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IFS' Assessment of the Government of Ghana's Fiscal Consolidation Efforts in the Face of the Rapidly Deteriorating Macroeconomic Environment

1. Introduction

Finance Minister Ken Ofori-Atta presented the mid-year review of the 2022 budget statement to Parliament on Monday, July 25, 2022. As expected, the review contained revisions to the 2022 macroeconomic forecasts, in light of economic developments since the 2022 budget was announced in November last year. More importantly, it revised the 2022 fiscal projections to take account of budgetary outcomes in the first half of the year, aimed at putting Ghana on a fiscal consolidation path, as a means of addressing the rising macroeconomic instability the country is currently witnessing.

Having registered large fiscal deficits in the past decade, which reached its peak in 2020 with an unprecedented deficit of 14.7% of GDP, and thus sharply increasing the country's debt stock and debt service costs, thereby creating enormous budgetary difficulties, the government of Ghana naturally aimed at achieving fiscal consolidation in the original 2022 budget. However, after assessing the 2022 budget statement presented to Parliament in November 2021, IFS concluded that the budget lacked credibility, as the revenue target was overoptimistic and unlikely to be met, which called into question the credibility of the expenditure program and the envisaged fiscal consolidation, since the consolidation plan in the 2022 budget was entirely revenue-based. Against this backdrop, we are going to review the 2022 mid-year budget statement and assess the government's renewed efforts at fiscal consolidation, which aim at addressing the rising macroeconomic instability, taking into account the fundamental causes of the macroeconomic instability. Before we do this, however, let us first briefly discuss macroeconomic developments during the first seven months of 2022.

2. Macroeconomic Developments in the First Seven Months of 2022

Ghana's economic situation has deteriorated drastically in the first seven months of the year. Over the period, the macroeconomy has become highly unstable, with all the key indicators worsening at rapid rates. Consequently, the execution of the 2022 budget has not gone to plan, with the fiscal position in the first half of the year turning out worse than the government projected.

First, the relative price stability the country has enjoyed in the past few years has disappeared, as year-on-year consumer price inflation rate, which averaged, for example, 9.9% and 10.0% in 2020 and 2021 respectively, stood at 13.9% in January 2022. It increased to 19.4% in March, and further to as high as 31.7% in July 2022. The July rate is the highest rate of inflation recorded in Ghana since November 2003 (i.e., a period of more than 18 years). Partly driving the surge in inflation is a sharp depreciation of the exchange rate since the beginning of 2022. From January to the end of July 2022, the interbank exchange rate of the cedi against the US dollar depreciated by 21.1%, compared with a depreciation of only 0.7% in the same period of 2021. The forex-bureau exchange rate of the cedi against the US dollar depreciated by as high as 27.3% from the beginning of January to the end of July 2022. Interest rates have also increased sharply, reflecting the soaring inflation and tightening of monetary policy by the central bank. Both the 91- and 182-

day Treasury bill rates—the principal indicators of the government's short-term borrowing costs—have more than doubled in the first seven months of the year, rising from 12.51% and 13.19% to 26.34% and 28.06%, respectively. Similarly, the daily interbank interest rate jumped from 12.70% to 21.87% in the period, while the average commercial bank lending rate rose from 20.04% to 24.27% from January to June this year.

The external payments position has also worsened considerably, fueling the rapid exchange rate depreciation and inflation rates. Although the economy recorded a trade surplus of US$1.44 billion (2% of GDP) in the first half of the year, both the current account and the capital and financial account positions worsened, plunging the overall balance of payments into a large deficit position. Compared to a deficit of US$761.8 million (1% of GDP) in the first half of 2021, the current account saw a deficit of US$1.09 billion (1.5% of GDP) in the first half of 2022. The capital and financial account balance also deteriorated from a surplus of US$3.01 billion (3.8% of GDP) to a deficit of US$1.29 billion (1.8% of GDP) in the same period. With these developments, the overall balance of payments declined sharply from a surplus of US$2.37 billion (3% of GDP) in the first half of 2021 to a deficit of US$2.50 billion (3.5% of GDP) in the first half of 2022. The deficit caused gross international reserves to fall from US$9.70 billion (4.3 months of imports) at the end of 2021 to US$7.68 billion (3.4 months of imports) at the end of June 2022. In fact, net international reserves decreased by as high as 41.1% from US$6.08 billion to only US$3.58 billion in the same period.

On the back of these unfavorable developments, the pace of economic activity has begun to slow down. Overall real GDP growth on year-on-year basis, which stood at 3.6% in the first quarter of 2021, fell to 3.3% in the first quarter of 2022. Non-oil real GDP growth declined at a faster pace, as it fell from 5.3% in the first quarter of 2021 to 3.7% in the first quarter of 2022. Other indicators of economic activity, such as the Bank of Ghana's Composite Index of Economic Activity (CIEA) and the IHS Markit Ghana Purchasing Managers Index (PMI), also show weakening real sector performance in the first half of the year.

Seeing that the macroeconomic instability was getting out of hand, while the attempt at fiscal consolidation in the 2022 budget was not yielding satisfactory outcomes, the government, on July 1, 2022, announced a decision to engage the International Monetary Fund (IMF) "to support an economic program put together by the Government of Ghana."

3. Review of the 2022 Mid-Year Budget

3.1 Revenue

As stated earlier, in our review of the 2022 budget statement, we argued that the 2022 budget's total revenue and grants target of GH¢100.52 billion was unrealistic, as it had been over-projected. We therefore recommended that the government should correct the over-projection in the mid-year review budget. While this appears to have been done in the mid-year budget, as the projected total revenue and grants for 2022 has now been revised downwards by 3.7% to GH¢96.84 billion, we see that this revised revenue is still overoptimistic.

To begin with, total revenue and grants for the first half of 2022 underperformed its target of GH¢43.42 billion by as much as GH¢5.61 billion, or 12.9%. Yet, based on the revised revenue target of GH¢96.84 billion for the entire year of 2022, the government now plans to raise GH¢59.03 billion in the second half of the year, which is GH¢1.94 billion (or 3.4%) more than the GH¢57.09 billion it originally budgeted to raise in the second half. We consider this unfeasible because (i) there is no significant change in revenue policy in the second half of the year to help the government to exceed its initial target by such a large amount, given, again, that it missed its target in the first half of the year by GH¢5.61 billion; (ii) the expected yields from key 2022 revenue measures, such as the e-levy and increased fees and charges, will not have a significant impact on revenue, as they have been cut drastically due to implementation challenges and delayed roll-outs; and (iii) the projected higher oil revenue, which is driven by higher oil prices, will not alone be sufficient to lift revenue above the original target in the second half, just as it was unable to cover the shortfalls in the other sources of revenue in the first half.

3.2 Expenditure

Against the backdrop of the downward revision of total revenue and grants for 2022 by **3.7%** and the high likelihood that even the revised total revenue and grants target cannot be fully obtained, the government has revised expenditure for 2022 downwards by only **1.3%** or GH¢1.79 billion, despite the government's proclaimed policy of fiscal consolidation, in the face of the rapidly increasing macroeconomic instability. Total expenditure (including arrears payment) for 2022 is now estimated at GH¢135.74 billion, compared with the original budget target of GH¢137.53 billion.

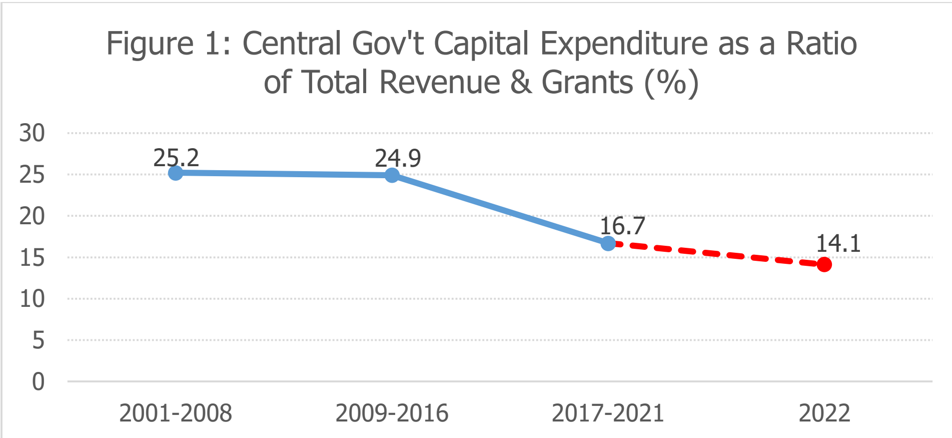
3.3 The Revised Budget Balance

The revisions made to revenues and expenditures have resulted in the overall budget deficit for 2022 increasing by GHȻ1.9 billion or 5.1% to GHȻ38.9 billion from the initial budget target of GHȻ37.0 billion. However, because GDP has now been projected upwards by as large as GHȻ89.5 billion or 17.8% to GHȻ591.9 billion against the initial target of GHȻ502.4 billion, due to higher inflation, the projected deficit to GDP ratio has gone down by 0.8 percentage points to 6.6%.

4. Assessment of the Government's Fiscal Consolidation Efforts

To start with, we see that the government is only picking the low-hanging fruits in terms of expenditure cuts for the purpose of fiscal consolidation, since it is only goods and services (from GH¢9.15 billion to GH¢5.87 billion) and capital expenditure (from GH¢16.40 billion to GH¢13.70 billion) that have been subjected to significant expenditure cuts. These are the low hanging-fruits because goods and services and capital expenditure are not among the biggest expenditure items and thus carry little weights in total expenditure, though they are the easiest to cut.

It should, however, be noted that capital expenditure has already declined sharply as a proportion of total revenue and grants in recent years. Therefore, subjecting capital expenditure to further cuts endangers the economic health of the country. This is because cuts in capital expenditure have the effect of undermining the country's ability to close the infrastructure deficits and to enhance economic growth and job creation. In fact, if implemented, the cut will drive capital expenditure down to an even lower ratio of total revenue and grants than before. As Figure 1 below shows, the average ratio of central government capital expenditure to total revenue and grants, which stood at 25.2% in 2001–2008 and 24.9% in 2009–2016, declined sharply to 16.7% in 2017–2021. Based on the revised 2022 projections, the ratio will fall further to only 14.1%.



Aside the issue of misdirecting expenditure cuts to capital expenditure as one of the low-hanging fruits, overall, the government's fiscal consolidation efforts are weak, despite the rapidly increasing macroeconomic instability, which calls for a strong and bold fiscal consolidation strategy. Why would the government review total expenditure downwards by only **1.3%** despite revising total revenue and grants downwards by **3.7%**? In fact, compensation of employees and interest payment, the two biggest and most problematic budgetary expenditure items, have rather been revised upwards by 5.9% and 10.5% to GH¢37.95 billion and GH¢41.36 billion, respectively. What makes the government's fiscal consolidation efforts more troubling is that, as pointed out earlier, the revised revenue, the main driver of the government's fiscal consolidation strategy, is unrealistic, since, again, it is not adequately supported by strong revenue mobilization policies. Simply put, the government's fiscal consolidation strategy is weak because it is based on weak and poor expenditure realignment and unrealistic revenue projection.

The weak nature of the government's fiscal consolidation strategy shows that the government is not giving fiscal consolidation the critical attention it deserves. Yet, if a strong, honest and more impactful fiscal consolidation strategy is not adopted and implemented quickly, the macroeconomic instability currently being witnessed can undo the economic gains the country has made since it graduated from the HIPC and MDRI debt relief initiatives in the mid-2000s.

The question is, why is the government pursuing such a weak fiscal consolidation strategy in the face of the rapidly rising macroeconomic instability in the country? We believe that this stems from the fact that the government has wrongly diagnosed the main cause of the instability. The government believes that the fast deteriorating macro environment in Ghana has been mainly caused by the developments in the global arena. According to the government, "*in February 2022 Russia invaded Ukraine, a situation that worsened the already weakened global supply chains* [due to COVID 19]*, exacerbated by high financing conditions, the surging food, fertilizer, financing, building materials and fuel prices that manifested in soaring inflation domestically"* (Page 1, Mid-Year Fiscal Policy Review of the 2022 Budget Statement and Economic Policy of the Government of Ghana). Clearly, with this thinking, the government does not see why it should significantly alter the fiscal path it has been on for some time now, hence the weak fiscal response to the rising macroeconomic instability.

Nevertheless, while the negative external environment has understandably added some momentum to the fast deteriorating macro environment in Ghana, it is not the main cause. Had it been the main cause, Ghana's peers, particularly the African ones, would have been affected with similar magnitudes, at least on average, since all the peer countries are exposed to the same international factors. This, however, has not been the case, as can be seen from the tables below.

***Table 1**: Ranking of Currency Depreciation Rates in Africa for the First 7 Months of 2022*

Rank (worst to best)	Currency	Depreciation Rate (%)
1	Ghanaian Cedi	27.3
2	Malawi Kwacha	21.1
3	Egyptian Pound	16.8
4	Moroccan Dirham	9.9
5	Ugandan Shilling	8.3
6	Tunisian Dinar	8.0
7	Botswana Pula	6.2
8	Cape Verde Escudo	6.2
9	Libyan Dinar	5.4
10	Ethiopian Birr	4.9
11	Kenyan Shilling	4.9
12	Algerian Dinar	4.6
13	South African Rand	4.4
14	Mauritius Rupee	4.3
15	Sudanese Pound	4.2
16	Swaziland Lilangeni	4.1
17	Burundi Franc	1.8
18	Gambian Dalasi	1.7
19	Tanzanian Shilling	1.3
20	Rwanda Franc	1.3
21	Nigerian Naira	1.0
22	Somali Shilling	0.5
23	Djibouti Franc	0.3
24	Lesotho Loti	0.1
25	Namibian Dollar	0.0
26	Zambian Kwacha	-1.9
27	Guinea Franc	-6.0
28	Angolan Kwanza	-28.1
	Average	**4.0**

***Source of Data**: Exchange-rate.org*

***Table 2**: Ranking of Afric. Countries Based on June 2022 Inflation Rate*

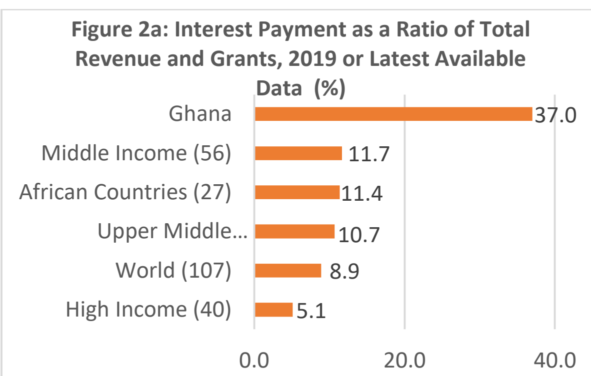
Rank (worst to best)	Country	June Inflation Rate (%)
1	Zimbabwe	191.6
2	Sudan	149.0
3	Ethiopia	34.0
4	Ghana	29.8
5	Malawi	23.5
6	Angola	23.0
7	Nigeria	18.6
8	Burundi	17.6
9	Rwanda	16.1
10	Egypt	13.2
11	Botswana	12.7
12	Gambia	11.7
13	Djibouti	11.6
14	Mozambique	10.8
15	Zambia	9.7
16	Mauritius	9.6
17	Senegal	8.9
18	Lesotho	8.8
19	Kenya	7.9
20	Cape Verde	8.2
21	Tunisia	8.1
22	Uganda	6.8
23	South Africa	7.4
24	Morocco	7.2
25	Somalia	7.0
26	Togo	6.8
27	Namibia	6.0
28	Ivory Coast	5.4
29	Tanzania	4.5
30	Seychelles	2.1

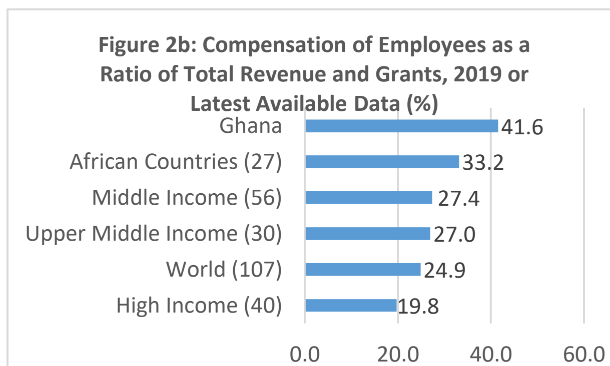
***Source of Data**: Trading Economics*

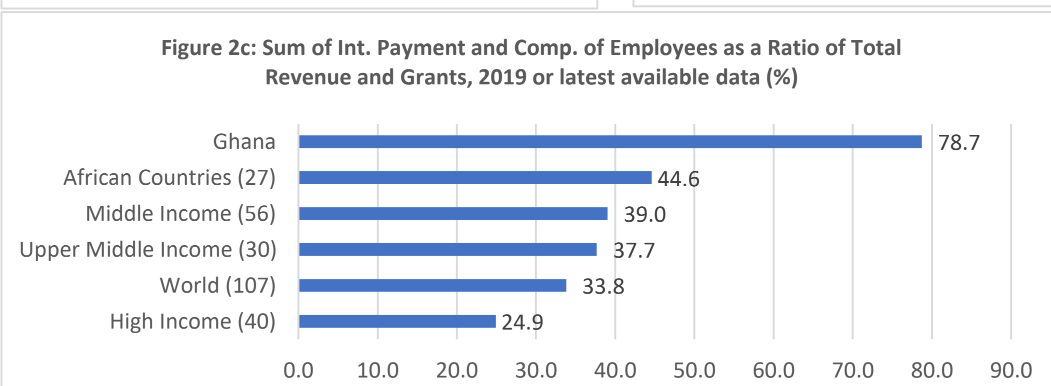
As we can see from Table 1, of the 28 African currencies shown, the Ghanaian cedi has performed the worst in terms of depreciation rate from the start of January to the end of July 2022, with a depreciation rate of as high as **27.3%**. In fact, average depreciation rate for the 28 African currencies is as low as **4.0%** in the period. We can also see from Table 2 that of the 30 African countries, Ghana has the fourth highest inflation rate (CPI-based) in June 2022, with a rate of 29.8%. Ghana's June 2022 inflation rate is only lower than those of Zimbabwe, Sudan and Ethiopia, countries that are crisis-ridden, economically, politically or militarily. We can also see that, unlike Ghana, as many as 16 African countries registered single-digit inflation rates in June 2022.

The foregoing analyses clearly demonstrate that international factors are not the main causes of Ghana's fast worsening macroeconomic instability. Indeed, Ghana's present macroeconomic instability is the result of the fact that the country's fiscal position is in a very poor state compared to its peers, because it is being choked by (i) excessive debt service cost, due to sharp debt buildups in the past decade; and (ii) very high employee compensation, largely due to the power of public sector workers' unions in pushing for wage increases. In fact, compared to its peers, Ghana has been spending too much to service its debt and pay for employee compensation since at least 2019. This point is illustrated below.

Using data for as many as 107 countries in the database of the World Bank, we can see from Figures 2a, 2b and 2c that, as at 2019, Ghana's interest payment (not including amortization) and employee compensation as ratios of total revenue and grants were way above averages for peer and non-peer country groups.







From Figure 2a, we can see that while Ghana spent as high as 37.0% of its total revenue and grants to pay for interest on its debt in 2019, averages for the 27 African and 56 middle income countries in the sample stood at only 11.4% and 11.7% respectively. Also, from figure 2b, while in 2019 Ghana spent as much as 41.6% of its total revenue and grants to pay for public sector employees' compensation, on average, the 27 African and 56 middle income countries in the sample spent only 33.2% and 27.4% of total revenue and grants to pay for employees' compensation, respectively. Therefore, as shown by Figure 2c, in 2019, while Ghana spent as high as 78.7% of total revenue and grants to pay for both interest on debt and compensation of employees, averages for the 27 African and 56 middle income countries in the sample stood at only 44.6% and 39.0%, respectively.

In fact, as Table 3 shows, in 2019, the ratio of total revenue and grants spent by Ghana to pay for interest on debt and employees' compensation (78.7%) is only smaller than the ratios of revenue spent on these two items by Lebanon (86.2%) and Sri Lanka (83.6%) in the same year.

Table 3*: Ranking of Countries According to the Ratio of Total Revenue and Grants Spent on the Sum of Interest Payment and Employee Compensation in 2019 (from the Largest to the Smallest) (%)*

Lebanon	86.2	Trinidad & Tob.	44.9	Uganda	31.4	Slovak Rep.	19.7
Sri Lanka	83.6	Fiji	43.9	Ireland	30.8	Mongolia	18.6
Ghana	78.7	Bahamas	42.9	Tanzania	30.8	Georgia	18.4
Zambia	70.5	Malaysia	42.9	South Africa	30.2	Rwanda	17.7
Jordan	66.2	Cape Verde	42.4	Thailand	30.2	Poland	17.6
Costa Rica	62.1	Mauritius	42.3	Bhutan	30.0	Singapore	17.0
Belize	57.3	Togo	40.7	Cen. Af. Rep	29.9	Canada	16.4
Saudi Arabia	56.8	Bangladesh	40.4	Albania	29.6	Estonia	16.0
Angola	55.0	Nicaragua	40.3	Armenia	29.0	Czech Rep.	15.8
Malawi	55.0	Lesotho	38.8	Greece	28.4	Russia	14.4
Kenya	54.9	Madagascar	38.1	Unit. States	27.7	Moldova	14.2
Morocco	54.2	Brazil	37.9	Chile	27.2	East Timor	14.0
Barbados	53.7	Seychelles	37.6	Ukraine	26.5	Australia	13.9
Ecuador	53.3	Iraq	37.1	U. Arab Emir.	26.5	Austria	13.9
El Salvador	53.3	Kyrgyz Rep.	36.7	Bos. & Herz.	25.9	Nepal	13.5
Guinea-Biss.	52.9	Senegal	36.6	N. Zealand	25.9	Norway	13.3
Namibia	52.2	Mali	35.7	Peru	25.9	S. Korea	13.0
Paraguay	52.2	Uruguay	34.8	Mexico	25.3	Kazakhstan	12.3
Honduras	51.0	Cyprus	34.7	United Kind.	24.4	Denmark	12.0
Burk. Faso	50.7	Papua N. G.	34.3	Slovenia	23.4	Belgium	10.9
Botswana	50.6	Cameroon	34.2	France	22.6	Azerbaijan	10.4
Jamaica	50.4	Turkiye	33.8	Italy	22.2	Finland	10.0
Mozambique	49.5	India	33.7	Croatia	21.8	Sweden	10.0
Panama	47.9	Indonesia	33.0	Latvia	21.5	Switzerland	7.5
Gabon	47.6	Malta	32.8	Luxembourg	20.1	Germany	7.1
Philippines	47.1	Argentina	32.2	Bulgaria	20.0	Uzbekistan	7.1
Ivory Coast	46.2	Romania	31.5	Serbia	19.7		

It should be noted that total debt service cost comprises interest payment and amortization (or principal payment). In fact, as shown by Table 4, including amortization, total debt service cost in Ghana as a ratio of total revenue and grants stood at 58.1% in 2019. It increased to 70.1% in 2020, before declining by 3.7 percentage points to 66.4% in 2021. Therefore, in 2019, the sum of compensation of employees and total debt service cost stood at 99.7%, implying that, virtually, the government spent its entire total revenue and grants to pay for only these two expenditure items. In fact, in 2020 and 2021, the sum of total debt service cost and employee compensation as ratios of total revenue and grants increased to as high as 121.4% and 111.6% respectively, implying that the government had to borrow to the tune of 21.4% and 11.6% of its total revenue and grants before it could fully pay for these two expenditure items. Note also that, since 2019, other expenditure commitments like statutory transfers, capital expenditure, goods and services, and arrears payments have all been met through borrowing. Clearly, like Lebanon and Sri Lanka, compensation of employees and debt service costs have been choking public finances in Ghana since 2019.

Table 4: Compensation of Employees, Total Debt Service Cost and their Sum as Ratios of Total Revenue and Grants, 2019-2021 (%)

Year	A: Employee Compensation as a Ratio of Total Revenue and Grants (%)	B: Total Debt Service Cost as a Ratio of Total Revenue and Grants (%)	Sum of A and B (%)
2019	41.6	58.1	99.7
2020	51.3	70.1	121.4
2021	45.2	66.4	111.6

Source of Data: Ministry of Finance

It is important to point out that the fiscal problems fundamentally imposed by compensation of employees and debt service costs in Ghana have been compounded by the government's pursuit of the numerous revenue-consuming policy initiatives. Indeed, it is this fundamental 'choke' on Ghana's public finances by these two largest and most inflexible expenditure items, and the complications created by the government's numerous policy initiatives, that are pushing the government to rely on increasing amounts of borrowing, thereby sharply increasing debt service cost and thus putting the country at high risk of debt default. It was these fundamentally negative developments in Ghana's public finances that caused the international rating agencies (Fitch and Moody's) to downgrade Ghana's credit rating in January and February 2022.

Therefore, induced by the fundamentally negative developments in Ghana's public finances, the key trigger for the rapidly worsening macroeconomic instability in Ghana was the downgrade in the country's credit ratings by Fitch and Moody's in January and February 2022 respectively, and not the Russia-Ukraine war, as discounted earlier. This is because the downgrade caused a rapid deterioration in the balance of payments, since it caused the government to lose access to the international capital markets, as Ghana was priced out of the markets. The loss of capital market access effectively cut off a major source of foreign exchange inflows to the economy, creating a hole in the balance of payments that put enormous pressure on the country's international reserves and the cedi exchange rate, thereby affecting other macroeconomic variables such as inflation and interest rates.

5. Recommendations

We have clearly shown that the government of Ghana's fiscal consolidation efforts as contained in the mid-year budget are weak and cannot thus address the macroeconomic difficulties the country is currently going through. We have also demonstrated that external factors are not the main causes of the sharply deteriorating macro environment in Ghana. We have rather demonstrated that, in addition to revenue mobilization difficulties, Ghana's current macroeconomic troubles are mainly due to the 'choke' imposed by debt service cost and compensation of employees, which are being compounded by the government's numerous revenue-consuming policy initiatives. Even though the government has sought the support of the IMF to help address the fast deteriorating macro environment, IMF's support and its success will depend upon the government's own strategies and efforts, particularly regarding fiscal consolidation. Therefore, to avoid further deterioration in the country's macro environment, which can plunge the Ghanaian economy into a point of difficult return as is happening to the Lebanese and Sri Lankan economies, two countries with similar fiscal fundamentals as Ghana, the government should stop relying on the low-hanging fruits and take bold decisions regarding fiscal consolidation. This should be done by confronting the above mentioned fiscal fundamentals, which are giving rise to the country's poor fiscal state and thus fueling the macroeconomic instability the country is currently witnessing.

We therefore recommend that the government should do as follows:

1. ***Be bold, frank and get all on board to ensure the success of the fiscal consolidation strategy:*** First, for fiscal consolidation measures, particularly the strong ones we are proposing here, to succeed, the support and buy-in by all stakeholders and socioeconomic constituencies are critical. The people of Ghana should, therefore, be made aware of the true fundamental causes and enormity of the fiscal challenges the country is facing, as well as the need for all stakeholders and socioeconomic constituencies to contribute their quota through sacrifices to the solution process, which should be laid out in a clear strategy. Second, the government should take the initiative to build adequate political consensus for the fiscal consolidation process. In this regard honest dealings and full flow of information about what is happening are essential. The political leaders, both in power and opposition, should recognize that failure to put a halt to the worsening macro environment will lead to enormous economic pains for all.

2. ***Improve revenue performance by generating more revenue from the extractive sector*:** On the revenue mobilization challenge, the government has to think outside the box and find ways to raise more revenue to bring the country in line with its peers in terms of total revenue to GDP ratio, while making sure that the private sector is not overburdened. This will help create some fiscal space and improve the country's fiscal outcomes and thus help address the degrading macro environment. Even though IFS supports the government in its digitization drive to improve revenue collection from the informal sector and property tax, we want to reemphasize that the government should pay attention to revenue generation from the country's extractive sector. As we have

stated several times, the extractive sector holds a lot of prospects in terms of revenue generation. This is because, comparatively, too little revenue that is far below the country's potential is raised by the government from the country's extractive sector. For instance, from 2015 to 2018, US$22.72 billion worth of minerals were produced in Ghana. Out of this, only US$1.48 billion, representing only 6.5% of the total value produced, was paid as revenue to the government of Ghana. This means that the private producers in the mining sector, exploiting publicly endowed resources from God, took US$21.24 billion, representing as large as 93.5% of the total value of minerals produced during the period. Put differently, out of the total super normal profit of US$14.14 billion that accrued to mineral production in Ghana from 2015 to 2018, the government of Ghana received only 10.5% as its revenue from the mining sector, while 89.5% of the supernormal profit went to the private producers. Yet, it is a common understanding that governments are supposed to receive the entire super normal profits (profits above normal profit) from their extractive sectors. In fact, on the contrary, the government of Botswana, for instance, is able to take in as revenue about 52% of the total value of minerals produced in Botswana and about 95% of the supernormal profit accrued to mineral production in Botswana. The government of Botswana earns that much through active participation in the mining sector. The government of Ghana should, therefore, take lessons from this and generate more revenue from the country's extractive sector to help create more fiscal space and successfully consolidate the country's fiscal position. Extractive sector revenues should not be allowed to go into private pockets while the government wallows in borrowing. For more on this, see IFS' Occasional Paper No. 24[1].

3. ***Reduce compensation of employees as a ratio of total revenue and grants:*** Despite its comparatively large size contributing significantly to the 'choke' on the country's fiscal position as demonstrated above, controlling compensation of employees for the purpose of fiscal consolidation is very difficult to do because of its inflexible nature due to the power of public sector trade unions. Yet, for the consolidation process to achieve significant results, the government has to confront this challenge head-on and reduce the compensation bill as a ratio of total revenue and grants to match the average for the country's peers. This can be done by ensuring that growth rate in the compensation bill falls below growth rate in total revenue and grants over a period of time, which will naturally lead to a gradual reduction in the ratio of the compensation bill to total revenue and grants. Through a consultative process with public sector workers and other stakeholders, this reduced ratio should be set as a ceiling, beyond which Ghana's compensation bill ratio cannot rise. To succeed in this regard, the political and governing class should lead by example by displaying modesty in terms of how they spend state resources on themselves, particularly with regard to Article 71 Emoluments. For more on this recommendation, see IFS Occasional Paper No. 22[2].

[1] Boakye, S. (2020), The Role of the Extractive Sector in Ghana's Comparatively Low Public Sector Revenue Mobilization, https://www.ifsghana.org/wp-content/uploads/2021/08/occasional-24.pdf

[2] Boakye, S. (2019), Ghana's Large Public Sector Compensation Bill: Agitations, Policies, Implications, Causes and Recommendations, https://www.ifsghana.org/wp-content/uploads/2021/02/Occasional-22-pdf-4-2.pdf

4. ***Reduce debt service expenditure as a ratio of total revenue and grants***: Because debt service is currently the biggest and thus most troubling expenditure item fiscally, the government's fiscal consolidation cannot see significant success unless growth in debt service expenditure is controlled, in order to lead to reductions in its share of revenue. First, because borrowing (and thus debt buildup) is the main propeller of growth in debt service expenditure, the government has to reduce borrowing by cutting all waste and ardently checking corruption in the public sector. Given the daunting nature of the ongoing macroeconomic instability, whose solution requires that the government's fiscal consolidation efforts succeed, the fight against corruption and waste has become even more critical. The government should therefore ensure that corrupt and wasteful officials are quickly and severely punished to deter others. This renewed fight against corruption and waste should be integrated into the government's fiscal consolidation strategy. Second, the government should follow the example of Zambia and renegotiate with its creditors for debt restructuring. If successful, this may help minimize the debt service expenditure, at least in the short term, and grant the government some breathing space while it pursues long-term policies to improve the fiscal position.

5. ***Review the existing earmarked/statutory funds and close down the non-essential ones***: In early 2017, in a conference held at Kempinski Hotel in Accra, the IFS recommended that the government should cap transfers to the earmarked funds and review the funds so as to get rid of the non-essential ones. Following this, the government capped the transfers to the funds by passing the Earmarked Funds Capping and Realignment Act, 2017 (Act 947). However, the review was not conducted. Given the enormity of the challenge the country currently faces, we recommend that the government should now carry out the review and close down the non-essential funds as recommended before, so that the monies involved could be routed through the general budget to help with the consolidation process.

6. ***Review all the social intervention programs and policy initiatives with the goal of helping to reduce government spending***: It is important for the government to reduce budgetary pressures arising from the various social intervention programs and policy initiatives (such as Free SHS, Agenda 111, YouStart, Ghana CARES, etc.) by scaling down some of them and eliminating those that can be eliminated through a comprehensive review. Such bold policy changes will enhance the government's fiscal consolidation efforts and help to lift Ghana out of its present crushing fiscal situation, which is driving the macroeconomic instability.