Ghana

Ghana Economic Update

Preserving the future: rising to the youth employment challenge

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MTI

Kwabena Gyan Kwakye, Christabel Dadzie and David Elmaleh

Public Disclosure Authorized

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Acknowledgements

This edition of the Ghana Economic Update is the sixth in this annual series that focuses on Ghana's economic development and prospects. Each edition includes both a broad overview of the country's macroeconomic and structural dynamics, as well as a special thematic section. In this Update, the special focus is on Youth Employment. The report was prepared by Kwabena Gyan Kwakye (Economist), Christabel Dadzie (Senior Social Protection Specialist), and David Elmaleh (Senior Economist). Kennedy Fosu (External Affairs Officer) provided guidance on public outreach. Abebe Adugna (Regional Director for Africa West and Central), Pierre Laporte (Country Director for Ghana), Francisco Carneiro (Practice Manager, Macroeconomics, Trade & Investment Global Practice), Dhushyanth Raju (Acting Practice Manager, Social Protection and Jobs Global Practice), Agata Pawlowska (Operations Manager for Ghana), Aurélien Kruse (Lead Economist), and Patrick Mullen (Program Leader) provided overall guidance. The report benefitted from administrative support, Pinar Baydar (Operations Analyst), Gregoria Dawson-Amoah (Program Assistant), Irene Sitienei (Program Assistant). The peer reviewers were Samer Matta (Senior Economist, EAWM2) and Namita Datta (Program Manager, HSJDR).

Executive Summary

Part I: Global Economic Context, Recent Economic Developments, and Outlook

Ghana's economy rebounded from the COVID-19 slowdown, growing by 5.4 percent in 2021, but the recovery is already facing global headwinds. After slowing to 0.5 percent in 2020, real GDP growth picked up in 2021 thanks to dynamic agriculture and services sectors. Government spending helped fuel a pick-up in domestic demand while investment also rebounded, as pandemic-linked restrictions were lifted and global value chain activities started to recover: gross capital formation grew by 15.3 percent in 2021, compared to 3.7 percent per year on average before the pandemic (2017-2019). In 2021 there was also a significant recovery of Ghana's international trade, with imports and exports growing at 9.7 percent and 1.8 percent respectively. However, in early 2022 the economy started to experience the ripple effects of the war in Ukraine and inflation reached a more-than-a-decade high, 27.6 percent in May 2022, one of the fastest in SSA. Tighter global financing conditions constrained Ghana's access to capital markets.

Despite attempts by the government to roll back fiscal support, consolidation was held back by budget rigidities, debt service obligations, and revenue mobilization challenges, keeping the fiscal deficit one of the highest in the region. In 2021, the headline fiscal deficit (including financial sector and energy sector costs) remained elevated at 11.4 percent of GDP[1], despite having come down from its exceptionally high level of 2020 (15.2 percent). Ghana's tax-to-GDP ratio compares unfavorably to the averages for regional peers, emerging markets, and Sub-Saharan Africa (SSA). In 2021, domestic revenue was equivalent to 15.2 percent of GDP, well below the SSA average of 25.4 percent. At the same time, the budget continued to face elevated spending pressures for interest payments (7.3 percent of GDP), the wage bill (6.9 percent of GDP), and capital spending (3.9 percent of GDP). Meanwhile, Public Financial Management (PFM) challenges have contributed to the accumulation of new arrears even as the government attempted to clear existing ones. Finally, the energy sector continues to require significant budgetary support while the financial sector remains a source of fiscal risk.

Debt sustainability is a key concern, as Ghana faces elevated public debt and financing needs, but limited access to international capital markets. Exceptional spending levels and low revenues in 2020 (largely attributable to the pandemic) sent the debt-to-GDP ratio to 78.3 percent of GDP, up by 15.4 percentage points from 2019, and gross financing needs (GFN) to over 24 percent in 2020, up from around 12 percent of GDP in 2018. In 2021, the ratio of debt-to-GDP rose further to 81.8 percent while sovereign spreads on Ghana's bonds spiked and now effectively limit the country's ability to tap international capital markets. Investors and agencies have raised concerns about the country's fiscal situation and the credibility of its medium-term fiscal plans. While external debt amortization needs will remain modest in 2022 and 2023 the authorities will need to carefully manage the level of foreign reserves, in a context of tightening global liquidity conditions, until Ghana regains access to external financing.

To meet its financing needs, Ghana has had to turn to expensive domestic private borrowing, increasing the pressure on the financial system. Locally issued debt has risen from 30 percent of GDP in 2019 to over 40 percent in 2021, and is expected to cover over 75 percent of the 2022 financing needs. But recent auctions have been undersubscribed, which could hinder the rollover of domestic debt (of which foreign investors holdings are significant) and eventually lead to exchange rate pressures and the erosion of international reserves.

[1] Fiscal ratios are based on the revised GDP series (as of April 2022); using the old GDP series the 2021 deficit was 11.6 percent.

The authorities have announced ambitious medium-term fiscal objectives but their political feasibility has come into question, they may not be sufficient to stop debt accumulation, and they provide for minimal buffers in case of slippages. The medium-term framework included in the 2022 budget anticipates a sharp fiscal consolidation that would bring the deficit under 5 percent of GDP and GFN to 12 percent of GDP by 2024.[2] To achieve these targets the authorities aim to raise revenue from 15 percent of GDP in 2021 to 20 percent in 2022, while implementing spending cuts. Revenue measures include improvement in tax compliance and revenue administration, and tax policy initiatives. Expenditure control measures include right-sizing public sector staffing and strengthening public investment management and procurement. However, a significant revenue measure (the "e-levy", a tax on electronic transactions) has faced steep public opposition, causing delays which will limit its implementation to at most seven months in 2022. Targets for other revenue measures appear optimistic as they may be impacted by trade slowdowns. Conservatively, the fiscal deficit may average 7.8 percent over 2022-2024, compared to the authorities' target of 5.8 percent. In turn, the debt-to-GDP ratio is expected to reach almost 86 percent by 2024 (according to the July 2021 Debt Sustainability Analysis (DSA)).

If Ghana can control the major risks it faces, GDP growth is expected to reach 5.0 percent in 2022 and to average 5.6 per year over 2022-2024. Growth will be broad-based, led by agriculture and services and a recovering industry sector supported by higher extractives prices. Agriculture growth is expected to remain strong despite rising fertilizer prices, thanks to public interventions in the crops and fishing sub-sectors. Mining and quarrying should continue to contract in 2022 (as oil production declines due to physical constraints), but at a slowing rate (2.9 percent), thanks to improved prices and export volumes for gold, complemented by a recovery of oil prices. Oil production is expected to fall gradually until 2024 when production will be lifted as the Pecan field comes online. The services sector is projected to continue its strong growth trajectory, growing by 6.7 percent in 2022, and at 6.3 percent on average over 2022-2024.

Rapid exchange rate depreciation has contributed to mounting inflation: Ghana's external position is projected to worsen in the near term, putting pressure on the central bank to support the currency, with the risk of running down international reserves. The current account deficit was 3.4 percent in 2021, but is expected to widen to 4 percent of GDP in 2022 and remain elevated until 2024. While exports of oil will continue to decline, imports have recovered to pre-pandemic levels. In this context, the Bank of Ghana (BoG) will be challenged to maintain an adequate level of international reserves as the current account deficit widens, external financing needs increase, and access to the Eurobond market remains constrained. The Ghana Cedi had been stable since 2019 but came under pressure at the end of 2021 and in 2022Q1, as foreign exchange became scarcer. The Cedi's depreciation contributed to inflation and prompted the BoG to intervene through foreign exchange (FX) auctions amounting to US$450 million in 2022Q1. As a result, international reserves have declined.

This outlook is subject to major risks as Ghana's economy continues to suffer from the pandemic's impact and the war in Ukraine is exacerbating prior inflationary pressures and financing constraints. Ghana is facing serious fiscal stress following the pandemic's response. Geopolitical developments are expected to raise global prices for several key commodities (including food, fuels, fertilizers, and metals used in manufacturing), lowering households' and firms' purchasing power and increasing poverty; these pressures have already hastened monetary policy tightening. Higher fertilizer and metal prices could negatively impact construction, manufacturing, and agriculture. Although Ghana will enjoy a current account boost from rising commodity prices (particularly for oil and gold), benefits to real GDP are likely

[2] The World Bank staff projects a more conservative fiscal deficits of 8.9 percent of GDP in 2022, 7.3 percent in 2023 and 7.1 percent in 2024.

to be counteracted by domestic inflation and Ghana's falling oil production until at least 2024. The tightening of global financial conditions and associated capital outflows could put further pressure on the exchange rate as well as on reserves.

Strengthening the macroeconomic framework and rebuilding buffers will require that authorities rigorously implement their reform plans and consider further efforts. They should consider the implementation of additional reforms to widen the tax base, strengthen tax administration, reduce tax exemptions, plug revenue loopholes and leakages, and combat tax evasion. The government also needs to step up efforts to control statutory expenditures (notably by moderating the growth of the civil service wage bill), carefully manage the phasing out of COVID-19 expenditures, rationalize the portfolio of public investment, and address contingent liabilities arising from the energy and financial sectors. They authorities also need to monitor risks arising from financial institutions' high exposure to the public sector as well as the impact of unwinding financial sector support measures on asset quality and credit growth. These reforms should ultimately seek to rebuild fiscal and external buffers, to help address upcoming shocks and provide targeted support to vulnerable households in these volatile times.

Ghana needs to preserve the future: while addressing these immediate macroeconomic challenges, it cannot afford to lose sight of long-term growth and economic transformation to provide jobs to its youth. Economic transformation is a powerful driver of productivity growth and – quality – jobs creation, that requires workers to move within and between sectors of activity (see Figure 0.1). In Ghana, economic transformation has been slow and the dual shocks of COVID-19 and the war in Ukraine is now adding new challenges with lasting consequences on human capital, investor confidence, fixed capital formation, and global supply chains. Thus, it is more important than ever to encourage structural transformation and support job creation while also responding to the short term needs of new entrants into the labor market. These issues are the focus of the Special Focus of this report.

FIGURE 0.1. Jobs and Economic Transformation (JET) Framework

Source: Adapted from World Bank 2021 Country Economic Memorandum, Ghana Rising: Accelerating Economic Transformation and Creating Jobs

Part II: Special Focus: Youth employment in Ghana

The challenge of youth unemployment is multifaceted: it reflects a broader job challenge in Ghana, but also issues that are specific to the youth in nature and intensity. As in the rest of Sub-Saharan Africa, Ghana's youth population is growing rapidly. Ghana's youth constitute about 36 percent of the total population, and 54 percent of them live in urban areas. In 2016, the overall unemployment rate in Ghana was estimated at 11.9 percent, while youth unemployment was slightly higher at approximately 12.1 percent. Estimates from the Ghana Statistical Service (GSS) suggest that about 1.55 million adults (15 years and above) were unemployed in 2021, 74 percent of them defined as "young".

Ghana's economic growth has not delivered enough employment for the growing population. Between 1991 and 2019, a one-percent increase in Ghana's GDP was associated with an increase in overall employment by 0.45 percent. This employment-GDP growth elasticity is lower than the average for Sub-Saharan Africa (0.62) but higher than the average for lower-middle income country peers (0.35) over the same period. Demographic trends are compounded by (i) shifts in the structure of the economy over the past two decades toward natural resources which tend to generate fewer jobs; (ii) the stagnation of the manufacturing sector, and the expansion of low-wage, low-productivity trade services; and (iv) the changing nature of work which could lead to fewer jobs in the short-term.

Ghana needs to promote economic transformation to create good quality jobs, for which restoring macroeconomic and fiscal stability is a critical pre-condition. Productivity enhancing (and job creating) economic transformation had been slow in Ghana even before the country was hit by the dual crises of COVID-19 and the war in Ukraine. Deteriorating macroeconomic and fiscal conditions had started eroding investors' confidence, limiting Ghana's participation to global value chains, and driving up the cost of finance. As a result, productive economic sectors (such as high-value services, manufacturing, agribusiness) were growing slowly and generating few "quality jobs". Addressing youth unemployment will require creating the conditions for these sectors to flourish as well as allowing all youth to access the opportunities they generate.

Meanwhile, it is important to complement demand side policies (to boost job creation) with supply side interventions (to curb mismatches of skills and also ensure appropriate productive matches in the labor market). The authorities have prioritized initiatives to boost youth employment over the last decade, with a focus on youth employment programs; but evidence on the abilities of such programming is limited; and most reviewed have been found to generally have gaps in their ability to dent youth unemployment. Approaching job creation from both supply and demand side is key; while focusing both on wage and self-employment (majority), which have unique, varying needs.

Therefore, the challenge remains intact and urgent. To boost youth employment in Ghana, the following priorities have been identified encompassing both labor supply and demand side policies:

Supply-side policies

- **The education system most adapt.** It should include new learning opportunities and skills that are required by employers, including basic digital and soft skills. Preemployment support needs to be enhanced to promote job readiness; however, additionally, labor-intermediation reform will be required to promote appropriate job matching. Further, the Technical, vocational and training institutes need to be retooled and curricula advanced to relevant provide support to youth, particularly with the growing number of youths in urban areas.

- **The Government should review youth employment programs to ensure their effectiveness and relevance.** While a major focus is now on entrepreneurship, not all young people would have the capacity and capability to be entrepreneurs, even with support within the entrepreneurial ecosystem. As such a review of all major youth employment programs, focusing on analyzing their capabilities, content, reach and effectiveness would be useful to having a more comprehensive approach to providing transitional support and sustainable decent livelihoods to youth.

- **Engagements with youth reference that mindsets must also evolve.** As such, the government would have to broaden the scope of possible youth employment programs beyond entrepreneurship. There are several job opportunities that are not tapped into in Ghana because they are viewed as menial jobs. Some thinking (and further research) on (i) changing the youth mindsets on jobs desirability; and (ii) finding ways to support wages of workers doing these 'hard' jobs.

- **Technology should be leveraged:** to promote technological adoption, skills need to be acquired swiftly and updated regularly. Policy makers will need to adapt to the 'new normal', precipitated by COVID-19, and ensure technological changes are effectively incorporated into both the education and work environment. Further, a review of the entire technology value chain could help identify opportunities (both in the short term and longer term) and markets for young innovators to scale up their businesses.

Demand-side policies

- **To enable economic transformation, macroeconomic and fiscal governance should strive to stabilize the economy and boost revenue collection for investment.** Firstly, to stabilize the economy and ensure its sustainability, Ghana should revisit and strengthen its current fiscal responsibility framework. Secondly, to collect more revenue that can be channeled to critical investments, Ghana would need to improve the efficiency and equity of its tax mix. Thirdly, to specifically address the threats posed by climate change, Ghana could review, rationalize and possibly augment its environmental taxation toolkit.

- **Financial intermediation must improve to allow Ghanaian enterprises (mainly SMEs) to grow, enhance their productivity, and contribute to economic transformation.** This requires accelerating key interventions to remove obstacles associated with limited access to finance, such as reforms to increase the availability of long-term finance and to mitigate financial institutions' credit risk and lessen collateral requirements.

- **Expanding job opportunities will require identifying and increasing market access and boosting competitiveness in manufacturing, notably by leveraging the opportunities offered by the Africa Continental Free Trade Area (AfCFTA).** Leveraging the AfCFTA and identifying accessible markets for young entrepreneurs within the continent, by aggregating national markets to create larger ones, as well as taking identifying comparative advantage, hold the potential to promote quality and productive job creation, and to increase employment within young businesses.

- **High-yielding job-creating sectors need to be supported**. Policy makers could conduct in-depth analyses of high-potential job growth areas, identifying areas where different categories of youth would most likely be interested in and/or find jobs. Promising opportunities exist in agriculture and agribusiness, tourism, manufacturing, and construction.

Table 0.1. Summary of the main recommendations

	Reform Area	Short-term / Crisis Response	Long-Term / Structural
1	**Macroeconomic and fiscal framework; debt sustainability**	1. Engage in decisive and sustainable fiscal consolidation – see spending and revenue measures for details 2. Monitor risks arising from banks and other financial institutions' high exposure to the public sector as well as the impact of unwinding financial sector support measures (and the broader macroeconomic environment) on asset quality and credit growth	
2	**Spending rationalization and contingent liabilities**	1. Continue efforts to strengthen control of statutory expenditures and carefully manage the phasing out of COVID-19 expenditures 2. Protect well-targeted support for the vulnerable - including those struggling because of commodity price spikes and those affected by the pandemic 3. Rationalize the active portfolio of public investments by prioritizing budget allocation to near-completion and newly appraised projects 4. Reduce contingent liability risks from the energy sector via steadfast implementation of the ESRP	1. Moderate the growth rate of the civil service wage bill, notably via the multi-year wage negotiations as well as the enforcement of MoF financial clearance for recruitments
3	**Domestic revenue mobilization**	1. Reduce tax expenditure via the prompt implementation of the Tax Exemption Bill (submitted to Parliament in February 2022) which provides the framework to monitor, control, and rationalize tax exemptions 2. Focus on widening the tax base by implementing the planned 2022 tax measures including: property tax improvements; the Revenue Assurance, Compliance and Enforcement (RACE) act; and the VAT Flat Rate Scheme restrictions 3. Support the GRA on a range of tax facilitation measures including: automated filing of returns and taxes; transparent risk-based audit mechanisms; and timely completion of administrative reviews 4. Fast-track progress on initiatives related to tax data warehousing and business intelligence to improve tax compliance	1. Introduce policy measures to encourage tax filing and impose a withholding tax on non-filers on their transactions – such as property transfer, vehicle registration, significant cash withdrawals etc. 2. Rationalize "health taxes" on tobacco, alcohol and other products with an adverse health impact
4	**Monetary policy**	1. BoG should monitor the impact of price pressures on inflation expectations 2. To maintain policy credibility, BoG should continue to adjust forward guidance on the monetary stance with the use of credible data and communicate its policy stance through the unwinding of its bank balance sheets and the path for policy rates	
		Special Focus – Promoting Youth Employment	
5	**Economic transformation and structural policies**	1. Ensure that Ghana does not cut itself from trade and investment networks 2. Increase market access and boost competitiveness in manufacturing, notably by leveraging the opportunities offered especially by the Africa Continental Free Trade Area (AfCTA).	1. Improve financial intermediation notably by: increasing the availability of long-term finance; mitigating financial institutions' credit risk; and lessening collateral requirements. 2. Promote quality education (notably on digital technologies),

			3. Encourage labor force participation, in particular of the youth
6	**Holistic policy environment to promote Youth Employment**	1. Accelerate the passage of the law that sets up the National Employment Coordinating Council (NECC) to oversee planning, coordination, and results measurement. 2. Operationalize the Ghana Labor Market Information System (GLMIS) and establish impact measurement mechanisms to regularly evaluate programs' value for money. 3. Conduct evaluations and tracer studies on existing youth employment programs to identify their effectiveness and impacts, and to make changes, as needed. 4. Conduct a review on self-employed/ youth to understand specific areas where youth in self-employment can be supported (different than higher level entrepreneurs or wage employees)	1. Incorporate new skills required by employers, including basic digital and soft skills into education system. 2. Improve labor intermediation services to ensure that jobs and skills matching opportunities are available 3. Leverage the Private Sector through Public-Private Partnerships, particularly in skills development is another essential strategy to foster job creation.
7	**Potential high-yielding, job-creating sectors**	1. Conduct in-depth analyses of high-potential job growth areas, identifying areas where different categories of youth would most likely be interested in and/or find jobs and conduct similar analysis for job creation opportunities across all value chains for high potential sectors	
8	**Technology for creating jobs**	1. Review the entire value chain of technology usage and identify areas where there are potential areas to support jobs for the youth	1. Invest in new job areas within the technology space to support new job creation. E.g. mobile phone development

Part I: Global Economic Context, Recent Economic Developments, and Outlook

1. Global and Regional Context[3]

1. **The war in Ukraine and recent COVID-19 outbreak in China threaten to dampen the timid global recovery that had begun in 2021.** Global growth accelerated to 6.1 percent in 2021, as the world started to recover from the COVID-19 pandemic (Figure 1.1). However, growth prospects have dimmed since the onset of the war in Ukraine in early 2022. Global growth is expected to moderate to 3.6 percent in 2022, as the war has been leading to soaring commodity prices, causing supply chain disruptions, propelling inflation further (Figure 1.2), tightening financial conditions, increasing financial vulnerabilities, and magnifying policy uncertainty. These impacts should be somewhat mitigated for commodity exporters, thanks to surging commodity prices, but they will still be hard-hit by high inflation. Supply chain disruptions, notably linked to the recent COVID-19 outbreak in China and resulting lockdowns,[4] and high commodity prices threaten to keep global growth low and inflation high in the medium-term (Figure 1.5).

2. **The war has caused renewed disruptions to global value chains and weighs on global trade logistics.** Global goods trade picked up in February 2022, with the global PMI manufacturing new export orders index increasing from 49.7 to 50.8. However, logistic disruptions and airspace bans associated with the war in Ukraine are likely to exacerbate persistent supply bottlenecks, as elevated commodity prices ripple through global value chains and trade is re-routed across longer and more expensive routes. Trade through the Black Sea has already been disrupted, with dry bulk vessels at Ukrainian ports down more than 90 percent in the week to March 15th relative to a month earlier. Meanwhile, shipping costs of dry bulk materials have increased suggesting disruptions are translating into higher transportation costs

3. **Monetary policy in major economies has become less accommodative in response to inflationary pressures, leading to a tightening of global financial conditions and increases in borrowing costs, particularly in emerging market and developing economies (EMDEs).** Global financial conditions tightened in early March, with global equities falling 5 percent from mid-February to mid-March, while the dollar strengthened more than 2 percent against a basket of major currencies amid elevated geopolitical risk; U.S. long-term yields rose 12 basis points over the same period. Global debt and equity flows are reflecting divergent expected impacts of the war on commodity importers and exporters. Flows to Latin America remained positive and flows to Middle East and North Africa energy exporters strengthened. In contrast, portfolio flows to all other regions (ECA, EAP, SAR and SSA) turned sharply negative. In addition, the unwinding of COVID-19 related fiscal support measures has also weighed on global activity.

4. **Growth is expected to slow down in Sub-Saharan Africa to 3.8 percent in 2022, from 4.5 in 2021 (figure 1.1 and 1.4).** The war in Ukraine has caused supply disruptions resulting in price pressures which should reduce food affordability and real incomes. Poverty could increase sharply in the region, especially in countries that rely heavily on food and full imports. Increased spending on food and fuel subsidies and support to farmers could further erode fiscal space. However, for commodity exporting countries, elevated energy and metal prices will soften the blow from rising inflation. Inflationary pressures could cause a faster than expected monetary policy tightening, which could hurt growth

[3] This section is adapted from the World Bank Global Economic Prospects (GEP) January 2022, GEP Global Monthly March 2022, and the Commodity Markets Outlook April 2022. Global growth projections from the IMF World Economic Outlook, April 2022.

[4] Upcoming data indicates a contraction in China's output in April

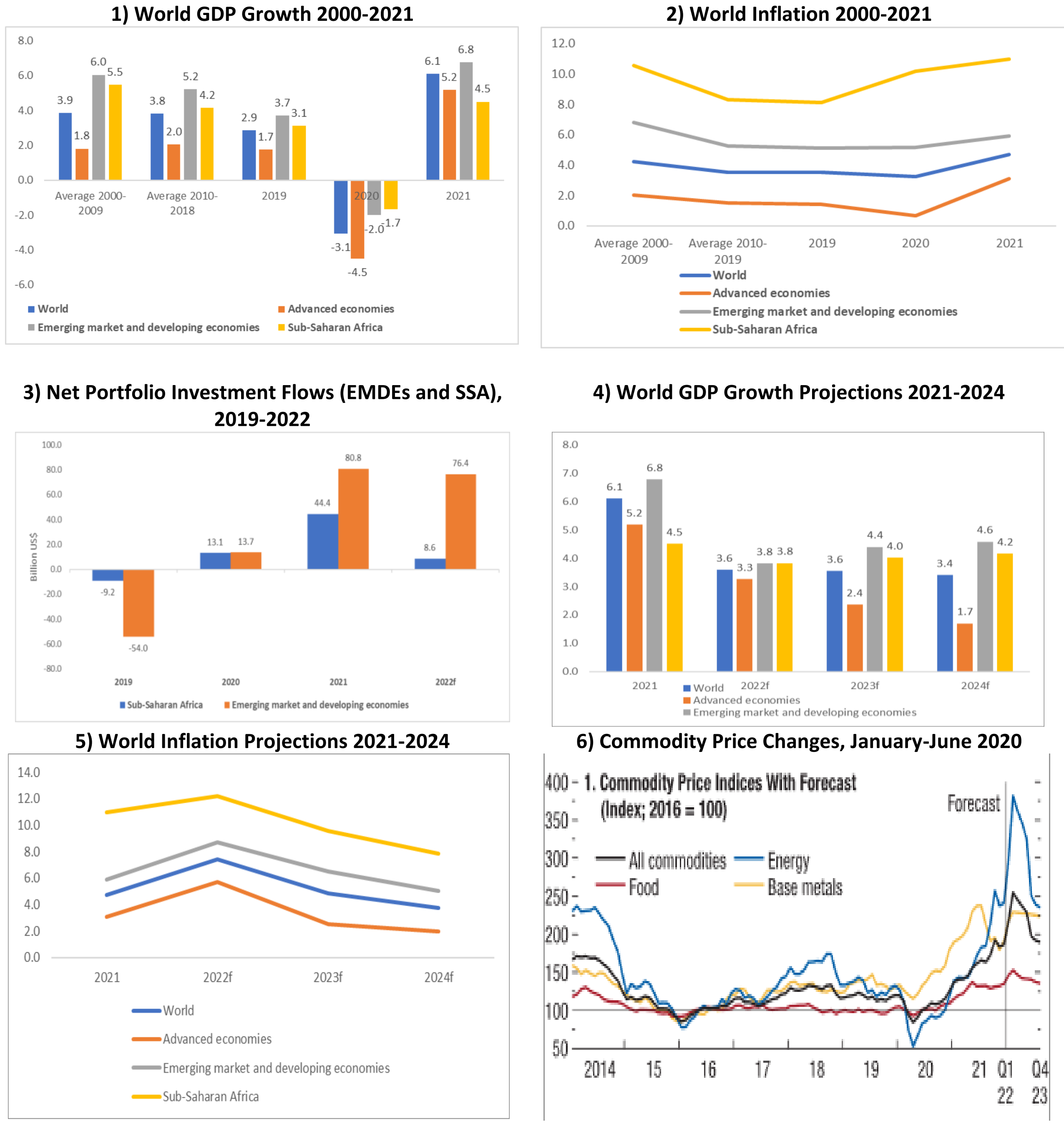
prospects. The region is vulnerable to new waves of COVID-19 infection as vaccination rates continue to lag other EMDEs.

5. **The prices of commodities most relevant to Ghana (oil, gold, and cocoa) so far, have been stable or increasing, but there is significant uncertainty regarding the outlook, particularly for oil.** The price of Brent crude oil averaged $116/bbl in March 2022, a 55 percent increase from December 2021 and its highest level since 2013 (as the war in Ukraine started disrupting exports from Russia which account for 10 percent of global oil production). But oil prices have been extremely volatile and the expected slowdown in global GDP growth could weigh on them in the medium-term. Gold prices gained 4.3 percent in 2022Q1 (q/q), propelled by rising inflation and geopolitical risks. Prices are expected to continue increasing modestly in 2022 before falling by about 10 percent in 2023, as monetary policy tightens[5] in the EU and the United States. Cocoa prices have remained relatively stable throughout the past year and a half, between $2.30/kg and $2.55/kg. They are expected to remain stable in 2022 and 2023, as the global market should remain adequately supplied and pandemic-related disruptions should continue to ease.

6. **The various ongoing crises pose linked downside risks, notably related to global financing conditions and food prices.** Geopolitical tensions could further disrupt economic activity, generate policy uncertainty and, if persistent, lead to fragmentation in global trade, investment, and financial systems. These risks, if they materialized, could cause the global economy to experience stagflation, with deficient demand and high inflation, and central banks could be forced to tighten monetary policy faster than currently expected. Further tightening of global financing conditions could cause financial stress. While energy and food prices have stabilized in April (at high levels), fertilizer prices have continued to rise. The production and shipping of food and fertilizer could be further disrupted, leading to widespread food shortages, and possibly pushing millions of people into food insecurity and extreme poverty. Finally, the apparition of new, more contagious, COVID-19 variants could lead to the adoption of new - global or regional – restrictions and disruptions to the economy (Figures 1.2, 1.3 and 1.4).

[5] Rising real yields are typically a headwind for gold prices because they dampen investor flows, a key driver of gold prices

Figure 1. Developments in the Real Sector (Global Context)



Source: **1.1-1.6:** International Monetary Fund, World Economic Outlook Database, April 2022
Notes: 1.3: negative values represent net outflows

2. Recent Economic developments

7. **Ghana has experienced strong economic growth over the past two decades, but in the last decade growth was slower and more volatile.** Over 2000-2020 per capita GDP almost doubled, with growth averaging 3.4 percent a year, well above the average of peers (such as Cote d'Ivoire and Kenya) and above the LMIC average (see Figure 2.1). Growth was fueled by favorable terms of trade (high prices for Ghana's main commodity exports, gold and cocoa) and the start of commercial oil production in 2011. In the decade to 2020, GDP growth averaged 5.6 percent per year, with large swings largely due to the economy's dependence on natural resources and exposure to external shocks (see Figure 2.2). Moreover, Ghana's growth has not created sufficient job opportunities for the growing and increasingly young population, and the economy is not sufficiently diversified: gold, cocoa, and oil exports accounted for over 75 percent of all goods exports over 2015–2017, with a limited contribution of manufacturing. Labor has continued to move out of agriculture but mostly toward low value-added services, and some manufacturing. While some services subsectors have experienced fast growth (ICT, Financial and Professional Services) they employ very few workers.

8. **Prior to the COVID-19 pandemic, Ghana implemented a series of effective macroeconomic reforms.** Following a period of economic turbulence after the discovery of oil and gas in 2007, a concerted fiscal consolidation program between 2015 and 2018 helped narrow the headline fiscal deficit to below 5 percent of GDP. A consistently tight monetary policy stance drove a reduction in inflation from 14.1 percent in 2015 to 7.1 percent in 2019. Robust export growth (of gold, cocoa, and oil) put the merchandise trade balance into surplus and contributed to reducing the current account deficit from 5.8 percent of GDP in 2015 to 2.7 percent in 2019. Service exports and FDI inflows grew rapidly during this period and Ghana became one of the highest per capita recipients of FDI in the region, although a significant amount of this was in the extractives sector.

9. **However, the momentum behind these reforms started to wane after 2018, and macroeconomic management has become less effective.** Fiscal pressures arose from a costly financial sector clean-up over 2018-2020, and the start of the Energy Sector Recovery Program (ESRP) in 2019, through which Government committed to finance the annual energy sector financial shortfall and to ultimately bring the sector back to financial sustainability.[6] The overall fiscal deficit, including the energy and financial sector costs, was already elevated in 2019 at 7.5 percent of GDP (of which financial sector costs were 1.7 percent of GDP, and energy sector costs were 1.1 percent of GDP). These large fiscal imbalances and an elevated public debt have put Ghana at high risk of debt distress.

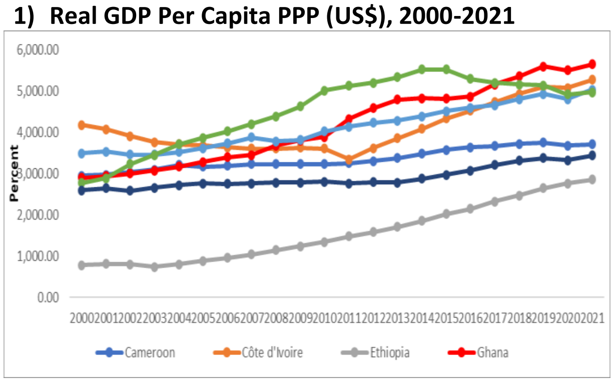
10. **The COVID-19 pandemic interrupted Ghana's strong growth trend and amplified fiscal risks.** According to the Ghana Health Services (GHS), a total of 161,370 confirmed cases (1,445 were fatal) had been recorded as of May 25, 2022. Economic growth slowed sharply to 0.5 percent in 2020, from 6.5 percent in 2019, as external demand weakened, commodity prices (particularly of oil) plummeted and FDI also fell, while average inflation rose to of 9.9 in 2020, just shy of the Central Bank's upper limit. Close to 131,000 businesses faced challenges[7] accessing finance and expressed uncertainty over the business environment, particularly firms in the trade and manufacturing sectors. The overall fiscal deficit (including energy and financial sector costs) more than doubled to 15.2 percent in 2020, as revenues declined, and the Government increased spending to support households and businesses.

[6] See Annex 3 for more details on Ghana's energy sector operational and financial challenges, and their fiscal impact.
[7] Covid-19 Business Tracking Survey conducted by Ghana Statistical Service (GSS) in collaboration with United Nations Development Programme (UNDP) and World Bank.

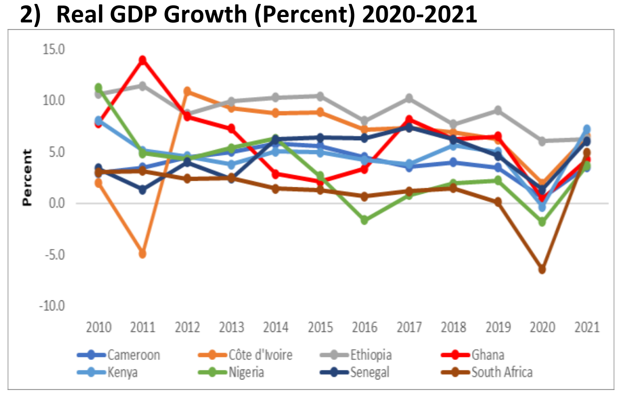
11. **After being hit by two successive crises (COVID-19 and the war in Ukraine), Ghana finds itself in a more difficult macroeconomic and fiscal situation than most peers.** Preexisting fiscal vulnerabilities, notably the low level of domestic revenue mobilization (see Figure 2.3), caused Ghana to experience the full impact of the COVID-19 crisis: its fiscal deficit and public debt stock became some of the most elevated in the region in 2021 (see Figure 2.5-7). As Ghana was hit particularly hard by the energy and food prices increase resulting from the war in Ukraine, its inflation accelerated faster than for most peers and reached 27.6 percent y-o-y in May 2022 (see Figure 2.4). Ghana needs to act decisively to restore macroeconomic and fiscal sustainability while continuing to protect its most vulnerable citizens from the most harmful impacts of the unfolding global crises.

Figure 2: Benchmarking Ghana's Macroeconomic Performance with Selected Peers

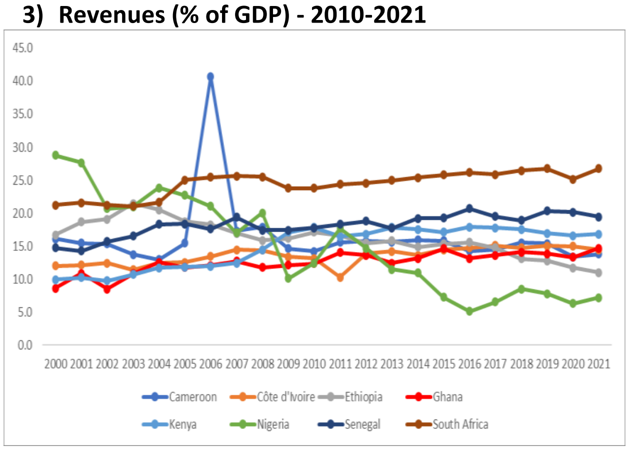
1) Real GDP Per Capita PPP (US$), 2000-2021



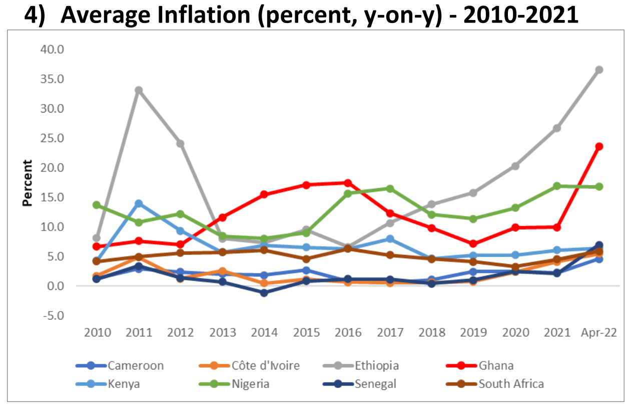
2) Real GDP Growth (Percent) 2020-2021



3) Revenues (% of GDP) - 2010-2021

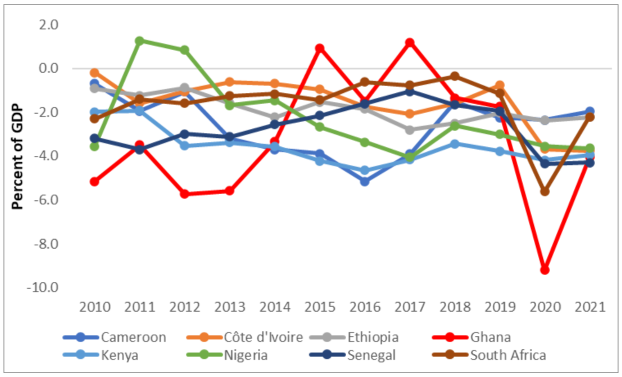


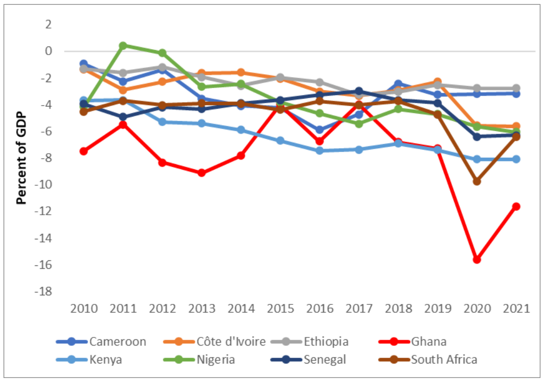
4) Average Inflation (percent, y-on-y) - 2010-2021



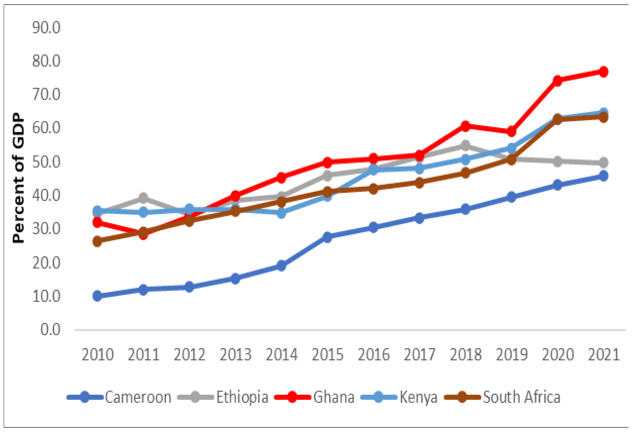
5) Primary fiscal balance / Net lending (% of GDP) - 2010-2021

6) Overall fiscal balance / Net lending (% of GDP) - 2010-2021





7) Net Debt (% of GDP) - 2010-2021



Source: World Economic Outlook, April, 2022

Notes: 1.1: GDP Per Capita Purchasing power parity; 2017 international dollar
1.3: General government revenue (National currency).
1.4: Latest Headline inflation for Cameroon is March, 2022. The rest are April 2022.

Table 1: Selected Macroeconomic Indicators, 2018-2021

Indicator	2017	2018	2019	2020	2021	2022 Proj.	2023 Proj.	2024 Proj.
Real GDP	8.1	6.3	6.5	0.5	5.4	5.0	5.4	6.4
Non-oil real GDP	4.6	6.5	5.8	1.0	6.9	5.9	6.2	6.0
Consumer prices (annual average)	10.9	8.9	7.1	9.9	10.0	16.3	13.0	9.1
Exchange rate (end of period GH¢/US$)	5.7	6.7	5.8	5.7	6.0	-	-	-
Current account balance incl. grants (% of GDP)	-3.4	-3.0	-2.7	-3.0	-3.4	-4.0	-4.2	-3.0
Gross International reserves (US$ Millions)	5,491	5,317	6,607	6,962	7,494	6,997	6,326	6,971
Gross International reserves (months of imports)	2.8	2.7	3.4	3.2	3.2	2.6	2.2	2.6
Net international reserves (US$ Millions)	4,557	3,886	5,247	4,559	5,212	5,297	4,757	5,135
Net International reserves (months of imports)	2.4	2.0	2.7	2.1	2.2	1.9	1.7	1.9
Broad Money (% Change)	16.7	15.4	21.6	29.7	12.5	20.0	15.3	13.2
Credit to the private sector (% change)	12.8	11.2	4.7	10.6	8.6	7.5	9.7	10.0
Revenues and Grants (% of GDP)	13.9	14.5	14.3	12.9	15.3	17.2	17.2	17.4
Expenditures (% of GDP)	18.7	21.5	21.8	28.1	24.5	26.1	24.5	24.4
o/w Financial and energy sector costs	0.0	3.3	2.8	4.7	2.0	1.8	1.4	1.3
Overall balance (incl. finsec clean-up and Bank Capitalization cost--% of GDP)	-4.7	-7.0	-7.5	-15.2	-11.4	-8.9	-7.3	-7.1

Overall balance (excl. finsec clean-up and Bank Capitalization cost--% of GDP)	-4.7	-3.7	-4.7	-10.5	-9.2	-8.9	-7.3	-7.1
Primary Balance (incl. finsec clean-up and Bank Capitalization cost)	0.5	-1.4	-1.9	-7.8	-3.7	-1.6	-0.3	0.2
Primary Balance (excl. finsec clean-up and Bank Capitalization cost)	0.5	1.9	0.9	-3.1	-1.9	-1.6	-0.3	0.2
Central Government Debt (% of GDP)	57.3	59.0	62.9	78.3	81.8	84.5	84.8	85.7
Public sector domestic debt (% of GDP)	27.7	30.1	23.9	41.4	43.8	44.6	46.6	48.4
Public sector external debt (% of GDP)	29.5	28.9	39.0	36.9	38.0	39.9	38.2	37.3
Nominal GDP (GH¢ Millions)	256,671	300,596	347,187	391,941	459,131	550,913	638,449	731,823
Nominal GDP (US$ Millions)	58,978	65,518	67,240	68,316	76,533	67,971	76,300	73,455

Source: Ministry of Finance, World Bank, IMF.

Notes: 1. Prior to 2022, Financial Sector and Energy Sector costs were not captured as "above the line items" and therefore were not captured in the Headline Deficit. However, starting in 2022, the government committed to capture these expenditures above the line and they are now part of the Headline deficit.

2. Public debt data may differ from authorities' figures due to inclusion of debt held by certain SOEs and SPVs

3. Gross international reserves are defined according to the WB/IMF DSA and differ from BoG's definition

a. Real Sector

Ghana's economy rebounded from the COVID-19 slowdown…

11. **After slowing to 0.5 percent in 2020, growth rebounded to 5.4 percent in 2021 thanks to dynamic agriculture and services sectors (Figure 4.1).** Growth was muted in the first two quarters of 2021, but economic activity picked up strongly in Q3 and Q4 (see Figures 4.2-4.4 and Table 1). The profile of Ghana's recovery was relatively inclusive and labor-intensive, to the extent that the extractive sector made only small contributions. In 2021, the agriculture sector grew by 8.4 percent, after experiencing very resilient growth (7.3 percent) in 2020 at the height of the pandemic. After slowing to compared 0.7 percent in 2020, services sector growth bounced back to 9.4 percent in 2021. ICT was the fastest growing subsector, at 33.1 percent, while Hotels and Restaurants, which had the steepest contraction in 2020 (-37 percent), recovered to 4.3 percent, as covid-19 related restrictions were lifted, and tourism resumed. However, industry continued to contract (by 0.8 percent) in 2021, after shrinking by 2.5 percent in 2020. Thus, industrial output remains below pre-pandemic levels, essentially because of sharp declines in extractives. Indeed, non-extractives industries (including manufacturing) have enjoyed a strong recovery since 2020Q4; but these trends were more than offset by a 12.5 percent decline in oil output in 2021.

12. **Thus, looking at the expenditure side, it is logical that growth was driven by domestic demand, in particular government consumption.** Indeed, domestic demand grew by 10.4 percent in 2021, from 0.5 percent in 2020, with contributions from both consumption and investment. In turn, consumption growth was mostly driven by government spending. After contracting by 1 percent in 2020, household consumption remained subdued in 2021 growing by 0.8 percent, significantly below the pre-pandemic (2017-2019) average annual rate of 5.2 percent. However, government consumption was much stronger, growing by 82.1 percent in 2021 as the government continued to spend on goods and services to support the recovery. As a result, total consumption grew by 8.8 percent in 2021, compared to a quasi-stagnation in 2020. In parallel, investment grew by 15.3 percent in 2021, compared to 1.9 percent in 2020, and pre-pandemic (2017-2019) average annual rates of 3.7 percent as pandemic-linked restrictions were lifted and global value chain progressively resumed. Indeed, international trade rebounded strongly: particularly imports which outpaced exports (due to capacity constraints in oil). Net exports, thus, contributed negatively to growth (See Figure 4.8).

Table 2: Quarterly GDP Growth, y-o-y, 2018-2021

	2018	***2019***	***2020***					***2021***				
	Q1-Q4	***Q1-Q4***	***Q1***	***Q2***	***Q3***	***Q4***	***Q1-Q4***	***Q1***	***Q2***	***Q3***	***Q4***	***Q1-Q4***
GDP Growth	**6.3**	**6.5**	**6.4**	**-5.6**	**-3.3**	**4.4**	**0.5**	**3.6**	**4.2**	**6.5**	**7.0**	**5.4**
Non-oil GDP	**6.5**	**5.8**	**6.3**	**-6.2**	**-2.2**	**5.7**	**1.0**	**5.3**	**6.6**	**8.2**	**7.6**	**6.9**
Agriculture	4.8	4.6	10.2	5.6	3.2	9.2	7.3	6.6	11.9	7.6	8.2	8.4
Industry	10.6	6.4	1.4	-6.3	-7.0	2.5	-2.5	-0.3	-6.3	-1.6	4.8	-0.8
Services	2.7	7.6	10.6	-9.2	-3.1	4.3	0.7	5.5	10.9	13.6	8.1	9.4

Source: Ghana Statistical Services (GSS).

…but the war in Ukraine is already affecting Ghana's recovery

13. **The war in Ukraine and its global repercussions are already affecting the economy, exacerbating prior inflationary pressures and financing constraints**. Global prices for several key commodities (including food, fuels, fertilizers, and metals used in manufacturing) have increased significantly, lowering the purchasing power of households and firms and increasing poverty. These pressures have hastened monetary policy tightening. Higher fertilizer and metal prices are expected to negatively impact construction, manufacturing, and agriculture. Although Ghana should enjoy a current account boost from rising commodity prices (particularly for oil and gold), benefits to real GDP are likely to be counteracted by domestic inflation and Ghana's falling oil production until at least 2025 (see Table 3 and Annex 2 for details on transmission channels).

Table 3: Main channels of near-term impact for Ghana

Channel	Impact of War	Key near-term effects for Ghana
Commodity markets	• **Surge in commodity prices. Russia accounts for large shares of global:** Wheat (25% of global exports); Seed Oils (40%); fertilizers (14%); crude oil (11%); natural gas (25%); various metals used for manufacturing (5-23%).	• **Higher commodity prices will result in even higher inflation,** which may hasten monetary policy tightening and lower household incomes and increase poverty rates. • **Terms of trade and current account will improve** for net oil and gold exporters like Ghana. • Ghana may face pressure to introduce **fuel subsidies** • ***Longer-term:*** *Higher price of inputs such as fertilizers and metals will negatively impact construction, manufacturing and agriculture.*
Financial markets	• **Higher interest rates** in advanced economies will further tighten global financial conditions • **Rise in investor risk aversion** leading to capital outflows from EMDEs	• **Currency depreciations and rising risk premia are compounding EMDE debt vulnerabilities,** particularly for countries with high risk of external debt distress such as Ghana.
Trade and investment	• **Export restrictions** slow trade, further fueling inflation • **Reduction in FDI** from Russia	• **20 percent of Ghana's wheat** and 7 percent of its rice comes from Russia (2019 BACI data). • **Russia is the destination for less than 0.3% of Ghana's exports** – primarily comprising cocoa products and other foodstuffs.
Development Assistance	• **Humanitarian and refugee crisis** in Europe	• **Longer-term:** Overseas development assistance could be redirected to Europe to address the humanitarian crisis.

Source: World Bank

Ghana's strong growth performance over the years has not paid off in terms of good jobs for the youth

14. **The economy under-delivers in terms of high-quality jobs creation and long-run productivity growth.**[8] Ghana's formal unemployment rate is around 6 percent, with youth unemployment at nearly 12 percent; but the employment challenge is greater than these statistics suggest. According to GSS, over 70 percent of jobs were in the informal sector in 2015, while over 65 percent of formal jobs were categorized as "vulnerable employment". These gaps in quality employment, mirror shortcomings in productivity. Extractives and agriculture have been the main drivers of productivity growth in Ghana over the past decade. But extractives employ few workers while agriculture is shedding jobs on a net basis. Meanwhile, most jobs were created in services where productivity stagnated and manufacturing where productivity declined.

15. **Better employment typically requires economic transformation.** Economic transformation occurs when people and resources shift from lower to higher productivity activities. By enabling workers to become more productive (through gaining employment in more productive activities and upgrading their skills), economic transformation raises incomes. Economic transformation typically involves the movement of workers (and other resources) between sectors (from one less productive to another more productive activity) and within sectors (from one less productive firm to another, or within a firm by taking advantage of better technologies and capabilities). There is often a spatial dimension, for example through urbanization, trade integration or improved connectivity and linkages.

Figure 3: The Jobs and Economic Transformation (JET) framework

Economic transformation can be driven by movement of workers between and within sectors, from upgrading within existing firms and from movement of resources spatially

[8] World Bank 2021 Ghana Country Economic Memoranda, Ghana Rising – Accelerating Economic Transformation and Creating Jobs, Washington, DC. World Bank.

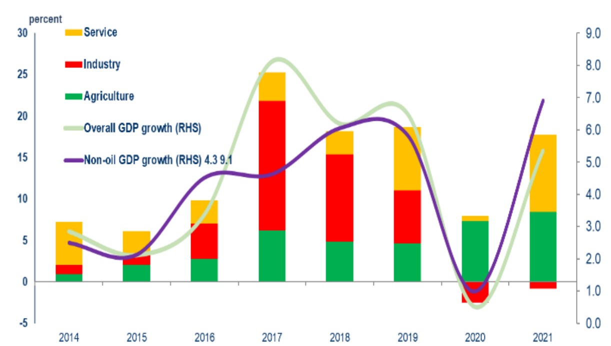
Source: Adapted from World Bank 2021 Ghana Country Economic Memorandum, Ghana Rising – Accelerating Economic Transformation and Creating Jobs

16. **But structural transformation has not fully played out in Ghana.** Over the years, the share of agriculture and industry in GDP have decreased significantly, and the share of services has grown proportionately (Figure 4.5). At the same time labor shifted mainly from agriculture to the services. But these services tend to be only marginally more productive, with limited potential -by their nature- to climb up the value chain (through innovation, agglomeration and scale economies). While some services are highly productive, such as transport and business services, the bulk of services employment is in retail and wholesale trade where productivity is lower than in agriculture. As a result, structural change and urbanization have delivered growth and employment as they did in East Asia and other parts of the world.

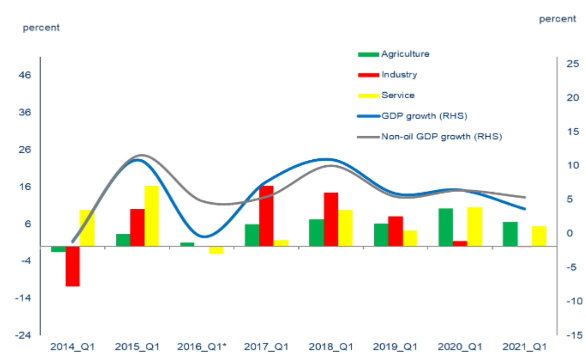
17. **Ghana's jobs challenge is critical, especially for the youth: hence the Special Focus of this Economic Update's.** By 2040, the Ghana's population is projected to rise to 45 million, with 58 percent of the population under 30 years old. Around 10 million Ghanaians will enter the labor force between now and 2040. This report's Special Focus section focuses on youth employment: it reviews the shortcomings of economic transformation (demand-side issues), the skills and characteristics of youth workers as well as existing policies and programs supporting youth employment (supply-side issues), and it makes suggestions for the way forward.

Figure 4: Developments in the Real Sector

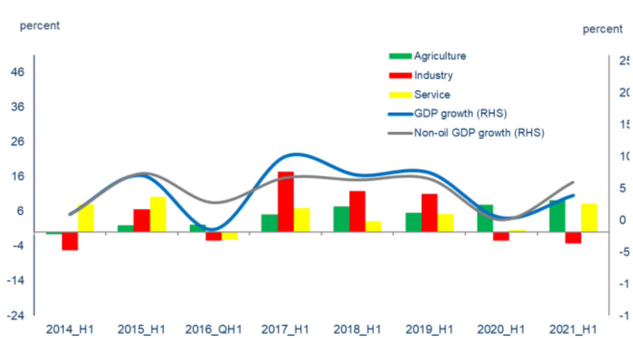
1) GDP Growth by Sector (Output Approach), 2014-2021



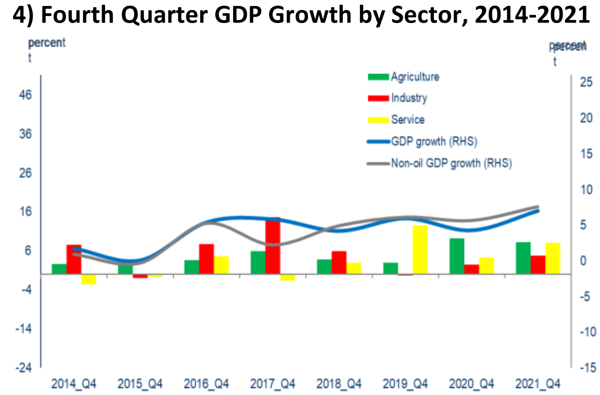
2) First Quarter GDP Growth by sector, 2014-2021



3) First Half (Q1-Q2) GDP Growth by Sector: 2014-2021

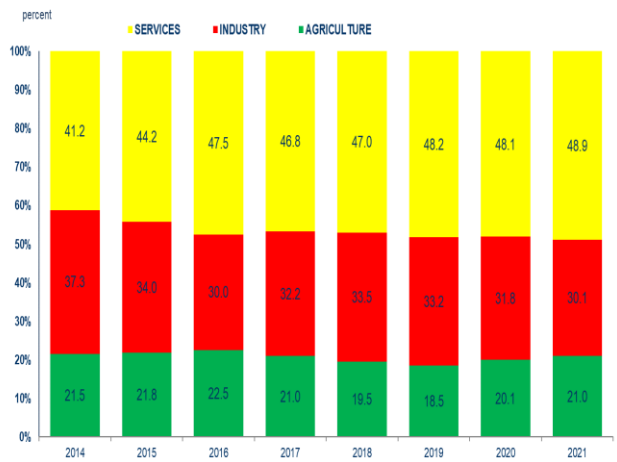


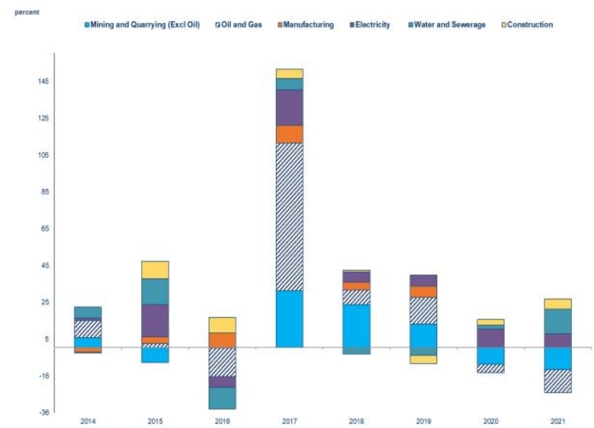
4) Fourth Quarter GDP Growth by Sector, 2014-2021



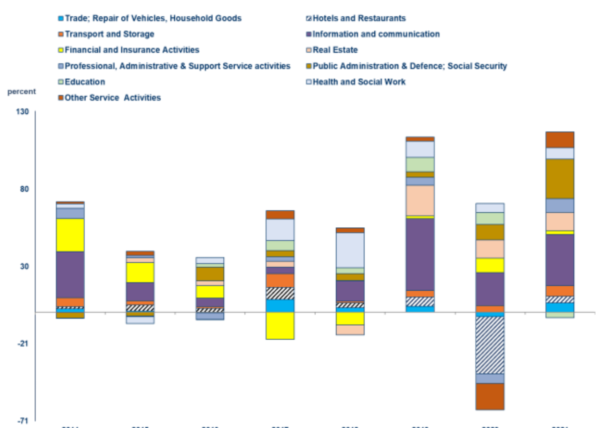
5) Sectoral Contribution to GDP, 2009-2019

6) Industry Sector Contribution to GDP, 2014-2021

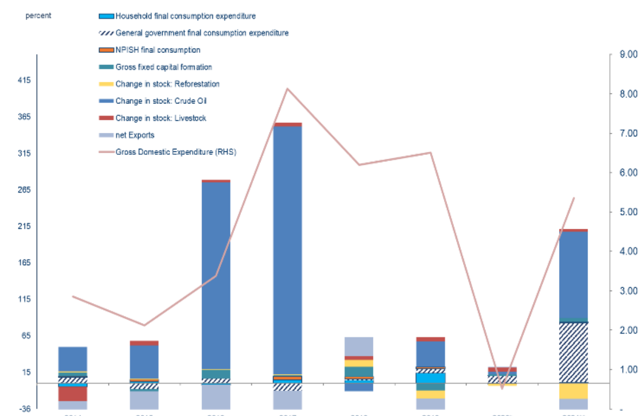




7) Services Sector Contribution to GDP, 2014-2021



8) GDP Growth by Sector (Expenditure Approach), 2014-2021



Source: **2.1-2.8**: Ghana Statistical Service (GSS)

b. Fiscal Sector

Public expenditure cut to make up for revenue shortfalls in 2021

18. **The deficit remained large in 2021, well above the Fiscal Rule ceiling of 5 percent of GDP[9] and at a level concerning for debt sustainability.** The headline fiscal deficit (including financial sector and energy

[9] Ghana's fiscal rule generally mandates a deficit ceiling of 5 percent of GDP; this rule was suspended in 2020 in response to the pandemic.

sector bailouts) came down from 15.2 percent in 2020, to 11.4 percent of GDP in 2021,[10] slightly below the budget target of 11.6 percent.[11] Revenues underperformed budgeted targets by 0.5 percent of GDP, but expenditures (including arrears clearance, discrepancy, financial and energy sector costs) were cut by almost 0.8 percent of GDP.

19. **Spending was cut to make up for revenue shortfalls.** Total revenues and grants reached 15.3 percent of GDP, against a target of 15.8 percent. Direct taxes, non-tax, and other revenues were below targets; while indirect and international trade taxes overperformed. Expenditures (including arrears clearance, discrepancy, financial and energy sector costs), meanwhile, were brought down to 26.6 percent of GDP, below the 27.4 percent target, with the main cuts affecting transfers to other government units (-1.2 percent of GDP) and COVID-19 expenditures (-0.4 percent of GDP), that more than offset overspending on capital (0.7 percent of GDP), wages and salaries (0.5 percent of GDP), and domestic interest payments (0.3 percent of GDP) relative to budget targets.[12] As anticipated, the government continued to support the energy sector, with transfers equivalent to approximately 2.0 percent of GDP in 2021 (see Annex 3).

20. **Low levels of domestic revenue mobilization constrain fiscal consolidation.** Ghana's tax-to-GDP ratio is well below averages of regional peers, emerging markets, and SSA. Domestic revenue was approximately 15 percent of GDP in 2021, against the SSA average of 25.4 percent. Between 2011 and 2021, Ghana's revenue-to GDP ratio averaged 13.7 percent, compared to 17.9 percent for SSA and 26.8 percent for Emerging Market and Developing Economies (EMDEs). Over this period, Senegal collected revenues equivalent to 19.3 percent of its GDP on average and the ratio for South Africa was 25.7 percent (see Figure 5.5). To catch up with its better performing peers Ghana should accelerate efforts to streamline tax incentives, which are a significant source of revenue loss in Ghana (World Bank, 2017 PER). The submission of the Tax Exemptions Bill to Parliament in February 2022 is an encouraging step. The Bill sets out a framework for managing exemptions, clarifying roles and responsibilities and the acceptable cases and practices for the granting of exemptions. The Ghana Revenue Authority (GRA) should accelerate efforts to improve compliance through making better use of taxpayer information. The on-going data warehouse and business intelligence could help improve analytical reporting and tax-auditing.

21. **In 2021, more than half of the budget financing came from domestic sources.** Net external borrowing was 4.4 percent of GDP, compared to a target of 3.5 percent, thanks to a higher-than-expected volume of project loans and lower amortization payments. Net domestic financing was 4.8 percent of GDP, compared to a target of 5.8 percent, notably because of the exceptional SDR allocation by the IMF which reduced the financing gap. Relatively low levels of external borrowing reflected a hardening of market access conditions for Ghana, with spreads on its Eurobonds (namely the difference between the interests that Ghana pays and the interest that the US Government faces) climbing above 10 percent in early 2022. The government shelved plans for additional Eurobond issuances and the total volume of Eurobonds emissions stood at US$3 billion in 2021 (issued in the second quarter) against the initial target of approximately US$5 billion. To make up for the shortfall, the authorities turned to domestic borrowing.

Persistent PFM challenges have contributed to arrears accumulation

[10] Fiscal ratios are based on the revised GDP series (as of April 2022); using the old GDP series the 2021 deficit was 11.6 percent.

[11] Note that these numbers are slightly lower than what was captured in the Budget because of the GDP series revision.

[12] Capital spending was driven up by foreign financed projects, while wage spending was driven up by salary arrears paid to frontline health workers for performance payments agreed upon for the pandemic response.

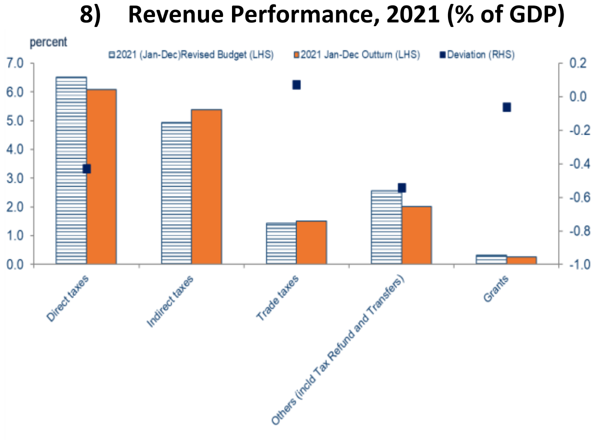
As a result, government debt now accounts for approximately a third of the assets of domestic banks, which has clear drawbacks. First the government is crowding out the private sector by putting pressure on interest rates. Second, this creates potentially risky linkages between the public sector and the domestic financial sector.

22. **The authorities repaid existing arrears equivalent to 0.8 percent of GDP in 2021 but have accumulated new arrears.** This suggests persisting PFM challenges including inaccurate revenue forecasts and ineffective expenditure controls that lead to in-year budget deviations. According to preliminary numbers, new arrears equivalent to 1 percent of GDP were created in 2001 just as arrears worth 0.8 percent of GDP were being repaid.

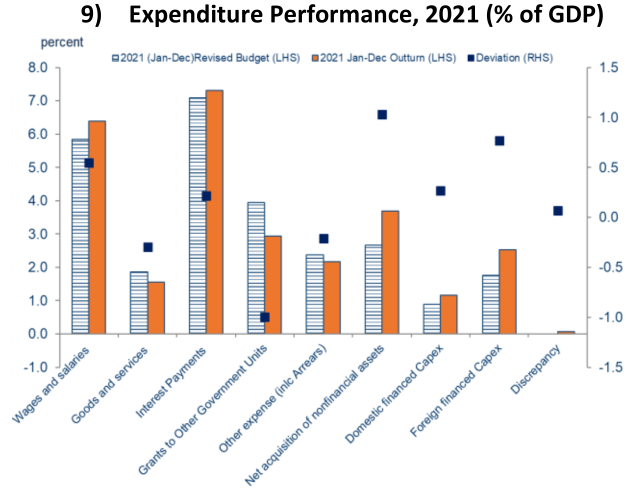
23. **In the first quarter of 2022, the fiscal deficit was 2.6 percent of GDP, above the target of 2.3 percent of GDP.** Revenues underperformed targets for Q1, by 0.6 percent of GDP, with delays in the passage of the e-levy. The government made up for the shortfall by cutting down expenditures by 0.7 percent of GDP. However, the deficit target was still not met because of an elevated "negative discrepancy" in January 2022, equivalent to 0.5 percent of GDP. This discrepancy could correspond to unfunded invoices brought forward from the previous budgetary exercise. If confirmed, this would effectively further limit the fiscal space for 2022. Going forward, the authorities could consider setting an early cutoff date in committing expenditures for 2022, to clear any backlog of invoices before public accounts are closed for the year.

Figure 5: Developments in the Fiscal Sector

8) Revenue Performance, 2021 (% of GDP)

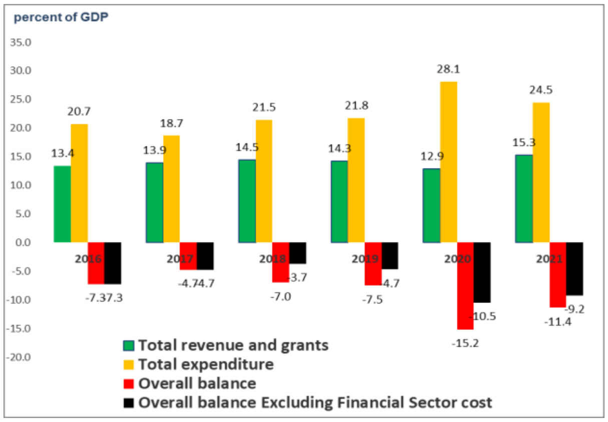


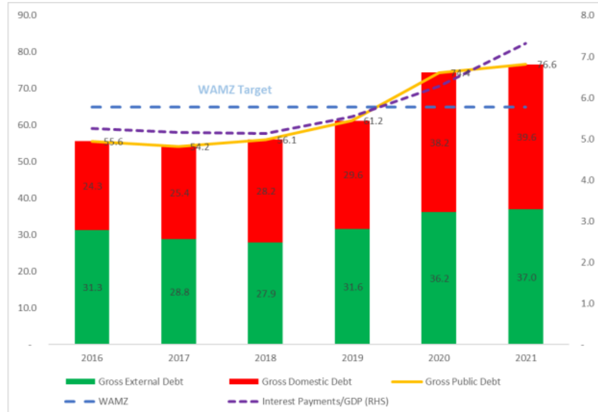
9) Expenditure Performance, 2021 (% of GDP)



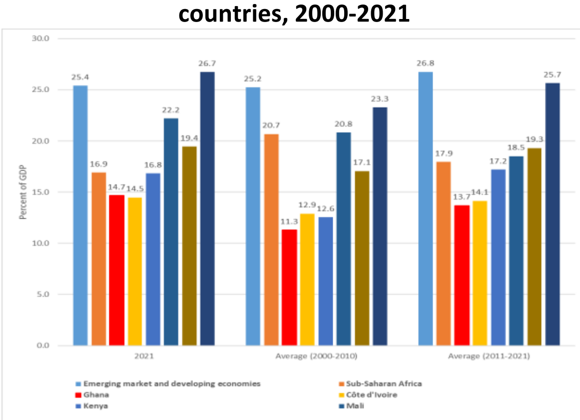
3) Fiscal Performance, 2016-2021 (% of GDP)

4) Public External and Domestic Debt, 2016-2021

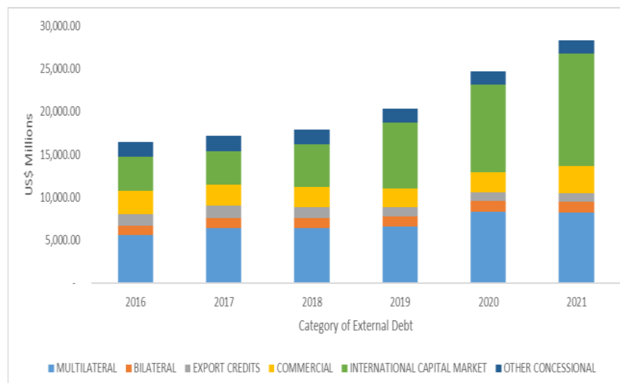




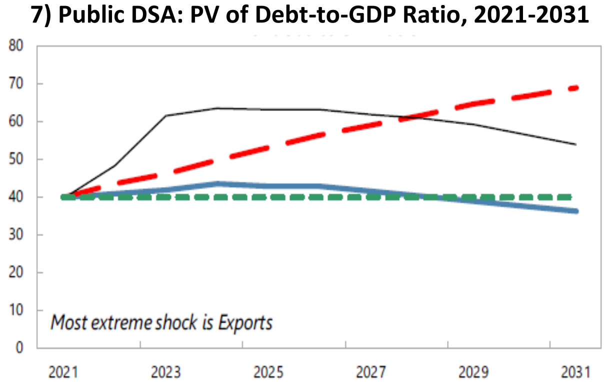
5) Ghana's tax performance with comparator countries, 2000-2021



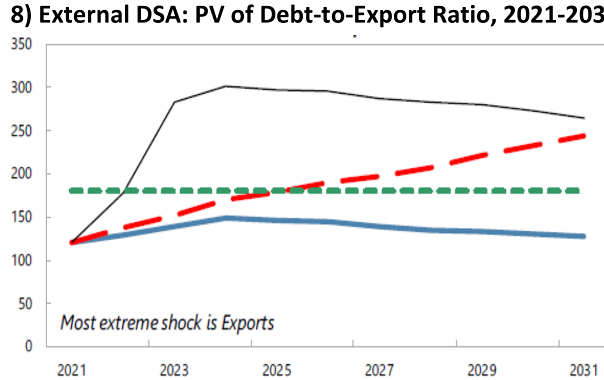
6) External Debt Stock by Creditor (US$m), 2016-2021



7) Public DSA: PV of Debt-to-GDP Ratio, 2021-2031



8) External DSA: PV of Debt-to-Export Ratio, 2021-2031



Baseline | Historical scenario | Most extreme shock 1/ | Threshold

Source: 3.1-4: Ghanaian Ministry of Finance; 3.5: IMF World Economic Outlook, April 2022; 3.7-8: Joint IMF-World Bank DSA (July 2021).

Note: 5-6: The most extreme stress test is the test that yields the highest ratio in or before 2031. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented. Public DSA includes domestic and external public debt.

c. Debt Sustainability

Ghana has made progress in debt and liquidity management, but fiscal imbalances keep debt on an increasing path …

24. **Ghana has a robust framework and adequate capacity for debt management**. This is reflected in the 2020 CPIA where Ghana scored 3.5 on "Debt Policy and Management" (the IDA average in 2019 was 3.1). Debt Management is aligned with the overall macroeconomic management strategy and focused on meeting the government's financial obligations at the lowest cost. Debt management is also relatively transparent: the Ministry of Finance (MoF) publishes its Medium-Term Debt Management Strategy (MTDS) (the 2021-2024 strategy was published in March 2021), as well an Annual Public Debt Report and a Quarterly Debt Bulletin in accordance with the PFM Act of 2016 (Act 921).

25. **Public debt -as per the MoF's definition[13]- reached 76.6 percent of GDP in December 2021 compared to 74.4 percent in 2020.** The provisional nominal public debt stock (according to the Ministry of Finance) was GH¢ 351.78 billion (US$ 76.53 billion) at end-December 2021, up from GH¢ 291.63 billion (US$50.63 billion) a year earlier. The increase came from both external and domestic debt holdings. In 2021 the external debt stock increased by GH¢28.21 billion (US$3.63 billion or 19.9 percent growth) mainly on account of a US$3 billion Eurobond issuance, as well as exchange rate fluctuations. The domestic debt stock also increased by GH¢31.9 billion (US$4.18 billion or 21 percent growth) as the government turned to the domestic market for financing when issuing Eurobonds became prohibitively expensive.

26. **Commercial debt now dominates the external debt portfolio (Table 4).** Out of total external debt in 2021, US$16.23 billion (57.29 percent of the total) was owed to commercial creditors, a significant increase US$12,630.5 million (51.1 percent of the total) a year before (see Figure 5.6). The share of commercial debt in the external portfolio has been increasing consistently since 2017 (36.6 percent of external debt) as a result of the yearly issuance of Eurobonds on international capital markets. In comparison, multilateral debt (mostly concessional) amounted to US$8.19 billion (28.9 percent of the total external stock). The share of bilateral debt from both Paris and Non-Paris Club countries, out of total external debt decreased from 5.3 percent in 2020 to 4.7 percent in 2021 (Figure 5.6).

Table 4: Ghana's Eurobond Participation Since 2007

Year	Instruments	Issuance Date	Maturity Date	Amount Issued in US$ Millions	Coupon Rate	Outstanding Amount in US$ Millions
2007	*10-YR*	*Oct., 2007*	*Oct, 2017*	*750.00*	*8.50%*	*0.00*
2013	10-YR	Aug. 2013	Aug., 2023	1,000.00	7.875%	148.76
2014	10-YR	July, 2014	July, 2026	1,000.00	8.125%	1,000.00
2015	15-YR	Aug. 2015	Aug., 2030	1,000.00	10.750%	930.11
2016	6-YR	Sept., 2016	Sept., 2022	750.00	9.250%	48.00
2018	10-YR	May, 2018	May, 2029	1,000.00	7.625%	1,000.00

[13] The announcement of Ghana's rebased GDP by the Ghana Statistical Service (GSS) in April 2022 showed an upward revision of the 2020 Nominal GDP from GH¢383.30 billion to GH¢391.94 billion. This has, in turn, caused the 2020 debt ratio (as provided by MoF) to reduce from 76.1 percent to 74.4 percent of GDP. Furthermore, the government's debt ratio is lower than that of the Joint World Bank/ IMF DSA as the latter includes guarantees to other entities in the public and private sector (including SOEs and certain non-guaranteed SOE debt such as the Energy Sector Levy Act Bond). Thus, while the government's debt-to-GDP ratio for 2021 was estimated initially 76.1 percent of GDP, the DSA ratio for the same year was 81.8 percent.

	30-YR	May, 2018	May, 2049	1,000.00	8.627%	1,000.00
2019	7-YR	March, 2019	March, 2027	750.00	7.875%	750.00
	12-YR	March, 2019	March, 2032	1,250.00	8.125%	1,250.00
	31-YR	March, 2019	March, 2051	1,000.00	8.950%	1,000.00
2020	6-YR	Feb., 2020	Feb., 2027	1,250.00	6.375%	1,250.00
	14-YR	Feb., 2020	Feb., 2035	1,000.00	7.875%	1,000.00
	41-YR	Feb., 2020	Feb., 2061	750.00	8.750%	750.00
2021	4-YR ZERO COUPON	April, 2021	April, 2025	525.00	6.309%	525.00
	7-YR	April, 2021	April, 2029	1,000.00	7.750%	1,000.00
	12-YR	April, 2021	April, 2034	1,000.00	8.625%	1,000.00
	20-YR	April, 2021	April, 2042	500.00	8.875%	500.00
	Total Excl. 2007			***14,025.00***		
	TOTAL			**14,775.00**		**13,151.87**

Source: Ministry of Finance

…however, the cost of Eurobonds has become prohibitive and restoring market confidence will be key

27. **The July 2021 Debt Sustainability Analysis (DSA) assessed Ghana to be at "high risk" of debt distress (external and overall) and emphasized the risk of losing market access, which in fact materialized.** It assessed public debt as "sustainable" but added important caveats: fiscal consolidation would need to continue steadfastly, growth would need to remain high and Ghana would need to retain market access (to enjoy relatively cheaper financing than it can domestically). Since the DSA was completed, sovereign spreads on Ghana's bonds have risen sharply, well above those for countries with similar risk ratings, effectively limiting the country's ability to tap international capital markets. Emerging Markets Bond Index Global (EMBIG) spreads have risen to over 1,000 bps, with a significant increase after the 2022 budget announcement. Investors and agencies have raised concerns about the current fiscal situation and the credibility of Ghana's medium term fiscal plans: Fitch downgraded Ghana's sovereign rating from B to B- (with negative outlook) on January 14, 2022, and Moody's downgraded it from B3 to Caa1 on February 4, 2022. While Ghana does not face large Eurobond redemptions before 2025 (see Table 4), it relies on fresh subscriptions for fiscal financing.

28. **The domestic market has accommodated additional financing needs, but it is strained.** Constrained access to international capital markets, and tighter global financing conditions have compelled Ghana to rely on its domestic market (where foreign participation is significant) for financing. Locally issued debt has risen from 30 percent of GDP in 2019 to over 40 percent and is expected to cover over 75 percent of the 2022 financing needs. Domestic debt is largely held by commercial banks (28.8 percent) and the central bank (22.5 percent). The latter has significantly increased its exposure in the last two years with domestic bonds purchased under its Asset Purchasing Programme. Recent auctions have been undersubscribed, which could hinder the rollover of domestic debt and eventually lead to exchange rate pressures (as foreign investors leave the domestic debt market) and the erosion of international reserves.

d. Monetary Policy and Financial Sector Developments

Inflation has reached a decade high as pre-existing food price pressures were compounded by the war in Ukraine and a rapid exchange rate depreciation

29. **Inflation reached an 18-year high in April 2022.** Rising prices for food and petroleum (with ripple effects, notably on transport fares), and exchange rate depreciation pushed inflation up to an 18-year high of 23.6 percent in April 2022, well above the BoG's 10 percent ceiling. Food inflation rose sharply from 12.8 percent in December 2021 to 17.4 percent in February 2022, and further to 26.6 percent in April 2022. Non-food inflation also rose from 12.5 percent in December 2021 to 14.5 percent in February 2022, and further to 21.3 in April 2022. Core inflation[14] has also accelerated, indicating broad-based price pressure: the BoG's core inflation measure (excluding energy and utility prices), increased from 11.8 percent (yoy) in December 2021 to 18.5 percent in March 2022 and further up to 22.0 percent in April 2022. Weighted inflation expectations comprising consumers, businesses, and financial sector, also picked-up significantly over the period.

30. **External shocks and currency depreciation are exacerbating inflationary pressures.** In April 2022, imported inflation (24 percent) exceeded domestic goods inflation (23 percent). High food inflation stems in part from Ghana's high reliance on imported cereals compounded by the depreciation of the cedi (by 20 percent against the US dollar over the year to April 2022).

The Bank of Ghana has sharply tightened monetary policy but will that be enough to tame inflation?

31. **The impact of the COVID-19 pandemic on food prices has been compounded by the war in Ukraine.** During the COVID-19 pandemic, poverty increased worldwide as global food prices rose by 30 percent from July 2020 to July 2021, on the back of supply chain bottlenecks. In Ghana, food accounts for over half of households' spending, so that higher food prices always have a strong negative impact on disposable incomes of most Ghanaians. Food inflation varies substantially from one region to another due to factors like markets connectivity and local harvests performance. Food inflation has generally been highest in the Upper West (exceeding 31 percent in December) and the Northern region, and lowest in the Eastern region, Greater Accra, and Western region (below 10 percent throughout 2021). World Bank simulations suggest that during the pandemic food inflation was enough to increase poverty temporarily in the Ashanti region by 25 percent.

32. **The BoG has had to walk a fine line between curbing inflation and supporting the economy.** In response to recent inflationary pressures, the BoG raised the monetary policy rate (MPR) by 2.5 percentage points in March 2022 and another 2 percentage points in May 2022, to 19 percent (Figure 6.1). As well as slowing inflation, the BoG is also hoping that higher interest rates can stabilize the cedi's depreciation, by stemming portfolio outflows. At the same time the BoG's also took steps to build capital buffers in the banking system, to continue strengthening it following a multi-year bailout program. While these measures are indeed critical for financial sector stability and the long run health of the economy, they must be calibrated so as to maintain adequate access to credit and loan repayment capacity in the short-term, at a time when firms, households, and the government are experiencing significant economic

[14] Excluding utilities and energy prices.

pressures. As well as slowing inflation, the BoG is also hoping that higher interest rates can stabilize the cedi's depreciation, by stemming portfolio outflows.

33. **The extent of the monetary policy passthrough is unknown, in Ghana's current context where inflation is mostly imported or seasonally driven by local harvests performance.** Increasing interest rates can harm the ability of firms, households, and the government to access finance and repay loans. Thus it is important for the government to consider and strengthen a range of de-inflationary tools – such as investments in agricultural productivity and resilience, improvements in the business environment to boost domestic productivity, and promoting economic diversification and export deepening (which can combat imported inflation by strengthening the cedi).[15]

Credit to the economy has been recovering but the rolling back of support measures and monetary policy tightening could hamper credit growth

34. **Consistent with the rebound in economic activity and thanks to support from the BoG, nominal credit to the private sector recovered in 2021 and accelerated in early 2022; the high inflation is causing real credit growth to be mostly negative (Figure 6.2)**. Annual nominal growth in private sector credit rose marginally to 11.1 percent in December 2021 (compared with 10.6 percent in 2020).[16] The regulatory policy measures implemented during COVID were kept in place during 2021 and provided some support to lending by banks.[17] New advances extended by commercial banks to the economy reached GH¢36.4 billion, 6.8 percent higher than in 2020. In the first 4 months of 2022, credit to the private sector continued to recover: in nominal terms, private sector credit growth reached 26.5 percent y-o-y in April 2022 compared with 6.9 percent in the same period in 2021.

35. **The BoG halted some of its COVID-19 response policies in March 2022, which could weigh on credit growth**. In addition to raising the policy rate, the MPC also raised mandatory reserve requirements for banks from 8 to 12 percent, reset the capital conservation buffer to 3 percent (effectively raising the capital adequacy ratio from 11.5 percent to 13 percent), and increased the provisioning rate for some categories of loans from 5 percent back to 10 percent. Direct support to firms was limited, so the impact of policy withdrawal on firm solvency is expected to be low. This is expected to increase the costs of financing for firms, further deteriorating their balance sheets.

36. **In early 2022 interest rates have been rising across maturities; this trend is expected to continue given recent monetary policy decisions**. Developments on the money market broadly showed rising interest rates across the entirety of the yield curve. The 91-day and 182-day Treasury bill rates have inched up to 16.2 percent and 16.7 percent respectively, in April 2022, from 12.8 percent and 13.6 percent in April 2021. The rate on the 3-year bond increased from 17.7 percent in April 2021 to 20.8 percent while

If required, further financial sector resolutions facilitated by the Bank of Ghana could have significant fiscal costs

[15] Although the central bank increased its US$ sales at the multiple rate FX forward auctions to US$75million per auction in Q1 of 2022, the Ghanaian cedi remains under pressure.

[16] Due to rapid inflation, real private sector credit contracted by 1.3 percent in 2021 compared to an expansion of 0.2 percent in 2020; however real credit growth turned briefly positive in January 2022.

[17] These measures included reductions in reserves requirements, reductions in prudential limits on the capital adequacy ratio, reductions in provisions for some loans, as well as relaxing some regulatory measures for microfinance institutions (MFIs).

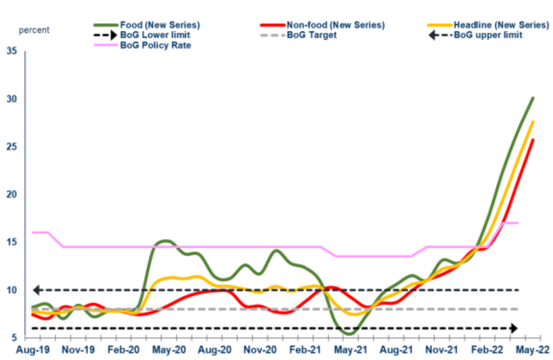
that for the 2-year and 5-year bond increased from 17.6 and 18.3 percent to 19.8 and 20.8 percent, respectively. The weighted average interbank rate inched up from 12.68 percent in December 2021 to 16.46 percent in April 2022. The increase in rates at the interbank market level was transmitted to the retail-end of the market, resulting in average lending rates of banks increasing to 21.61 percent in April 2022 from 20.04 percent recorded in December 2021.

37. **The performance of the banking sector in 2021 showed a sustained growth in assets, deposits, and investments alongside improvements in the financial soundness indicators**. At the end of 2021, total assets grew by 20.4 percent to GH¢179.8 billion. NPLs remained high in 2021 as asset quality continued to show repayment challenges induced by the pandemic as well as some bank-specific loan recovery challenges. From a peak of 17.3 percent in August 2021, the NPL ratio fell to 14.4 percent in February 2022 (see Table A2 in Annex), and marginally to 14.3 percent in April 2022. The banking sector remained solvent with the average industry CAR of 19.6 percent, well above the 11.5 percent regulatory minimum threshold. Profit-before-tax increased by 22.1 percent in 2021 to GH¢7.4 billion, below the growth of 27.2 percent in 2020. The trends continued in 2022 with capital and liquidity buffers adequate to withstand moderate risks arising from high NPLs. The bank-wide capital adequacy ratio stood at 19.6 percent in February 2022, well above the regulatory minimum of 11.5 percent (now reset to 13 percent). The system is liquid, despite a mild decline of the ratio of core liquid assets to short-term liabilities last year to 18.6 percent in February 2022. Profitability is strong, boosted by income from high-yielding government securities and non-interest income.

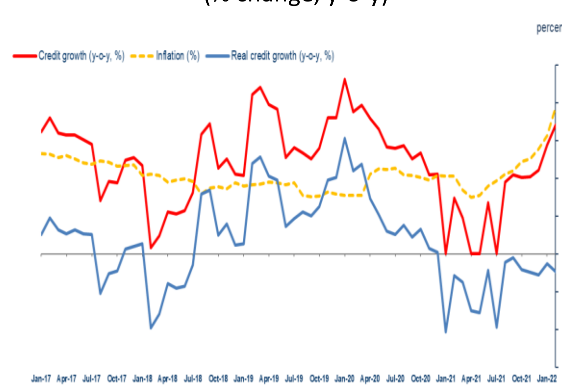
38. **High NPLs, increased exposure to the government, and solvency concerns among Specialized Deposit Taking Institutions (SDIs) are the main risks in the financial sector**. Improvements in NPLs and credit growth could be temporary given the expected negative impact of exchange rate depreciation, high inflation, and elevated interest rates on credit growth and borrowers' repayment capacity. The exposure of banks and pension funds to sovereign risk is rising with holdings of domestic government debt reaching about one third of assets in November 2021. Meanwhile, a significant number of SDIs continue to face solvency challenges, which could be amplified by deteriorating macro fundamentals. Given the lack of fiscal space, state support to enable an orderly resolution of the SDIs in the short-term is unlikely.

Figure 6: Inflation and Bank Credit Growth

1) Inflation Rate 2019-2022 (March)
(% change, y-o-y)



2) Bank Credit Growth, 2017-2021
(% change, y-o-y)



Source: 1) GSS and 2)BoG.
Note: New Inflation series with updated base commences in August 2019.

e. External Sector

Ghana's external position was resilient in 2021 thanks to strong non-oil commodity exports but the war in Ukraine has taken a toll on trade

39. **In 2021, Ghana's trade surplus fell to US$1.1 billion (1.5 percent of GDP), down from US$2.0 billion (2.9 percent of GDP) in 2020, as imports recovered post-pandemic.** The decline in the trade surplus was mainly due to increased imports as the economy rebounded. While total exports growth by 1.8 percent in 2021, imports grew by 8.7 percent. The lackluster performance of exports was driven by a 25.2 percent contraction in gold receipts, as production volumes declined by over one million fine ounces during the year, even as cocoa and crude oil receipts grew by 21.9 percent and 35.6 percent, respectively. Meanwhile the growth in imports was driven by a 43.8 percent increase in oil and gas imports, as the value of refined petroleum products imports increased by almost US$1 billion over the year in line with the rebound of the economy (Figures 7.2-3).

40. **The current account deficit grew but it was more than offset by robust inflows in the capital and financial accounts.** The lower trade surplus, together with higher investment income outflows (due mainly to increased interest payments and higher profits and dividend repatriation) resulted in a current account deficit of US$2.5 billion (3.4 percent of GDP) in 2021, up from 3 percent of GDP in 2020. However, the capital and financial account recorded a surplus of US$3.3 billion thanks to robust inflows from foreign direct and portfolio investments, and the IMF-SDR allocation. Significant inflows into the financial and capital account in 2021, more than offset the deficit in the current account, resulting in an overall Balance of Payments surplus of US$0.51 billion compared with a surplus of US$0.38 billion recorded in 2020. Thus, at the end of 2021, Gross International Reserves stood at US$9.1 billion (equivalent to 4.4 months of import cover)[18] up from US$8.6 billion (4.0 months of import cover) at the end of 2020 (Figure 7.1 and 6.4).

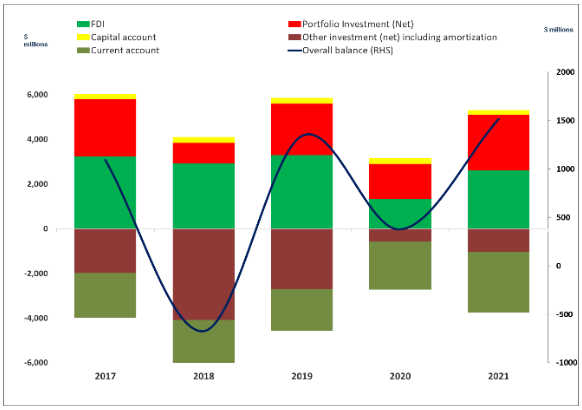
41. **Ghana's trade balance expanded in the first four months of 2022, reaching US$1.3 billion, thanks to higher export prices (gold and crude oil).** Total exports grew by 17.2 percent year-on-year in April 2022 thanks to a 61 percent increase in value of crude oil exports, as price effects offset the decline in volumes. Other exports, mainly non-traditional exports, also registered significant increases in value. On account of portfolio investment repatriation, Gross International Reserves at the end of April 2022 declined to US$8.3 billion (3.7 months of imports) from US$9.5 billion (4.2 months of imports) in February 2022 and US$9.7 billion (4.3 months of imports) in December 2021.

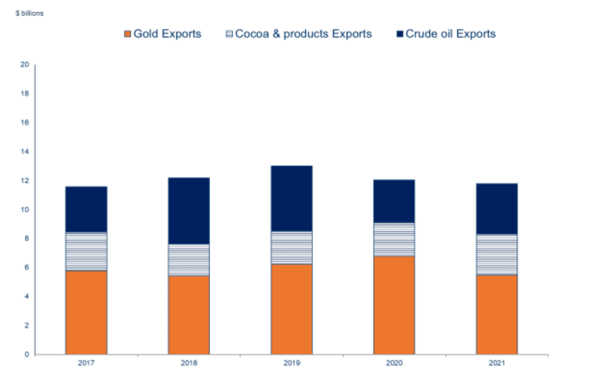
Figure 7: Developments in the External Sector

1) Current Account and Sources of Financing, 2017-2021

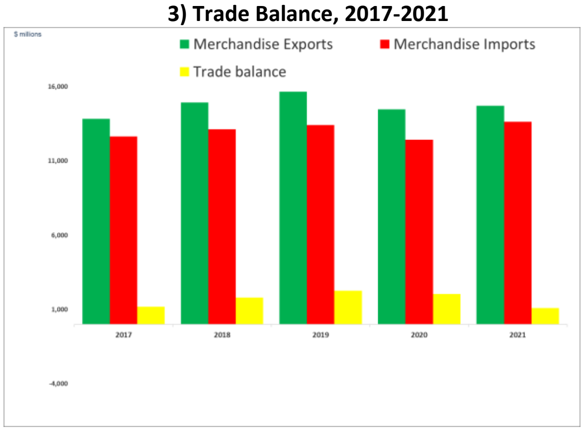
2) Selected Export Commodities, 2017-2021

[18] This BoG GIR's definition differs slightly from the one used for the WB/IMF DSA

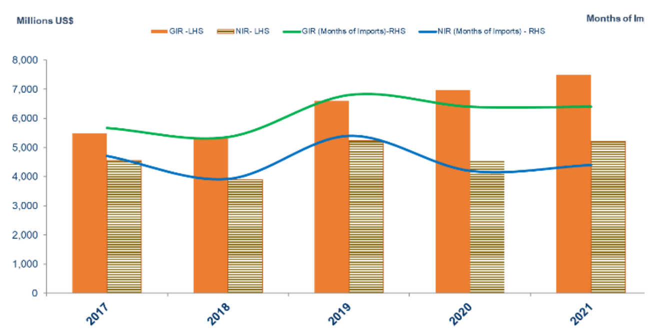




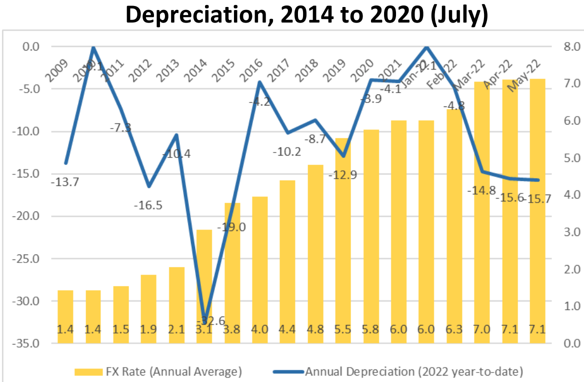
3) Trade Balance, 2017-2021



4) GIR and NIR, 2017-2021



5) Nominal Exchange Rate, Average and Cumulative Depreciation, 2014 to 2020 (July)



Source: 5.1-4: World Bank, IMF, and BoG; 5.5: World Bank (Global Economic Monitor)

After being relatively stable in 2021, the exchange rate came under intense pressure in early 2022 and intervention by the BoG was insufficient to prevent a sharp depreciation

42. **The exchange rate was relatively stable in 2021 thanks to Eurobond issuances and Special Drawing Rights allocations, but the Cedi came under intense pressure in late 2021 and early 2022, depreciating 17 percent against the dollar from end December 2021 to March 2022 (Figure7.5)**. In 2021, the Cedi depreciated against the US Dollar by 4.1 percent from end December 2020 levels. Pressures from corporate demand, energy-related forex demand, and pandemic-induced portfolio outflows were mitigated by Eurobond issuances (approximately US$3 billion) in March 2021 and an allocation in Special Drawing Rights (SDRs - US$1 billion) from the IMF in August 2021. In the first quarter of 2022, forex liquidity further tightened due to demand pressures from offshore secondary market activities, oil importers, and weakened sentiments following downgrades by rating agencies. The Cedi depreciated by 15.8 percent against the US dollar, 8.2 percent against the Pound Sterling and 8.9 percent Euro. The tightening of global financial conditions and associated capital outflows could put further pressure on the exchange rate as well as on reserves.

43. **The Cedi's depreciation has contributed to the mounting inflation and prompted the BoG to intervene.** Ghana's economy relies significantly on imported goods[19]. The Cedi's depreciation drives up the domestic prices of these imported goods, resulting in imported inflation (see Box 1 on the impact of depreciation on petroleum products and inflation in Ghana). To mitigate these challenges, the BoG has intervened to prop up the Cedi. In the first quarter of 2022, it carried out regular foreign exchange auctions totaling US$450m in value, which helped to ease the tight forex demands. The BoG has committed to continue with forex auctions in the second quarter of 2022, with a projected amount of US$350 million. Despite assurances that these auctions would have no significant impact on its reserves level, international reserves have fallen in early 2022 (by approximately US$150 million in the two months to February 2022).

[19] According to OEC Ghana's top imports in 2020 were refined petroleum ($669M), cars ($492M), rice ($391M), delivery Trucks ($283M), and coated flat-rolled iron ($273M), and these imports mainly come from China ($6.75B), Netherlands ($867M), United States ($787M), India ($749M), and United Arab Emirates ($522M)

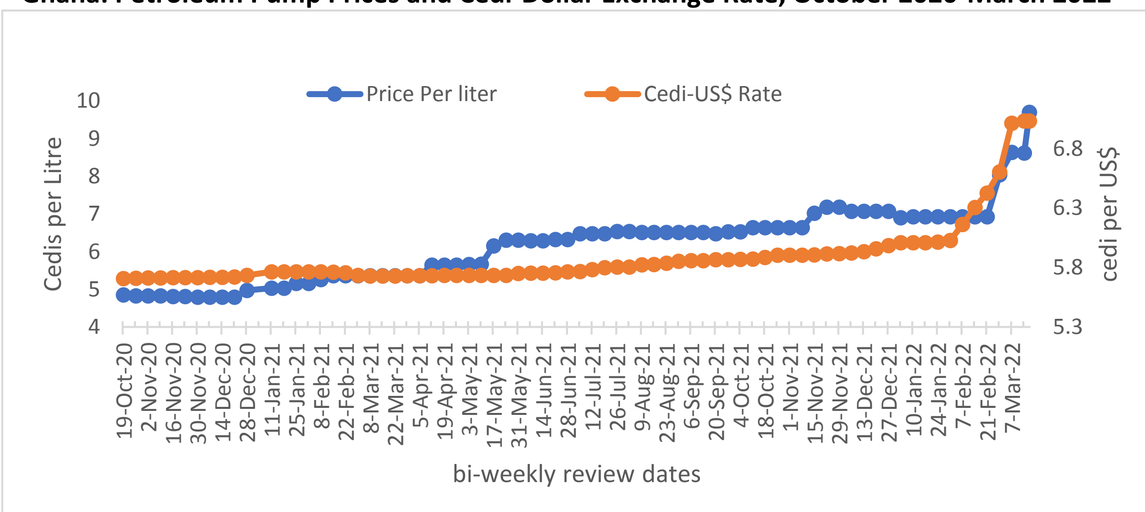
Box 1. Fuel prices, Exchange rate pressures, and impact on inflation

On March 17th 2022, fuel prices were raised by 12.5 percent to 9.7 cedis per liter. Typically, as prescribed by the National Petroleum Pricing Formula Regulation (2012), petroleum prices are subject to reviews (either downwards or upwards) every two weeks based on international crude oil prices and exchange rate movements. However, the latest increase took place within just three days of the previous one, on March 14th. Petroleum prices in Ghana have now risen by over 33 percent since early January 2022.

Although Ghana is a net exporter of oil, the country does not refine its own oil; this means pump prices are always determined not only by ICOP, but also by the exchange rate. While the ICOP reached a 7-year high in early March (at nearly 130$/barrel for brent crude), the cedi also reached a 7-year low against the US$ (falling 17 percent between January and mid-March 2022), with compounding impacts on retail fuel prices.

High pump prices will have significant impacts on inflation and the costs of living. Petrol has a high weight in the CPI basket, as well as pass-through effects on prices in other sectors (including transport, construction, and agriculture). As of end February, headline inflation had reached its highest rate (15.7 percent) since December 2016, well above the ceiling of the Central Bank's target ceiling of 10 percent.

Ghana: Petroleum Pump Prices and Cedi-Dollar Exchange Rate, October 2020-March 2022



Pump prices may continue to rise even as ICOP stabilizes, if the cedi continues to decline. To curb inflation, the Bank of Ghana's Monetary Policy Committee increased interest rates to 17 percent, on March 21 from the previous levels of 14.5 percent. With tax accounting for 40 percent of pump prices in Ghana, the government may also face intense pressure to cut petroleum taxes such as the petroleum price recovery levy (PSRL). It would be recalled that, as part of measures to lessen the burden on consumers, the Government suspended the PSRL charge on petrol, diesel, and LPG from November, 2021, to the end of January 2022, the fiscal cost of which amounted to GH₵170 million (about US26m or 0.2 percent of tax revenues in 2022). The government may also face pressures to introduce subsidies, which would imply abandoning the petroleum deregulation policy. It is recommended to monitor policies to curb petrol prices, as well as any measures to stem the cedi's devaluation.

3. Macroeconomic Outlook and Risks

Growth prospects remain positive despite mounting downside risks, including inflation

44. **Ghana's growth prospects are positive: growth is expected to reach 5.0 percent in 2022 and to average 5.6 per year over 2022-2024**. Growth is expected to be broad-based, led by agriculture and services and a stronger industry sector, supported by high extractives prices. Agriculture growth is expected to benefit from interventions in the Crops and Fishing sub-sectors (such as the "Planting for Food & Jobs" Program) even though rising fertilizer prices (due to the Ukraine crisis) may depress output slightly in 2023.[20] Mining and Quarrying will continue to contract in 2022 but at a slower rate (2.9 percent); improved prices for oil and gold should prop up export volumes as producers adjust supply upward. Oil production is expected to fall gradually until 2024, at which point production will be boosted when the Pecan field comes online. The services sector is projected to continue on its strong growth trajectory, growing by 6.7 percent in 2022, and at 6.3 percent on average in 2022-2024.

45. **The lingering impacts of the pandemic (in particular the resulting sovereign debt in Ghana and global monetary policy tightening) and the war in Ukraine are complicating the outlook, exacerbating prior inflationary pressures and financing constraints**. These developments are expected to raise global prices for several key commodities (including food, fuels, fertilizers, and metals used in manufacturing), lowering the purchasing power of households and firms. Further monetary policy tightening may be required. Higher than expected fertilizer and metal prices could negatively impact construction, manufacturing, and agriculture. Although Ghana should enjoy a current account boost from rising commodity prices (particularly for oil and gold), benefits to real GDP are likely to be counteracted by domestic inflation and Ghana's falling oil production until at least 2024.

46. **Risks related to inflation are on the upside and are significantly affected by petroleum prices (and transportation costs) and exchange rate depreciation.** The Monetary Policy Committee (MPC) has already announced in its latest forecast an elevated inflation profile in the medium-term, with inflation expected to remain above the BoG's medium-term target band.

The fiscal outlook remains fragile given persistently low levels of domestic revenue mobilization and shortfalls from energy sector SOEs, which the government has committed to (partly) fill

47. **The government's 2022 budget sets forth an ambitious fiscal consolidation plan, which may prove challenging to implement**. The fiscal deficit (including financial and energy sector costs) is expected to narrow to 8.9 percent of GDP in 2022 (which remains significantly above the levels mandated under Ghana's fiscal rule) and to 7.1 percent by 2024 (Annex Table A1). The government has set more ambitious fiscal targets of 7.4 percent of GDP in 2022 and 4.5 percent in 2024. To achieve this fiscal consolidation, the authorities aim to lift revenue collection from 15.2 percent of GDP in 2021 to 20 percent in 2022 and to implement ambitious spending cuts starting in 2023. Specifically, the Government has committed to improve tax compliance, strengthen revenue administration, and introduce tax policy initiatives, as well as expenditure control measures including right-sizing public sector staffing and strengthening PIM and

[20] Effects are moderated by the generally low uptake of fertilizer in Ghana and may take time to materialize.

procurement. However, a significant 2022 revenue measure (the "e-levy"[21]) has faced steep opposition, which has restricted its implementation to at most 7-months within the fiscal year. Targets for other revenue measures appear optimistic as implementation may face headwinds, notably from possible trade slowdowns. Thus, it appears more likely that the fiscal deficit (including financial and energy sector costs) will narrow to 8.9 percent of GDP in 2022 and to 7.1 percent by 2024 (Annex Table A1). Over the medium-term (2022-2024), the fiscal deficit is projected to average 7.8 percent compared to the authorities' target of 5.8 percent.

Table 5: Main tax measures form the 2022 budget

NO.	Measures
1	Exemptions Bill Payoffs
2	Property tax collection improvements
3	Review of Benchmark Values
4	Enhanced Compliance
5	Revenue Assurance, Compliance and Enforcement (RACE)
6	E-transaction levy
7	Withholding tax on sale of unprocessed gold by small-scale miners reduced from 3% to 1.5% to encourage compliance
8	Implementation of modified taxation regime in the Income Tax Act
9	VAT Flat Rate Scheme restrictions
10	Increase in Fees and Charges for Government Services

Source Ministry of Finance

48. **Beyond 2022, the budget assumes that yields from tax policy changes in 2022 would be sustained in the medium term.** In the medium term, the authorities hope to make additional gains from tax administration measures such as: the use of digitalization to expand the tax base (e.g. to the informal sector) including by mainstreaming the use of the Ghana National ID Card (of which 16 million have been issued to date) and tagging each location with a digital address; continued efforts in audits within the mining sector; deploying business intelligence solutions to curb evasion, strengthening efforts to collect taxes on rent; as well as continuing to use tax courts to resolve tax disputes.

49. **Meanwhile, implementing the Energy Sector Recovery Program (ESRP) is expected to reduce the energy sector revenue shortfall.** Critical actions under the ESRP include: (i) finalizing renegotiations with the seven IPPs to decrease capacity charges and keep the moratorium for new power plants until demand catches up with excess capacity; (ii) reengaging the private sector in the distribution company (ECG) and implementing a comprehensive performance improvement plan to improve operational efficiency and reduce losses of ECG; and (iii) increasing tariffs to cost recovery levels.

50. **Large domestic debt rollover needs (Figure 8.6 and 8.7) may put significant pressure on already elevated domestic interest rates**. Accommodating these large needs may crowd out private sector investment and stretch the appetite of the domestic financial sector to increase its exposure to the sovereign (that is already elevated as public domestic debt made up about 48 percent of total bank assets in August of 2021).

[21] A 1.5 percent levy on electronic transactions, applicable to mobile money payments, bank transfers, and merchant payments, and applied only to values above the first 100 cedis transacted per day.

Ghana's external position will be delicate as the current account deficit should remain elevate while access to external financing will be constrained

51. **Ghana's external position is projected to worsen in the near term, after a temporary improvement in 2021.** The current account deficit is expected to widen to 4 percent of GDP in 2022 (up from 3.4 percent in 2021) and to remain elevated through to 2024, due to a gradual decline in oil export volumes (which will dampen the impact of higher prices of gold and oil) and a widening of the services trade deficit as imports recover to pre-pandemic levels. In the coming years, there will be pressure on the BoG to maintain gross foreign reserves due to the widening of the current account deficit as well as higher external financing needs, as long as access to the Eurobond market remains constrained.

Ghana's fragile debt sustainability and lack of fiscal space mean that economic recovery is vulnerable to mounting global risks

52. The macroeconomic outlook is subject to significant downside risks, including:

Global macroeconomic risks

- **The war in Ukraine will severely set back the global recovery, slowing growth and fueling inflation.** Global growth is forecast to decline to about 3.3 percent over the medium term and the war-induced commodity price increases and broadening price pressures have led to 2022 inflation projections of 5.7 percent in advanced economies and 8.7 percent in emerging market and developing economies—1.8 and 2.8 percentage points higher than projected last January. Ghana could be affected by slowing trade and the global tightening of monetary policy.

- **A new significant outbreak of the COVID-19 pandemic could have serious consequences on Ghana's economy as the country has used up its fiscal buffers with the support packages it provided in 2020.** With reported cases falling globally, it is tempting – but misguided – to think the crisis is over. New Omicron sub-variants are currently driving up deaths and hospitalizations even in places with high immunity. Ghana's COVID-19 spread has been minimal in recent months, but a resumption in infection cannot be ruled out. Authorities have significantly invested over the past two years in crisis response facilities to prepare for subsequent waves. However, given its extremely limited fiscal space, the government has few ammunitions left to confront a new outbreak. Considering the current inflationary and exchange rate conditions, it would also be difficult for the BoG to provide the kinds of stimulus packages it rolled out in 2020 when the pandemic first broke out.

Ghana-specific risks

- **The growth outlook is subject to considerable risks if Ghana fails to address debt and fiscal sustainability.** High fiscal deficits and increasing public debt have elevated Ghana's country risk, limited FDI in non-commodity sectors, and increased the cost of finance for the public (and private) sector(s). Specific risks include:

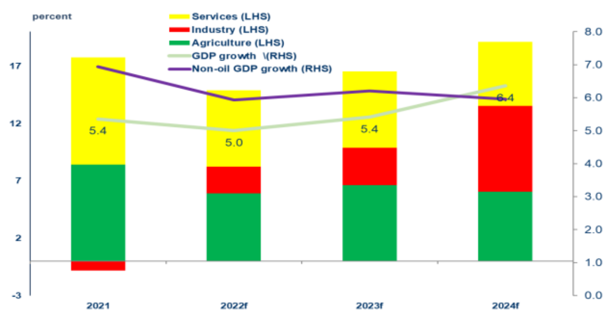
a. ***Growing reliance on domestic capital markets for financing could drive up interest rates, limit access to credit by the private sector, and put a strain on the financial sector***. Large fiscal imbalances and elevated public debt have put Ghana at high risks of debt distress. Ghana's sovereign spreads widened in the second half of 2021, effectively shutting the economy off from the Eurobond market, and putting a strain on external sustainability. Authorities have turned to the domestic market but foreign participation in the domestic bond market has been declining and government issuances have not been fully subscribed. This could put upward pressure on domestic interest rates and crowd out the private sector. Given their holdings of government debt, financial institutions (mainly banks and pension funds) could face liquidity and credit risks if the government had difficulties servicing the domestic debt. Finally, government payment arrears could ultimately weaken the quality of bank's credit portfolios if they are exposed to government suppliers.

b. ***Fiscal slippages would significantly threaten debt sustainability***. Financial markets will be looking for signs that the authorities are delivering on their fiscal consolidation plans. Any setback could negatively impact risk perceptions and worsen financing conditions. The main potential risks stem from insufficient revenue mobilization, inadequate PFM (notably spending controls) and contingent liabilities in the energy sector. Notably, energy-sector liabilities in excess of the fiscal provisions for the implementation of the ESRP would further exacerbate fiscal pressures.

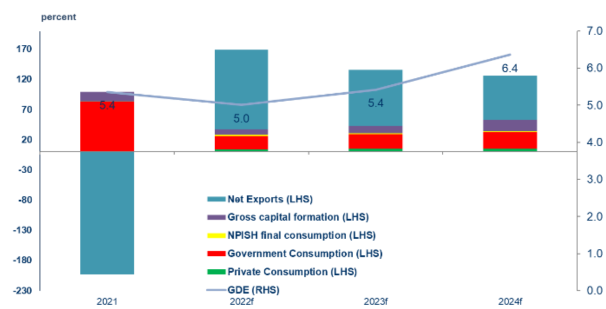
- **Higher than expected inflation and exchange rate pressures could hurt the recovery and put pressure on international reserves.** Inflation is expected to remain elevated in the medium-term, driven by war-induced commodity price increases. Risks are on the upside, significantly impacted by petroleum price adjustments and transportation costs, and exchange rate depreciation. The rest of the year 2022 will likely see further pressure on the exchange rate as well as on reserves especially due to the tightening of global financing conditions and associated capital outflows from Ghana. Moreover, Ghana's constrained access to the Eurobond market will limit its ability to tap into this - usual - source of dollars to shore up reserves.

Figure 8: Economic Outlook

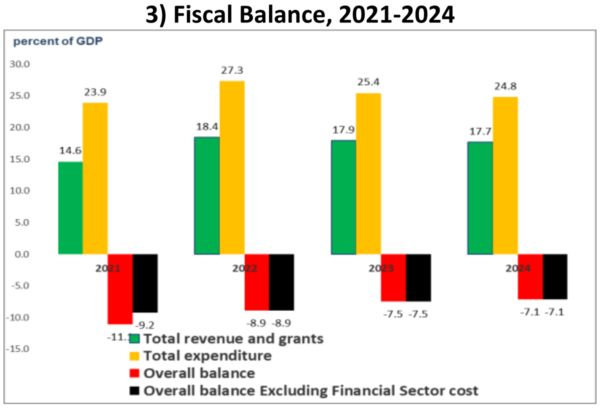
1) GDP Growth (Supply Side), 2021-2024



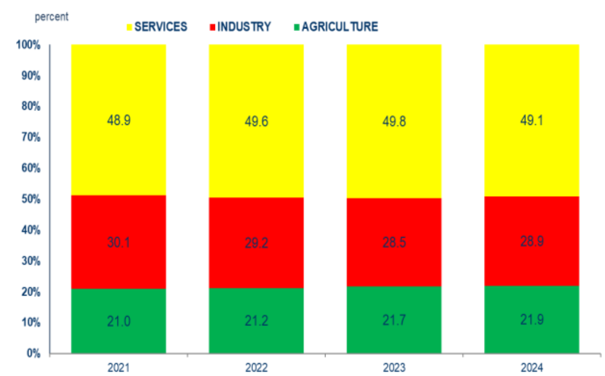
2) GDP Growth (Demand Side), 2021-2024



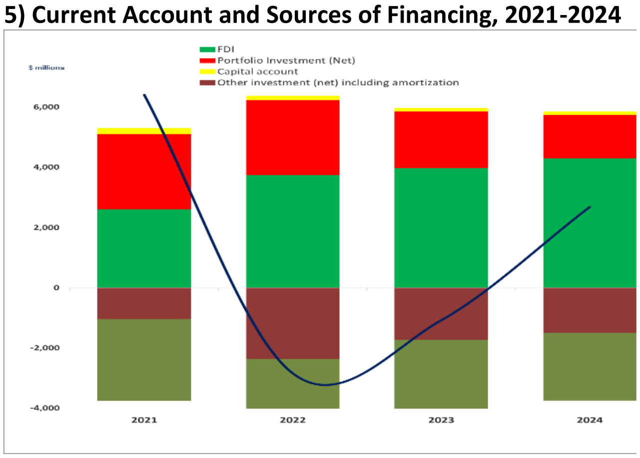
3) Fiscal Balance, 2021-2024



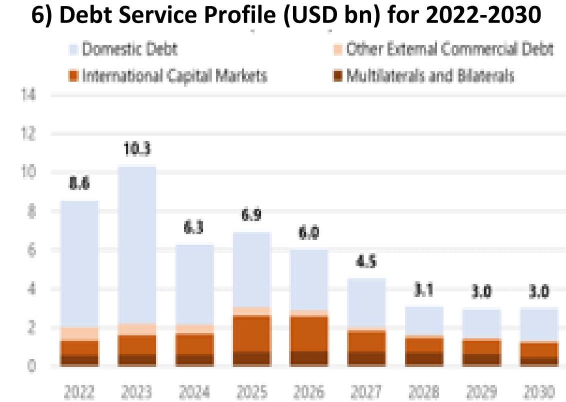
4 GDP Demand Side, Share by Sector, 2021-2024



5) Current Account and Sources of Financing, 2021-2024

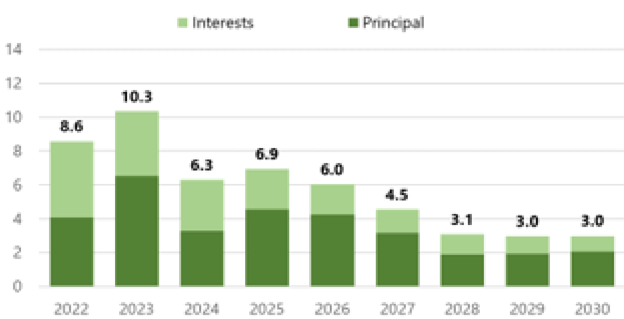


6) Debt Service Profile (USD bn) for 2022-2030



Source: IMF-WBG Article IV (July 2021), Exchange rate as of Dec-31, 2021 (Central Bank of Ghana)

7) Debt Service Profile (USD bn) for 2022-2030



Source: 6.1: GSS and World Bank; 6.2: GSS and World Bank; 6.3: World Bank; 6.4: Ministry of Finance and World Bank; 6.5: GSS; 6.5-7: World Bank Staff Estimates

4. Policy Priorities

To shore up debt sustainability, the authorities need to improve domestic resource mobilization and contain fiscal risks from SOEs in the energy sector

53. **The COVID-19 crisis has weakened Ghana's economy: strengthening the macroeconomic and fiscal framework will be critical to strengthen debt sustainability and to ensure a sustainable recovery.** This will be needed to restore private sector confidence and underpin economic growth and poverty reduction. It will require key reforms to widen the tax base, strengthen tax administration, reduce tax exemptions, plug revenue loopholes and leakages, combat tax evasion and shore up debt sustainability. The Government also needs to continue efforts to strengthen control of statutory expenditures, carefully manage the phasing out of COVID-19 expenditures, reduce contingent liabilities arising from the energy and financial sectors as well as support a broad-based growth agenda. The authorities also need to monitor risks arising from banks and other financial institutions' high exposure to the public sector as well as the impact of unwinding financial sector support measures (and deteriorating macroeconomic environment) on asset quality and credit growth.

54. **To address mounting debt sustainability concerns, the government should continue to pursue fiscal consolidation and seek to return to compliance with the fiscal rule**. The government has already set forth an ambitious fiscal consolidation path driven by high revenues and reductions in COVID-19 expenditures and financial sector bailouts. Going forward, fiscal policy should reflect the fact that the vulnerabilities inherited from the COVID-19 pandemic shock have now been exacerbated by the war in Ukraine. Fiscal policy should also take into account energy sector challenges, via steadfast implementation of the ESRP. The authorities should continue to implement strategies intended to moderate the growth rate of the civil service wage bill, such as the multi-year wage negotiations, as well as the enforcement of MoF financial clearance for recruitments. Steps to rationalize the active portfolio of public investments by prioritizing budget allocation to near-completion and newly appraised projects should also be pursued.

55. **While pursuing fiscal consolidation it should protect well-targeted support for the vulnerable - including those struggling because of commodity price spikes and those affected by the pandemic.** As Ghana's fiscal space is extremely constrained, the government will need to tread a difficult path between fiscal consolidation and prioritizing essential expenditures. Authorities should be vigilant regarding private sector vulnerabilities to rising interest rates as the domestic market has been the main source of government financing due to limited access to international market.

56. **To minimize the tradeoffs between short term needs and medium-term sustainability, domestic revenue mobilization is key.** The government should continue with efforts to overhaul tax expenditures, strengthen tax administration, and broaden the tax base. To address the issue of high exemptions, the Ministry of Finance should ensure prompt implementation of the Tax Exemption Bill (submitted to Parliament in February 2022) which provides the framework to monitor, control, and rationalize tax exemptions.[22] The authorities should also focus on widening the tax base by implementing the planned

[22] Including through: (a) the introduction of reporting requirements that will assist to determine the amount and nature of exemptions granted to promote transparency, and (b) the establishment of periodical reviews of all exemption provisions to ensure timely revision and removal of expired exemptions

2022 tax measures including the property tax collection improvements; the Revenue Assurance, Compliance and Enforcement (RACE); and the VAT Flat Rate Scheme restrictions. The government should also make efforts to rationalize "sin taxes" on tobacco and alcohol; introduce policy measures to encourage tax filers and impose a withholding tax on non-filers on their transactions – such as property transfer, vehicle registration, significant cash withdrawals etc.; as well as support the GRA on a range of tax facilitation measures including automated filing of returns and taxes, transparent risk-based audit mechanism, and speedy disposal of administrative reviews. Finally, the tax authorities should fast track progress on initiatives related to data warehousing and business intelligence to improve tax compliance.

57. **The Bank of Ghana should continue to pursue its core monetary policy objectives in a transparent manner**. The current drivers of inflation are largely beyond the control of the central bank (the war in Ukraine, the pandemic, supply chain disruptions), but they can translate in second round effects and expectations. Thus, the BoG should continue to pursue a tight monetary policy to check the cycle of (i) higher prices driving up wages and inflation expectations, and (ii) wages and inflation expectations driving up prices. The trade-off between safeguarding growth and containing inflation could be challenging in the medium term. The Bank of Ghana should, therefore, be alert to the impact of price pressures on inflation expectations and should be able to communicate clearly on the outlook for inflation and monetary policy in a continuous manner. To maintain policy credibility, BoG should continue to adjust forward guidance on the monetary stance with the use of credible data and communicate its policy stance through the unwinding of its bank balance sheets and the path for policy rates.

While tending to these immediate priorities, Ghana needs to address the impact of the two overlapping crises on its long-term growth prospects and ensure sufficient job creation

58. **To preserve its long-term growth prospects, Ghana needs to continue its efforts on structural growth policies with a special focus on labor force participation for the youth (see Special Focus).** The COVID-19 pandemic and the war in Ukraine will weigh on global growth prospects via their lasting consequences on human capital, investor confidence, fixed capital formation, and global supply chains. Ghana's growth prospects have been hurt and addressing the long-term challenges of structural transformation and job creation will require tending to long-term priorities while addressing the immediate challenges outlined above. To bolster long-term growth prospects, authorities should ensure that Ghana continues to be integrated into trade and investment networks, promote quality education (notably on digital technologies), and encourage labor force participation, in particular of the youth. The next section (Special Focus) of this report describes the specific challenge of youth employment and investigates the key related issues.

Part II: Special Focus: Youth employment in Ghana

1. Background

By 2035, the youth will overtake all other age groups in Ghana's population; a situation which presents opportunities and challenges

59. **Rapid population growth presents both opportunities and challenges as more and more youth enter the labor force each year.** As in the rest of Sub-Saharan Africa, Ghana's youth population is growing rapidly.[23] Ghana's youth constitute about 36 percent of the total population, and 54 percent of them live in urban areas. With the right policies, an increased working-age population can bolster economic growth. However, it could also pose a challenge, if the right environment is not in place to provide enough adequate jobs for young people entering the labor force.[24] In 2016, the overall unemployment rate in Ghana was estimated at 11.9 percent, while youth unemployment was slightly higher at approximately 12.1 percent. Estimates from the Ghana Statistical Service (GSS) suggest that about 1.55 million adults (15 years and above) were unemployed in 2021, 74 percent of them defined as "young".

60. **Ghana's economic growth has not delivered enough employment for the growing population. B**etween 1991 and 2019, a one-percent increase in Ghana's GDP was associated with an increase in overall employment by 0.45 percent. This employment-GDP growth elasticity is lower than the average for Sub-Saharan Africa (0.62) but higher than the average for lower-middle income country peers (0.35) over the same period. The elasticity of wage employment to GDP growth for Ghana, estimated at 0.76 between 1991 and 2019, is also somewhat lower than the average for Sub-Saharan Africa (0.83) but higher than the average for other lower-middle-income countries (0.60).[25] Demographic trends are compounded by (i) shifts in the structure of the economy over the past two decades toward natural resources which tend to generate fewer jobs; (ii) the stagnation of the manufacturing sector, and the expansion of low-wage, low-productivity trade services;[26][27] and (iv) the changing nature of work which could lead to fewer jobs in the short-term.

61. **Policy makers have struggled to design interventions that have been able to significantly dent youth unemployment.** Successive governments have prioritized initiatives to boost youth employment over the last decade. Policies have primarily focused on designing youth employment programs, mostly transitional from school to work, but these programs have fallen short of Significantly improving employment outcomes for youth.

[23] Currently, half of Africa's population is under 25 years, and between 2015 and 2035 each year is expected to add a half-million more 15-year-olds. As such, a youth bulge is projected by 2035.
[24] Jimenez Emmanuel and Mamta Murthi, Investing in the Youth Bulge, Finance and Development Quarterly, International Monetary Fund. September 2006, Volume 43, Number 3
[25] Nxumalo, Mpumelelo, and Dhushyanth Raju. 2020. "Structural Transformation and Labor Market Performance in Ghana." Jobs Working Paper 55, World Bank, Washington, DC.
[26] Dadzie, Christabel E., Mawuko Fumey, and Suleiman Namara. Youth Employment Programs in Ghana: Options for Effective Policy Making and Implementation. International Development in Focus. Washington, DC: World Bank.
[27] Baah-Boateng, W. March 2016. Economic growth not enough for jobs in Ghana

2. Overview of Ghana's Youth Employment Landscape

a. Employment and Underemployment

Unemployment

62. **Employment challenges are not unique to the youth in Ghana.** They tend stem from issues in labor supply (by the jobseekers) and labor demand (by the employers) for those in wage employment, and self-employed individuals who are mostly in the informal sector with low quality jobs. The slow employment response to economic growth and increasing number of labor force participants with inadequate/ inappropriate skills, coupled with the absence of labor market information to facilitate the labor demand-supply matching process, largely accounts for the current unemployment challenges.[28]

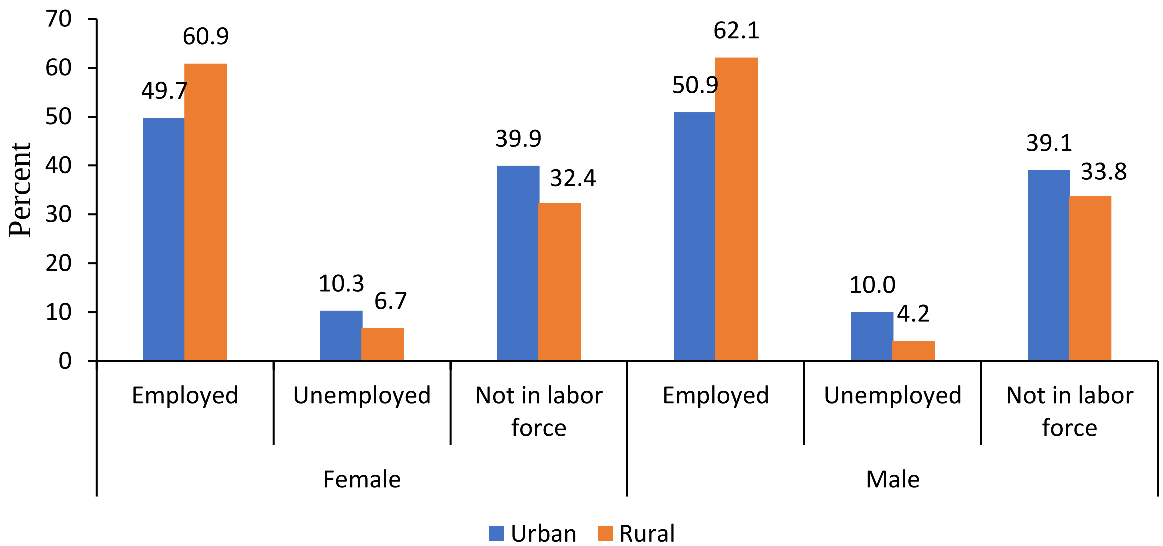
The challenge of youth unemployment is partly a reflection of the broader job challenge in Ghana, but youth, in particular younger groups, face a more acute problem

63. **The challenge of youth unemployment is multifaceted: it reflects a broader job challenge in Ghana, but also issues that are specific to the youth in nature and intensity.** While Ghana's overall unemployment rate in 2016/17 was estimated at 8.6 percent, the youth (ages 15-35) unemployment rate was 12.6 percent. In absolute terms, of the approximately 992,000 unemployed working age individuals (ages 15-64 years), over 776,000 (78.3 percent) were youth. The unemployment rate was particularly severe among those that had just joined the workforce – 15-24-year-olds had an unemployment rate of 18.5 percent, more than twice the national average. By level of education, individuals with complete upper secondary education had the highest rate of unemployment (16.1 percent) compared to those with primary or no education whose unemployment rate was 6.7 percent. Women's unemployment rate (9.5 percent) exceeds that of men (7.6 percent) by nearly 2 percentage points. The proportion of unemployed youth is higher in urban areas (16.8 percent) than in rural areas (8.1 percent). [29]

64. **Among working age adults (15-64 years), men and women exhibit similar labor force participation rates (73.4 and 72.3 percent, respectively).** Youth, however, are less likely to be in the labor force. Among nonyouth (36 and older), the labor force participation rate is 88 percent while the youth labor force participation rate is 63.4 percent (see Figure 9). Within the youth group, urban female youth have a labor force participation rate of 60 percent compared to 67.7 percent among rural female youth. Male youth show similar patterns across rural/urban. By employer type, over 90 percent of employed individuals are engaged in the private sector with similar shares among youth (93 percent) and nonyouth (92.5 percent). Men are 4 percentage points more likely to be employed in the public sector (9.3 percent) than women (5.3 percent).

[29] All statistics in this paragraph are estimated using GLSS 7 (corresponding to 2016/17). Sampling weights are applied.

Figure 9: Activity status of the youth population in Ghana



Source: 2016/17 Ghana Living Standard Survey

65. **In 2021, based on the country's national population and housing census, the youth unemployment rate stood at 19.7 percent.** It is even higher among the younger youth group (15-24-year-olds), at 32.8 percent. Unemployed young men are typically first-time jobseekers.[30]

66. **Ghana has a larger share of self-employed workers and a smaller share of workers engaged in wage employment.** Of those working, 69 percent are either self-employed or a contributing family worker, while 25 percent are wage employed. For those unemployed, there is a group with the desire for a self-employment opportunity (indicating that they face constraints to establishing and operating an income-generating activity). Further, 45 percent of the unemployed report a desire for any wage employment opportunity, while 27 percent indicate a desire for a self-employment opportunity. The desire for a self-employment opportunity among the unemployed is much more prevalent among youth than nonyouth and among women than men. Higher levels of educational attainment are associated with an increased likelihood of formal employment: 99 percent of workers with no formal education are in the informal sector, while the same is true for just 37 percent of workers with completed tertiary education[31]. Agriculture is almost fully composed of self-employed workers without employees and contributing family workers. Women, the poor, and those in rural areas are much more likely to be self-employed or a contributing family worker than their respective counterparts.

Underemployment

Underemployment is an even greater problem for Ghana's youth

[30] Baah-Boateng W. 2020. Africa Youth Employment Insights: Ghana Brief.

[31] Mpumelelo Nxumalo and Dhushyanth Raju. 2020. "Structural Transformation and Labor Market Performance in Ghana." World Bank, Washington, DC.

67. **While unemployment is a major concern, underemployment is an even greater challenge**.[32] In 2017, some 66 percent of African workers were estimated to be in vulnerable employment. Sub-Saharan Africa has the highest rates of youth working poverty, close to 69 percent.[33] Indeed, many young people may be employed, but mostly in the informal sector, with limited earnings and few opportunities to leverage their employment as a source of learning and a channel for social inclusion.

68. **In Ghana, the rate of youth underemployment is almost 50 percent, which is much higher than the Sub-Saharan average**.[34] Low skilled jobs constitute almost 50 percent of jobs held by younger youth while for older youth the share is about a third. Among the youth that have no or little education, the vast majority (75.3 percent of the younger youth and 60.4 percent of the older youth), work in the informal sector or in menial formal employment. These jobs are characterized by low wages, poor labor conditions and job insecurity.[35]

69. **The "Decent work" agenda is one that has been adopted widely and promoted in Ghana to curb underemployment**. The United Nations International Labor Organization champions the decent work agenda and defines it as productive work (for all women and men) with a sufficient income, one where rights and security are upheld, and has adequate social protection and workers representation[36]. Decent work was highlighted in the Sustainable Development Goals as a global target with a positive correlation with economic growth, given that (i) decent work puts money in peoples' pockets, increasing their spending power; (ii) an increase in the purchasing power triggers growth and development of new firms, which in turn could enable them to expand and employ more workers to improve pay and conditions of service; and (iii) ability to increase the revenue base of the government that could be used to finance social protection measures, for the marginalized in society, among other public goods.[37] Ghana's Ministry of Employment and Labor Relations is a major proponent for the decent work agenda which is detailed in the national policy[38].

b. Constraints to Youth Employment - Labor Demand and Supply Trends

Labor Demand trends

Ghana's economy provides insufficient quality job opportunities for workers with low skills

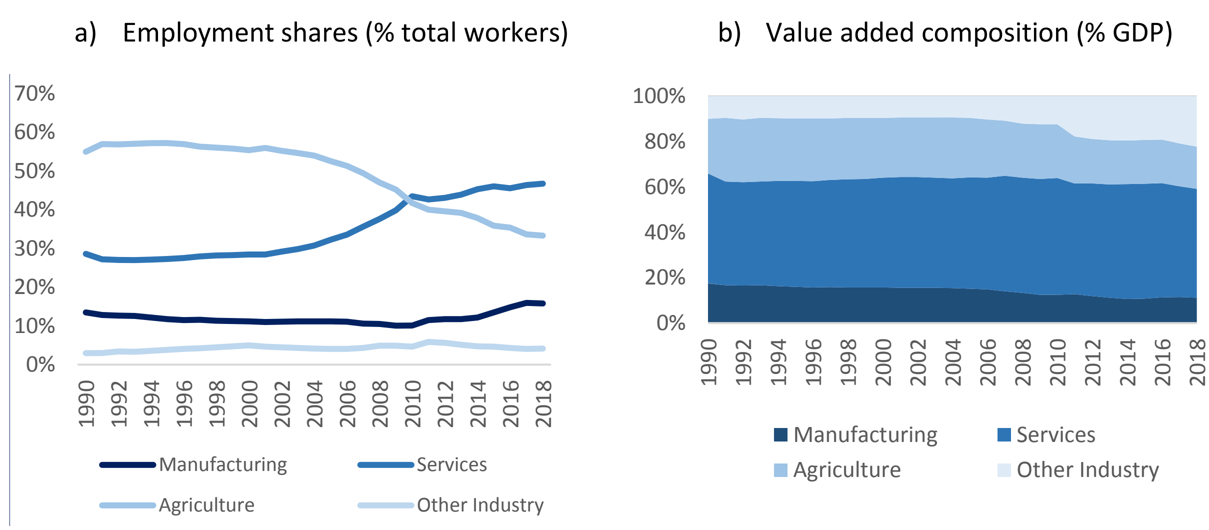
70. **Ghana's economy does not generate enough job opportunities for lower and mid-skilled workers.** It has high-performing services sub-sectors that employ very few workers and a manufacturing sector with very low productivity. The bulk of jobs created are in low-productivity, often informal services. Thus, there are few mid-productivity, mid-skilled jobs for workers moving out of agriculture. As a result, structural change and urbanization have not been engines of growth in Ghana as they have been in East

[32] Honorati, Maddalena. 2016. *Harnessing Youth Potential in Ghana: A Policy Note*. Washington, DC: World Bank.
[33] Kuhn, S., Milasi, S., & Yoon, S. (2018). World employment social outlook: Trends 2018. Geneva: ILO
[34] Dadzie, Christabel E., Mawuko Fumey, and Suleiman Namara. Youth Employment Programs in Ghana: Options for Effective Policy Making and Implementation. International Development in Focus. Washington, DC: World Bank.
[35] Baah-Boateng W. 2020. Africa Youth Employment Insights: Ghana Brief.
[36] Somavia, J., & General, I. D. (1999). Decent work. In Report of the Director-General to the 87th Session of the International Labour Conference (Geneva: ILO).
[37] International Labor Organization, 2017. Global Employment Trends for Youth – Paths to a better working future
[38]

Asia and other parts of the world (where lower-skilled workers moved from agriculture into modern sectors with higher productivity and the scope to drive innovation and economies of scale).

71. **Ghana has not followed the traditional path of manufacturing-led development.** Indeed, between 1990 and 2018, high productivity services contributed more to structural transformation than manufacturing. The share of manufacturing in total employment stagnated for much of the past three decades, while high-productivity export-oriented services have been some of the economy's fastest growing sectors (see Figure 10). The manufacturing sector is generally conducive to economic transformation because of its propensity to absorb low-skilled workers and its capacity for innovation, economies of scale, and productivity spillovers. Some of these characteristics are increasingly exhibited by export-oriented services sectors (notably 'global innovator' services in the areas of information and communication technologies (ICT) and financial and professional services).[39] In Ghana employment growth in these services sectors made a greater contribution to productivity growth than employment growth in manufacturing between 1990 and 2018. However, these high productivity services have provided relatively few jobs for lower-skilled workers and so their growth alone has not been sufficient to drive structural transformation.

Figure 10: Composition of Ghana's economy, 1990-2018



Source*:* GGDC Economic Transformation Database
Note: Other Industry includes construction, utilities and mining and quarrying

72. **Since 2010, Ghana experienced a manufacturing employment 'renaissance', but with very low productivity.** Over the past decade, and particularly since 2014, there has been a significant rise in the manufacturing share of employment (from 10 to 16 percent between 2010 and 2018), and manufacturing making a greater contribution to structural transformation than high productivity services. However, manufacturing productivity declined over this period, meaning that workers earnings could not increase. This rise in manufacturing employment has also not been accompanied by a rise in manufacturing exports,

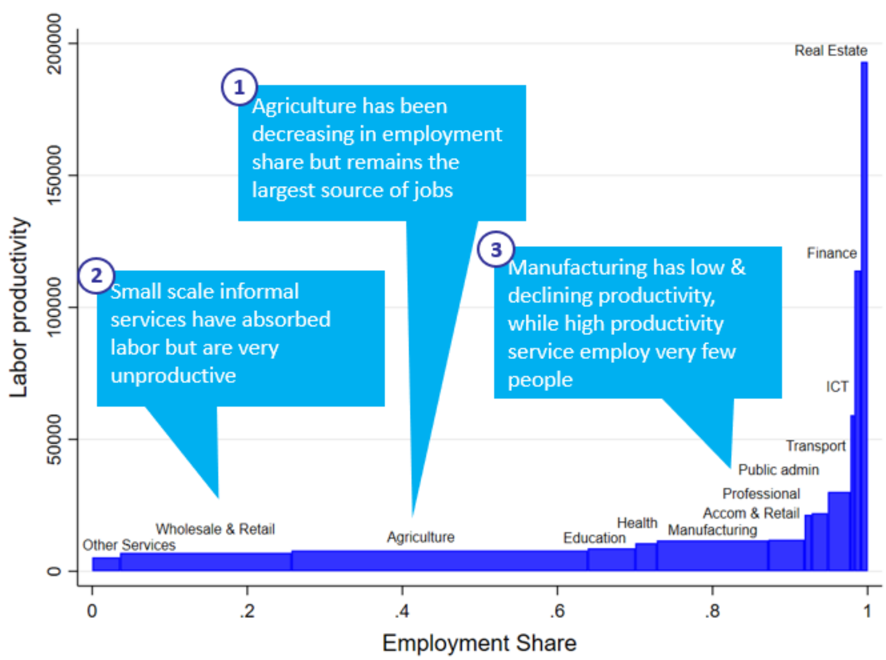
[39] This categorization of services sectors was first used in Davies et al. (2021)

suggesting that this manufacturing renaissance is domestic-driven (and thus constrained by the limited size of the market).

73. **These patterns reflect a 'missing middle' of employment opportunities in mid-productivity sectors for Ghanaian workers leaving agriculture.** The combination of a manufacturing sector that has only recently expanded and has very low and declining productivity, strong performance of high productivity services that employ few lower-skilled workers, and the bulk of employment generation in very low productivity services sectors, means there are insufficient mid-productivity employment opportunities for workers moving out of agriculture. In Ghana, productivity in manufacturing is only around 30 percent higher than in agriculture and has been declining. By comparison, at a similar point in China's economic development, productivity in manufacturing was over 5 times higher than in agriculture. Additionally, a quarter of the labor force in Ghana is currently employed in services sectors with lower productivity than agriculture.

Figure 11: Employment shares and labor productivity (thousand LCUs per worker) by sector in 2015

Ghana faces a 'missing middle' of mid-productivity employment opportunities



Source*: World Bank calculations using data from UN Statistics and Ghana Labour Force Survey 2015.*

74. **Another dimension of the dearth of quality jobs is the lack of formal employment opportunities**. Many interventions aimed at creating jobs in micro, small and medium-size enterprises have had mixed results. Research shows that these enterprises often do not grow into large firms and rarely employ additional workers. The reasons include: (i) lack of the technical and business knowledge needed to effectively manage and expand business; (ii) limited access to financing; and (iii) limited access to large markets.[40]

[40] Buba, Johanne, and Aterido Reyes. 2019. "Firm Level Interventions for Jobs." World Bank, Washington, DC.

75. **The participation of firms in global value chains is an enabler of quality job creation, but it has been very limited in Ghana.** The high cost of credit for businesses stifles business growth. The lack of adequate domestic inputs, particularly for manufacturing, and insufficiently skilled human resources have also contributed to the limited growth of private enterprises and their insertions in GVCs. In general, the regulatory business environment is deemed unfriendly while the backbone infrastructure (roads, ports, power, water, telecommunication) needs improvement.[41]

Labor Supply trends

The educational and training system is not producing the skills needed by the economy

76. **The quality of education in Ghana and the weak link between education and the productive sectors of the economy remain major challenges.** Academic training lags the fast-evolving needs of the labor market. Adjusting for the employed share of the working-age population, Ghana's utilization-adjusted human capital index (UHCI) is only 0.25 compared to its HCI of 0.45. This implies substantial underutilization of human capital, with only 57 percent of the working-age population engaged in productive employment. Technology usage and application are limited, while the are increasingly becoming critical given the changing nature of work. Soft skills (another skillset becoming increasingly critical for young people) are not imparted in schools. Preemployment support services are minimal, and those that exist are ineffective, particularly those offered by public training academic institutions. Nearly 50 percent of employers report that TVET graduates do not have practical skills, while one-third of employers claim that graduates lack sufficiently advanced skills.[42]

77. **Ghana's labor force is characterized by falling participation rates, low levels of educational attainment, and large gender and regional disparities.** In 2016/17, almost one-fifth of the employed population had no education, and only one-quarter had completed secondary or tertiary education, either general or technical. Over 54 percent of the employed population had only completed primary education or JHS. Educational attainment indicators were systematically lower for women, rural populations, and the country's northern regions (see Table 6.3). The country's educational system produced about 120,000 young Ghanaians (including about 60 percent of graduates at various educational levels and those who exit early) into the labor market in 2017. Further, the share of young people between the ages of 15 and 24 who were not in education, employment, or training has risen over time. The share of youth not in education, employment or training increased from 11 percent in 2013 to 30 percent in 2017 In 2017, this share was higher for males (33 percent) than for females (28 percent).

[41] Baah-Boateng W. 2020. Africa Youth Employment Insights: Ghana Brief.
[42] Ford Foundation (FF) and Council for Technical and Vocational Education and Training (COTVET). 2020. *Skills Gap Analysis and Audit of Seven Sectors.*

Table 6: Education attainment among the Employed Population, 2016/17

	Total	Gender		Location	
		Male	Female	Urban	Rural
No education	19.9	13.2	26.1	11.7	28.1
Primary or less	15.7	12.9	18.4	13.0	18.4
JHS	38.5	40.7	36.4	39.3	37.8
SHS	14.2	18.3	10.5	18.4	10.0
Technical and Vocational	2.7	3.2	2.2	4.0	1.3
Tertiary	8.7	11.3	6.3	13.3	4.2

Source: Ghana Statistical Services. 2019. Ghana Living Standards Survey (GLSS) 7.

78. **Ghana's TVET sector faces several challenges and has been mostly neglected, but currently being reformed.** Studies have highlighted the poor quality of school infrastructure and learning tools as well as unmotivated teachers and an emphasis on general education as opposed to practical training, particularly among TVET institutions. The challenges confronting the sector include: (i) poor links between training institutions and industry; (ii) a deeply fragmented landscape and lack of coordination among TVET delivery agencies; (iii) a multiplicity of standards, testing, and certification systems; (iv) low-quality instruction due to inadequate instructor training and lack of instructional support and infrastructure; (v) an informal TVET system that has been neglected and detached from the formal sector; and (vi) poor public perceptions of technical and vocational programs, which are viewed as a track for academically weak students.[43]

79. **The youth who venture into self-employment and entrepreneurship face additional constraints.** Challenges faced include weak support systems for entrepreneurship and small-scale business development for self-employment[44]. Stakeholder consultations suggest there are limitations in accessing physical resources such as land, equipment, and financial capital, especially for youth. Other challenges include lack of access to technology, an unattractive business environment with high costs to obtain licenses to operate formally and high registration costs, and lack of relevant experience, poorly skilled labor, lack of networking opportunities or social capital, and lack of access to markets.

3. Effects of the COVID-19 Pandemic on Youth Employment

80. **The recent insurgence of the COVID-19 pandemic and its impacts on national and global economies also escalated the overall unemployment challenge, and by inference youth unemployment**. The COVID-19 crisis worsened these inequalities, with substantial loss of incomes, particularly for the poor, who are also less insured and less likely to seek medical care for a variety of reasons, including cost considerations.

81. **With lockdowns in 2020 and general restrictions in human movement, thereafter, several jobs were lost, particularly within the small and medium enterprise space.** It was reported that in the first

[43] Ghana Ministry of Education. 2018. Education Sector Performance Report. Accra: Ghana Ministry of Education.

[44] Ghana Ministry of Employment and Labour Relations. 2014. National Employment Policy. Accra, Ghana

three months of the crisis, 77 percent of the population reported a decline in household income, with many not being able to work due to closures. In 2022, 68 percent of households shared that their incomes had not recovered to pre-COVID-19 levels. Overall, the COVID-19 pandemic has substantially weakened Ghana's economic growth. Due to the economic crisis resulting from the pandemic, Ghana's economy was grew by 0.5 percent, year-on-year, in 2020, much lower than the pre-crisis projection of 5.8 percent.[45]

82. **The business sector, especially SMEs were negatively affected by the pandemic.** According to the Association of Ghana Industries, 42,000 people lost their jobs in the first two months of the pandemic in Ghana, tourist attraction sector of the country alone lost $171 million dollars in the past three months due to the partial lockdown and closure of tourism and hospitality centers in the country[46]. According to a GSS Business Tracker Survey, more than a third (37.1 percent) of employees in informal establishments had their wages reduced compared to 26.5 percent of employees in formal establishments. In the informal establishments 34 percent of employees had to work fewer hours but as against 23.8 percent in formal establishments. More workers were fired in informal establishments (2.1 percent of the total workforce) than formal establishments (1.4 percent of the total workforce).[47] [48]

4. Leveraging Technology to Promote Youth Employment

83. **The COVID-19 pandemic has influenced how to address job creation.** While the pandemic was devastating to many firms, especially small and medium enterprises (SMEs), the pandemic also caused a shift in the use of technology which could be an enabler to enhancing productivity. Research by McKinsey appropriately analyses our new world as defined by COVID-19 explaining that the current and subsequent eras will be defined by pre- and post-COVID-19 circumstances. The next new stage, which is named the "next normal", will incorporate new approaches instituted by changes (negative and positive) created from the pandemic years. They emphasize that the 'next normal' will be defined by digital transformation, which for most developing countries, was still a somewhat future goal. This unprecedented reality and lessons from the pandemic will dramatically restructure how businesses (and governments) operate.[49]

84. **The future of work 'has arrived' which requires a different thinking for technology adoption and firm productivity globally, and in Ghana.** As previously mentioned, most workers remain in low-productivity employment in developing countries, often in the informal sector with little access to

[45] World Bank, 2020. 5th Ghana Economic Update: Structural Transformation and Labor Market Performance: Challenges and Opportunities

[46] Socio-economic impact of COVID-19 on Ghana's economy: challenges and prospects David Tanoh Aduhene and Eric Osei-Assibey Department of Economics, University of Ghana, Accra, Ghana

[47] Ghana Statistical Service, 2020. COVID-19 Business Tracker Report

[48] The statistics are obtained from the first wave of the COVID-19 Business Tracker survey conducted by the Ghana Statistical Service in May-June 2020, a few weeks after the partial lockdown of Accra and Kumasi metropolitan areas in April 2020. Thus, these results can be treated as immediate to short-term effects stemming from the partial lockdown and other COVID-19 related countermeasures by Ghana. The frame for the tracker survey came from the Integrated Business Establishment Survey 2013, supplemented by information from the Ghana Living Standards Survey 2016/17 and from the Ghana Enterprises Agency. The tracker survey was phone-based. To increase the survey's response rate, nonresponding businesses had to be replaced. Even with this strategy, the overall response rate was 76 percent, with the response rate across regions varying widely from 33 percent to 100 percent. The responding sample was reweighted to restore representativeness with respect to the frame. Notwithstanding, as a caveat, any incompleteness in the frame and any loss of representativeness that cannot be adequately addressed through reweighting will bias the results discussed.

[49] Sneader and Singhal, March 2020. Beyond the Coronavirus – the path to the next normal

technology[50]. Creating formal jobs by promoting the decent work agenda and leveraging the productivity that comes with technological changes could be a great contribution to addressing the unemployment phenomenon. Technology if applied properly, and adopted in a large scale, can be a major catalyst for job creation, and ultimately youth employment. Research demonstrates that technology provides opportunities to create new jobs, increase productivity, and deliver effective public services. Through innovation, technology can generate new areas and responsibilities for work[51] [52].

85. **While Africa may not have adopted complicated technologies, African economies are fast-tracking digital adoption efforts through mobile money penetration, which should be leveraged for job creation.** Some studies posit that the 'future of work' in Sub-Saharan Africa has been seen as slower than across the world, meaning that new technologies are more likely to create new jobs and boost the productivity within existing ones.[53] Recent evidence shows that (only) 22 percent of firms in Sub-Saharan Africa have started or increased the use of digital platforms in response to COVID-19.[54] Other studies argue that Africa is in the lead in adopting (basic) technology, based on evidence in the use of mobile services, through the use of mobile money, especially during the peak of the COVID-19 pandemic. Sub-Saharan African countries have been at the forefront of adopting mobile money capabilities for over a decade and in 2020 continued to account for the majority of growth (43 percent of all new accounts). For instance, by the end of 2020, there were 548 million registered accounts, over 150 million of which were active on a monthly basis, exceeding the rest of the world combined.[55] Ghana's data on mobile money penetration provides similar impressive statistics in comparison with its peers. The argument therefore may be that Africa is adopting technology differently, not slower, than the rest of the world using alternate digital channels. Either way, the Continent is poised to use both lower and more sophisticated levels of technology to its advantage in promoting youth employment given also that most youth are technologically-savvy and interested in opportunities that have a technological angle. In a way, immediately leveraging the use of simple technologies could be a major positive push, given lower literacy rates across the continent and in Ghana. This interest and use, coupled with the ability for technology to make for more productive jobs creates an opportunity to dent the youth unemployment situation. Mobile phones, for instance, are used to transform the distribution of seeds and fertilizers in remote areas through e-vouchers in Nigeria. Satellite information services are improving herd management among pastoralists in Mali and Burkina Faso.

86. **Specific to internet consumption, increasing access to the internet continues to be a major challenge, and has taken even more importance since the outbreak of COVID-19**. As a general-purpose technology, the internet can have transformative impacts. Studies have shown that expanding mobile broadband coverage and connectivity in Africa reduces poverty and increases sustainable development26 and economic growth. Ghana's telecommunications sector has experienced impressive growth due to liberalization and deregulation of the market since the late 1990s. However, there is still room for

[50] Zeufack, Albert G.; Calderon, Cesar; Kambou, Gerard; Kubota, Megumi; Korman, Vijdan; Canales, Catalina Cantu; Aviomoh, Henry E. 2021. "Africa's Pulse, No. 23" (April), World Bank, Washington, DC. Doi: 10.1596/978-1-4648-1714-4. License: Creative Commons Attribution CC BY 3.0 IGO
[51] Davies, E., G. Nayyar, S. Reyes, and J. Torres. 2021. "Firms through the COVID-19 Pandemic: Evidence from Sub- Saharan Africa." In *Shaping Africa's Post-Covid Recovery*, edited by R. Arezki, S. Djankov, and U. Panizza, 19–30. CEPR Press.
[52] World Economic Forum, 2020. The Future of Jobs Report 2020.
[53] Begazo-Gomez, T., M. P. Blimpo, and M. A. Dutz. 2021. *Inclusive Digital Africa*. Washington, DC: World Bank.
[54] Zeufack, Albert G.; Calderon, Cesar; Kambou, Gerard; Kubota, Megumi; Korman, Vijdan; Canales, Catalina Cantu; Aviomoh, Henry E. 2021. "Africa's Pulse, No. 23" (April), World Bank, Washington, DC. Doi: 10.1596/978-1-4648-1714-4. License: Creative Commons Attribution CC BY 3.0 IGO
[55] Andersson-Manjang S. and Nika Naghavi, 2021. State of the Industry Report on Mobile Money 2021. GSM Association

improvement in terms of access and speed.[56] Broadening access to the internet, especially within rural areas would be useful for both rural and urban youth to tap into new (online) jobs brought about by technology, and improve existing jobs, making them more productive.

Box 2: World Bank-Supported Projects with Technology Application and Adoption
Given the importance of technology and adoptions to promote jobs and overall economic growth, the World Bank has been at the forefront of supporting Ghana's government to enhance technology adoption and use through its programming both on demand and supply sides by: improving technology policy environment; increasing capabilities for technology use for businesses and individuals; and promoting access to financial inclusion through technology applications. Three main projects include: The Ghana Digital Acceleration Project which has an overall objective to expand access to broadband, enhance the efficiency and experience of selected digital public services, and strengthen the digital innovation ecosystem, working both at the policy and firm levels. The Ghana Jobs and Skills Project (GJSP) supports enhancing entrepreneurship training for individuals and businesses, including technology enhancement, as well as upskilling of SME workforce with a preference of engaging technology and/or technology-enhanced firms. The GJSP is also supporting the development of a Labor Market Information System to improve churning out of labor market data in Ghana. The Ghana Productive Safety Net Project, which provides livelihoods support to poor people leverages technology to enhance service delivery (from registration to payments of beneficiaries) and promotes financial inclusion for beneficiaries, by providing electronic bank cards and mobile money for receipt of payment.

87. **Technology adoption alone is not the solution, policy makers need to review opportunities within the entire technology value chain.** Research shows that mere introduction of technology may actually reduce jobs. As such, policy makers need to go beyond ensuring the adoption of technologies to first identifying effective uses of existing technologies and their ability to provide jobs, e.g., while Ghana (and Africa) have appropriately adopted mobile money, there are other possible areas to explore within the value chain of mobile technology, such as manufacturing of mobile phones in Ghana, etc.; while Ghana has appropriately adopted mobile money, there may be other areas to explore within the value chain of mobile technology usage that could derive jobs. Intentional measures by authorities in these areas could be useful.

88. **Improving skills is highly relevant to adopting technologies, but skills will need to be acquired swiftly to stay relevant with the changing times.** As in other parts of the world, the rapidly changing requirements of the world of work due to technology disruptions are likely to affect the job readiness of Ghanaian youth. It is estimated that globally, the number of jobs requiring digital skills will grow by 12 percent by 2024[57]. As more firms adopt technology, automation is likely to increase, creating temporary displacements and the need for higher-skilled workers. Employers are already focusing on new skill sets and core competencies— such as teamwork, problem solving, communication, and analytical skills—and they have made these key selection criteria for job applicants[58]. According to the World Economic Forum, on average, companies estimate that around 40 percent of workers will require reskilling of six months or less and 94 percent of business leaders report that they expect employees to pick up new skills on the job, a sharp uptake from 65 percent in 2018. Those in employment are placing larger emphasis on personal development courses, which have seen 88 percent growth among that population. These investments in

[56] World Bank (2021) 'Ghana Rising – Accelerating Economic Transformation and Creating Jobs', Washington, DC: The World Bank.
[57] Robinson, Danielle Simone, Namita Datta, Emily Massey, Tshegofatso Kgasago, Mishkah Jakoet, Peter J. Glick, Diana Gehlhaus Carew, et al. 2018. *Digital Jobs for Youth: Young Women in the Digital Economy*. Solutions for Youth Employment. Washington, DC: World Bank Group, Solutions for Youth Employment (S4YE).
[58] Bughin, Jacques, Eric Hazen, Susan Lund, Peter Dahlström, Anna Wiesinger, and Amresh Subramanian. 2018. "Skill Shift Automation and the Future of the Workforce." Discussion paper, McKinsey Global Institute, Brussels.

reskilling should span both the public and private sector. Those who are unemployed have placed greater emphasis on learning digital skills such as data analysis, computer science and information technology.

5. Government Response to Improve Youth Employment Outcomes

There are many policies and programs to improve youth employment outcomes, but they have showed limited success

89. **Several ministries, departments and agencies run youth employment programs within a fragmented space.** A World Bank inventory of jobs programs found 22 main public sector-led youth employment programs. In general, the programs are highly focused on skills development, entrepreneurship training, and apprenticeships. The public sector programs tend to have a broader outreach than and have lower unit costs than private sector programs but[59] they also suffer from limited or irregular funding. Programs are not coordinated and their targeting, goals, and objectives tend to change with each new government. Programs are also poorly evaluated. Tracer studies, which provide information on beneficiaries after exiting programs have not been conducted for most programs or are not available to assist in evaluating the impact of programs. Information on cost parameters, such as cost per trainee and operational and investment costs over the program durations, are also limited.

a. Youth Employment Policy Environment

Youth employment is a government priority, supported by various flagship policies and programs

90. **With employment creation at the forefront of the government's development agenda, several policy initiatives have been launched to address the challenge.** The National Medium-Term Development Plan (NMTDP), 2014–17 and the Ghana Shared Growth and Development Agenda, (GSGDA I and II), have made special provisions for youth employment. In 2017, the government developed "The Coordinated Programme of Economic and Social Development Policies (2017–2024): An Agenda for Jobs: Creating Prosperity and Equal Opportunity for All." It then reflected the same aspirations in "An Agenda for Jobs: Creating Prosperity and Equal Opportunity for All (2018–2021)." One key objective is building human capital through improved access to quality education and health. In 2010, the government launched the National Youth Policy which was followed by the National Youth Policy Implementation Plan, 2014–17. To support youth employment, the policy focused on (1) building the capacity of youth to discover wealth-creating opportunities by providing them with access to reliable and adequate labor market information; (2) creating opportunities for young people to take advantage of available jobs; (3) training and preparing them for the global market; (4) and incorporating entrepreneurial skills into curricula.[60] In 2016, Parliament passed the National Youth Authority Act (Act 939), which gave the National Youth Authority a mandate to formulate policies and implement programs that promote youth development and the effective participation of youth in the economic development of the country. The National Youth Authority has indicated that the National Youth Policy is being updated.[61]

[59] Study revealed that only 19 percent of the 1.3 million youth who apply for youth employment programs are accepted.

[60] Ghana Ministry of Youth and Sports 2014

[61] Panel discussion during the 14th National Development Planning Commission Forum, 2022

91. **The Ministry of Employment and Labour Relations (MELR) launched the National Employment Policy in 2014.** This policy is aimed particularly at generating employment opportunities for vulnerable groups, youth, women, and the disabled. The goal of the policy is to create decent, gainful employment opportunities so workers in the country's growing labor force can improve their living conditions and contribute to economic growth and national development within the framework of equity, fairness, security, and dignity.[62]

b. Institutions and programs implementing youth employment policies

Various public sector stakeholders are active in the youth employment area

92. **The youth employment governance and policy landscape comprise numerous ministries, departments and agencies with varying mandates.** The three main entities include (see Annex 4 for more details):

- **Ministry of Employment and Labour Relations** and its technical departments and agencies. They are responsible for the overall coordination and implementation of the National Employment Policy. The ministry is supported by the National Development Planning Commission (NDPC). In addition, under the National Employment Policy, it will be assisted by a National Employment Coordinating Council (NECC), which is expected to consist of representatives of employment-generating sectors, partners, and ministries overseeing resource mobilization, monitoring and evaluation, and job creation.
- **National Youth Authority (NYA).** It is mandated by the National Youth Policy and the National Youth Authority Act 939 to formulate, implement, and coordinate programs that promote the well-being of youth.
- **Youth Employment Agency (YEA)[63] and the National Service Scheme (NSS).** They were established to facilitate youth employment programs, particularly transitional programs from school to work. These agencies seek to facilitate the promotion of short-term youth employment opportunities and to instill a sense of nationalism among youth.

c. Policies for Technical and Vocational Training (TVET)

Authorities have taken steps to focus more on TVET

93. **There has been an insufficient focus on Technical and Vocational Education Training (TVET) in Ghana.** TVET, offered at the pre-tertiary and tertiary levels through pre-vocational, vocational, and technical training, has received insufficient attention by governments in the past. As a result, there are

[62] Ghana Ministry of Employment and Labour Relations 2014

[63] The government launched the National Youth Employment Programme (NYEP) in 2006 to provide skills training and jobs for youth as part of its efforts to tackle youth unemployment, underemployment, and food insecurity. In 2012, a new government restructured the NYEP into the Ghana Youth Employment and Entrepreneurial Development Agency (GYEEDA), which was in turn restructured to the Youth Employment Agency (YEA) under Act 887 in 2015. The agency's objective is to provide skills training and apprenticeship modules to support youth during the transition from unemployment to employment. In 2016 Parliament passed the Youth Employment Agency Regulations, 2016 (L.I. 2231), for the effective implementation of the provisions of Act 887.

few technical institutes, with poor facilities and materials, and weak instruction. Finally, there is a mismatch between skills training and industry needs.

94. **The Pre-Tertiary Act, 2020 (Act 1049) established the Ghana TVET Service to address these challenges.** The Ghana TVET Service brings together all the technical and vocational programs run by 19 different Ministries under the ambit of the Ghana TVET Service, which will be supervised by the Ministry of Education. The Commission for Technical and Vocational Education and Training (CTVET) responsible for regulating, promoting and administering TVET in Ghana, has been restructured (and rebranded) to champion reforms within the sector. For instance, the Commission is facilitating the establishment of a National TVET Qualifications Framework (NTVETQF) that would encourage the youth to continue from attaining national proficiency levels through certificate levels to HND, B.TECH, M.TECH to the Doctor of Technology level. To further boost interest, the government has rolled out the 'free TVET for all' policy alongside its flagship free Senior High School policy.[64]

d. COVID-19 pandemic response (Ghana CARES)

Flagship programs to respond to COVID-19 will support the youth employment agenda

95. **To mitigate the impacts of the COVID-19 pandemic on the economy, the government launched the COVID-19 Alleviation and Revitalization of Enterprises Support (CARES)/ "Obaatan pa" program.** The program is meant to last three-and-a-half years with measures to

- Support commercial farming and attract educated youth into agriculture
- Build Ghana's light manufacturing sector
- Fast-track digitization
- Develop engineering/machine tools and ICT/digital economy industries
- Develop Ghana's housing and construction industry
- Establish Ghana as a regional hub
- Review and optimize implementation of Government flagships and key programmes
- Develop a vibrant tourism industry in Ghana

96. **Within the Ghana CARES program, the Government embedded youth entrepreneurship initiative: YouStart.** The program targets the creation of one million jobs over three years including by empowering the private sector to create more jobs and leveraging entrepreneurship. The GHC 10 billion (approx. US$1.3 billion) program is expected to comprehensively tackle the youth unemployment challenge by providing an entrepreneurial ecosystem to upskill entrepreneurs (as needed), and provide access to capital, training, and mentoring.[65]

There are many policies and programs to improve youth employment outcomes, but they have showed limited success

97. **Several ministries, departments and agencies run youth employment programs within a fragmented space.** A World Bank inventory of jobs programs found 22 main public sector-led youth

[64] Dadzie, Christabel E., Mawuko Fumey, and Suleiman Namara. Youth Employment Programs in Ghana: Options for Effective Policy Making and Implementation. International Development in Focus. Washington, DC: World Bank.

[65] Republic of Ghana, 2022. The Budget Statement and Economic Policy of the Government of Ghana for the 2022 Financial Year

employment programs. In general, the programs are highly focused on skills development, entrepreneurship training, and apprenticeships. The public sector programs tend to have a broader outreach than and have lower unit costs than private sector programs but[66] they also suffer from limited or irregular funding. Programs are not coordinated, and their targeting, goals, and objectives tend to change with each new government. Programs are also poorly evaluated. Tracer studies, which provide information on beneficiaries after exiting programs have not been conducted for most programs or are not available to assist in evaluating the impact of programs. Information on cost parameters, such as cost per trainee and operational and investment costs over the program durations, are also limited.

6. Looking Ahead – Opportunities and Options

98. **Addressing youth employment will be most successful with a holistic approach encompassing both supply and demand side policies and measures to enhance the inclusiveness of growth.** The overall macro-economic environment needs to be improved while specific employment opportunities for young people are created. The government has a major role to play by providing the enabling environment to support job creation, both in the public and private sector, and by ensuring that growth is inclusive (through improving social safety nets, investing in public infrastructure, education and health, and focusing on opportunities for lower-skilled workers and improving services for underserved regions and populations).

a. A holistic policy environment to promote Youth Employment

A holistic policy environment would need to bring all stakeholders together and coordinate the various ongoing interventions

99. **The policy-making framework for youth employment needs to be revised and streamlined.** It is uncoordinated and fragmented with overlaps in mandates among stakeholders. As a result, impact is diluted. The National Employment Policy proposed a law creating a National Employment Coordinating Council (NECC) to oversee planning, coordination, and results measurement. The NECC will consist of representatives of employment-generating sectors and social partners, chaired by the Vice-President of Ghana and coordinated by the MELR. As part of the Council's responsibilities, monitoring and evaluation reports should be issued annually to the President, Cabinet, Ministers, Parliament and the National Development Planning Commission (NDPC) to enable them to track desired national employment outcomes. Operationalizing the Ghana Labor Market Information System (GLMIS) and establishing impact measurement mechanisms to regularly evaluate programs' value for money will be essential to streamlining the employment sector. Further, regular structured interactions between youth employment stakeholders are critical to promote synergies and reduce duplication, and to encourage knowledge sharing.

100. **The education system must incorporate new skills required by employers, including basic digital and soft skills.** Further, since not all young people can become entrepreneurs, youth employment programs must be expanded beyond entrepreneurship. Finally, there are several youth employment-related policies. Many of whom have expired and/or are no longer relevant. An assessment of the existing policies and implementation plans would be useful to determine their effectiveness in driving youth

[66] Study revealed that only 19 percent of the 1.3 million youth who apply for youth employment programs are accepted.

employment. Such assessments should also include children below the youth age (8-14), who will soon be entering the youth age group as the job landscaper is evolving rapidly.

101. **Within the education system and beyond, changing mindsets about what constitutes a job could be another way of boosting youth employment.** There are several job opportunities that are not tapped into in Ghana because they are viewed as menial jobs. This was one of the main reasons why Governments transformed technical and vocational institutes to universities, with the hope that the 'upgrade' would encourage more youth to attend TVET institutions. In many developed economies, graduates of TVETs and people engaged in more hard labor work have very high wages, which is not the case in Ghana where labor is very cheap. Some thinking into (i) changing youthful mindsets on types of jobs; and (ii) finding ways to increase 'hard' labor costs, could be potential ways of creating more opportunities for youth. Further research in this area would be useful. TVET institutions could also be leveraged to support urban youth in self-employment to improve, and potentially scale up their businesses.

102. **Leveraging the Private Sector through Public-Private Partnerships, particularly in skills development is another essential strategy to foster job creation.** Private sector participation in youth skills development and employment cannot be over-emphasized. The government needs to keep them engaged in constructive dialogue and to create the needed environment for them to employ the youth. Government could work with employers to improve national systems for workforce development, including the development of curricula for training providers and national qualifications frameworks for skills certification. Further, business associations representing small enterprises organized around specific sectors can engage with the government to shape training schemes, employment services, and certification initiatives. Private sector-led incubators that are market-led to provide advice and technical assistance to businesses in training and other aspects of youth employment could also be considered.

b. Promoting economic transformation to create good quality jobs

Economic transformation is a key pre-condition to create enough quality jobs for the youth, it will require strengthened macroeconomic management

103. **To enable the economic transformation that Ghana seeks to achieve, macroeconomic and fiscal governance should strive to stabilize the economy and collect enough resources to fund the necessary investments.** To stabilize the economy and ensure its sustainability, Ghana will need to revisit its current fiscal responsibility framework and strengthen it. Secondly, to collect more revenue in order to improve fiscal sustainability and finance critical investments, Ghana will need to improve the efficiency and equity of its tax mix.

104. **Expanding job opportunities will require identifying and increasing market access and boosting competitiveness in manufacturing, notably by leveraging the opportunities offered by the Africa Continental Free Trade Area (AfCTA).** An African regional trading block can create new opportunities to access markets for entrepreneurs and boost entrepreneurship in Ghana. Leveraging the introduction of the AfCFTA and identifying accessible markets for young entrepreneurs within the continent, as well as identifying comparative advantage can promote quality and productive job creation. Reforms to reduce barriers to global value chains participation, improve transport and trade-related logistical services (particularly inland connections), and reduce in Non-Trade Barriers and implement trade facilitation measures enacted by the AfCFTA countries Authorities can boost competitiveness in manufacturing.

105. **Financial intermediation must improve to allow Ghanaian enterprises (mainly SMEs) to grow, enhance their productivity, and contribute to economic transformation.** This requires continuing to implement policies to safeguard macroeconomic stability (which is key to providing certainty for medium to long-term business transactions including lending), improve the overall business environment, and maintain financial sector soundness. In addition, it requires accelerating key interventions to remove obstacles associated with limited access to finance, such as reforms to increase the availability of long-term finance and to mitigate financial institutions' credit risk and lessen collateral requirements.

c. Identifying and engaging in potential High-Yielding, Job-Creating Sectors

Sectoral policies can help accompany structural transformation and support high potential sectors

106. **Government and partners should conduct full value-chain assessments of high-potential job growth areas.** Policy makers will need to conduct in-depth analyses of high-potential job growth areas, identifying areas where different categories of youth would most likely be interested in and/or find jobs and conduct similar analysis for job creation opportunities across all value chains for high potential sectors. The Ghanaian Commission for Technical and Vocational Education and Training (CTVET) conducted a skills gap analysis of seven areas that are seen to be potential for high jobs growth.[67] A World Bank Study on youth employment options also identified some of these areas as potential high-yield job creating areas.[68] The two studies overlapped in the following areas:

- Agriculture and Agribusiness (see Box 3)
- Construction
- Tourism and hospitality
- Green jobs

107. **Some other sectors should be considered given their potential for youth employment, such as the creative sector and sports.** The garment sector could also be explored as a potential growth area, although the ability to compete with existing garment giants is still unclear. Box 3 provides a special focus on agriculture. Similar reviews and analysis would be useful for the other growth sectors.

Box 3. Illustration - Opportunities in Agriculture and Agribusiness for boosting Youth Employment

Although the agriculture sector has been overtaken by the service sector in recent years, it still contributes significantly to the Ghanaian economy and job creation. The sector employed more than 50 percent of Ghana's labor force in 2015, although this number has dropped significantly in 2020 (approximately 30 percent). The sector remains a major opportunity for sustainable, decent employment (should some of the other aspects of this study be applied to its implementation). Because of the major potential within agriculture, if productivity and earnings in agriculture do not improve, the wider economy will remain depressed, particularly in rural areas, where the majority of the population lives, and options for youth will shrink.

There is great potential for youth employment within the agriculture and agribusiness value chain, especially leveraging technology. In terms of opportunities for employment within agriculture, rural youth are most likely to be engaged in agriculture (farming), fisheries, forestry, handicrafts, small-scale retail (microenterprises), or cottage industry. Beyond the foundational levels, prospects in the agriculture sector for young people include agro-

[67] Commission for Technical and Vocational Education and Training (CTVET), 2021. Skills Gap Analysis and Audit of Seven Sectors

[68] Dadzie, Christabel E., Mawuko Fumey, and Suleiman Namara. Youth Employment Programs in Ghana: Options for Effective Policy Making and Implementation. International Development in Focus. Washington, DC: World Bank

processing; services in areas such as disease, pest, and weed control services; transportation; agricultural waste conversion storage (warehousing); and organic farming. Additional opportunities could arise from linking farmers to markets or to machinery services. Young people (both rural and urban youth) also have the potential to engage in entrepreneurial opportunities along the full length of the agricultural value chain (production to marketing), while for tertiary-level graduates, the sector today offers career opportunities in research, financial management, engineering, and other technical areas (even for graduates who did not directly study agriculture).

Investments in agriculture in rural areas could reduce rural-urban migration among youth. The absence of jobs in rural areas is a major cause for migration of youth to urban areas, where they seek nonagricultural jobs. The migration of young adults to cities can result in a shift in the age structure of the rural population toward older ages, with clear implications for labor markets, agricultural production, and food security. Meanwhile, youth in rural areas have few opportunities to add value to crops or to start agribusiness or agricultural entrepreneurial activities. They are limited by poor infrastructure, a lack of processing and storage facilities, weak cooperative groups, and poor access to markets and networking opportunities. As the sector that drives the rural economy in Ghana, agriculture needs to undergo massive transformation to create employment opportunities for youth.

Leveraging technology within the agriculture and agribusiness value chain could even further gains. As previously indicated, options for adopting technology within agriculture and agribusiness abound. These include input and production technologies for simple farm tools and equipment fabrication, improved seed technologies, greenhouse technology for urban agriculture, small-scale irrigation options for commercial farmers, and aquaculture technology for fish farming. Processing and packaging technologies are notably missing within the Ghanaian agribusiness environment. Other areas in which technology could be utilized are retail and services, construction, renewable energy, and waste management. By developing technology incubators, Ghana could bring on board research institutions to play a role in the transfer of knowledge and in ongoing research projects. Such technology hubs could include universities, vocational and technical schools, agricultural colleges and farms, universities, national and regional research centers, seed business development centers, incubators, hubs, and small and medium enterprise (SME) accelerators.

d. Leveraging Changes to Work through Technology to boost Job Creation and Productivity

Many opportunities exist along the technology value chain that could enhance youth employment

108. **Leveraging technology to boost productivity is a key tool for success.** Governments will need to provide an enabling environment for sectors and firms to thrive. Without this supply side approach to job creation, only limited gains can be made. Beyond reviewing and identifying high-potential sectors to support, facilitating technology adoption is essential: if used correctly, technology has the potential to benefit economic sectors (and improve job prospects) across the board.

109. **Fit-for-purpose solutions should take into account the rapidly changing nature of work, making it harder to address these challenges.** Varying and/or competing priorities can slow down decision making and lead to quick fixes which cannot sustainably address unemployment in general, and youth unemployment in particular. Given the evidence that suggests that in Ghana there is a need for more productive jobs while the nature of work is changing rapidly, technology adoption and ensuring rapid reskilling of workers will need to be at the heart of decision making.

110. **Technology adoption alone is not the solution, policy makers need to review opportunities within the entire technology value chain.** Research shows that mere introduction of technology may actually reduce jobs. As such, policy makers need to go beyond ensuring the adoption of technologies to first identifying effective uses of existing technologies and their ability to provide jobs, e.g., while Ghana

(and Africa) have appropriately adopted mobile money, there are other possible areas to explore within the value chain of mobile technology, such as manufacturing of mobile phones in Ghana, etc.; such exploration could identify areas where more jobs can be derived.

Annex 1. Additional macroeconomic data

Table A1. Fiscal Developments 2021-2024

Categories	2021 Budget	2021 Outt.	2022 Proj.	2023 Proj.	2024 Proj.
Total revenue and grants	**15.8**	**15.3**	**17.2**	**17.2**	**17.4**
o/w Oil Revenue	1.2	0.9	1.2	1.1	1.2
Taxes	12.2	12.3	13.4	13.9	14.2
Direct taxes	6.5	6.1	6.2	6.1	6.0
Indirect taxes	4.9	5.4	6.1	6.5	6.7
Trade taxes	1.4	1.5	1.7	2.1	2.1
Tax Refund	-0.7	-0.7	-0.6	-0.7	-0.6
Other revenue	3.3	2.7	3.6	3.1	3.1
Grants	0.3	0.3	0.2	0.1	0.04
Total expenditure (including Discrepancy and Arrears)	**24.8**	**24.5**	**26.1**	**24.5**	**24.4**
Compensation of employees	6.9	6.9	6.6	6.8	6.7
o/w Wages and salaries	5.8	6.4	5.6	5.4	5.2
Goods and services	1.9	1.6	1.4	1.6	1.9
Interest Payments	7.1	7.3	7.3	7.0	7.2
Domestic	5.5	5.8	5.6	5.4	5.7
Foreign	1.6	1.5	1.7	1.6	1.6
Subsidies[1]	0.1	0.0	0.1	0.1	0.1
Social transfers	0.0	0.0	0.0	0.0	0.0
Grants to Other Government Units	3.9	2.9	4.3	4.0	3.9
Other expense[2]	1.5	1.4	3.1	2.2	2.1
o/w ESLA Transfers	0.6	0.6	0.8	0.7	0.7
Net acquisition of nonfinancial assets[4]	2.7	3.7	3.0	2.6	2.3
Domestic financing	0.9	1.2	1.4	1.4	1.3
Foreign financing	1.8	2.5	1.6	1.2	1.0
Arrears Clearance	0.8	0.8	0.3	0.2	0.2
Discrepancy	0.0	0.1	0.0	0.0	0.0
Headline Balance (excl. financial/energy sector cost), incl discp and arrears)	**-9.0**	**-9.2**	**-8.9**	**-7.3**	**-7.1**
Overall Balance (incl. financial/energy sector cost) incl discp and arrears)	**-11.6**	**-11.4**	**-8.9**	**-7.3**	**-7.1**
Financing	**9.0**	**9.2**	**-8.9**	**7.3**	**7.1**
External Financing (Net)	3.5	4.4	1.9	-0.3	0.6
Borrowing	6.8	7.2	3.4	1.2	2.3
o/w Project loans	1.4	2.3	1.6	1.3	1.1
o/w Commercial borrowing	-3.3	-2.8	-1.4	-1.5	-1.6
Amortization	-3.3	-2.8	-1.4	-1.5	-1.6
Exceptional financing (IMF, World Bank)	0.0	0.4	0.9	0.0	0.0
Domestic (Net)	5.8	4.8	-11.5	7.6	6.5
o/w Bank of Ghana	0.0	-0.4	0.0	0.0	0.0
o/w Deposit Money Banks	4.1	1.5	-14.4	4.9	1.6
Nonbanks	1.5	3.7	2.7	2.5	4.7
Other Domestic	0.2	0.0	0.1	0.2	0.2
Financial Sector and Energy sector related Borrowing	3.1	2.0	2.0	0.0	0.0
Others	-0.2	-0.3	-0.2	-0.1	-0.1
Memorandum items:					
Prim. Balance (excl. financial/energy sector cost)	-1.9	-1.9	-1.6	-0.3	0.2
Prim. Balance (incl. financial/energy sector cost)	-4.5	-4.1	-1.6	-0.3	0.2
Prim. Balance (excl. financial/energy sector cost and oil revenue)	-3.1	-2.8	-2.8	-1.4	-1.0
Prim. Balance (incl. financial/energy sector cost, excl oil revenue)	-5.7	-5.0	-2.8	-1.4	-1.0

Source Ministry of Finance, IMF and World Bank Staff calculations

Table A2. Non-Performing Loans, 2020-2022

	Feb-20		Feb-21		Dec-21		Feb-22	
	Share in Total Credit	Share in NPLs	Share in Total Credit	Share in NPLs	Share in Total Credit	Share in NPLs	Share in Total Credit	Share in NPLs
a. Public Sector	**12.3**	**2.9**	**9.1**	**1.9**	**10.0**	**4.0**	**10.1**	**4.5**
i. Government	5.6	0.2	3.7	0.5	5.2	1.9	5.1	1.9
ii. Public Institutions	2.6	0.2	2.6	0.0	1.9	0.0	1.9	0.0
iii. Public Enterprises	4.0	2.5	2.8	1.4	2.9	2.1	3.1	2.5
b. private Sector	**87.7**	**97.1**	**90.9**	**98.1**	**90.0**	**96.0**	**89.9**	**95.5**
i. Private Enterprises	65.7	82.7	66.5	87.9	64.4	86.5	65.5	86.5
o/w Foreign	7.9	9.2	8.7	4.1	9.1	9.2	9.1	8.6
o/w Indigenous	57.8	73.6	57.9	83.8	55.3	77.2	56.4	78.0
ii. Household	19.4	8.5	21.6	8.6	22.9	7.9	21.8	7.4
iii. Others	2.6	5.9	2.7	1.6	2.7	1.6	2.6	1.6

Source Bank of Ghana

Table A3. Ghana: Balance of Payments (BoP) in Millions of United States Dollars 2018-2021

	2017	2018	2019	2020	2021
	Amounts in millions of U.S. dollars, unless otherwise specified				
Current account balance	**-2,003**	**-2,044**	**-1,864**	**-2,134**	**-2,541**
Trade balance	**1,187**	**1,809**	**2,257**	**2,043**	**1,099**
Exports, f.o.b.	**13,835**	**14,943**	**15,668**	**14,472**	**14,727**
Cocoa beans & products	2,661	2,180	2,288	2,328	2,839
Gold	5,786	5,436	6,230	6,799	5,083
Crude oil	3,115	4,573	4,493	2,911	3,948
Other exports (Incl. non-traditional)	2,272	2,754	2,656	2,434	2,291
Imports, f.o.b.	**-12,648**	**-13,134**	**-13,411**	**-12,429**	**-13,629**
Non-oil	-10,656	-10,553	-10,990	-10,538	-10,909
Oil & gas	-1,992	-2,581	-2,420	-1,891	-2,719
Services: net	**-2,873**	**-2,514**	**-3,573**	**-4,511**	**-3,165**
Inflows	6,602	7,572	9,925	7,606	9,174
outflows	-9,475	-10,086	-13,498	-12,117	-12,338
Investment income: net	**-2,741**	**-3,922**	**-3,952**	**-3,399**	**-3,831**
Inflows	309	598	483	738	719
outflows	-3,050	-4,520	-4,435	-4,137	-4,550
interest on public debt	*-1,131*	*-1,404*	*-1,489*	*-1,676*	-2,072
profits & dividends	*-1,813*	*-3,116*	*-2,946*	*-2,461*	-2,478
Current Transfers: net	**2,424**	**2,583**	**3,404**	**3,733**	**3,355**
Official transfers: net	0	19	18	168	0
Private individual transfers: net	2,424	2,564	3,386	3,565	3,355
Capital & financial account: net	**3,016**	**1,500**	**3,068**	**2,887**	**3,304**
Capital account: net	**242**	**258**	**257**	**250**	**204**
of which: capital transfers: net	*242*	*258*	*257*	*250*	203
Financial account: net	**2,774**	**1,243**	**2,811**	**2,637**	**3,100**
Foreign direct investments: net	**3,239**	**2,908**	**3,292**	**1,333**	**2,414**
Portfolio investments: net	**2,536**	**929**	**2,298**	**1,561**	**2,069**
Financial derivatives: net	**-1,010**	**1,493**	**-86**	**330**	**-32**
Inflows	17,012	13,018	4,169	1,886	2,465
outflows	-18,021	-11,525	-4,255	-1,556	-2,497
Other investment: net	**-1,992**	**-4,088**	**-2,693**	**-587**	**-1,352**
Medium & long term: net	-1,189	-4,247	-3,216	-788	-2,085
Official capital: net	-112	-449	-389	1,308	-68
Government oil investment: net	-170	-153	-80	141	-113
Loans: net	58	-296	-309	1,167	44
Disbursements	969	611	1,027	2,191	1,401
Amortization	-911	-907	-1,336	-1,024	-1,357
Other private capital: net	-1,076	-3,798	-2,827	-2,096	-2,017
Loan: net	-822	-2,403	-980	-1,403	-1,572
Inflows	6,594	1,025	1,992	1,918	1,726
outflows	-7,416	-3,428	-2,972	-3,322	-3,297
Others (currency & *deposits, other equity)*: net	-254	-1,395	-1,847	-693	-445
Inflows	3,904	998	4,782	5,304	7,096
outflows	-4,158	-2,393	-6,629	-5,996	-7,541
Short-term capital: net	-803	159	522	201	733
Non-monetary: net	-530	-336	412	248	-167
Monetary: net	-273	496	110	-47	900
Errors & omission: net	***78***	***-128***	***137***	***-376***	**-252**
Overall balance	**1,091**	**-672**	**1,341**	**377**	**510**
Financing	**-1,091**	**672**	**-1,341**	**-377**	**-510**
Changes in net intern., reserve assets (-, incr.)	*-1,091*	*672*	*-1,341*	*-377*	-510
			Memorandum items:		
Percent of GDP					
Current account	-3.4	-3	-2.7	-3	-3.4
Trade balance	2	2.7	3.3	2.9	1.5
Exports of goods & services	34.7	33.5	37.4	31.5	32.2
Imports of goods & services	-37.6	-34.5	-39.4	-35.1	-35
Official current transfers	0	0	0	0.2	0
Capital & financial account	5.1	2.2	4.5	4.1	4.5
FDI	5.5	4.3	4.8	1.9	3.3
Remittances	4.1	3.8	5	5.1	4.5

Overall balance	1.9	-1	2	0.5	0.7
Nominal GDP, in millions of U.S. dollars	58,844.90	67,264.00	68,337.50	70,029.40	74,179.40

Sour8ce: Bank of Ghana:

Notre: 2022 GDP is the new GDP

Box: Additional Measures by the Government to Ensure 2022 Fiscal Measures are met

Following a Cabinet retreat the Minister of Finance announced measures to "address the economic difficulties being faced due mainly to recent global and domestic events" and "ensure the achievement of the fiscal deficit target of 7.4% of GDP:

1) Expenditure measures

- Discretionary spending to be further cut by an additional 10% (on top of the earlier 20% cut) for the rest of the three quarters.
- 50% cut in fuel coupon allocations for all political appointees and Heads of government institutions, including SOEs, effective 1st April 2022;
- Complete moratorium on the purchase of imported vehicles for the rest of the year.
- Moratorium on all foreign travels, except pre-approved critical/statutory travels;
- Reduce expenditure on all meetings and conferences by 50%;
- Conclude on-going measures to eliminate "ghost" workers from the Government payroll by end December 2022;
- Conclude the renegotiation of the Energy Sector IPPs capacity charges by end of Q3-2022 to generate a total savings of GHS1.5 billion;
- Moratorium on establishment of new public sector institutions by end April, 2022;
- Prioritize ongoing public projects over new projects.
- Ministers and the Heads of SOEs to contribute 30 percent of their salaries from April to December 2022 to the Consolidated Fund;
- Pursue a comprehensive re-profiling strategies to reduce the interest expense burden
- Liaise with Organized Labor and Employers Association to implement with immediate effect, the measures captured in the Kwahu Declaration of the 2022 National Labor Conference, including reforms towards addressing salary inequities / inequalities (e.g. Article 71 Office Holders).

2) Revenue measures

- Begin the implementation and collection of the revised Property Rate by end of April 2022;
- Implement the E-VAT/E-Commerce/E-Gaming initiatives by end of April 2022;
- Roll out the simplified tax filing mobile application for all eligible taxpayers by July 2022;
- Impress upon Parliament to fast track the passage of the Tax Exemptions Bill, and Fees and Charges Bill;
- Prioritize the Revenue Assurance, Compliance, and Enforcement (RACE) Program to plug revenue leakages especially at the ports and "the infamous fuel bunkering and small-scale mining exporters cabal" (sic);
- government will partner the private sector to introduce digital systems to monitor quarrying, sand winning and salt winning to get more revenues from our natural resources; and
- immediately enforce the "No Duty – No Exit" policy at the MPS Terminal at the Tema Port to improve revenue collection.

3) Fuel price mitigation measures

The government has decided to reduce margins in the "petroleum price build-up" by a total of 15 pesewas per liter with effect from 1st April.

- BOST margin reduced by 2 pesewas per liter
- Unified Petroleum Pricing Fund (UPPF) margin reduced by 9 pesewas per liter
- Fuel Marking Margin (FMM) reduced by 1 pesewa per liter
- Primary Distribution Margin (PDM) reduced by 3 pesewas per liter

4) Exchange rate support

- GoG to conclude external financing arrangement of up to US$2 billion in the next 2-6 weeks in line with approved external financing for 2022 and for liability management.
- MoF will work with the Central Bank to review the foreign exchange retention policy to ensure multinational companies in the extractive sectors retain foreign exchange earnings, from the sale of our resources, in the country

Source: Ministry of Finance

Annex 2. War in Ukraine: Transmission Channels, Impact, and Policy Response

Ghana is exposed to the ongoing war in Ukraine mainly through its impact on global commodity and food prices; the country could benefit from higher oil gold prices. Higher oil and other commodity prices could propel Ghana's current account and growth. In 2022, thanks to higher oil and gold prices which jointly account for just over 60 percent of Ghana's exports, the current account deficit will reach 4 percent of GDP, marginally above 3.4 percent of GDP in 2021. A sustained rise in oil prices should boost oil related FDI in Ghana and could underpin growth in 2022 and 2023.

A shutdown of direct trade relations with Russia would have a significant impact on the price of bread and fertilizer and hurt households. According to BACI data for 2019 about 0.9 percent of Ghana's imports come from Russia. Despite accounting for a small overall share of imports, Russia is a major source of wheat, with 20 percent of Ghana's wheat imports, and of rice, with 7 percent of Ghana's rice imports. A total shut down of trade from Russia would have a significant impact on wheat prices. Bread is one of the most popular, accessible, and affordable sources of food in every Ghanaian home: according to the USDA, per capita consumption of wheat in Ghana is estimated at about 20 kg/year, with about 80 percent of wheat flour used for bread making. Fertilizer prices are likely to increase due to supply disruptions, further rise in crude oil and reductions in shipments from Russia. Currently, there are several Government of Ghana flagship programs in the agriculture sector which depend heavily on fertilizer availability for improved output, and a disruption in trade would likely impact the agriculture sector negatively. On the export side, a trade shut down with Russia would likely have a minor impact as the Russian market is the destination for less than 0.3 percent of Ghana's exports (a lot of it being Cocoa related products and other foodstuffs).

A further boost from surging energy prices could de-anchor inflation expectations in a context of elevated inflation (23.6 percent at end April 2022) and prompt the Central Bank to tighten monetary policy more rapidly than expected. Inflationary impact from higher oil prices is very strong in Ghana as there is almost an immediate pass-through effect on transport costs, food prices, inputs for industry, among others. Ghana is also experiencing a degree of 'imported inflation', as the Ghana cedi depreciated against the dollar since July. Rising inflation also has a shrinking impact on growth. For instance, based on the Ghana's Purchasing Managers' Index (PMI), inflationary pressures have had detrimental impact on the economy's private sector in February 2022 and continued to April 2022. Customers' demand has weakened amid rising inflation, as output and purchasing activities decreased. Input prices, including staff costs, have also risen sharply, resulting in increasing products prices and business activities have decreased for the second consecutive month. As a result, producer price for April 2022 increase to 31.2 percent year-on-year from 16.8 percent at the beginning of 2022. Increases in prices of petroleum products and LPG will primarily impact the poor, who could revert to using wood and charcoal fuel. Not only would prices at the pumps rise, but an increase in price on oil and natural gas would drive up the cost of electricity.

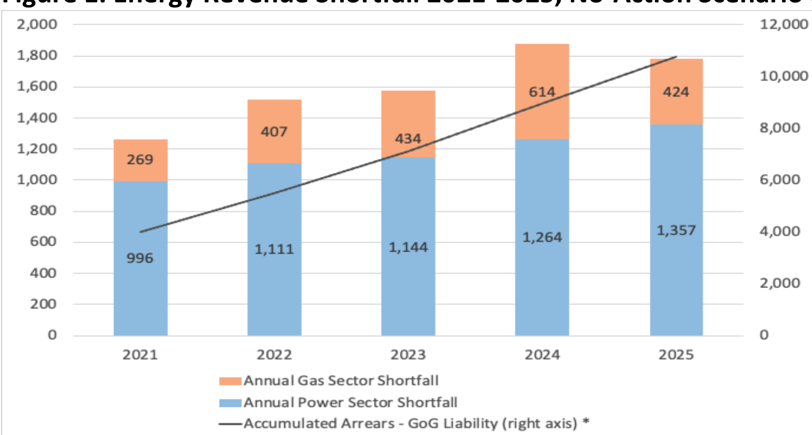
The impact on public finances is mixed as higher commodity prices would mean more oil revenue but other impacts, through inflation and government subsidies, may take away the gains. Ghana is a net exporter of crude oil and refined fuel and stands to benefit from rising international oil prices, which would also imply higher government receipts. However, higher oil prices have already began a sharp increase in petroleum products in Ghana. Thus, any improvement in the fiscal accounts could partially be eroded should Ghana introduce fuel subsidies or cut taxes due to rising prices.

Annex 3. Ghana's Energy Sector Operational and Financial Challenges, and their Fiscal Impact

The energy sector has become a fiscal liability costing Government between 1-2 percent of GDP annually due to sector revenues being consistently below costs. A combination of electricity underpricing, poor performance of distribution companies, excess power generation capacity and excess gas supply contracts has resulted in an accumulation of sector arrears (legacy arrears) totaling about $2.3 billion as at the end of 2020, equivalent to about 3.2 percent of GDP. If no corrective actions are taken, it is projected that these arrears could reach over $10 billion by the end of 2024.

Electricity tariffs of $0.12, although amongst the highest in the region, cover only 70 percent of the costs rendering sector utilities commercially unviable. This has affected the gas sector as utilities are unable to mobilize enough revenues to pay for fuel costs. Thus, since 2020 there has already been three drawdowns on the IDA-backed Letter of Credit for the Sankofa Gas Project. These challenges in the sector have compromised the commercial viability and lending credibility of energy sector utilities, raising concerns about the operational sustainability of the sector and the large transfer of fiscal revenues to it. In 2019 and 2020, GoG paid $1.2 billion and $1.4 billion, respectively, to the energy sector, and a similar call on the Government budget in 2022 is expected (see Figure 1).

Figure 1. Energy Revenue Shortfall 2021-2025, No-Action Scenario (US$ million)



Source: World Bank estimates

In 2019, GoG launched the Energy Sector Recovery Program (ESRP) to serve as a roadmap to restore and sustain governance and financial viability of the energy sector and attract competitive private sector investments. The three primary objectives of the ESRP are: (a) full restoration of the financial and commercial viability of the sector; (b) curtailment of further accumulation of sector arrears; and (c) payment of outstanding sector arrears. Under the ESRP, the GoG has committed about 1 percent of GDP (around US$700 million) from the annual budget in the coming years to close the projected financial gap in the sector. It has also earmarked US$1 billion from the 2020 Eurobond issuance to rationalize the costs of Power Purchas Agreements and lower IPP capacity charges. Key actions of the ESRP would help reduce the power sector revenue shortfall (GoG liabilities) by about $3 billion from 2021 to 2025. Critical actions include: (i) the renegotiation of Power Purchase Agreements to reduce power generation costs; (ii) private sector participation in the operations of the distribution utilities to reduce energy losses and improve collections; and (iii) tariff reforms to ensure full cost recovery and full payment of streetlighting costs. GoG has also established a moratorium on any financial guarantees for new power plants until the current excess capacity situation is over and will follow least cost power expansion plans to determine the time and type of new power plant to be procured competitively. Ghana is a key stakeholder of the West African Power Pool and a net exporter in the ECOWAS Region. It could increase the export of power through its under-utilized power plants. Compliance with the ECOWAS Regional Trade Directive and implementation of infrastructure investments in the coming years will enable Ghana to increase power exports, helping to improve the financial situation of the sector. The government is also re-negotiating the terms of existing Power Purchase Agreements and laying out a plan to increase the utility's performance and reduce losses. To catalyze these efforts, the WB is preparing a US$250 million Program-for-Results operation, with co-financing of EUR50 million from KfW.

Private sector engagement in the energy sector over the long term could help improve efficiency in the sector. There have previously been substantial private sector investments in the power sector, however these were poorly coordinated and resulted in excess capacity far exceeding the country's peak demand of about 3 GW. Private sector involvement in the distribution utility was also short-lived. The main utility, ECG, signed a concession agreement with Power Distribution Services (PDS) Limited in April 2019 with the main objective to improve operational and financial performance and reduce electricity losses., Government terminated the contract in October 2019 alleging fraudulent payment security. Since then, the government has expressed the willingness to consider private sector participation (PSP) in the ECG and the WBG has signaled its commitment to assist the government in Ghana's quest to improve the needed efficiency in the sector through PSP. More generally, without financial equilibrium Ghana will find it challenging to engage private sector investment in generation, especially in renewable energies, thus advancing the clean energy transition and decarbonization of the power sector that Government aims for through utility-scale solar power plants and distributed solar systems. Going forward, attracting further private sector investment will require enhanced governance of the sector as set out in the ESRP.

Annex 4. Mapping of Youth employment stakeholders

Ministries, Departments, Agencies and Programs within the Youth Employment Sector of Ghana

The roles and responsibilities of key institutions working in the employment sector in Ghana are summarized below:

Ministries

- **Ministry of Employment and Labour Relations (MELR)** – in addition to its overarching role of coordinating employment, the MELR also provides labor market information in close collaboration with the Ghana Statistical Service and other labor organizations to enable up-to-date relevant data needed for policy research, planning and formulation purposes. The ministry also has a leading role in creating an enabling environment for job creation.
- **Ministry of Youth and Sports** (**MoYS**) – has oversight responsibility for youth development policies and their implementation.
- **Ministry of Education (MoE)** – has oversight responsibility for education sector policies and all TVET policies and program implementation.
- **Ministry of Finance (MoF)**- ensures that budget guidelines to the various sectors contain adequate information to encourage sectors to formulate employment centered growth strategies. The ministry also ensures budget statements provide favorable environments and adequate incentives for the private sector to invest in sub-sectors with high potential for employment generation.
- **Ministry of Local Government and Rural Development (MLGRD)** - ensures that development activities and investments of the MMDAs take account of productive employment and income generation through creating favorable business environments for able-bodied poor people, for example through the Labor-intensive Public Works and productive inclusion initiatives. The ministry is also responsible for implementing job and employment programs in line with the existing local government structures.
- **Ministry of Food and Agriculture (MoFA) –** designs programs with right incentives for the private sector to invest in large scale agriculture initiatives and ensure that policies and programs attract the youth to seek long term employment in the sector.
- **Ministry of Gender, Children and Social Protection (MoGCSP) -** ensures that beneficiaries of social assistance programs who have productive capacity are linked with labor market policy interventions.
- **Ministry of Trade and Industry –** ensures effective trade and industrial development for national development and responsible for formulating policies that facilitate enterprise development including Micro, Small and Medium Enterprises (MSMEs).
- **Ministry of Business Development** – this is a new ministry created in 2017 to promote a favorable business environment and to support the activities of the private sector, including a focus on youth entrepreneurship.

Coordinating Agencies

- **National Development Planning Commission**- responsible for national development planning and ensuring that the long-term development goal of the National Employment Policy is adequately integrated into medium and long-term development plans of the country.
- **Ghana Statistical Service (GSS)** – provides labor statistics and undertakes periodic surveys on labor force and employment in both the formal and informal sectors of the national economy.

Other public Institutions

- **Microfinance and Small Loans Centre (MASLOC)**- Provides financial and non-financial assistance such as credit, market information and other business advisory and extension services to MSMEs.

Stakeholder Groups

- **National Employment Coordinating Council (NECC)**- expected to assist the MELR and its technical Departments and Agencies to implement the National Employment Policy
- **Employment Sector Working Group**- comprises representatives of development partners, private sector actors and representatives of key implementing ministries. It promotes the ministry's coordinating role to engage ministries, departments and agencies working on the jobs agenda.

Main on-going government-led programs and institutions established to address youth unemployment (both short term and long term) include:

- Youth Employment Agency (YEA)
- National Vocational Training Institute (NVTI)
- Opportunities Industrialization Centre Ghana (OICG)
- Youth Leadership and Skills Training Institute National Youth Authority (NYA)
- Youth in Agriculture Programme (YIAP)
- National Entrepreneurship Innovation Programme (NEIP)
- Rural Enterprises Programme (REP)
- National Service Scheme (NSS)
- Nation Builders Corps (NABCO)

Annex 5. Youth categories and their characteristics, Ghana

Uneducated youth in rural areas	Uneducated youth in urban areas	Educated youth (secondary) in rural areas	Educated youth (secondary) in urban areas	Educated youth (tertiary) in rural areas	Educated youth (tertiary) in urban areas
• Constitute 21 percent of youth population in rural areas • Have insufficient access to quality education and decent livelihoods • Are mostly poor because of their location • Tend to be self-employed and work in agriculture (mostly subsistence farming) or are farm hands employed by large farms • see inteternal urban migration as a viable option for success	• Constitute 10.6 percent of youth in urban areas • Often find work in street vending • Put less focus on farm activities • Tend to work in the service and private wage sectors	• Constitute 71.3 percent of youth in rural areas • Are not attracted to subsistence agriculture, but more likely to work ihn agribusiness • Have limited opportunities to start agribusiness ventures or add value to crops • Are limited by poor infrastructure, lack of processing and storage facilities, weak cooperatives, and lack of market access • Tend to migrate to urban areas to seek better jobs	• Constitute 71.3 percent of youth in urban areas • Tend to engage in menial jobs and be active in the informal sector	• Constitute 2.7 percent of youth in rural areas • More males (5.4 percent) than females (2.6 percent) • Likely to take on formal sector jobs in the rural areas • Very likely to opt for jobs in urban areas	• Constitute 8.6 percent of youth in urban areas • More males (5.4 percent) than females (2.6 percent) • Have capacity to develop enterprises in productive sectors • Tend to take on formal jobs (mostly viewed as successful upon completion of education • Generally lack access to captial and markets for scaling up their small businesses

Sources: **Compiled from the Ghana Labour Force Survey Report 2015 and Ghana Living Standards Survey (GLSS) 7 Report 2018, as well as stakeholder engagements.**

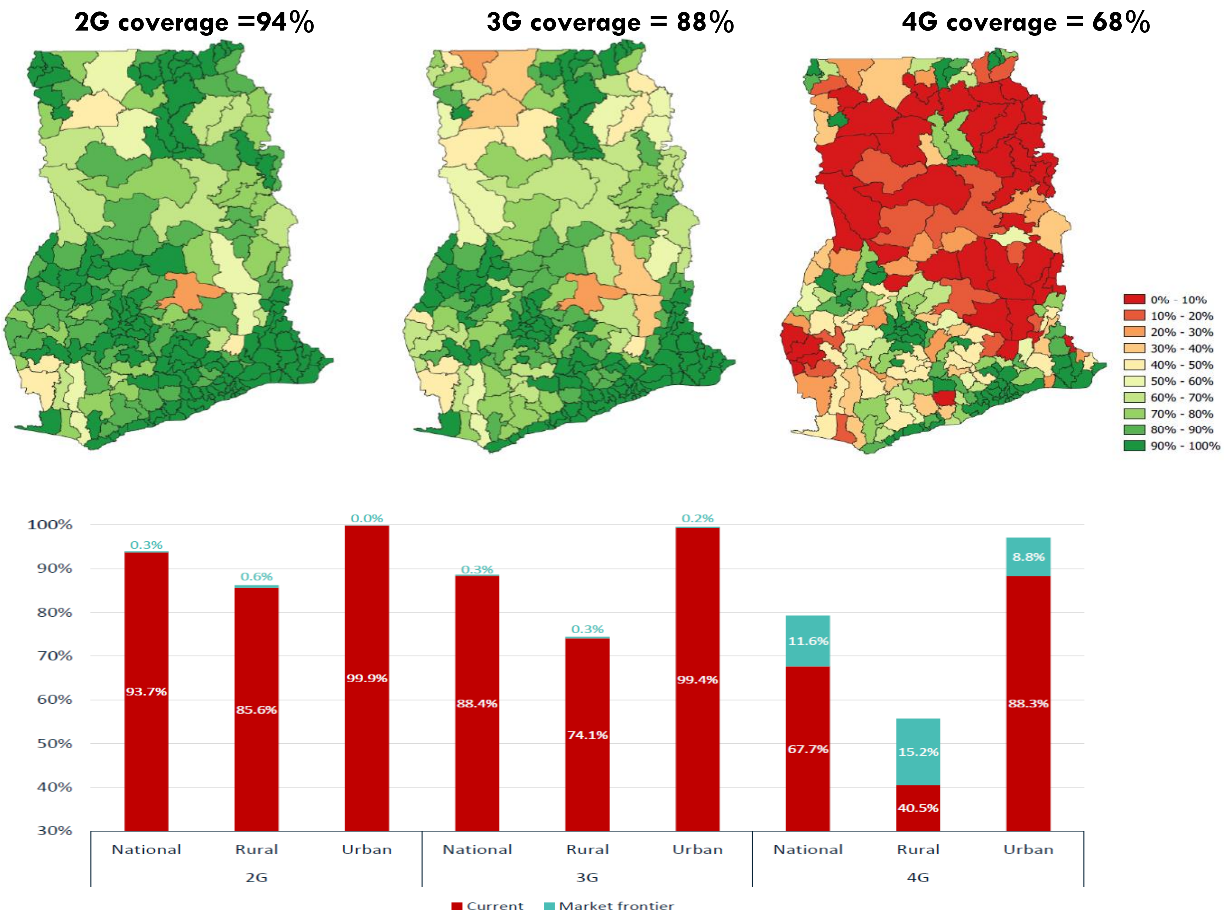
Note: Youth are persons aged 15–35. The total youth population based on the GLSS 7 report is estimated at 34.2 percent, or approximately 9.7 million of the estimated population of 28 million. In the GLSS 7 report, Ghana reported the "relaxed" version of unemployment, which defines a person as unemployed if “he/she was not engaged in any work, had no attachment to a job or business and was 'potentially' available for jobs.” "Uneducated" refers to persons with no education up to primary education. "Secondary" includes persons with up to a junior high school, middle school, senior high school, or secondary education (see). "Tertiary" includes persons with a university (bachelor or postgraduate) degree. "Educated" refers to persons with a secondary or higher education. Youth with up to a university education constitute 80.9 percent of youth in urban areas and 19.1 percent in rural areas. Rural areas are home to 45.5 percent of the youth population, and the rural youth unemployment rate is estimated at 12.6 percent. Urban areas are home to 54.3 percent of the youth population, and the urban youth unemployment rate is 15.8 percent.

Annex 6. Details on mobile coverage

FIGURE A3.1

In Ghana 2G and 3G mobile internet coverage is high, while 4G is more limited, particularly in rural areas

Share of population with mobile internet coverage by type



Source. (adapted from World Bank, Ghana Rising, 2021CEM) GSMA analysis of data sourced from mobile operators, GSMA Intelligence, Center for International Earth Science Information Network (CIESIN), household survey data and Earth Observations Group. Coverage is calculated based on site data provided either in 2019 Q4 or 2020 Q1 and so may have since increased.