



AFRICAN DEVELOPMENT BANK GROUP  
GROUPE DE LA BANQUE AFRICAINE  
DE DEVELOPPEMENT

# Country Focus Report 2025

## Ghana



Making Ghana's Capital Work Better  
for its Development

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African Development Bank Group  
Avenue Joseph Anoma  
01 BP 1387 Abidjan 01  
Côte d'Ivoire  
[www.afdb.org](http://www.afdb.org)

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# ACKNOWLEDGEMENT

The Country Focus Report (CFR) 2025 for Ghana was prepared in the Chief Economist and Vice-Presidency for Economic Governance and Knowledge Management Complex, under the general direction and supervision of Prof Kevin C. Urama, Chief Economist and Vice-President, with support from Adamon Mukasa (Principal Research Economist), and Amah Marie-Aude Ezanin (Executive Assistant).

The preparation of the report was led by Desire Vencatachellum (Senior Director, Country Economics Department – ECCE), with Marcellin Ndong Ntah (Lead Economist, ECCE) as Technical Coordinator of the process, Abir Bdioui (Consultant, ECCE) for IT support, Tricia Effe Baidoo (Product Management Specialist, ECCE) for the monitoring of copy editing and design) and Eugenia Grant (Team Assistant, ECCE) for administrative support. The CFR 2025 for Ghana was prepared by Zerihun Gudeta Alemu, Chief Country Economist, under the supervision of Jacob Odure, Lead Economist.

Our thanks go to Linguere Mbaye, Division Manager ECC , (ii) the Ghana country team led by Lamin Barrow (Director General RDGW) with the support of Joseph Ribeiro (Deputy Director General, RDGW), and Eyerusalem Fasika (Country Manager Ghana Country Office); (iii) the Department of Macroeconomic Policy, Forecasting and Research (ECMR) led by Anthony Simpasa (Director); (iii) the Department of Transition States (RDTs) led by Yero Baldeh (Director); (iv) the African Centre for Natural Resources (ECNR) led by Solomane Koné (Director); and the Economic Research Consortium for Africa (AERC) led by Prof. Victor Murinde (Executive Director)<sup>1</sup> for their contributions.

The Bank would like to thank the heads of government entities for hosting and organizing the mission to prepare the 2025 Country Report of Ghana and the quality of the discussions. It also thanks the representatives of civil society organizations, the private sector, and technical and financial partners for their availability and the quality of the discussions during the meetings held with the mission.

The data in this Report were compiled by the Department of Statistics - ECST headed by Samson Babatunde Omotosho (Director) with the participation of Koua Louis Kouakou, Head of the Economic and Social Statistics Division, and Anouar Chaouch (Senior Statistician, Economic and Social Statistics Division, ECST).

Comments made during the peer review were received from Jerry Ahadjje (Chief Minerals officer, ECNR) and George Marbuah (Research Economist, ECMR<sup>2</sup>). Dr. Joseph Attah-Mensah, Senior Researcher at the African Center for Economic Transformation - Ghana) contributed as external reviewers.

The cover of the report is based on a general design by Yattien-Amiguet and Justin Kabasele of the Bank's External Relations and Communications. Copy editing was done by Anne Mcgoogan and layout was done by Ancre Consulting.

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# ACRONYMS AND ABBREVIATIONS

<b>AEO</b>	African Economic Outlook
<b>AfDB</b>	African Development Bank
<b>AU</b>	African Union
<b>BoG</b>	Bank of Ghana
<b>CED</b>	Ghanian currency
<b>CFR</b>	Country Focused Report
<b>ECOWAS</b>	Economic Community of the West African States
<b>EU</b>	European Union
<b>FD</b>	Financial Development
<b>FDI</b>	Foreign Direct Investment
<b>GDP</b>	Gross Domestic Product
<b>GSE</b>	Ghana Stock Exchange
<b>IFFs</b>	Illicit Financial Flows
<b>IMF</b>	International Monetary Fund
<b>MSMEs</b>	Micro Small and Medium Enterprises
<b>NCA</b>	National Capital Accounting
<b>ODA</b>	Official Development Assistance
<b>SDGs:</b>	Sustainable Development Goals
<b>USD</b>	United States dollar
<b>VAT</b>	Value Added Tax
<b>WB</b>	World Bank



# EXECUTIVE SUMMARY

**The outlook is uncertain due to the possible impact of tariff on global demand and international financial markets.** Gross domestic product (GDP) growth accelerated to 5.7% in 2024 from 3.1% in 2023 driven by services (information and communication), and industry (mining, quarrying, and construction) on the supply side; and investments and external demand (net export) on the demand side. Growth is projected to slow down to 4.5% in 2025 and 4.8% in 2026, a downward revision of a 0.4 percentage points and 0.1 percentage points, respectively caused by projected lower commodity prices and tighter international financial conditions caused by uncertainty in global trade. Regardless, growth remains lower than long-term potential (5%-7%) and the 7% per annum growth required to make growth inclusive. Several growth enhancing initiatives have been introduced. This together with the Sustainable Development Goals (SDGs) and the African Union's (AU) Agenda 2063 targets have increased Ghana's overall development financing needs.

**Macro-policy management has improved. Balancing domestic and external resource mobilization efforts and development remains key.** Inflation moderated to 22.9% from 40.3% in 2023, above the target. It is projected to remain above target in 2025 (15.5%) and fall to 9% in 2026. The fiscal deficit widened to 4.8% of GDP in 2024 from 3.4% in 2023. It is projected to remain in deficit but narrow to 3.5% and 3.0% in 2025 and 2026 respectively. The current account balance improved to 1.8% of GDP in 2024 from 1.7% in 2023. It is projected to remain in surplus (2.6% of GDP) in 2025. Ghana is confronted with a difficult task of balancing macroeconomic policy management and raising enough resources to meet its growing development financing needs. This entails ensuring internal and external account balances while mobilizing domestic and external savings. Ghana has the potential to improve its internal and external balances through growth friendly fiscal efforts e.g., improving tax administration, reducing tax exemptions, expanding the tax base by formalizing the informal sector, rationalizing and prioritizing spending, improving the efficiency of public sector investments, and combating illicit financial flows. At the same time, the country has the potential to mobilize external resources by diversifying the export base beyond traditional commodities like gold, cocoa, and crude oil, while supporting greater inflows of external finance. This is especially important given the decline in foreign direct investment (FDI), a drop in diaspora remittances, and a fall in official development assistance (ODA). Finally, leveraging natural capital and its associated ecosystems presents a vital opportunity for sustainable growth. Key reforms include implementing a Natural Capital Accounting (NCA) framework, integrating ecosystem service values into national planning, reforming land use policies to promote conservation, establishing legal frameworks for resource rents and equitable benefit-sharing, and aligning environmental regulations with investment incentives.

**Ghana needs to enhance the quality of institutions to support ongoing domestic and external resource mobilization efforts.** Ghana is ranked low compared with its peers in measures of institutional quality. According to available data, its financial institutions and markets need to deepen to improve accessibility, depth and efficiency. These require concerted effort to strengthen the rule-of-law and law enforcement, judicial independence, efficiency of the bureaucracy, regional and continental collaboration against cross-border financial crimes and developing the financial sector.

# GENERAL INTRODUCTION

Ghana is the third largest economy in the West Africa region next to Nigeria and Cote d'Ivoire with, in 2024, a GDP estimated at USD 76 billion. It has a population of approximately 34 million. According to the World Bank's 2023 classification the country is classified as a lower-middle-income economy with a gross per capita income of USD 2200 in 2023. Ghana is endowed with natural resources such as gold (it's the top African gold producer), oil and gas (production capacity of 170,000 barrels a day), cocoa (2nd largest producer in the world).

The African Economic Outlook (AEO) is the flagship report of the African Development Bank (AfDB) aiming to fill a knowledge gap on the diverse socio-economic conditions and outlook of African economies. The AEO report provides analysis on the state of socio-economic challenges and progress made in Africa as well as short-to-medium-term forecasts on the evolution of key macroeconomic indicators for all the 54 African countries. Over the years, the AEO has become standard reference material for those interested in African development, including country, regional, continental, and global policymakers, researchers, investors, and development partners. In addition to the main AEO report, the AfDB also produces the Regional Economic Outlook (REO) reports and the Country Focus Reports (CFRs). The REO reports and CFRs aim to replicate the analyses carried out at the continental level in the AEO report in the five regions of the African continent (Central Africa, East Africa, North Africa, Southern Africa, and West Africa) and in the 54 African countries, respectively. The REOs and CFRs detailed analysis at the regional and country levels, policy implications and strategic solutions enable the AfDB to better inform the design of development policies and future projects and programs at the regional and country operational levels in Africa. The 2025 edition of the REOs and CFRs will maintain a three-chapter structure focused on (i) economic performance and outlook, (ii) boosting domestic capital mobilization and efficient utilization, and (iii) harnessing Ghana's capital potential and resources for development.



# MACROECONOMIC PERFORMANCE AND OUTLOOK

## Key Messages

- **GDP growth accelerated to 5.7% from 3.1% in 2023, driven by diverse sources:** services, industry, external demand, and investment. Growth is projected to slow down to 4.5% in 2025 and 4.8% in 2026. This means it will remain lower than the country's long-term growth potential (5%-7%) and the 7% or more growth that is required to put a meaningful dent in poverty and unemployment. Several growth-enhancing initiatives have been introduced to lift growth to a higher trajectory. This has increased the country's development financing needs. Increasing growth to 7% alone requires increasing the investment to GDP ratio to over 23% from its current average of 14% between 2021 and 2023.
- **Considering the low domestic saving (14% of GDP), against a continental average of 15% and the growing development financing needs, room exists for macro policy management to enhance the mobilization of domestic and external savings.** Macro policy management has not helped achieve macroeconomic stability. Inflation at 22.9% in 2024 was higher than the 2024 budget and the Bank of Ghana (BoG) targets of 15.5% and 6%-10% respectively. The fiscal policy is yet to build a fiscal buffer required to support sustainable development financing, and the current account balance, although in surplus, is low compared with the potential and level required to stand against externally instigated shocks. Ghana is under the IMF supported Extended Credit Facility. The program aims at achieving macroeconomic stability and debt sustainability to lay the basis for increased domestic and external savings mobilization.

## 1.1 Introduction

This chapter presents Ghana's recent economic performance and provides medium-term growth projections. It assesses real sector performance and provides policy options to support growth, economic transformation, and macroeconomic stability. The remainder of the chapter is organized as follows. Section two discusses Ghana's recent real sector performance. Section three discusses macro policies implemented to support real sector performance. Section four focuses on macroeconomic outlook. And section five provides policy options to accelerate economic development.

## 1.2 Growth performance

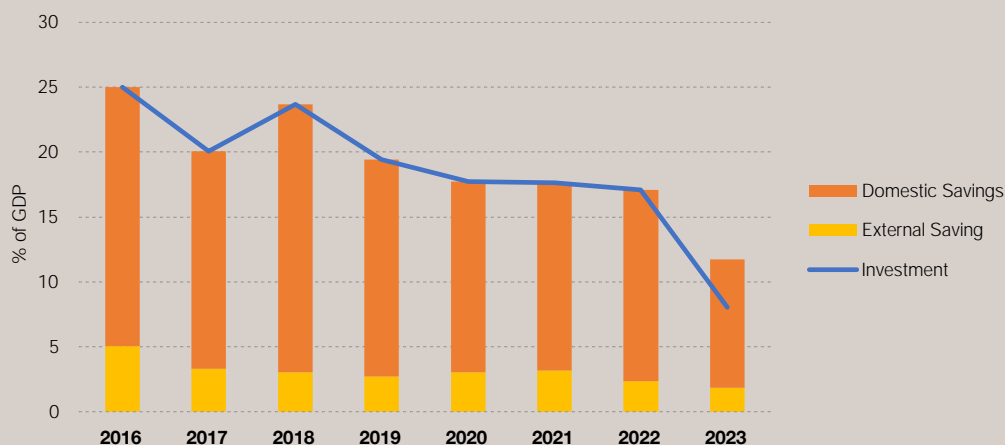
**Economic growth accelerated to 5.7% in 2024 from 3.1% in 2023.** Regardless, it remains below the 5%-7% long-term potential and the 7% growth required to make a meaningful dent in poverty by lifting growth on an inclusive growth path. Growth is attributable to improved macro policy management and economic activity. Lifting growth to 7% or more would require increasing investment, which averaged 14% of GDP (between 2021 and 2023), incrementally to 23%. This implies the country sits

with an investment financing gap equivalent to 9% of GDP.

**Growth was driven by the services sector on the supply side and external demand and investment on the demand side.** Services contributed 44% to the 5.7% growth followed by industry 41%, agriculture 10%, and other sectors 5%. Three out of 11 activities within services namely information and communication, financial and insurance and wholesale and retail trade accounted for about half of the sector's value added and 30% of the overall GDP growth. This points to the potential for accelerating growth by diversifying the growth base through intra and intersectoral reallocation of resources. On the demand side, growth was driven by an increase in external demand (net exports due to an increase in gold and crude oil exports). Net exports accounted for 39% of the 5.7% GDP growth followed by investments of 35%, and consumption of 26%.

**Accelerating growth requires increased domestic and external savings mobilization efforts.** External savings financed on average 17% of total investments between 2021 and 2023 (Figure 1). A significant portion of it was financed

**Figure 1: Growth is Financed by External Savings (External debt)**



Source: Own computations based on data from Ghana Statistical Services

through loans which grew on average by 5% of GDP annually between 2016 and 2023 thus contributing to debt accumulation. This has made debt unsustainable and exposed the economy to high cost of capital, exchange rate risks and external shocks. In general, macro-policy management (fiscal, monetary and exchange rate) has the difficult task of balancing macroeconomic stability and domestic and external savings mobilization. Growth friendly measures to be taken could include, inter alia, tampering with the structure of domestic absorption - private and government consumption together account for about 89% of GDP. The savings achievable through increased household savings mobilization (e.g., through increased financial inclusion) and government savings mobilization (e.g., closing tax gap through improved tax compliance and streamlining tax exemptions, government expenditure rationalization/prioritization/investment efficiency) could be shifted to financing investments.

**Ghana has the potential to mobilize domestic and external savings to minimize the investment financing gap.** Personal/household and business savings can be increased by controlling inflation to increase the disposable income of households and improving household access to the financial sector (financial inclusion). Estimates show that Ghanaian's save 10% to 20% of their income and only 39% of Ghanaians have access to the financial institutions. Business savings can be increased by decreasing the cost of doing business – e.g., the cost of energy is high estimated at between USD 0.1 to 0.2 per KWh. Public savings can be increased through growth friendly revenue enhancement measures (e.g., closing tax compliance and tax expenditure gaps the latter estimated at 3.9% of GDP, increasing non-tax revenue, and rationalizing/prioritizing/improving the efficiency of government spending. The AfDB estimates that about 39% of public sector investment in Africa is wasted due to inefficiency. The government plans to limit growth in government spending to less than 10% annually. It has also put in place a fiscal rule i.e., a primary fiscal surplus balance of 1.5% of GDP per annum; and a debt rule i.e.,

reducing the debt-to-GDP ratio to below 45% by 2034. Ghana could also boost savings by mobilizing external savings (e.g., the FDI, diaspora remittances, etc.) by improving the business environment and the quality of its institutions and economic governance. See section 2.6.3 for detailed discussion on external savings mobilization.

## 1.3 Other recent macroeconomic and social development

### 1.3.1 Monetary policy, inflation, and exchange rate

**Monetary policy was accommodative in 2024 as inflationary pressure abated.** Inflation moderated to 22.9% from 40.3% in 2023, above the 15% government target for 2024 and the single digit target of the Bank of Ghana. Non-food and food inflation contributed 45% and 55% respectively to headline inflation. Credit growth to the private sector averaged 11% in 2024 against 36% in 2023 attributable to shortage of liquidity in the system. This is evidenced by the increase in the interbank interest rate; it averaged 29% in 2024 against 27% in 2023. The Ghanaian cedi depreciated against major currencies during the period caused to a larger extent by uncertainties regarding the completion of the Eurobond restructuring. On the supply side, the Producer Price Index declined to 25% from 29% in 2023. In general, inflation was largely demand driven. Inflation declined to 18.4% in May 2025, contributed by declines in food and non-food inflation. The Cedi also appreciated during the period by 17.2% between January 2025 and mid May 2025 supported by the “Gold for Reserve Program” which contributed to an increase in gold reserve which reached 31 tons at end April 2025 from 21 tons in the corresponding month of 2024. It also benefited from the fiscal consolidation effort and the weak United States Dollars.

**The Monetary Policy Rate (MPR) was cut by 300 basis points to 27% in 2024 from 30% in 2023.** To improve liquidity in the system, the Cash

Reserve Ratio (CRR) was increased to banks with a loan-to-deposit-ratio (LDR) of less than 45% to 25% from 15% while it was lowered for banks with an LDR between 45% and 55% and higher than 55% to 20% and 15% respectively. Furthermore, open-market-operations (buying and selling of treasury bills) and forex-market-operations (buying and selling of foreign exchange) were applied to manage liquidity in the system and defend the MPR. The MPR was hiked to 28% in March 2025 to re-anchor the disinflationary process. The real interest rate at 9.8% is higher than the historical average of 3.8%, implying the BoG's commitment to reducing inflationary pressure. Pursuing a prudent monetary policy remains key to ensuring stability in inflation and the exchange rate and supporting the mobilization of domestic and external savings.

### 1.3.2 Financial sector

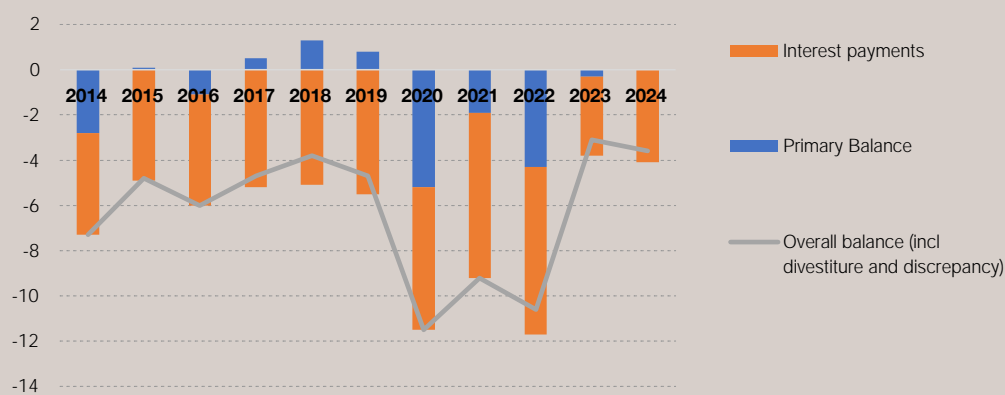
**The financial sector underwent restructuring between 2017 and 2019 following the collapse of Banks.** It cost the country, according to the World Bank, 8.3% of cumulative GDP between 2017 and 2021. This significantly impacted the ability of the financial sector to mobilize the

domestic and external savings required to close the financing gap.

**Recently, the Banking sector was the hardest hit by the Domestic-Debt-Exchange program completed in 2023.** Despite the relief, the solvency of a few banks was strained –and the capital adequacy ratio declined to 10% from 13%. Ghana's financial market is composed of the Ghana Stock Exchange (GSE), fixed income market, and the banking industry. The banking sector is the largest by asset size. It is well capitalized (capital-adequacy-ratio of 14.3%) and liquid (67.5%) but suffers from credit risk (non-performing-loans of 24.1%).

**The financial sector can play a greater role to support domestic and external savings mobilization to finance investments.** According to the IMF's Financial Development (FD) Index, Ghana's financial institutions and markets have a low ranking compared with its global and continental competitors. Ghana scored low in important dimensions of financial institutions and financial markets namely those such as accessibility, depth and efficiency.

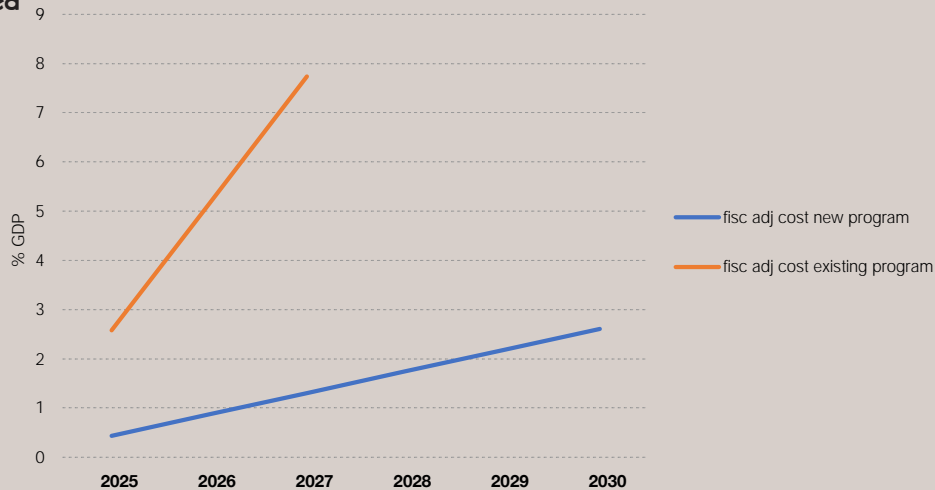
**Figure 2: Interest Payment on loans has been Important Driver of Fiscal Deficit in Ghana**



Source: Own Computations based on data from Ghana Statistics Services



**Figure 3: The Fiscal Adjustment cost of Stabilizing Debt would increase if fiscal targets were missed**



Source: Own computation based on data from Ghana Statistical Services

### 1.3.3 Fiscal policy and public debt

**The fiscal deficit widened to 4.8% of GDP in 2024 from 3.4% in 2023** (Figure2). It was driven by an increase in primary expenditure (due to election-related spending increases) and breaches of government revenue targets. The primary deficit widened to 3.9% of GDP from 0.2% in 2023. Interest payments declined to 0.9% of GDP from 3.3% in 2023 due to the rescheduling of interest payments on domestic, Eurobond and official creditor loans as part of the ongoing debt treatment operation. The fiscal deficit was financed by loans from the domestic (3.3% of GDP) and external (1.5% of GDP) sources. Domestic financing relied heavily on treasury bills. The sinking fund was accessed to some degree as well. External financing was limited to concessional loans due to the debt moratorium on non-concessional external loans.

**Public debt dropped significantly, allowing the country to move from being in debt distress to facing a high risk of debt distress. Staying on the planned debt sustainability path requires strict adherence to fiscal targets.** According to the IMF's data, public debt declined to 70.5% of GDP in 2024 from 76.4% in 2023 attributable to

completion of domestic debt restructuring and a 37% haircut on Eurobonds. The fiscal framework in place projects that the debt-to-GDP ratio would fall below the 55% sustainability threshold by 2028. This is assuming that the amended Fiscal Responsibility Act, which sets a primary balance surplus target of 1.5% of GDP between 2025 and the end of the IMF program (2026) would be strictly adhered to. This is critical to creating the fiscal buffer required to close Ghana's growing development financing gap.

**Failure to meet the primary surplus target of 1.5% of GDP could increase the fiscal adjustment cost and widen the financing gap.** Extending the IMF program by three more years could lessen the fiscal burden by thinly spreading the adjustment cost (Figure3). However, it has the risk of extending the time it would take Ghana to re-access the international capital market to 2030.

### 1.3.4 External position – external finance flows

**The current account balance, at 1.8% of GDP, was in surplus as compared with 1.7% in 2023.** It was supported by an increase in the trade

### Box 1: Domestic resource mobilization efforts and development finance gap

Ghana's financing needs to accelerate growth and meet SDG and A U 2063 targets are large. Domestic and external mobilization of savings are low compared with country's financing needs leaving the country with financing gaps. For example, it is estimated that the financing gaps to meet the SDG and AU's 2063 targets are estimated at \$3.3billion and \$0.6 billion per annum. Therefore, mobilization of savings from domestic & external sources remains paramount. They require mobilizing: (i)public savings by addressing sources of fiscal vulnerability. (ii)personal savings by ensuring macroeconomic stability, deepening the financial market and enhancing financial inclusion. (iii)business/corporate savings by improving the business environment. (iv)external saving by diversifying the export-base and attracting FDI and diaspora remittance in flows. (v) ensuring that natural capital and associated ecosystems are properly valued accounted. And (vi) enhancing the quality of governance and institutions and improving accessibility, depth, and efficiency of financial institutions and improving quality of institutions.

balance thanks to higher exports of gold and oil. The trade balance contributed 39% to the 5.7% GDP growth in 2024. Total exports grew by 19% in the first half of 2024 against 14% in 2023. Gold and oil together contributed 77% to export growth. Cocoa was a drag on export growth. The growth in exports was largely supported by improved terms of trade due to global commodity price increases. The commodity price index increased to 191 in October 2024 against 150 in the corresponding month of 2023.

**The balance-of-payment (BoP) registered a surplus.** This was on the back of the current account surplus, decline in net capital outflows, and slower government amortizations (due to debt restructuring). Gross international reserves increased to 3.5 months of import cover against 1.6 in 2023. If the current trend can be sustained, Ghana will be able to significantly increase its external position and close the BoP financing gap earlier than anticipated by 2027.

#### 1.3.5 Social development

**Poverty at 29.5% in 2023, unemployment at 13.7% in 2023 and income inequality at 43.5% in 2022 were high compared with peers.** Ghana has several social protection programs. Notables are the Livelihood Empowerment Against

Poverty, National Health Insurance, and the School Feeding Program.

Ghana is under the IMF's Extended Credit Facility program. The program has set targets for social sector spending. This is to safeguard social protection programs so that they are not adversely impacted by the IMF-supported fiscal consolidation program. Regardless, reports show that pro-poor allocations in education and health and social assistance programs continue to face financing shortfalls.

## 1.4 Macroeconomic outlook and risks

### 1.4.1 Outlook

**The outlook is uncertain due to global trade uncertainties.** GDP growth is projected to decelerate to 4.5% in 2025 and 4.8% in 2026 due to cuts in government spending and global market uncertainties. The 2025 and 2026 growth projections have been revised downward by 0.4 percentage points and 0.1 percentage points respectively compared to the January 2025 projections. This has been caused by possible direct and indirect impacts of the US reciprocal tariffs and retaliatory measures expected to be meted out by impacted economies (e.g., China, the

**Table 1: Macroeconomic and social indicators**

	2020	2021	2022	2023	2024(e)	2025(p)	2026(p)
<b>Real GDP Growth (%)</b>	0.5	5.1	3.8	3.1	5.7	4.5	4.8
<b>Real GDP Growth per Capita (%)</b>	-1.5	3.1	1.8	1	3.3	2.2	3.0
<b>Inflation</b>	9.9	10	31.5	40.3	22.9	15.5	9.0
<b>Overall Fiscal Balance, Including Grants (% GDP)</b>	-11.5	-12.1	-11.8	-3.4	-4.8	-3.7	-3.1
<b>Current Account (% GDP)</b>	-3	-3.2	-2.4	1.7	1.8	2.6	1.4

Source: Data from domestic authorities; estimates (e) and predictions (p) based on authors' calculations; AfDB Statistics Department

EU, etc.). This is expected to impact commodity prices and cause tighter international financial market conditions. Inflation is projected to ease to 15.5% and 9% in 2025 and 2026 respectively on the back of a tighter monetary policy stance. The fiscal deficit is projected to narrow to 3.5% and 3.0% of GDP in 2025 and 2026 respectively supported by the ongoing fiscal consolidation program. The current account balance is projected to remain in surplus at 2.6% and 1.4% of GDP in 2025 and 2026 respectively on the back of an improved trade balance supported by oil, gold and cocoa exports. Ghana needs to adhere to ongoing and planned structural policy reforms to ensure macroeconomic stability. This would be critical to support domestic and external savings mobilization to finance its growing development financing needs.

### 1.4.2 Risks

#### **Risks to the outlook are titled the negative.**

Headwinds to the outlook emanate from climate change, policy reversals (tampering with the IMF-supported fiscal framework), spillover effect of regional instability in West Africa (Sahel countries) and escalation of the trade war (after the 90-day pause expires) with deeper impact on global demand than already factored into the baseline scenario. A 10% tariff was imposed on Ghana's exports to the United States. The US also ceased aid amounting to \$156 million per annum to Ghana.

The cessation of US aid may have little impact on Ghana's fiscal targets. It is already accommodated in the 2025 budget.

#### **Ghana's economy is projected to be impacted by the indirect rather than the direct effect of the US reciprocal tariff.**

Ghana's trade with the United States is in surplus. Ghana's major exports to the US are dominated by crude petroleum and cocoa. The US is not in the top five list of export destinations for Ghana's exports. The impact the tariff hike will have on Ghana's trade balance with the US depends on several factors namely the magnitude of the tariff hike imposed on Ghana's competitors in the US market, price and income elasticity of Ghana's export to the US (largely inelastic according to some studies), and the magnitude of retaliatory measures that may be meted out by impacted countries (export diversion effect). The response of the US and rich economies to inflationary pressures in their countries brought by the trade war is expected to impact the international capital market. This could impact Ghana through various channels: the high cost of borrowing, a weak Cedi, higher inflation, and internal and external account imbalances. **Risk mitigation measures could include** increased public consultation on policy reforms, improved natural disaster preparedness, expenditure rationalization, and the search for alternative export destinations, and enhancing trade through AfCTA to which Ghana is a member. The AfCTA comes

with the following benefits: market diversification, the boosting of regional value chain development, and enhanced negotiation leverage in trade talks as a trade bloc.

**Tailwinds to the outlook could include a return to pre-April tariff rates.** Many countries are having bilateral negotiations with the US taking advantage of the 90-day pause. Some have yielded positive results (e.g., the UK and China). This, if successful, could reverse the outlook.

## **1.5 Policy options to accelerate Regional Member Countries economic development**

**Fifteen key initiatives to reset Ghana's economy including the 'Big Push', have been introduced with the objective of accelerating growth.** Accelerating growth to 7% or more entails increasing the investment to GDP ratio to 23% from its current level of 14%, creating an investment gap of 9% of GDP. This would further widen the savings-investment gap. Closing the gap requires concerted effort to mobilize domestic and external savings. Domestic savings averaged 14% of GDP between 2021 and 2023, lower than the Sub-Saharan Africa average of 15%.

**Policymakers are faced with the difficult task of balancing macroeconomic stability and development.** Monetary policy needs to re-anchor the disinflation process and support personal and business/corporate savings mobilization, improve access to finance for the micro, small and medium enterprises (MSMEs), and promote financial inclusion. In general, the financial sector must develop to support domestic and external savings mobilization efforts.

**Fiscal policy is expected to address fiscal vulnerability by adhering to the amended Fiscal Responsibility Act.** This will help create fiscal spaces or increase public savings (e.g., broaden the tax base, improve compliance, and reduce tax exemptions). To increase public

savings (fiscal balance), efforts should focus on raising non-oil revenue, which is currently 13.3% of GDP compared to the Sub-Saharan average of 19%. This includes improving tax administration, streamlining tax exemptions (estimated at 3.9% of GDP in 2022), formalizing the informal sector (27% of GDP), and boosting non-tax revenue, which stands at 1.5% of GDP versus the continental average of 6.2%. Reviewing energy sector levies is also crucial to reducing fiscal risks arising from contingent liabilities. On the government expenditure front, in line with the expenditure-led fiscal consolidation program, strict adherence to limiting the expenditure growth target to below 10% annually would be important. This should be supported by public financial management reform guided by the new debt rule of a 45% debt-to-GDP ratio by 2034 anchored on a primary balance surplus target of 1.5% of GDP.

**Mobilizing external savings is also critical to meet development financing needs.** This requires diversifying the export-base away from gold, cocoa and crude oil and supporting external finance inflows. FDI decreased to 1.7% of GDP in 2023 from 6.5% of GDP in 2025. Diaspora remittances decreased to 3.2% of GDP in 2023 from 10% in 2015 and ODA declined to USD 1.1 billion in 2022 from USD 1.7 billion in 2015. The exchange rate policy should continue supporting stabilization of the Cedi by building an external buffer. The establishment of the Ghana Gold Board which aims at stabilizing the Cedi is a welcome development. Further, Ghana needs to work towards strengthening the AfCFTA to minimize the impact of global shocks (e.g., trade wars) on its economy. The AfCFTA brings with it benefits, inter alia, market diversification, a boost to regional value chain development, and enhanced negotiation leverage in trade negotiations as a trade bloc.

**Resource mobilization efforts need to be supported by leveraging natural capital and the associated ecosystems.** This entails developing and utilizing natural capital and increasing natural capital beneficiation to

support domestic resource mobilization efforts. This must happen in a manner that conserves natural resources (e.g., climate change, illegal mining, etc.). Possible areas of reform include implementing a Natural Capital Accounting (NCA) framework, integrating ecosystem service values

into national planning, reforming land use policies to incentivize conservation, establishing legal frameworks for resource rents and benefit sharing, aligning environmental regulations with investment incentives.



# BOOSTING DOMESTIC CAPITAL MOBILIZATION AND EFFICIENT UTILIZATION

## 2

### Key Messages

- Ghana's financing gap is estimated at USD 3.3 billion and USD 0.6 billion annually to meet the Sustainable Development Goal and African Union 2063 targets respectively.
- Ghana must increase domestic savings and attract external resources to meet its growing financing needs. This involves boosting public savings by improving tax administration, streamlining tax expenditures, addressing fiscal risks, curbing illicit financial flows (IFFs), rationalizing spending, and improving the efficiency of government expenditures.
- Ghana should also focus on developing its natural capital more effectively. This includes increasing value addition (beneficiation) and giving priority to Natural Capital Accounting.
- Ghana need to improve the business environment which is essential to mobilize more private and external savings. This will help increase capital for the private sector, including micro, small, and medium enterprises. Micro, small and medium enterprises contribute the lion's share to GDP growth, employment creation and external trade.
- The above entails strengthening financial institutions and financial markets and leveraging digital technology to tap into the growing sources of funding.



## 2.1 Introduction

This section highlights Ghana's financing constraints in terms of domestic resource mobilization, expenditure efficiency and debt sustainability. The section assesses the fiscal resources and identifies key forms of capital – natural capital, human capital, domestic capital market, and business capital available to Ghana to trace their usage, efficiencies and gaps. The key objective is to determine how to mobilize and valorize these resources more efficiently to facilitate future growth, structural transformation, and sustainable development.

## 2.2 Fiscal resource mobilization

### 2.2.1 Ghana's financing needs

**The Ghana 2024 CFR estimates Ghana needs to mobilize USD 4.87 billion annually until 2030 for the SDGs and USD 851.64 million, until 2063, for the African Union 2063 Agenda.**

Needs are the greatest in education representing 37.9% of total and energy 37.8% of the total. The annual financing gap represents 67% of total needs (a gap of USD 3.3 billion for the SDGs and USD 0.6 billion for the African Union 2063 Agenda) suggesting that Ghana will need to mobilize a third of the needed resources to reach the level of the best performing developing countries.

### 2.2.2 Tax revenue

**Ghana has the potential to close the tax gap by expanding the tax base, improving tax administration, formalizing the informal sector, and streamlining exemptions.** Tax revenue, at 14.1% of GDP, is lower than the 16% for the continent. Taxes on property and income, value-added tax (VAT) and corporate income tax (CIT), contributed over half of the total government revenue. In percentage of total revenue, personal income tax (35%), CIT (25%), and VAT (22%) are major contributors. Tax collection is not growing in tandem with GDP growth thus widening the tax gap.

### 2.2.3 Non-tax revenues

**Non-tax revenue at 1.5% of GDP in 2024, is lower than the continental average of 6% of GDP suggesting the country's potential to increase total revenue.** It is made up of non-oil non-tax revenue (1.5% of GDP), oil-and-gas revenue receipts (1.7% of GDP), other revenues (0.5% of GDP), and grants (0.1% of GDP). Specifically, non-tax revenue includes, among other things, receipts from licenses and permits, fees and charges, royalties, dividends and profits, fines and penalties, rentals and leases, grants, sale of state assets, interest income, and investment income.

### 2.2.4 Mobilizing domestic fiscal resources and expenditure efficiency

**The amended Fiscal Responsibility Act has the potential to increase fiscal savings.** The Act set a debt rule namely a debt-to-GDP ratio of 45% by 2034 and a fiscal rule namely the achievement of a primary-balance-surplus of 1.5% of GDP. Strict application of the Act will help Ghana enhance mobilization of fiscal resources. Government revenue averaged 16% of GDP between 2015-2023, lower than government expenditure of 21% of GDP. Ghana has the potential to increase revenue collection by increasing both tax and non-tax revenues. Government expenditure is made up of recurrent expenditure (18.2% of GDP) and capital expenditure (2.8% of GDP). Compensation to employees (6.5% of GDP) and interest payments (5.6%) together accounted for more than half of the total government expenditure.

## 2.3 Ghana's Natural Capital

### 2.3.1 Overview of Ghana's natural capital

**Ghana has the potential for mobilizing more resources to finance its development by leveraging its natural capital.** Ghana's natural capital is made up of non-renewables (oil, natural gas, metals and minerals) and renewables (forests and timber and ecosystem services,

mangroves, fisheries, protected areas, cropland, and pastureland). According to the World Bank (2024) Change of Wealth of Nations (CWON), Ghana's natural capital was estimated at USD 306 billion in 2020. It is made up of non-renewable assets of USD 39 billion and renewable assets of USD 267 billion. Ghana's natural capital could be higher with better mobilization, valuation and prudent utilization of these resources. Areas of reforms to consider include implementing a Natural Capital Accounting (NCA) framework, integrating ecosystem service values into national planning, reforming land use policies to incentivize conservation, and establishing legal frameworks for resource rents and benefit-sharing. Additionally, aligning environmental regulations with investment incentives can help ensure that natural resources are exploited sustainably and transparently.

### 2.3.2 Economic contribution of Ghana's natural capital

**Natural resources are important contributors to Ghana's economy.** They include agriculture,

forestry, fisheries, oil & gas and minerals. The contribution of natural resources to GDP averaged 34% between 2021 and 2024. Agriculture, oil and gold are top contributors at 21%, 6% and 4%, respectively. The natural resource sector contributed on average 1.8 percentage points or 41% to the 4.4% GDP growth during the period. Agriculture and gold each accounted for 20% and 7% of the GDP growth while oil at a negative 6% was a drag to growth.

### 2.3.3 Estimates and dynamics of natural capital

**Ghana's natural capital grew by 14% to USD 306 billion in 2020 against 2015.** This was largely contributed by non-renewables increasing by 871% to USD 267 billion. This is against the 1.5% contraction in renewables. The increase in non-renewables can be attributed to the discovery of offshore and development of new fields. Overall, in per-capita terms, Ghana's per capita value of natural capital has declined by 15%. The decline

**Table 2: Decomposition of natural capital (current prices Billions)**

Resource	2015	2016	2017	2018	2019	2020
Natural capital	351	342	249	269	293	306
Non-renewable	40	46	41	56	26	39
Oil						
Natural gas	0	5	0	10	10	9
Metals and minerals	4	4.1	4.1	4.6	25	38
Renewables	347	337	244	263	268	267
Forests, timber	47	49	47	31	31	32
Forests, ecosystem services	1.4	1.4	1.4	1.5	1.6	1.5
Forest water ecosystem services	8.8	8.9	9.2	9.3	9.6	9.7
Forest recreation hunting services	0.6	0.7	0.7	0.7	1.1	0.14
Mangroves	1.7	2.0	2.1	2.3	2.4	2.6
Hydropower energy	19	17	17.3	20	24	24.1
Fisheries	1.2	1.4	2	2.1	2.2	2.3
Agriculture land	267	257	164	197	195	190

Source: World Bank. *The Changing Wealth of Nations 2024*

was higher for non-renewable assets at 41% while renewable assets dropped by 9%. This indicates that Ghana's natural capital growth is not on a sustainable path, necessitating targeted actions such as scaling up reforestation programs, enhancing protection of mangroves and wetlands, incentivizing sustainable land-use practices, and enforcing regulations against illegal mining and logging to preserve and rebuild both renewable and non-renewable asset bases, underscoring the need for strategic investment in renewable resource management and restoration.

### **2.3.4 Challenges of leveraging Ghana's natural capital**

**Ghana's System of National Accounts (SNA) records natural capital and its ecosystem services as economic income only but does not account for the natural capital that makes the income possible.** This makes NCA essential. Properly integrating natural capital into national accounts can strengthen Ghana's fiscal resilience by boosting wealth accounting, enhancing creditworthiness, and attracting green investments. To achieve this, Ghana should establish a dedicated NCA Task Force, improve data systems for ecosystem valuation, embed NCA in national planning processes, and collaborate with global peers to adopt proven best practices.

**Ghana should also prioritize governance reforms to support sustainable natural capital management.** Key institutional actors such as the Environmental Protection Agency, which regulates environmental standards in mining and the Forestry Commission and the Ministry of Lands and Natural Resources, which regulates, among other things, gold mining in the extractive sector, should be better empowered and better resourced to enforce regulations and coordinate multisectoral efforts. Existing initiatives like the Ghana REDD+ (Reducing Emissions from Deforestation and Forest Degradation Plus) Strategy and the Forest Investment Program can be leveraged to pilot governance reforms and

scale successful models of participatory resource management to support successful environmental management. This includes securing land tenure, enforcing environmental regulation, and supporting community-based natural resource management schemes. These reforms will ensure that Ghana's natural capital serves as a foundation for inclusive and resilient economic transformation.

## **2.4 Business capital**

### **2.4.1 Setting the stage**

Business capital represents all forms of capital that drive productivity. Business capital is critical for Ghana's private sector led growth and structural transformation. The private sector accounts for over 85% of job creation, 70% of GDP and 85% of investments. In this section, the following critical aspects of business capital are discussed: the financial capital, fiscal resources and natural capital that are useful to create value. Business capital, if properly harnessed, will be an important engine of economic growth and development. Section 2.4.2 discusses indicators of business capital. This is followed by section 2.4.3 where challenges and opportunities for enhancing business capital in Ghana.

### **2.4.2 Indicators of business capital**

**Micro, small, and medium enterprises account for about 90% of registered businesses.** They are mostly engaged in agriculture, small-scale trade, and artisanal work and over 70% are sole proprietorship. They account for about 90% of businesses and 70% of GDP and 85% of the labor force. About 44% of the MSME businesses are owned by women. Most of them operate in the informal sector. Seventy-five percent of informal sector activities happen within the agriculture sector while industry and services account for 10% and 15% respectively. Operation in the informal sector has hindered access to finance, skills, infrastructure, and markets. Formalizing the informal sector can be beneficial for MSMEs. The

informal sector contributed 27% to GDP and 1.1 percentage points to GDP growth in 2024.

### 2.4.3 Challenges and opportunities for enhancing business capital in Ghana

**Most firms in Ghana raise funds from expensive sources because the capital market is not liquid.** Therefore, it is important that the Ghana Stock Exchange supports small and medium enterprises and other mature firms to list on the stock exchange to raise cheaper long-term finance. Lack of skills is another factor impeding business capital. A survey which assessed the skills gaps in seven sectors found that skills gaps were found to be high for entry level, middle level and managerial-level staff in the sectors surveyed. A survey which targeted the manufacturing sector alone found that out of the 18 firms interviewed, 11(61.1%) of the employers indicated that their employees lacked personality traits, 4 (22.2%) said they lacked job-related skills, and 3(16.7%) said their employees lacked both skills. Furthermore, despite their significant contributions, women in MSMEs are faced with a host of challenges, namely access to finance; mostly they operate in the informal sector, and the majority of women-owned MSMEs have not embraced digital tools thereby impacting operational efficiency and their access to the market. Ghana should enhance existing

initiatives and venture into new ones to support women in MSMEs. Existing initiatives include Ghana Economic Transformation Project (GETP), Women Entrepreneurship for Africa (WE4A), digital literacy programs, and the Market Women Fund (MAWOF).

## 2.5 Ghana's human capital

### 2.5.1 Current state of human capital in Ghana

**Ghana's human capital (HC) accounted for 53% of the country's total wealth in 2020.** It grew by 1.4% yearly between 2015-2020. Ghana's Human Capital Index (HDI) in 2020 was 45%, higher than Sub-Saharan Africa's average of 40%. Ghana's HDI score was 0.602 in 2022 ranking it 144 globally. Ghana's 70% of the population aged 6 years and above is literate. People above 18 years (10.7%) are at the tertiary level, higher than the Sub-Saharan-Africa average of 9.4%. Years of schooling, at 12.1%, is higher than global average of 11.3% and Africa's 8.1%. Human capital contributed 1.7 percentage points to the 5.7% average real GDP growth between 1991 and 2021. This is low given that labor is relatively cheap. The contribution of human capital to GDP growth can be increased through structural transformation-redirecting movement of labor from less productive

**Table 3: Key indicators of Education, health, and workforce in Ghana**

Resource	2021	2022	2023	2024
Labor force participation %	63	706	63.4	
Human development index		0.602		
Total fertility rate (per woman)	3.56	3.51		
Crude death rate (per 1000 people)	7.58	7.585		
Adult literacy rate (people aged 15 and above) %	69.8	69.8	80.4	
Government expenditure on education (% of GDP)	4.1	2.9	6	3.3
Government expenditure on health (% of GDP)	3.42	1.9	2.02	

Source: Various sources

### **Box 1: Success Stories in the Education Sector**

The Free-Senior-High School program is one of the notable success stories in Ghana's education sector. The Government covered fully tuition and feeding. Close to 5.7 million students benefited from the program in 2024. It costed Cedi 18,000 per student annually. It was initially financed out of oil revenue. To make the program sustainable, the Government in its 2025 budget allocated Cedi 3.5 billion towards the program. The program increased years of schooling to 12.1 higher than Africa's average of 8.1.

agriculture to high productive industry by, on the supply side, investing in human capital to close skills gap in the labor market; and on the demand side by investing in sectors with relatively higher labor productivity potential e.g., industry.

#### **2.5.2 Major barriers to human capital development in Ghana**

Important barriers to human capital development in Ghana include, among other things, insufficient funding, weak spending efficiency, poor targeting, inadequate infrastructure, outdated curricula, brain drain and a limited social protection system to cushion vulnerable people against shocks. Increased investments in education and health are critical to ensure that Ghana has a productive work force required to drive economic transformation.

#### **2.5.3 Investing in education and skills development**

Ghana has performed well in most of school outcomes. However, job creation has not kept pace with the youthful population. The rate of unemployment, at 21.7% in 2023, is high among the youth (15-24 years). An increasing number of graduates are becoming unemployed due to skills mismatches, and a large number of new entrants into the labor market are employed in the informal sector. Education spending declined to 12% of total spending in 2023 from 18% in 2019, lower than the global benchmark of 15%-20% giving a funding gap of 1% of GDP.

#### **2.5.4 Health as a pillar of human capital development**

Health is an important component of human capital development. However, the health sector is impacted by limited budget. Health spending amounted to 4% of GDP in 2020, lower than Africa's average of 5% of GDP. This is reflected in inadequate health facilities. The sector is among the hardest hit by the brain drain. Estimates show that about 50% of Ghana's medical professionals work abroad thus constraining domestic health care services and health outcomes. The impact of the brain drain on the economy is massive. The country loses USD 1 billion annually due to brain drain. Several programs are in place to address brain drain to harness Ghanaian's expertise abroad to support development at home. Dubbed as "brain gain" the programs encourage the diaspora to return home or remotely contribute to their country. Regardless, investments in health services have yielded positive outcomes. The infant mortality rate declined to 28.2 in 2023 from 61.8 in 2000, the maternal mortality rate declined to 263 in 2023 from 484 in 2000 and life expectancy at birth increased to 65.5 years in 2023 from 58.1 years in 2000.

### **2.6 Financial Capital**

#### **2.6.1 Domestic capital and financial markets**

The Ghanaian economy grew on average by 4.4% between 2021 and 2023. Total investment in percentage of the GDP averaged 14.2% while

domestic savings averaged 13% during the period. The balance (i.e., 1.2%) was financed either by drawing down the foreign exchange reserve or contracting loans from external sources or a combination of both. This is evidenced by the decline in the foreign exchange reserve in months of import cover and public debt accumulation which increased on average by 7% of GDP. This indicates that Ghana depends more on external savings (e.g., debts) to finance its growth. This has exposed the economy to externally instigated shocks due to strong linkage effects with the international markets (trade and finance). The health shock in 2020, the Ukraine crisis, and the international financial market crisis (2022 through 2024) are recent examples. Ghana can minimize dependence on external resources for its growth by mobilizing and utilizing domestic capital. This entails domestic and external resource mobilization and leveraging natural and human capital.

## **2.6.2 State of financial development in Ghana**

Ghana scored 0.18 in 2021 in the IMF's Financial Development Index. The index summarizes how developed financial institutions and financial markets are in depth, access and efficiency.

Ghana's financial development index rating is slightly higher than the regional median of 0.14 but lower than world median of 0.26. Ghana's financial development index is lower than that of South Africa (0.55). Ghana needs to up its game in all dimensions of financial development (depth, access and efficiency) to develop its financial sector to meet growing financial needs of the country for growth and economic transformation.

Ghana lags the regional powerhouse (South Africa) in the financial development index. In access to financial institutions (0.19 vs 0.28), depth of financial institutions (0.09 vs 0.64), efficiency of financial institutions (0.47 vs 0.66), access to markets (0.23 vs 0.4), market depth (0.08 vs 0.67), and market efficiency (0 vs 0.34).

Ghana's low performance in the IMF's Financial Development Index can be attributed to several factors, inter alia, financial literacy, limited access to capital, high informal sector, low banking penetration in rural areas, and access to technology.

## **2.6.3 Mobilizing financial resources for Ghana's development**

Ghana can mobilize financial resources for development by increasing public savings. This entails increasing government revenue and rationalizing government expenditure. The tax to GDP ratio averaged 12.2% of GDP since 2015 is lower than the continental average of 16.54% of GDP. Ghana can also boost tax revenue by curbing illicit financial flows. Estimates show Ghana is losing USD 1.4 billion annually due to IFFs. Ghana can also mobilize financial resources by increasing private and business savings through financial inclusion and by improving the business environment. Only 39.2% of Ghanaians 15 years and older have accounts with financial institutions. Ghana could also mobilize financial resources from external sources by diversifying its export base away from gold, cocoa, etc.; attracting FDI which decreased to 1.7% of GDP in 2023; and attracting diaspora remittances which decreased to 3.2% of GDP in 2023 from 10% in 2015. Remittances have outpaced FDI and ODA. Ghana could build on existing initiatives to increase diaspora remittances. The Ghana Diaspora Investment Fund and Private Diaspora Investment Funds can bring to fruition the issuance of diaspora funds. Furthermore, Ghana needs to stabilize its macroeconomy to re-access the international financial market at affordable credit terms. It is accessing credit at concessional terms from multilateral banks such as the World Bank, the AfDB, and the IMF.

## **2.6.4 Off-shore linked financial resources for Ghana's development**

Ghana can mobilize off-shore-linked financial resources for its development. Foreign direct

investment, Portfolio Investments, ODA, diaspora remittances, and external debt are among the many sources of external finance. The FDI decreased to 1.7% of GDP in 2023 from 6.5% of GDP in 2015 suggesting the need to improve the business environment to attract foreign capital. Ghana received 3.2% of GDP in diaspora remittances in 2023 compared with 10% of GDP in 2015. It is among the leading diaspora remittance recipients in Africa. Official development assistance declined to USD 1.1 billion in 2022 from USD 1.7 billion in 2015. External debt has been an important source of finance. Public debt stock increased to 72% of GDP in 2024 from 54% in 2019. Liability management remains key for Ghana to re-access the international capital market. Remittances have outpaced FDI and ODA thus becoming important sources of finance to current account and fiscal imbalances. Ghana should find ways to leverage these flows to increase its financial resources. Ghana's net foreign asset is negative. It averaged USD 27 billion between 2016 and 2020.

### 2.6.5 Innovative finance

There are several funding models in use in Ghana. They include among others crowdfunding, peer-to-peer lending, impact lending, agriculture finance, green bonds, climate financing, crypto, Cedi (Bank of Ghana digital currency), Islamic banking, etc. This, supported by growth in digital technology (Fintech), has made significant strides in terms of improved access to development finance. The benefits also extend to improving monetary policy transmission mechanisms and monetary policy effectiveness. Ghana's mobile phone service providers such as Telecel cash, Airtel's TigoMoney and MTN's MoMo have introduced mobile money services. The total mobile money transactions increased by 58% in 2024 reaching Cedi 3 trillion. Ghana should capitalize on the growing funding mechanisms and digital technology to finance its development. This entails creating the enabling environment, for example, putting in place the

regulatory environment, financial inclusion (Only 39.2% of Ghanaians 15 years and older have accounts with financial institutions) and cyber security.

### 2.7 Policy recommendations

Ghana relies on external finance for its growth and development. Ghana needs to leverage natural capital, business capital, financial capital and human capital to support growth. This requires:

- Increasing direct resources mobilization and mobilizing external resources from various sources to meet its growing financing needs. This requires increasing public saving (mobilizing fiscal resources) by increasing government revenue collection, controlling IFFs, rationalizing and improving the efficiency of government expenditures. (See chapter 1 for detailed discussion about public savings mobilization.)
- Developing and utilizing natural capital, increasing natural capital value addition or beneficiation and prioritizing Natural Capital Accounting.
- Increasing human capital, which is relatively abundant, compared with other components of wealth, but is constrained by declining investments.
- Increasing business capital by availing finance to MSMEs which contribute the lion's share of GDP growth, employment creation and external trade, and
- Increasing financial capital by mobilizing domestic (personal and business) and external (FDI, PI, and diaspora remittances) savings. This entails strengthening financial institutions and financial markets, leveraging digital technology to tap into the growing sources of funding, and strengthening the regulatory framework and cyber security.



# HARNESSING GHANA'S CAPITAL POTENTIAL AND RESOURCES FOR DEVELOPMENT

## Key Messages

- Institutions and governance matter to harness Ghana's capital potential for development. institutions help manage and attract capital required for its development. The quality of institutions was assessed using indices obtained from the World Bank's Worldwide Governance website.
- Six indices were used in the analysis namely voice and accountability, political stability, government effectiveness, regulatory quality, rule of law and control of corruption. We found that Ghana's institutions are weak compared with continental and global standards.
- Ghana needs to improve its performance in each index. Key among the factors impacting Ghana's performance include the rule through a regular review of the laws and strengthening law enforcement operations, improving judicial independency, improving the efficiency of the bureaucracy, introducing business friendly policies, and regional and continental collaborati

### 3.1 Introduction

In this chapter we analyze the role of institutions, economic governance and rule of law in harnessing Ghana's capital potential and resources for development. The literature defines institutions narrowly as formal and informally devised human interactions" that structure political, economic and social interactions" (North, 1991). Empirical literature has developed several indicators of institutional quality. The ones frequently used are those from the World Bank's Word Governance Indictors (WGI).

### 3.2 Institutional arrangements for the management and utilization of the various forms of capital

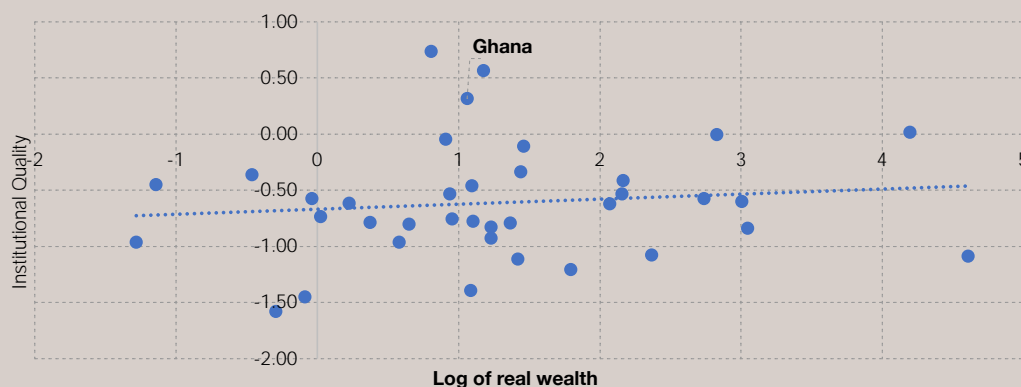
Ghana has a number of institutions that support the management and utilization of the various forms of capital. Physical capital is managed and mobilized by the Ghana Infrastructure investment Fund, the Ministry of Infrastructure, and Ministry of communication; Financial capital by the Bank of Ghana, Ministry of Finance, Ghana Revenue Authority and Ghana Investment Promotion Centre; Human capital by the Ministry of Education, Ghana Education Services, Ministry

of Health, Ghana health Services, Commission for Technical and Vocational Educational Training,; and Natural capital Ministry of Land and Natural Resources, Environmental Protection Authority, Forest Commission, and Minerals Commission.

The role of institutions and quality of governance in the management and utilization of capital and hence in economic growth and development has received increased attention in literature since the seminal paper by North (1990). Empirical literature has focused on empirically testing channels though which institutions and governance influence economic growth and development. Six measures of institutional quality have been developed: political stability, voice and accountability, government effectiveness, regulatory quality, rule of law and control of corruption.

Here, intertemporal and cross sectional (with regional peers) comparisons of Ghana's performances in each of the six indictors of quality of institutions are made. The latter includes the three largest economies in the West Africa region namely Nigeria, Cote d'Ivoire, and Senegal. We also apply correlation analysis to establish the relationships between each indicator of institutional quality and wealth. Cross-sectional data collected

**Figure 4: Institutional Quality vs wealth**



Source: Own computations based on World Governance Indicators

from 37 Sub-Saharan Africa countries have been analyzed. The data were obtained from the World Bank's Worldwide Governance Indicators and Change of Wealth of Nations.

The WGI rates a country's performance in six dimensions of governance. The WGI uses a scale of -2.5 to +2.5, with +2.5 representing the strongest governance performance. According to the results found, overall, there is a positive correlation between institutional performance and wealth or capital accumulation (Figure. 4). Ghana's performance in important institutional quality indicators deteriorated in 2023 against 2013 for some indicators. It scored -0.02 against 0.06 in political stability, -0.18 against 0.06 in regular quality, and 0.41 against 0.44 in voice and accountability. Its scores remained unchanged during the study period in the control of corruption at -0.1; and improved to -0.09 against -0.13 in governance efficiency.

Furthermore, Ghana's performances in each indicator were compared with bigger economies in the West African region. They have deteriorated. Ghana's score was statistically higher compared with Nigeria in all indicators of quality of institutions. Differences in scores with other countries were found to be not statistically significant. In institutional quality, measured as the average of the six sub-indices, Ghana was ranked 5th in Sub-Saharan Africa in 2023 next to Mauritius, Botswana, Namibia, and South Africa (in ascending order). Ghana needs to improve the quality of its institutions to improve its competitiveness in the West Africa region and continentally to attract investment into its economy.

Ghana needs to improve its institutional quality by, among other things by:

- Strengthening the rule of law and governance by improving judicial independence, strengthening the office of the Special Prosecutor and the Economic and Organized Crime Office (EOCO) to fight

corruption, and improving the efficiency of the bureaucracy (e.g., reduce bureaucratic red tape).

- Strengthening the regulatory framework by introducing business friendly policies and ensuring the stability of the policy environment.

### 3.3 Governance challenges in the management and utilization of various forms of capital for resource mobilization

In section 3.2, we established that Ghana's performance in almost all institutional and governance indicators have deteriorated. Among the factors that contributed to the deterioration included:

- **Weak regulatory and legal frameworks** caused by inadequate enforcement of laws thus impacting investors' confidence.
- **Limited access to finances for businesses** especially MSMEs is pronounced due to the informal nature of MSMEs activities.
- **Weak revenue collection** caused by low tax compliance. Tax revenue, at 14% of GDP, is much lower than the continental average of 16% of GDP. This has reduced public sector capital investments, for example, infrastructure development. Capital expenditure has declined over time, falling to 2.7% of GDP in 2024. This is expected to impact Ghana's long term growth prospects.
- **Inefficient PFM implementation** caused by political interference and corruption has resulted in budget overruns and fiscal deficit which in turn has resulted in excessive borrowing. Ghana is currently assessed as at high risk of debt distress. This has the potential of deterring the flow of external capital to finance development.

### **3.4 The rule of law, the management and utilization of the various forms of capital**

Enforcement of the rule of law ensures, among other things, transparency and accountability in the management and utilization of capital. Ghana has passed several laws in this regard. The Public Finance Management Act, 2016 promotes accountability and transparency in the management of government spending. Financial institutions are regulated by the Banking Act, 2004 (Act 673). The Office of the Special Prosecutor Act, 2017 (Act 959) combats financial crimes. The Education Act, 2008 (Act 778) ensures access to education. The Labor Act, 2003 (Act 651), among other things, regulates wages, working conditions and fair wages. The National Health Insurance Act, 2012 (Act 852) promotes affordable health care to Ghanaians. Regardless, despite the laws and acts, corruption and mismanagement of public resources is widespread in Ghana. This underscores the need for having regular review of the laws and strengthen institutions to enforce the rule of law so that the country manages and utilizes its resources.

### **3.5 Pan African approach to strengthening the rule of law, institutions and governance for Harnessing Ghana's capital**

Ghana, as a member of the African Union (AU) and the Economic Community of the East African

States (ECOWAS) would benefit greatly from cross boarder initiatives that aim at preventing cross boarder crimes, illegal trade, and IFFs. This entails strengthening national legal institutions, harmonizing legal frameworks across member states, and integrating them. This could be guided by the AU Commission on International Law. Neither the AU nor ECOWAS has a legal body that can effectively help tackle cross-border financial crimes. Having such a body would be beneficial to efforts underway to integrate the financial sector.

### **3.6 Conclusion and policy recommendations**

Institutions and governance matter to harness any country's capital potential for development. They help manage and attract the capital required for development. The quality of Ghana's institutions is weak by continental and global standards. This needs to be fixed by strengthening, *inter alia*, the rule of law (by regularly reviewing laws and enforcement operations), improving judicial independence, the efficiency of the bureaucracy, and introducing business friendly policies, the stability of the policy environment, and regional and continental collaboration to stem cross-border financial crimes.

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