar to the revenue situation, expenditure in nominal terms is about GHS 10bn higher in the final 2025 Budget. However, expressed as a share of GDP, it has actually declined to 19.2% from the originally projected 21.2%, reflecting an upward revision to GDP. If growth does not materialize as strongly as projected, the government might face a fiscal gap that would require adjustments mid-year.

Financing Changes

The final 2025 Budget factors in an additional GHS 9bn from the World Bank that did not appear in the earlier indicative framework. This provides some relief in financing, likely at more favorable terms than commercial borrowing, which can help stabilize interest costs.

Overall Deficit: GHS 56.9bn vs GHS 59.5bn

Threats encompass external factors that pose challenges and risks to an organization. This could include competition, economic downturns, regulatory changes, or technological disruptions.

Summary for 2025: The revised budget numbers suggest that, despite a larger nominal envelope, the government remains committed to keeping the deficit in check. The presence of higher corporate tax receipts, combined with external financing from the World Bank, points to an intentional strategy to plug financing gaps and preserve the path toward macro stability.

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Assessing How the 2025 Budget Contributes to Debt Sustainability and Stability

Deficit Reduction & Primary Balance

With a primary surplus of 1.5% of GDP targeted for 2025, Ghana aims to generate enough resources from revenue to cover non-interest obligations. Achieving or surpassing this primary surplus is crucial to eventually reduce the pace of debt accumulation.

Interest Costs

Locking in concessional financing (such as the additional World Bank resources) helps manage interest costs more effectively than commercial loans. This strategy needs to be sustained, along with continuing discussions to restructure debt (where needed) and mitigate rollover risks.

Improving Revenue Efficiency

Achieving a nominal increase in revenue while simultaneously targeting a lower tax-to-GDP ratio than earlier forecasted underscores the government’s assumption of strong GDP expansion. However, it also implies that if growth disappoints, revenue could underperform targets, leading to renewed fiscal stress.

Assessing How the 2025 Budget Contributes to Debt Sustainability and Macroeconomic Stability

Inflation Management

The large overshoot in 2024 inflation emphasizes the urgency for tighter monetary-fiscal coordination. In 2025, the interplay between a more disciplined fiscal stance (to reduce deficit financing) and the central bank's interest-rate policy is critical for reducing inflation to more sustainable levels.

Exchange Rate Stability & Reserves

The improved gross international reserves for 2024 (4.0 months vs 3.0) indicate better external buffers. Continuation of prudent reserve management in 2025, along with measures to boost exports and manage imports, will help stabilize the cedi and foster investor confidence.

Stimulating Real Sector Growth

Sustained macro stability will create a better environment for investment. The 2025 Budget's higher capital expenditure (albeit as a smaller share of GDP) needs to be directed toward critical growth-enhancing sectors—such as agriculture, agro-processing, and light manufacturing—to ensure the high-level growth outturns are actualized and inclusive.

Concluding Thoughts

- Despite the setbacks experienced in 2024—particularly the large deviation in the inflation and deficit targets—the government's overall trajectory is to restore macroeconomic stability and ensure debt sustainability over the medium term. Notable positives from the 2024 outturn, including stronger GDP growth and higher reserves, should not overshadow the higher-than-planned fiscal deficits and uncomfortably high inflation.

- As for 2025, the tighter (but still ambitious) budget framework, improved external financing options, and emphasis on increased corporate tax revenue are signals of the government's resolve to stay on the fiscal consolidation path. If successfully implemented, the 2025 Budget could indeed push Ghana closer to its medium-term debt sustainability objectives, temper inflationary pressures, and set the stage for more robust private sector-led growth.

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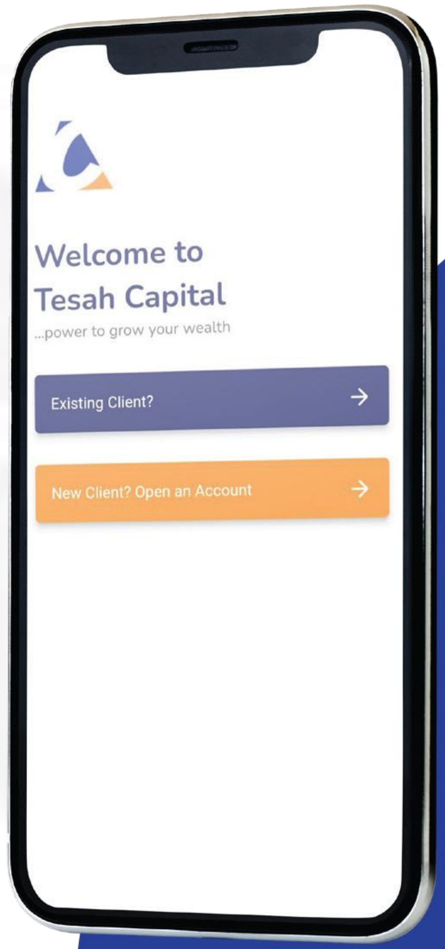

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