# Ghana's Fiscal Outlook Under President Mahama 2.0

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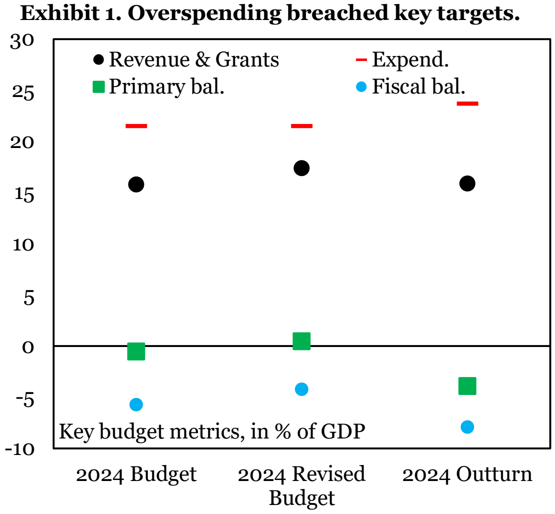
- John Mahama was inaugurated as President for the second time on January 7th – his first term was from 2012-15.
- His campaign hinged on a spending-led fiscal consolidation, different from the IMF's revenue-driven program.
- Budget 2025 set very ambitious targets, particularly on spending, with projections to achieve a fiscal surplus by 2028.
- In line with IMF program guidelines, the budget aims for a primary surplus of 1.5% over the medium-term horizon.
- We do not place high probability on the government fully achieving these targets, given their optimistic projections.
- The overall fiscal consolidation plan will probably continue, but at a much slower pace than envisaged in this budget.
- Still, this improves the debt outlook, which appears to be heading in the right direction, helped by the restructuring.

Ghana held its 9th election on December 7 and John Mahama from the center-left National Democratic Congress (NDC) was elected as president, taking the reins back from the opposition center-right New Patriotic Party's (NPP) Nana Akufo-Addo, who held the presidency for two successive terms (2016-24). John Mahama's first stint as president was from 2012 to 2015. Given that it was an election year, one of the main concerns in 2024 was Ghana's fiscal position, as it is notoriously known to overshoot spending targets in the build up to the election and this time was no exception. In light of President Mahama's return to power, this ***Views on Africa*** aims to present the fiscal outlook for Ghana, drawing on potential outcomes from his previous presidency.

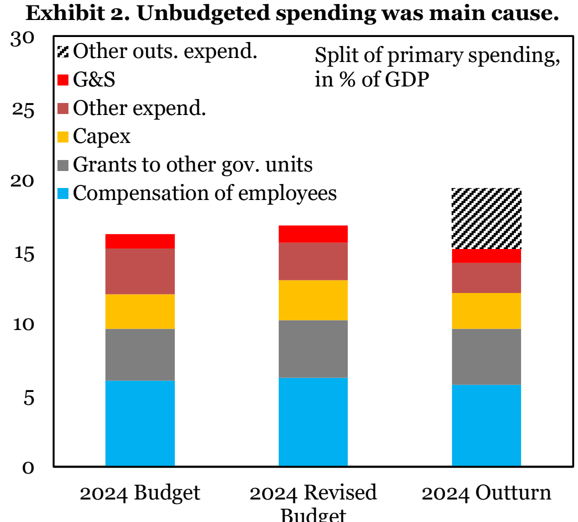
Budget and revised estimates for 2024 missed targets by a significant margin (Exhibit 1). While tax revenues and grants (15.7% of GDP vs 15.8%) came in broadly in line with estimates, expenditure slippages (23.7% of GDP vs 21.5%) worsened the primary and fiscal balance outcomes. The fiscal deficit widened from 2.1% of GDP in 2023 to 7.9% (target of 4.2%) in 2024, while the primary deficit (which excludes interest payments) widened from 0.2% of GDP to 3.9% (targeted 0.5% surplus). The shortfall stemmed from a 27.1% y/y increase in spending, owing to o*ther outstanding expenditure claims* (more than anticipated foreign-financed capex spending) (4.2% of GDP) and *payables build-up* (5.7% of GDP), both of which were unbudgeted for (Exhibit 2).

**Exhibit 1. Overspending breached key targets.**




*Source: MinFin, IIF*

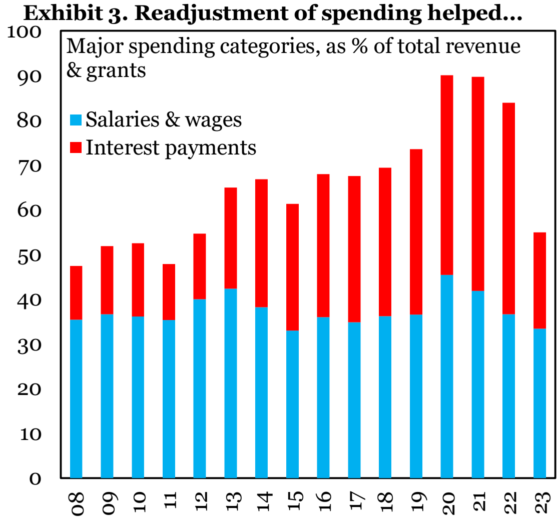
**Exhibit 2. Unbudgeted spending was main cause.**




*Source: MinFin, IIF*

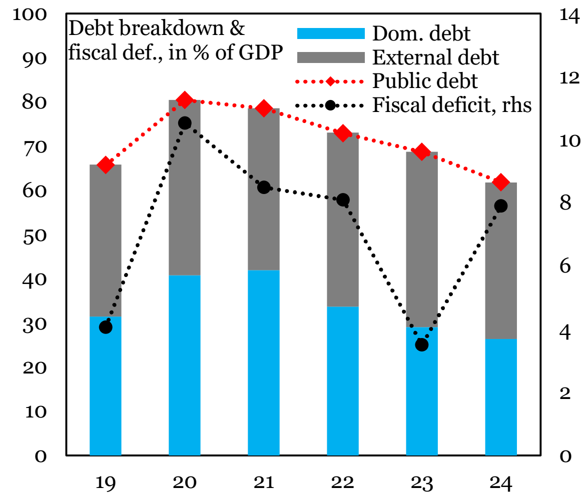
For a long time, the majority of government spending has been absorbed by compensation of employees and interest payments, and these items grew at an even faster rate since the pandemic in 2020 (Exhibit 3). As a result, the fiscal balance widened, borrowing needs rose, causing debt to reach unsustainable levels (Exhibit 4). At the same time, compounded growth in debt service costs and elevated spending on compensation of employees have increasingly crowded out capital and development spending (Exhibit 5) resulting in a decline in capital spending as a share of total spending from near 20% in 2014 to around 13.5% in 2023. As such, we do not foresee further compression on this front, especially given that Mahama's previous presidency coincided with higher rates of capital spending compared to other years. While we acknowledge that there is room to cut back on salaries and wages, we think that an overall expenditure-led fiscal consolidation will be challenging to achieve.

**Exhibit 3. Readjustment of spending helped...**




*Source: Haver, IIF*

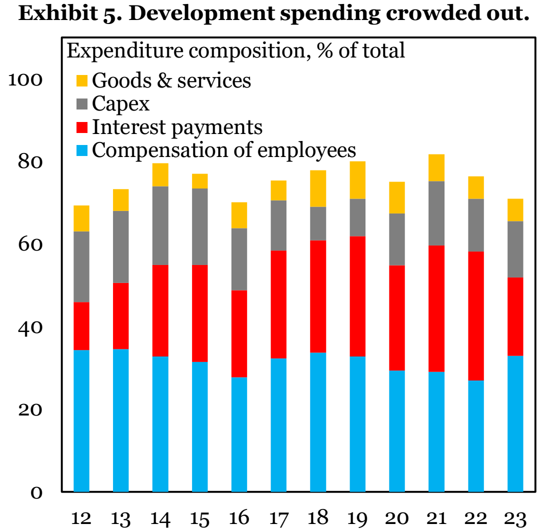
**Exhibit 4. ... reduce the fiscal deficit and debt.**




*Source: MinFin, IIF*

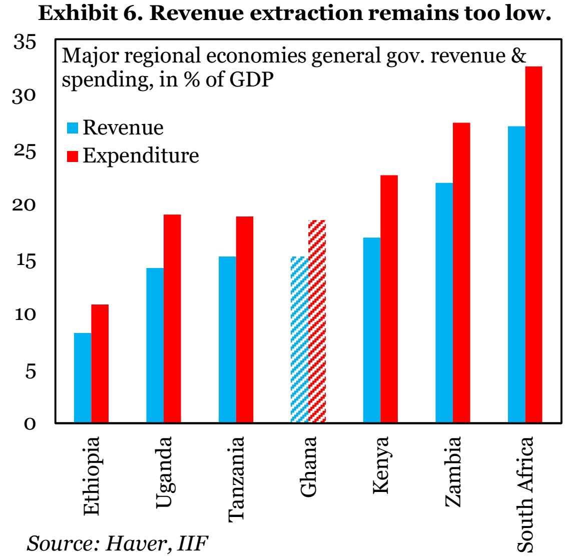
Instead, we think efforts towards expanding the tax base would have better chance of improving Ghana's long-term fiscal position. Ghana has quite low tax-to-GDP ratio compared to other countries in the region (Exhibit 6). Comparing other economies in sub-Saharan Africa, we found that moderate corporate tax rates (which Ghana displays) correlates with a high tax-to-GDP ratio (Exhibit 7). Ghana's corporate tax revenues have been healthy, likely due to strong growth in the mining and financial services sectors, along with tax reforms in 2012 (that raised rates for the mining and petroleum industries), and 2016 (that broadened the overall tax base). Meanwhile, VAT rates are relatively consistent across the region and VAT has been a stabilizer for Ghana (Exhibit 8). However, personal taxes remain extremely low as a share of revenue, which could partly be due to the presence of a sizable informal economy not being captured in the tax base. Excluding Mauritius, the regional trend suggests that there could be scope to raise personal income tax rates marginally in Ghana. Overall tax efficiency measures such as digitalization, compliance drives, and higher property taxes would also be beneficial.

**Exhibit 5. Development spending crowded out.**



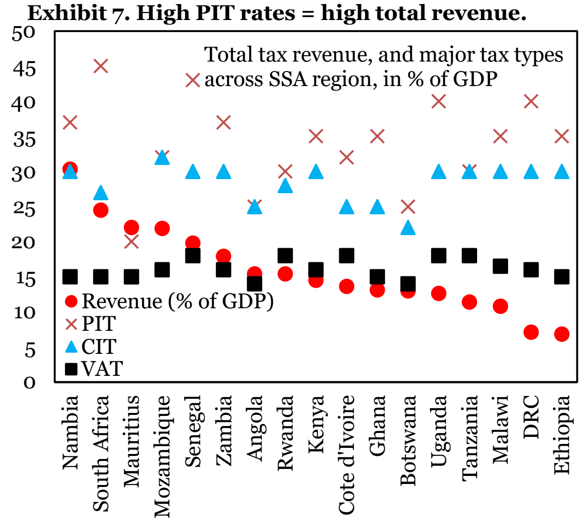

*Source: Haver, IIF*

**Exhibit 6. Revenue extraction remains too low.**



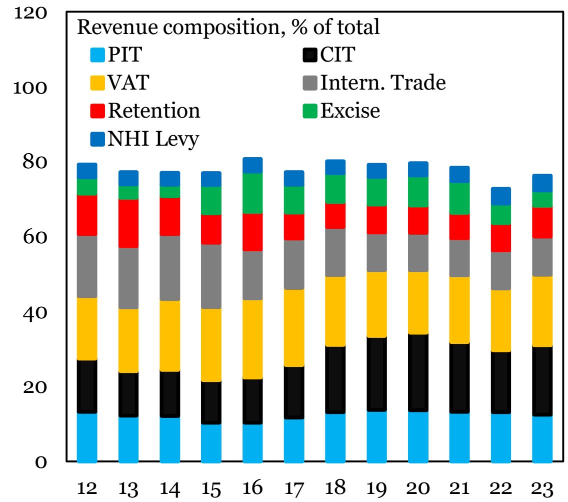

*Source: Haver, IIF*

**Exhibit 7. High PIT rates = high total revenue.**




*Source: Various MinFin, IIF*

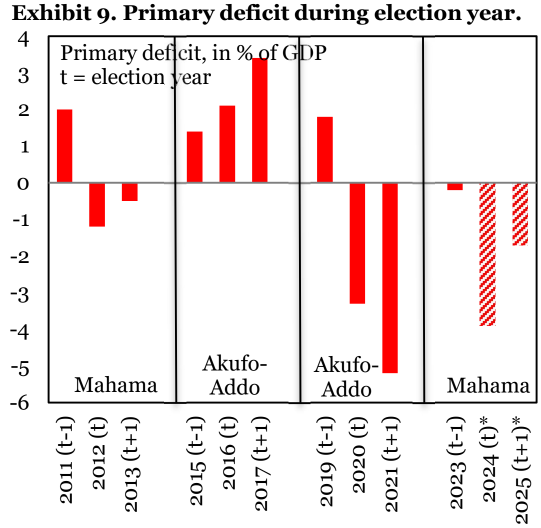
**Exhibit 8. Scope to improve personal taxes.**




*Source: Haver, IIF*

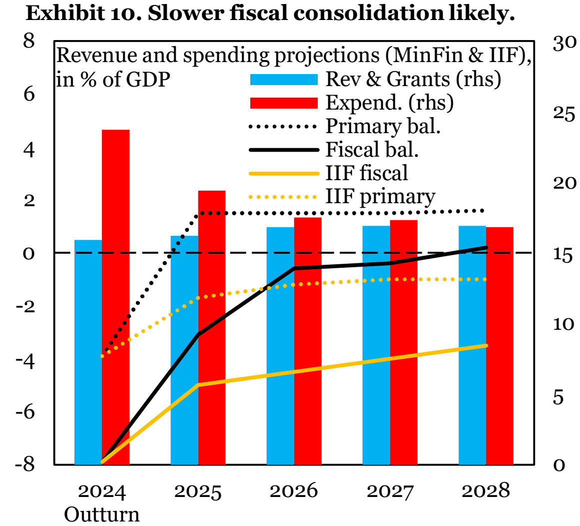
So, what does Ghana's fiscal trajectory look like? The precarious fiscal situation that led to debt restructuring and the USD3bn IMF Extended Credit Facility program (ends in 2026) is expected to provide short-lived relief to public finances, but the longer-term outlook is more uncertain. The restructuring has freed up roughly USD4bn, while the IMF program disbursements thus far amount to roughly USD1.5bn (following board approval of the fourth review). As noted in the opening paragraph, overspending in election years typically caused fiscal imbalances. Since 2007, the period one year before an election (t-1) to the election year (t) has mostly seen a widening of the primary deficit, followed by a reduction or slight correction the year after the election (t+1) (Exhibit 9). Based on the historical pattern from Mahama's previous presidency for a slight post-election correction in spending and our assumption to include a portion of the 2024 *arrears and payables* (since the entire amount will unlikely be circumvented through the audit process), **we estimate a primary deficit position of -1.7% of GDP in FY 2025 – vastly different from the Ministry's 1.5% primary surplus.** Beyond 2025, there is scope for a narrower deficit, however the 1.5% surplus target in each FY to 2028 seems a big task, especially on current budget projections. We have some confidence in the Mahama administration to rein in some spending and reform public finances and the economy, but we are of the view that **government's expenditure targets will probably be missed**, leading us to estimate a shallower fiscal consolidation than envisaged in the 2025 Budget (Exhibit 10).

**Exhibit 9. Primary deficit during election year.**




*Source: Haver, IIF*

**Exhibit 10. Slower fiscal consolidation likely.**




*Source: MinFin, IIF*