INSTITUTE FOR FISCAL STUDIES

POLICY BRIEF No. 23
March 26, 2025

AN ASSESSMENT OF THE 2025 BUDGET STATEMENT AND ECONOMIC POLICY OF THE GOVERNMENT OF GHANA

1. INTRODUCTION

On March 11, 2025, the new National Democratic Congress (NDC) government presented its first budget statement, outlining its policy priorities and objectives for the next four years. As pointed out in IFS' pre-budget paper, "What Should Be the Priorities of the New Government as It Confronts the Ongoing Economic Difficulties?", the budget was presented against the backdrop of fiscal and macroeconomic difficulties Ghana is currently grappling with. These include debt challenges, high inflation, high exchange rate instability, and low growth.

In his budget speech to Parliament, Minister of Finance Dr. Cassiel Ato Forson acknowledged the economic difficulties and pledged to fix them. Accordingly, he laid out a program of medium-term fiscal consolidation beginning in 2025. He also announced major policy changes and several new initiatives. Notably, these include uncapping of earmarked funds, new social programs, establishment of a Gold Board, and the "Big Push" infrastructure program.

This paper critically assesses the 2025 budget, focusing particularly on the fiscal projections and the key policy initiatives. Section 2, which follows this introduction, reviews the budget's fiscal estimates. Section 3 presents the assessment, while Section 4 provides policy recommendations.

2. REVIEW OF THE BUDGET

The 2025 budget focuses, according to the government, on fiscal consolidation to ensure macroeconomic stability and drive economic growth. Given this, the budget sets out to reduce the overall fiscal deficit (on a commitment basis) by as much as GH¢48.81 billion or 52.7%

This Policy Brief is a publication of the Institute for Fiscal Studies. The views expressed in this paper are the views of the IFS. All rights reserved. No part of this publication may be published or reproduced without written permission of the Institute for Fiscal Studies. All comments, views, or enquiries should be channelled to: The Executive Director, Box CT 11260, Cantonments, Accra. www.ifsghana.org

to GH¢43.84 billion in 2025 from the 2024 outturn of GH¢92.65 billion. As a ratio of GDP, the 2025 commitment deficit is budgeted to be 3.1%, which is a decline of 4.8 percentage points from the commitment deficit of 7.9% of GDP recorded in 2024. On cash basis (including discrepancy), the 2025 fiscal deficit is projected to be GH¢56.91 billion. Unlike the commitment deficit, the projected cash deficit in 2025 is only GH¢4.50 billion lower than the 2024 cash deficit (including discrepancy) outturn of GH¢61.41 billion. As a ratio of GDP, the projected 2025 fiscal deficit on cash basis (including discrepancy) is 4.1%, 1.1 percentage points lower than the 5.2% outturn recorded in 2024.

To realize the reduction in the overall fiscal deficit, the 2025 budget projects total revenue and grants to be GH¢224.93 billion, compared with the GH¢186.59 billion outturn recorded in 2024, thus showing a nominal increase of 20.5% over the 2024 outturn. As a ratio of GDP, this represents an increase of 0.2 percentage points from the outturn of 15.9% in 2024 to 16.1% in 2025. Domestic revenue is projected to be GH¢222.26 billion in 2025, representing 20.2% increase over the 2024 outturn of GH¢184.88 billion. The projected domestic revenue growth in 2025 is driven by non-oil tax revenue, which is projected to increase by 28.8% to GH¢181.62 billion in 2025 from the 2024 outturn of GH¢140.98 billion. Foreign grants is projected to increase by 55.2% to GH¢2.67 billion in 2025 from the GH¢1.72 billion recorded in 2024.

The main revenue measures of the 2025 budget are: (i) increase in the growth and sustainability levy on gross production of mining companies from 1% to 3% to expire in 2028; (ii) reintroduction of road tolls; (iii) establishment of a Gold Board; and (iv) strengthening of the legal and regulatory regime for non-tax revenue for improved service delivery and revenue collection. Nevertheless, the government proposed in the 2025 Budget Statement to abolish (a) the 10% withholding tax on winnings from lottery; (b) the 1% Electronic Transfer Levy (E-Levy); (c) the Emission Levy on industries and vehicles; (d) the VAT on motor vehicle insurance policy; and (e) the 1.5% withholding tax on winning of unprocessed gold by small-scale miners.

Total expenditure on commitment basis is projected to decrease to GH¢268.78 billion (19.2% of GDP) in 2025 from the GH¢279.24 billion (23.7% of GDP) outturn in 2024, representing a reduction of GH¢10.46 billion or 3.7% over the 2024 outturn. The main driver of the projected reduction in expenditure in 2025 is primary expenditure. Primary expenditure on commitment basis is projected to decrease by GH¢27.84 billion or 11.9% to GH¢204.61 billion in 2025 from the GH¢232.45 billion outturn recorded in 2024. Indeed, the projected primary expenditure on commitment basis shows such a large reduction in 2025 because of 'unreleased claims' of GH¢49.24 billion the government recorded against the 2024 primary expenditure on commitment basis, a figure the opposition party, which was in government in 2024, disputes. This, therefore, is what drove the 2024 fiscal deficit on commitment basis to register the deficit of 7.9% of GDP as pointed out above.

Compensation of employees is however projected to increase by GH¢9.45 billion or 14.1% to GH¢76.64 billion in 2025 from the outturn of GH¢67.19 billion in 2024 on the back of the 10% rise in base pay for public sector workers. As a share of revenue, compensation of employees is projected at 34.1% in 2025, a decline of 1.9 percentage points from the 36.0% recorded in 2024. Interest payment is also projected to increase by GH¢17.37 billion or 37.1% to GH¢64.16 billion in 2025 from the GH¢46.79 billion outturn in 2024. This is due to (1) the resumption of external debt servicing, which was suspended as part of the country's debt restructuring program, and (2) the high domestic interest cost, resulting from the government's reliance on short-term borrowing. Capital expenditure is also projected to rise by GH¢3.61 billion or 12.3% to GH¢32.91 billion in 2025 from the GH¢29.39 billion outturn in 2024.

3. ASSESSMENT

For the first time in a long while, IFS views the revenue target in the annual budget statement as attainable. The projected 0.2 percentage point increase in total revenue and grants from 15.9% of GDP in 2024 to 16.1% in 2025 appears reasonable, given past revenue performance, projected economic growth, and the announced revenue measures. As we pointed out in our pre-budget paper, effective fiscal policy relies on credible budgets, which, in turn, depend on realistic revenue targets. In this vein, the 2025 revenue projection is a welcome development. However, we caution that achieving this target will require a great effort, as total revenue and grants has never surpassed the 16% of GDP (rebased) threshold despite previous attempts.

Notwithstanding this positive aspect of the budget, there are a number of issues of concern. These are:

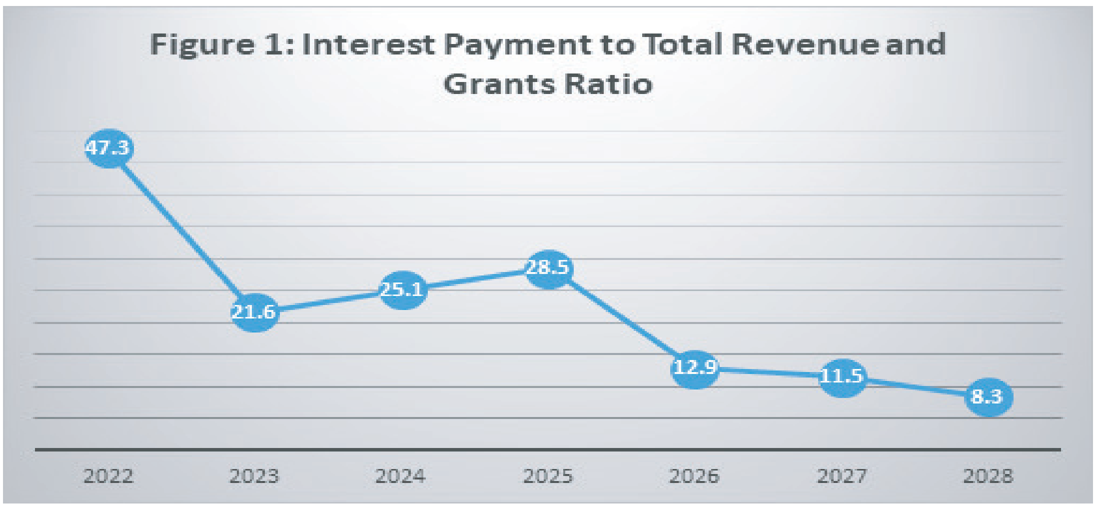
I. The Medium-Term Fiscal Forecasts

The government's medium-term fiscal forecasts suggest a steady consolidation, with the fiscal balance (on a commitment basis) projected to improve from a deficit of 3.1% of GDP in 2025 to a surplus of 0.1% of GDP in 2028. This adjustment is driven by a projected decline in expenditure. While total revenue and grants is expected to increase by only 0.8 percentage points from 16.1% in 2025 to 16.9% in 2028, total expenditure (on a commitment basis) is forecast to decline, more significantly, by 2.4 percentage points to 16.8% of GDP over the same period. The force behind the expenditure reduction, and thus the medium-term fiscal consolidation trajectory, is a drastic decline in interest payment. Interest payment as a ratio of total revenue and grants is projected to fall in an incredible fashion. As Figure 1 shows, this ratio, which stood at 47.3% in 2022, dropped sharply to 21.6% in 2023. This was due to the domestic debt restructuring and foreign debt service suspension. In 2024, however, it increased to 25.1% on the back of rising domestic interest cost and resumption of foreign debt service. In 2025, the same factors are expected by the government to drive up the ratio to 28.5%. Yet, in 2026, interest payment as a ratio of total revenue and grants has been projected by the government to fall dramatically to 12.9%, then further to 11.5% in 2027, and to just 8.3% in 2028. Even more strikingly, in nominal terms, interest payment is projected by the government to fall by as high as 45.5% to GH¢34.95 billion in 2026 from GH¢64.16 billion in 2025, and it is projected to reach GH¢29.15 billion by 2028, a staggering 54.6% reduction from the 2025 projection.

The question is, what is causing the government to believe that interest payment will fall in such a dramatic manner when the debt restructuring is largely over? In fact, nowhere in the budget is there a plan to retire a significant portion of either domestic or external debt to justify such steep declines in interest payment. Moreover, the Finance Minister himself painted a starkly different picture of future debt service obligations in the budget statement, warning that "the forthcoming debt service of both domestic and Eurobond debt obligations will have profound implications for fiscal sustainability and balance of payments." He argued further that "the debt service obligation of 2027 and 2028 are major humps. These humps are cancerous and pose significant risk to the economy." This pessimistic outlook is entirely inconsistent with the forecasted steep declines in interest payments as demonstrated above. Ultimately, these hard-to-believe projections, which are entirely defining the government's fiscal consolidation path, undermine the credibility of the medium-term consolidation plan.

II. The Gold Sector Strategy

Since 2020, IFS has consistently argued that Ghana's extractive sector revenue is far below that of peers. For instance, while Nigeria receives 52% of the value of its oil production as government revenue, Ghana gets around 20% only. With respect to minerals, while Botswana secures 52% of the value of its mineral production as government revenue,



Source of Data: Ministry of Finance

Ghana collects a mere 6%. We have therefore long recommended that to be able to match these peer countries in extractive sector revenue generation, Ghana has to simply do what they do — use joint-venture agreements with majority government participation and/or production-sharing agreements.

In the budget statement, the government recognized the limited earnings from the extractive sector by arguing that out of a natural resource rent of about 14.0% of GDP in Ghana, the state receives only 1.5% of GDP. According to the Minister of Finance, "this is because we fail to fully capture the economic rent of our natural resources." What should first be understood is that by definition, the entire natural resource rent belongs to the resource owner (i.e., Ghana in this case), since the normal return to the investor is already factored into the cost of production when calculating the rent. To help Ghana capture this natural resource rent, the government is proposing the establishment of a Gold Board, modeled after COCOBOD in the cocoa sector, to buy gold, presumably at discounted prices, from small-scale miners for export.

It is worth noting that unlike the cocoa sector, in the gold sector, operators tend to be well-informed about world market prices and developments. Therefore, they would not easily sell their gold at state-administered prices that may be lower than world market prices. This would make it difficult for the proposed scheme to be effective. We therefore fear that the Gold Board could suffer the same fate as the Precious Minerals Marketing Company (PMMC), the state-owned gold buyer, which has manifestly failed to curb gold smuggling from the country.

In any case, if the government believes the Gold Board is what will help it capture the rent from mining, why has it apparently excluded large-scale miners, which account for about 70% of gold production, from the scheme? While we understand that the government has increased the growth and sustainability levy on large-scale gold producers from 1% to 3%, this is not but tantamount to increasing the royalty rate from the standard 5% to 8%, which is lower than the 10% royalty rate Botswana charges before it shares profit with its private partner. What is even more troubling is that this levy on large-scale producers will expire in 2028. With this kind of posture towards the producers of about 70% of gold in the country, how can the government claim that it intends to capture the mineral rent? Another troubling issue is that these large-scale operators are largely multinational companies. This implies that the government of Ghana is discriminating against Ghanaians in favor of foreigners, since the small-scale operators are largely Ghanaians. This raises the following question: What is the government of Ghana afraid of when it comes to dealing with the multinationals that extract the country's lucrative resources at high economic rents, given that the government has long been struggling with domestic revenue mobilization? If the government feels that contractual agreements with the multinationals have already been signed and is therefore incapacitated, it should recognize that contractual agreements with multinational companies have historically been renegotiated by states throughout the world if states find that existing contracts are significantly skewed against their interests. After all, how useful is a contract and why should it be allowed to stand if, for one reason or another, it is skewed against the interest of one party in favor of the other? Contracts should provide mutually fair benefits, especially when serious environmental degradation, which affects the livelihood of the people, is at stake.

III. Uncapping of Earmarked Funds

One of the most important fiscal reforms in recent years was the enactment of the Earmarked Funds Capping and Realignment Act in 2017, aimed at curbing budget rigidity caused by excessive revenue earmarking. The act limits rigidity by imposing a ceiling, initially set at 25% of tax revenue but lowered to 17.5% in 2023, on total budgetary transfers to earmarked funds. In addition, it grants the Minister of Finance the discretion to allocate additional revenue above the cap to any earmarked fund if deemed necessary in any fiscal year. With the coming into effect of the act, earmarked transfers as a share of total revenue and grants, which had risen steadily from 0% in 1993 to 28.2% in 2016, not only ceased to increase but actually declined, averaging 24.5% from 2017 to 2024. This confirms the act's effectiveness in reducing budget rigidity.

Despite this benefit, the government is seeking to undo the reform by its decision to uncap major earmarked funds, including GETFund, National Health Fund, Road Fund, and Transfers to Ghana National Petroleum Corporation (GNPC). Uncapping these funds means they will henceforth receive their full earmarked revenues as stipulated by their respective governing laws. This reversal will reduce budget flexibility, tying the Minister of Finance's own hands in effectively controlling expenditure and responding to unforeseen economic challenges. This is because, first, transfers to the uncapped funds will no longer be subject to an aggregate revenue cap, allowing them to grow in the unrestricted way that prevailed in the past. Second, arrears accumulation by central government to these funds, which used to be chronic but largely disappeared after the funds were capped, is likely to resurface. This is because any amount due to the funds that is not transferred in any fiscal year will automatically become arrears to be settled in the next fiscal year. Third, whenever circumstances — such as shortfalls in total revenue and grants or the emergence of urgent new priorities — require expenditures to be cut or reallocated, transfers to these funds would effectively be untouchable, limiting the government's options.

IV. The "Big Push" and Its Implications for Investment and Growth

A key initiative of the government to spur growth and job creation is what the government calls the Big Push, described in the budget statement as a policy "for rapid infrastructure development." However, a critical scrutiny of the budget reveals that the Big Push is not going to accelerate public investment as a share of revenue, which has generally been low in Ghana to begin with. Rather, public investment as a share of total revenue and grants is projected to fall in 2025 and remain below historical levels over the medium term. Specifically, in 2025, central government capital investment as a share of revenue is projected to fall to 14.6% from 15.8% in 2024. Over the 2025–2028 period, capital investment as a share of revenue is projected to average 16.0%, which is lower than the 18.6% recorded in the previous 4-year period of 2021–2024, and well below the average of 25.0% recorded in 2013–2016.

It is no wonder, therefore, that the government has projected real GDP growth in the medium term to be much lower than the 6.1% average growth rate registered in the 15-year period before the current crisis (i.e., from 2007 to 2021). Indeed, from 2025 to 2028, real GDP growth has been projected to range from only 4.0% to 5.0%, with an average of 4.8%. This is concerning, as the projected persistent lower economic growth, if realized, will constrain job creation and employment, as well as improvements in living standards.

V. The New Social Programs

The budget introduced a range of new social programs. These include a no-academic-fee policy for first-year students in public tertiary institutions, free tertiary education for persons with disabilities, free primary health care, and free sanitary pads for school girls. Essentially, these programs are universal in nature, providing benefits to everyone within the relevant groups regardless of financial means. This is not fiscally prudent. As the Minister himself acknowledged in the budget statement, the public finances remain stretched, and therefore expenditures must be rationalized. For this reason, social programs (both existing and new) must be targeted to those most in need to contain costs and improve spending efficiency. Unfortunately, instead of doing this, the government, through these non-selective programs, is unnecessarily exacerbating expenditure pressures, thereby undermining fiscal sustainability.

VI. The VAT Reform Approach

To correct distortions in the Value Added Tax (VAT) system, the government has committed to reforming it this year. To this end, the Minister detailed the key changes to be implemented. These include (i) abolishing the COVID-19 levy, (ii) reversing the decoupling of GETFund levy and NHIL from VAT, (iii) reducing the effective VAT rate, (iv) eliminating the VAT flat rate regime, (v) raising the VAT registration threshold, and (vi) enhancing compliance through public education and awareness. By enumerating these solutions in the budget, it clearly shows that the government understands the challenges within the VAT system and knows exactly what to do. Yet, instead of taking direct action, it has decided to seek technical assistance from the IMF and establish a task force for the reform. This approach is needless, as it entails avoidable costs in both financial resources and time, particularly when the government is already clear about what must be done.

VII. Data Inconsistencies

Although IFS generally focuses its budget assessments on substantive policy issues, as we have done above, we are compelled this time to also highlight data inconsistencies in the budget documents. This is because the inconsistencies are too many and, in some cases, too significant to overlook. They can be grouped into three: (i) inconsistencies within the budget speech that the Minister presented to Parliament, (ii) inconsistencies between the budget speech and the full budget statement, and (iii) inconsistencies within the full budget statement.

Inconsistent data IFS identified within the budget speech are: (a) total revenue and grants as a ratio of GDP in 2024 is reported as 15.9% in paragraph 98(iv), but as 17.4% in paragraph 173, and (b) total expenditure on a commitment basis as a ratio of GDP in 2024 is reported as 23.7% in paragraph 98(v), but as 26.0% in paragraph 174.

Inconsistent data between the budget speech and the full budget statement are: (a) total revenue and grants for 2025 is given as GH¢223.8 billion or 17.2% of GDP in paragraph 173 of the budget speech, but as GH¢224.9 billion or 16.1% of GDP in Appendix 3A of the full budget statement, and (b) total expenditure on a commitment basis for 2025 is given as GH¢269.1 billion or 20.7% of GDP in paragraph 174 of the budget speech, but as GH¢268.8 billion or 19.2% of GDP in Appendix 3A of the full budget statement.

And finally, inconsistent data within the full budget statement are: (a) arrears clearance in 2024 is reported as GH¢36.3 billion in Appendix 2A, but as a significantly lower amount of GH¢15.8 billion in Appendix 2C, (b) total cash expenditure is reported as GH¢248.0 billion in Appendix 2A, but as a much lower figure of GH¢226.2 billion in Appendix 2C, and (c) actual total expenditure appropriation in 2024 calculated from Appendix 2A is GH¢256.2 billion, but it is reported as GH¢250.3 billion in Appendix 2C.

Our reason for highlighting these data inconsistencies is to draw attention for them to be corrected, since they impinge on the budget's credibility. Moreover, accuracy in budget documentation is a basic requirement of fiscal transparency.

4. RECOMMENDATIONS

Based on the assessment above, we recommend the following measures to the government to strengthen Ghana's fiscal management, boost economic growth, and achieve long-term development.

I. Ensure credible medium-term fiscal projections by reviewing interest payment forecasts: Given that interest payment is what is defining the government's medium-term consolidation path, and given the clear evidence we have provided in this assessment to show that the projected interest payments for the medium term lack credibility, the government should review the interest payment forecasts. Alternatively, if the government has a strategy to bring about sharp declines in interest payments as projected, then it should provide such information to the public in the interest of fiscal credibility and transparency.

I***I. Confront the problem of limited revenue mobilization from the natural resource sector head-on:*** As argued in Section 3 (II), the planned establishment of the Gold Board and the increase in the growth and sustainability levy to last up to 2028 cannot help the government to capture significant portion of the country's natural resource rent. The government, therefore, has to confront the problem of limited revenue generation from the natural resource sector head-on. As IFS has said over and over again, active state participation via joint-venture arrangements with majority government interest and/or production-sharing agreement is the way to go, as they have proven to be the contractual arrangements that have worked in other developing countries. As far as Ghana's gold sector is concerned, these contractual arrangements best fit the large-scale gold mining sector. For the small-scale miners, we recommend that the government should establish a gross production-sharing scheme for them, using a ratio of, say, 50% for the government and 50% for the miners, or 40% for the government and 60% for the miners. To implement this scheme effectively, the government should form a joint management committee with representatives of the Ghana National Association of Small-Scale Miners (GNASSM) to track and supervise gold production and ensure that the government receives its due share.

III. Reconsider the uncapping of earmarked funds, as it will reduce budget flexibility and risks worsening arrears accumulation by central government: Rather than uncapping the earmarked funds, the Minister of Finance should use the discretion allowed him by the capping law to allocate more resources to the funds if he considers it necessary. This way, the funds will remain subject to the aggregate revenue cap, which serves as a check on their growth and ensures that the effects of earmarking on budget rigidity are reined in.

IV. Target social programs to those in need to reduce cost, enhance spending efficiency, and ensure fiscal sustainability: As stated in Section 3 (V), social programs must be targeted to those most in need to contain costs and improve spending efficiency. For instance, rather than a blanket elimination of fees for first-year students in tertiary institutions, the government should apply a means test to identify and extend assistance to those who actually need it. Similar targeting mechanisms should be applied in respect of the other social programs.

V. Ensure that the "Big Push" initiative reflects in significant increase in public investment ratios to accelerate economic growth beyond what the government has projected: As said earlier, the projected public investment ratios in the medium term are declining, implying that the Big Push initiative is not going to ramp up public investment in relative terms. The government should, therefore, ensure that capital spending as ratios of GDP and revenue significantly rise in order to accelerate economic growth beyond what it has currently projected. To achieve this, the government should ensure more rigorous expenditure reprioritization in favor of public investment as part of the Big Push initiative.

INSTITUTE FOR FISCAL STUDIES

Residential Address
No. 13, 2nd Close, Airport Residential Area, Accra, Ghana

Postal Address
P.O. Box CT 11260, Cantonment Accra, Ghana

+233 302 786 991
info@ifsghana.org
www.ifsghana.org