

# FUNDAMENTALS

## GHANA 2025 MID-YEAR BUDGET REVIEW:

### Sober Spending, Sunny Outlook

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## IN BRIEF

- **A fiscal reset anchored on spending control.** Ghana's 2025 mid-year budget review signalled a strong fiscal performance in 1H2025, marked by a satisfactory revenue outturn, improved spending discipline, and plausible risk mitigation efforts, boosting confidence in the attainment of full-year macro-fiscal targets. Despite no revisions to the end-year targets, the better-than-expected outturns in key indicators such as inflation, exchange rate, real GDP growth, and forex reserves have eased our earlier concerns and suggest a likely outperformance across macroeconomic targets for FY2025.
- **Total revenue surged despite disappointing customs and non-tax revenue collections while ESLA shine brightens the 2H2025 prospect.** Despite falling slightly short of target, Ghana's 1H2025 revenue grew by 33.1% y/y and surpassed our expectations by 8.3%, driven by robust domestic tax performance and compliance gains, although non-tax and customs revenues lagged due to structural inefficiencies. While medium-term reforms offer promise, near-term risks persist. Nonetheless, strong direct tax, VAT, and ESLA inflows, alongside modest expectations from the new fuel levy, have prompted a raise to our FY2025 revenue forecast to GHS 227.7bn (+4.3%), just below the government's revised target (GHS 229.95bn).
- **Fall in domestic yields suppress interest payment while discretionary spending took a hit but payroll pressure persists.** Total expenditure in 1H2025 was well-contained (+8.3% y/y), undershooting the budget ceiling by 14.4% as spending controls tightened across nearly all items except payroll, which saw a modest overshoot due to a 3.9% rise in wages & salaries. This fiscal restraint reflects improved expenditure management, supported by the integration of 549 MDAs and MMDAs onto the automated GIFMIS platform. While this trend strengthens fiscal discipline and reduces off-budget risks, we believe the wage bill poses a potential upside risk, with looming pressures from labour demands that could intensify in the next budget cycle.
- **The strong Cedi appreciation suppresses debt-to-GDP ratio temporarily below the new ceiling ahead of the 2034 target.** Ghana's debt profile improved significantly in 1H2025 as a stronger Cedi and primary fiscal surplus drove debt stock down by GHS 113.7bn, lowering the debt-to-GDP ratio to 43.8% — seemingly beating the 2034 target debt ceiling of 45.0% ahead of schedule. While this FX-driven gain offers near-term relief, we expect the ratio to rise above 45.0% by year-end due to deficit financing on a projected FY2025 nominal GDP base. However, we believe the shift to a primary surplus and trimmed financing needs reflects meaningful progress toward debt sustainability, contingent on continued currency stability and fiscal prudence.

## Performance review and outlook

### A fiscal reset anchored on spending control

Ghana's finance minister, Dr. Cassiel Ato Forson, presented the country's 2025 mid-year budget review on 24 July 2025, opting for macro-fiscal updates rather than a supplementary budget.

The budget execution for 1H2025 delivered strong performances with a sizable fiscal adjustment outperforming the authorities' target and our estimates for the period. Our review of the fiscal data indicates renewed commitment to spending controls and non-accumulation of arrears amid a largely satisfactory tax revenue outturn, despite underperformance in non-tax revenue.

Against the backdrop of better-than-expected fiscal outturn, the authorities appear strongly optimistic about achieving the end-2025 macro-fiscal targets as all the year-end targets were retained. Similarly, the strong 1H2025 delivery on key targets has significantly eased our post-2024 concerns on the near-term fiscal outlook, although risks to budget execution persist. The fiscal authorities have rightly identified some key risks to the 2025 budget execution and outlined some mitigation measures, some of which we believe are credible mitigants.

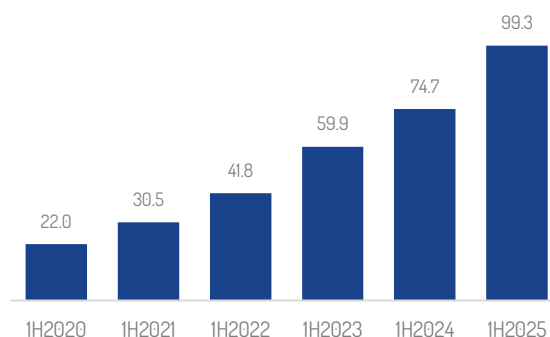
Based on the impressive performances on key macroeconomic indicators in 1H2025, including inflation, exchange rate, interest rate, real GDP growth (1Q2025), and gross international reserves, we expect better-than-targeted outcomes for all the macro targets in 2025.

**Total revenue surged despite disappointing customs and non-tax revenue collections while ESLA shine brightens the 2H2025 prospect.** Total revenue and grants fell short of 1H2025 target by 3.2% at GHS 99.3bn (7.1% of GDP) but beat our estimate by 8.3% as the authorities intensified tax compliance amid limited new revenue measures in the budget. We note disappointing outturn in non-tax revenue (GHS 10.2bn) which fell short of target by GHS 2.4bn (or -19.1%), mainly reflecting lower-than-expected revenue collections by state agencies. Also, customs collection (GHS 10.96bn) underperformed target by GHS 1.6bn (or -12.7%) attributed to systemic revenue leakages at key ports, especially the Tema Port, as well as smuggling of goods across land borders. Unsurprisingly, the authorities flagged this revenue source as one of the likely headwinds to budget performance, outlining measures to limit the risk. Some of these measures include

- adoption of AI tools to minimize human interference,
- rollout of Advanced Cargo Information (ACI) system to ensure advance receipt of shipment information,
- implement anti-smuggling surveillance programme,
- review the institutional setup of the Customs Division to decentralise operational risk and enhance staff transparency and accountability.

While we think these measures may yield medium-term results, we remain less optimistic about their mitigating impact in the short-term, although the rollout of ACI system could offer immediate backstop.

1HY REVENUE PERFORMANCE (2020 – 2025)



SOURCE: MINISTRY OF FINANCE, IC INSIGHTS

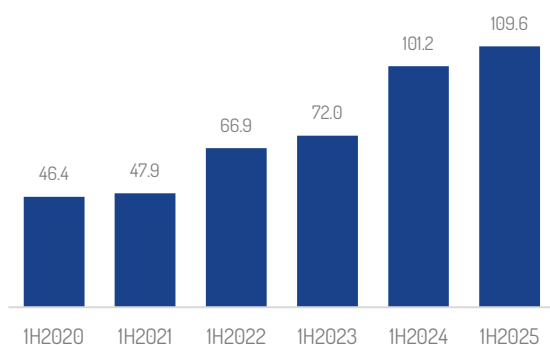
On a positive note, revenue from direct taxes (GHS 43.7bn | +4.7%), taxes on sale of goods & services (GHS 34.7bn | +1.0%), and energy sector levies – ESLA – (GHS 3.3bn | +8.5%) exceeded their respective targets, pushing total revenue up by 33.1% y/y. In our view, this stronger-than-expected performance in the domestic tax collection also reflects the improving real sector conditions which bodes well for the revenue outlook.

We note that the positive outturn in ESLA proceeds for 1H2025 is yet to reflect the GHS 1.0/litre fuel levy introduced in mid-July 2025, which cautiously brightens the prospect for 2H2025. Our analysis revealed that the Treasury expects an additional GHS 5.5bn (0.4% of GDP) from the new fuel levy by FY2025. However, we think this expectation appears ambitious against the collection period of 5.5 months to end-2025. Based on Ghana's total consumption of 4.94bn litres of gasoline (petrol) and gas oil (diesel) in FY2024 and extrapolating the 5M2025 outturn, we estimate a consumption volume of 5.64bn litres for FY2025. This suggests an estimated consumption volume of 2.6bn litres in the implementation period in 2025 and translates to expected proceeds of GHS 2.6bn (0.2% of GDP).

Given the stronger revenue outturn (relative to our estimate) for 1H2025 and using our estimated inflows from the fuel levy, we raise our projected total revenue for FY2025 to GHS 227.7bn (+4.3% vs our prior estimate). Our revised estimate however falls slightly below the authorities' revised revenue target of GHS 229.95bn (16.4% of GDP), due to our cautious view on ESLA flows and non-tax revenue for 2H2025.

**Fall in domestic yields suppress interest payment while discretionary spending took a hit but payroll pressure persists.** Total expenditure was broadly contained within budget limit in 1H2025 as total commitment spending came in at GHS 109.6bn (7.8% of GDP), falling below the budget ceiling by GHS 18.4bn (or 14.4%) and lower than our estimate by 11.6%. Our review of the fiscal data showed that all expenditure items were contained below their respective budgets except the payroll which exceeded budget by GHS 0.5bn (or 1.4%) due to a 3.9% over-spending on wages & salaries (GHS 35.4bn).

#### 1HY EXPENDITURE PERFORMANCE (2020 – 2025)



SOURCE: MINISTRY OF FINANCE, IC INSIGHTS

We believe the enforcement of spending controls was aided by the migration of 549 Ministries Departments and Agencies (MDAs) and Metropolitan Municipal and District Assemblies (MMDAs) onto the automated GIFMIS platform. We expect this renewed commitment to spending controls to reduce off-budget spendings and cap the upside for total expenditure.

However, we perceive upside risk in the wage bill against the backdrop of recent labour agitations for implementation of improved conditions of service already agreed with the previous administration. Although the pressures appear largely contained in the immediate term, we foresee a likely intensified pressure in the next budget cycle.

The Ghanaian authorities have promptly flagged the payroll risk as a potential headwind to the budget with proposed mitigation measures such as

- regular nationwide staff payroll audit
- realignment of staff from overstaffed and defunct MDAs to areas with critical staffing needs
- finalise processes for establishing the Independent Emoluments Commission, and
- issue Executive directive for all MDAs to seek approval from the Minister of Finance before payroll commitments.

Although we acknowledge the authorities' positive signalling to curb the payroll risk, we remain less convinced about a near-term impact given the perennial concerns with payroll pressure.

#### Revised fiscal framework for FY2025

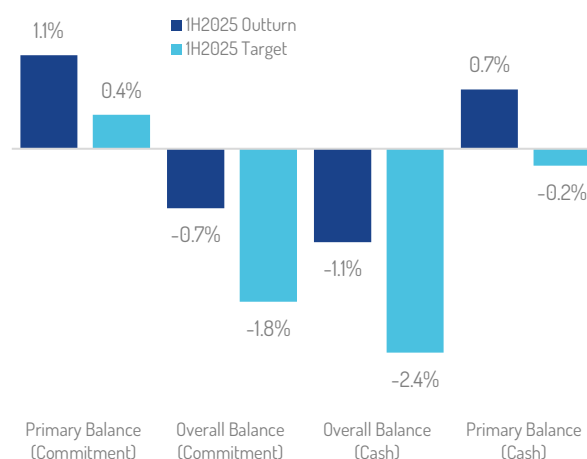
**Higher revenue expectation suppresses the overall deficit target but upsurge in energy sector obligations keeps the target primary surplus unchanged.** In view of the improved revenue prospects for 2H2025 against the broadly unchanged total expenditure, the authorities have slashed the target overall commitment deficit to 2.8% of GDP (vs 3.1% prior) and cash deficit to 3.8% from 4.1%.

The strong restraint on expenditure in 1H2025 has significantly eased our concerns about the near-term fiscal outlook, although we continue to view the payroll and energy sector obligations as lingering upside risk to the outlook. This notwithstanding, we expect the authorities to sustain expenditure rationalisation measures in 2H2025 while driving revenue growth. Against this backdrop, we trim our end-2025 forecast for overall deficit (cash) to 3.9% of GDP  $\pm 0.5\%$  (vs prior midpoint of 5.1%).

Despite the compression in overall deficit target, the authorities surprisingly left the target primary surplus unchanged at 1.5% of GDP. Our analysis revealed that the unchanged fiscal anchor for 2025 reflects an unexpected upsurge in energy sector obligation by GHS 2.9bn to GHS 30.0bn for FY2025 with 94.1% of the increase already paid in 1H2025.

Our investigations revealed that while the Electricity Company of Ghana has broadly complied with the Cash Waterfall Mechanism in 5M2025, a GHS 103.4mn shortfall in January 2025 and a likely under-collection in 1H2025 contributed to the unplanned energy sector payment. This payment uncertainty in the energy sector keeps us cautious on the short-to-medium term fiscal outlook.

#### FISCAL BALANCES IN 1H2025 (TARGET vs OUTTURN) - % OF GDP



SOURCE: MINISTRY OF FINANCE, IC INSIGHTS

## Public debt development and financing outlook

### The strong Cedi appreciation suppresses debt-to-GDP ratio temporarily below the new ceiling ahead of the 2034 target.

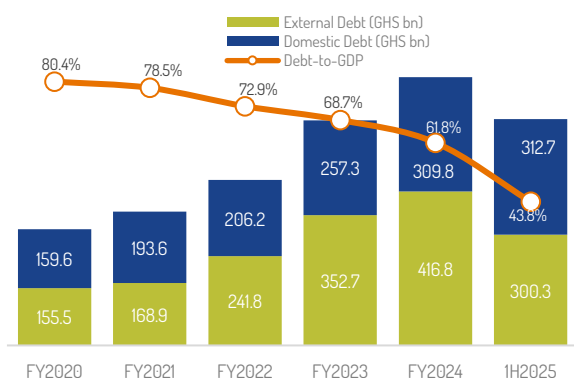
Ghana's debt metrics improved strongly in 1H2025 both in stock terms and relative to GDP, mainly due to the strong appreciation of the Ghanaian Cedi and the fiscal adjustment measures which flip the primary balance to surplus.

The authorities reported a GHS 113.7bn (8.1% of GDP) reduction in the public debt stock to GHS 630.0bn as of June 2025 from GHS 726.7bn at end-2024. The decline suppressed the debt-to-GDP ratio to 43.8% as of June 2025 (vs 61.8% at end-2024) and seemingly complies with the new debt ceiling of 45.0% encoded in the amended PFM Act which was to be achieved by 2034.

We attribute the sharp improvement in Ghana's debt metrics to the 43.0% appreciation of the Ghanaian Cedi in 1H2025, which suppressed the external debt stock to 49.0% of total debt stock (vs 57.4% at end-2024). While the FX-induced revaluation drop in the debt stock significantly eases Ghana's debt service burden and supports the progress toward debt sustainability, we are mindful that the debt stock will rise over the coming months as deficit financing continues. However, the projected nominal GDP of GHS 1.4trn for FY2025 will remain a constant base to year-end which will inevitably lead to a rise in the debt-to-GDP ratio above the 45.0% medium-term debt anchor by FY2025.

Nevertheless, the compelling fiscal adjustment in 1H2025 and the authorities' commitment to post a primary surplus (1.5% of GDP) in FY2025 constitutes a fast-tracked compliance with the fiscal anchor encoded in the amended PFM Act. We observed that the fiscal authorities have reduced the net financing (borrowing) requirement for FY2025 by GHS 4.3bn (or 0.3% of GDP) to GHS 52.6bn (3.8% of GDP). Having already executed GHS 15.1bn (or 1.1% of GDP) in 1H2025, this translates to remaining net financing need of GHS 37.5bn (or 2.7% of GDP) for 2H2025 with domestic borrowing likely absorbing more than two-third. We expect the sustained primary surplus to restrain the rate of net borrowing in the short-to-medium term while a continued Cedi stability will cap the growth in the debt stock, supporting progress towards compliance with the 45.0% debt anchor by 2034.

### EVOLUTION OF PUBLIC DEBT METRICS (2020 – 1H2025)



SOURCE: MINISTRY OF FINANCE, IC INSIGHTS

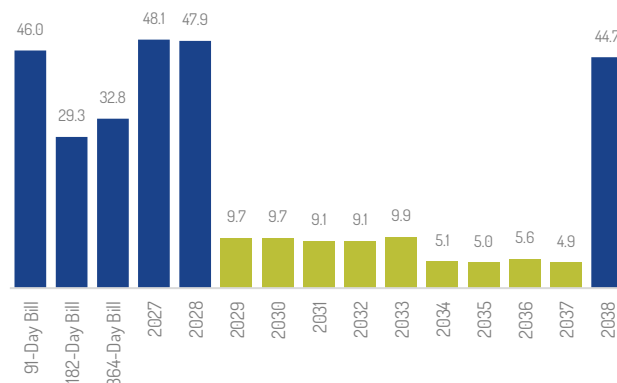
## Re-opening the domestic bond market

**Bond market return draws near amid market rebound.** The authorities reiterated the intention to return to domestic bond issuance for deficit financing while restricting the use of T-bills for cash management.

Although the update did not specify a definite timeline for return to domestic bond issuance, we maintain our expectation for the authorities to resume domestic bond issuance by late-3Q2025 or early-4Q2025. We believe that the planned July 2025 IMF Technical Assistance on the bond market reopening has progressed significantly with the next stage being selection of transaction advisors, which will pave the way for resumption of domestic bond issuance in early-4Q2025.

However, we reiterate our longstanding view that the Treasury will most likely commence domestic bond issuance in 2025 with a re-opening of the existing DDEP bonds, targeting the 2029 and longer tenors. This will ensure non-distortion of the yield curve while proceeds will be used to reduce the elevated upcoming maturities at the front-end of the curve.

### OUTSTANDING DOMESTIC MARKETABLE SECURITIES (GHS Bn)



SOURCE: BANK OF GHANA, MINISTRY OF FINANCE, IC INSIGHTS (Data as of end June 2025)



## Summarized fiscal performance in 1H2025

REVENUE BREAKDOWN	Outturn (GHS bn)	Target (GHS bn)	Deviation from Target
Direct Taxes	43.7	41.8	4.7%
Taxes on Goods & Services	34.7	34.4	1.0%
Import Duty	11.0	12.5	-12.7%
Tax Refunds	-5.1	-3.4	48.2%
Non-Tax Revenue	10.2	12.6	-19.1%
Other Revenue	3.3	3.0	8.5%
Social Contributions	0.8	0.6	33.4%
Grants	0.7	1.1	-31.7%
<b>DOMESTIC REVENUE</b>	<b>98.6</b>	<b>101.5</b>	<b>-2.9%</b>
<b>TOTAL REVENUE &amp; GRANTS</b>	<b>99.3</b>	<b>102.6</b>	<b>-3.2%</b>

SOURCE: MINISTRY OF FINANCE, IC INSIGHTS

EXPENDITURE BREAKDOWN	Outturn (GHS bn)	Budget (GHS bn)	Deviation from Budget
Employees Compensation	38.8	38.3	1.4%
Use of Goods & Services	1.9	3.2	-38.5%
Interest Payment	25.4	30.5	-16.7%
Statutory Payments	24.9	24.9	-0.2%
Other Expenditure (IPPs, FinSec, etc)	10.0	11.3	-12.0%
Capital Expenditure	7.1	18.1	-60.7%
Social Benefits	1.5	1.6	-9.5%
Subsidies	0.0	0.1	-100.0%
Arrears Clearance	4.8	7.5	-36.2%
Amortisation	7.0	4.5	56.4%
<b>TOTAL EXPENDITURE (Commitment)</b>	<b>109.6</b>	<b>128.0</b>	<b>-14.4%</b>
<b>TOTAL EXPENDITURE (Cash)</b>	<b>121.4</b>	<b>140.0</b>	<b>-13.3%</b>

SOURCE: MINISTRY OF FINANCE, IC INSIGHTS



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