Ghana FY2025 Budget

Ghana | 11 March 2025

A Penny Saved; A Cedi Earned

Ghana's Finance Minister presented the much-anticipated FY2025 budget on 11 March 2025, revealing significant derailment in the FY2024 macro-fiscal path under the ongoing IMF programme. Key performance indicators such as inflation, non-arrears accumulation, and primary balance missed their respective targets while the Minister also revealed that structural benchmarks for the period to end-December 2024 were likely missed. As is our longstanding expectation, the finance minister revealed that the inflation overshooting in December 2024 has triggered a discussion with the IMF under the Monetary Policy Consultation Clause (MPCC). While we await official confirmation of the programme performance when the IMF Mission team conducts the 4th review in April 2025, we expect the outcome of discussions under the MPCC to be reflected at this month's monetary policy committee meeting.

Our initial impression of the FY2025 fiscal plan is that the Ghanaian authorities are pivoting away from tax hikes in favour of stringent spending controls, backed by legislative amendments to restore fiscal consolidation. Essentially, the 2025 budget telegraphed a strong and ambitious fiscal adjustment, equivalent to 5.4% of GDP with a target primary surplus (on commitment basis) at 1.5% of GDP (vs 3.9% deficit in 2024). We estimate that this strong adjustment will be anchored on a proposed 11.9% reduction in primary expenditure to GHS 204.7bn (15.8% of GDP) while committing to the IMF target to expand non-oil revenue by 0.6% of GDP in 2025. Despite abolishing some tax measures as promised in the lead-up to the 2024 election, we observed that the fiscal authorities intend to recalibrate the revenue sources to achieve a 19.9% YoY growth in total revenue and grants to GHS 223.8bn (17.2% of GDP). The key revenue drivers, which we believe are largely attainable, include a reduction in the required tax refund account balance from 6.0% to 4.0% of total revenue, which is estimated to free-up additional revenue of ≃0.3% of GDP. Also, the Growth & Sustainability Levy of 1.0% of gross production for mining firms will be increased to 3.0% of gross production with a sunset clause in 2028. The authorities also intend to amend the Minerals Income Investment Fund (MIIF) Act to ensure 80.0% of all mineral royalties are transferred to the central government's consolidated fund. Furthermore, the authorities plan to uncap the GETFund to free-up GHS 4.1bn to finance the Free Senior High School social intervention programme relative to an estimated cost of GHS 3.5bn for the current academic year. In the energy sector, the authorities will consolidate the Energy Debt Recovery Levy, the Energy Sector Recovery Levy, and the Sanitation & Pollution Levy to support the sector's financing shortfalls while continuing the quarterly utility tariff adjustments with a major tariff hike anticipated in 4Q2025.

Overall, we view the proposed 2025 budget as a strategic re-alignment of existing revenue options while ensuring spending efficiency and curbing non-essential expenditure to restore compliance of the fiscal framework with the Fiscal Responsibility Act.

Highlights from the 2025 Budget statement

Status of the ongoing IMF Programme

- Key Performance Indicators up to December 2024, such as Inflation, Primary balance (commitment), and social protection spending, to be assessed under the upcoming 4th Review in April 2025 are likely missed.
- Additionally, all structural benchmarks due by end-December 2024 are likely missed.
- The inflation target overshooting in December 2024 has expectedly triggered discussion with the IMF under the Monetary Policy Consultation Clause.
- The primary balance (commitment) for FY2024 worsened to a deficit equivalent to 3.9% of GDP compared to a modest deficit of 0.2% of GDP in FY2023 and end-2024 target surplus of 0.5% of GDP. This represents a derailment in the path of fiscal adjustment which underpinned the strong and ambitious fiscal adjustment target for 2025.

Update on Arrears/Payables accumulation

- Total Government arears at the end of December 2024 stood at GHS 67.5 billion (5.2% of GDP), including road sector arrears of GHS 21.0 billion.
- The total arrears of GHS 67.5 billion exclude the payables of USD 1.73 billion owed to Independent Power Producers (IPPs), GHS 68.0 billion owed by the Electricity Company of Ghana (ECG), GHS 32.0 billion owed by the Ghana Cocoa Board (COCOBOD), and GHS 5.75bn owed by the Road Fund.
- A comprehensive audit of all arrears has been commissioned and value-for-money determined before any payment is made.

Energy Sector fiscal risk

- The energy sector shortfall paid by the Ministry of Finance in 2024 amounted to GHS 20.8 billion
- The Business as Usual (BaU) energy sector financing shortfall is now estimated at GHS 35.0 billion for 2025.
- The estimated shortfall for 2023 – 2026 (under the BaU) is pegged at GHS 140.0 billion
- Additionally, legacy arrears owed to Independent Power Producers (IPPs) stood at USD 1.73 billion at the end of 2024.

Cocoa Sector fiscal risk

- COCOBOD's outstanding debt stood at GHS 32.0 billion, of which GHS 11.92 billion is expected to be paid in 2025

- Outstanding cocoa roads debt reached GHS 21.0 billion in 2024, of which only GHS 4.4 billion has been accounted for in COCOBOD's financial statements.

Financial Sector risk

- The financial sector requires GHS 10.45 billion to resolve the remaining sector legacy issues and emerging risks.
- In addition, an amount of GHS 2.2 billion is required to fully capitalize National Investment Bank (NIB) and Agricultural Development Bank (ADB).

Fiscal Performance in 2024

- Total revenue and Grants came in at GHS 186.6 billion (15.9% of GDP), exceeding the target of GHS 177.2 billion (17.4% of GDP) by 5.3%). This was helped by higher-than-targeted oil & gas receipts and higher non-tax revenue
- Total expenditure (on commitment basis) stood at GHS 232.4 billion (19.8% of GDP), exceeding the FY2024 target of GHS 171.7 billion (16.8% of GDP).
- Overall budget deficit (commitment) was 7.9% of GDP in 2024 against the target of 4.2% while overall budget deficit (on cash basis) stood at 5.2% of GDP against a target of 5.3%. *In our view, this indicates the accumulation of new arrears in 2024, which we estimate at 2.7% of GDP.*

Macro-fiscal Targets for 2025

- Overall real GDP growth target of at least 4.0%
- Non-oil real GDP growth target of at least 4.8%
- End-period inflation 11.9%
- Primary Balance (commitment) at a surplus of 1.5% of GDP
- Primary Balance (cash basis) is targeted at a surplus of 0.5% of GDP
- Total revenue and Grants of GHS 223.8 billion (17.2% of GDP)
- Total Expenditure (commitment) for FY2025 is estimated at GHS 269. 1 billion (20.7% of GDP)
- Primary expenditure (commitment) for FY2025 is pegged at GHS 204.7 billion
- Total Appropriation for FY2025 is estimated at GHS 290.97 billion
- Overall Budget deficit (commitment) is targeted at GHS 43.8 billion (3.1% of GDP)
- On cash basis, overall deficit target is pegged at GHS 56.9 billion (4.1% of GDP)
- Gross international reserves target is set at minimum of 3.0 months of import cover

Financing mix for 2025

- **Net foreign financing** of GHS 21.4 billion (1.5% of GDP) will include the IMF-ECF programme-related disbursements of USD 720 million and the World Bank DPO facility of USD 600 million
- **Net Domestic financing** of GHS 36.9 billion (2.6% of GDP) to be sourced from issuance of debt at the short-end of the domestic market
- The Government will take steps to cautiously re-open the domestic bond market to extend the maturity profile and build large-size benchmark bonds.

Revenue Measures for 2025

- Abolish the 1.0% E-Levy
- Abolish the 10.0% Betting tax
- Abolish the Emissions levy
- Abolish the VAT on motor vehicle insurance policy
- Abolish the 1.5% withholding tax on unprocessed gold by small-scale miners
- Reduce the tax refund account ceiling from 6.0% of total revenue to 4.0% of Total revenue. This is expected to immediately free-up revenue equivalent to 0.3% of GDP for FY2025 budget execution.
- Consolidate the Energy Debt Recovery Levy, Energy Sector Recovery Levy and Sanitation and Pollution Levy with the consolidated funds to finance the energy sector shortfalls
- Increase the Growth & Sustainability Levy for the mining sector from 1.0% of gross production to 3.0% of gross production with a sunset clause scheduled in 2028.
- The sunset clause on the Special Import levy has also been extended to 2028.
- Uncap the GETFund as a dedicated financing source for the Free Senior High School programme
- Amend the Mineral Income Investment Fund (MIIF) Act to ensure 80.0% of all mineral royalties are transferred to the Central Government's consolidated fund.
- **VAT Reforms:** The Ghanaian authorities have requested technical assistance from the IMF technical to analyse the impact and implement the proposed VAT reforms with a target completion date of end-2025. The objectives of the VAT reform include abolishing the 1.0% COVID Health Levy, reversing the decoupling of the GETFund and NHIL from the VAT, reversing the VAT Flat rate regime, reducing the effective rate for households and businesses, increasing the VAT registration threshold to exempt micro and small businesses from the VAT.

The authorities are yet to publish the full 2025 budget with Appendix containing the breakdown of the key fiscal data. We await this publication to provide deeper analysis and our view on the macro-fiscal targets for FY2025.

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