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IFS' Review of the Government of Ghana's 2023–2026 Extended Credit Facility-Supported Program with the International Monetary Fund (IMF)

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1.0 Introduction

The Ghanaian economy has been in crisis since 2022. In addition to the government struggling to pay its bills and service its debts, the macroeconomy has been volatile, with extremely high inflation and exchange rate depreciation rates, while business confidence has been weakening and economic growth has been falling. For example, year-on-year consumer price inflation rate, which respectively averaged 9.9% and 10.0% in 2020 and 2021, and which stood at 12.6% at the end of 2021, jumped to as high as 29.8% in June 2022. By the end of December 2022, the year-on-year consumer price inflation rate had skyrocketed to a whopping 54.1%. Also, annual depreciation rate of the cedi against the US dollar, which respectively stood at only 3.9% and 4.1% in 2020 and 2021, sharply increased to as high as 30.0% in 2022. Therefore, in July 2022, as the government labored to no avail to bring the situation under control, it decided to initiate discussions with the International Monetary Fund (IMF) for a financially supported economic program to address the crisis.

In mid-December 2022, the government reached a staff-level agreement with the IMF for a three-year program, and on May 17, 2023, the IMF's Executive Board approved the program, backed by financing of US$3 billion from the Fund's Extended Credit Facility (ECF). The financing, whose first tranche of US$600 million was disbursed immediately after the Board's approval, is being given as both balance of payments and budget support to the government during the period of the program.

This paper assesses the program[1] with the aim of offering insights and relevant advice to the government and the IMF. To place things in context, we first analyze the factors and policy choices that fundamentally compelled the government of Ghana to request the program (Section 2). We then provide a summary of the objectives and policies of the program (Section 3). Thereafter, we present our assessment of the program (Section 4), followed by recommendations (Section 5).

2.0 A Short Account of Factors and Policy Choices that Led to the Current IMF Program

The fiscal and macroeconomic crisis that forced the government of Ghana to request an IMF-supported program in July 2022 was not an accident, but the result of poor fiscal policies over the past decade. While the government has constantly blamed the crisis on the COVID-19 pandemic, which struck the world in 2020, and the Russia-Ukraine conflict that started in 2022, the fact is that by 2019 and thus before any of these events occurred, the country was already in dire fiscal straits. This meant that unless the government changed course drastically, it was only a matter of time before the precarious fiscal situation would` ignite a full-blown economic crisis—which exactly happened from early 2022.

[1] *For details of the program, see International Monetary Fund (2023), Ghana: Request for an Arrangement under the Extended Credit Facility—Press Release; Staff Report; and Statement by the Executive Director for Ghana. Washington, DC: IMF, Country Report No. 23/168.*

The country's precarious fiscal situation that existed even before the onset of COVID 19 was caused by both revenue mobilization and expenditure management issues, which had persisted for quite some time. First, revenue mobilization had generally weakened, as its growth had failed to keep up with economic growth. As Table 1 demonstrates, while total revenue and grants as a ratio of GDP increased by 4.3 percentage points from 11.2% in 2006 to 15.5% in 2012, by 2016, it had fallen to 14.7%. It stood at only 15.0% in 2019. Thus, starting from 2013, growth in total revenue and grants as a ratio of GDP declined and largely stagnated[2].

Table 1: *Ghana's Total Revenue and Grants as a Ratio of GDP in Selected Years*

Year	*Total Revenue and Grants* as a Ratio of GDP** (%)*
2006	*11.2*
2008	*11.8*
2012	*15.5*
2016	*14.7*
2019	*15.0*

Sources of Data: *MoF (Revenue data) and GSS (GDP Data)*
**Following its treatment by MoF in recent years, TR&G here excludes tax exemptions, and is net of tax refunds.*
***The newly rebased GDP data, which have now been extended by GSS to cover the period starting from 2006, are used.*

This trend ensured that Ghana compared poorly among its peers in the developing world for government revenue mobilization. For instance, in a study conducted by the Institute for Fiscal Studies (IFS), it was found that as at 2018, Ghana's revenue to GDP ratio of below 16% compared poorly with an average of 20.5% for a sample of 14 sub-Saharan African economies, 22.0% for a sample of 25 middle-income economies, and 22.6% for a sample of 35 developing economies (See IFS Occasional Paper No. 24[3]).

As indicated above, compounding the low revenue generation problem was poor government expenditure management. Owing to excessive revenue earmarking, high spending on compensation, and growing debt service expenditure, the government of Ghana's budget had become increasingly inflexible or rigid, since, by their nature, these expenditure items are difficult to cut.

[2] *Total revenue and grants (TR&G) as a ratio of GDP averaged 15.1% in 2013-2016 and 15.2% in 2017-2019.*

[3] *T 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*

As Table 2 shows, having reduced to as low as 67.0% in 2004 due to the HIPC initiative Ghana opted for in 2001, which considerably reduced debt service expenditure due to the associated debt forgiveness, the sum of earmarked expenditure, compensation of employees, and debt service expenditure (total rigid expenditure) as a ratio of total revenue and grants increased to 108.0% in 2013. Thus, in 2013, the sum of these three inflexible expenditures exceeded total government revenue and grants for the first time in the post-HIPC era. By the end of 2016, the sum of these three inflexible expenditures had increased to as high as 122.4% of total revenue and grants (or had exceeded total revenue and grants by as large as 22.4%).

Table 2: *The Sum of Earmarked Expenditure, Compensation of Employees and Debt-Service Expenditure as a Ratio of Total Revenue and Grants (TR&G) in Selected Years*

Year	Sum of Earmarked Expenditure, Compensation of Employees and Debt-Service Expenditure as a Ratio of TR&G (%)
1993	66.4
1996	81.6
1999	93.2
2000*	115.4*
2004	67.0
2008	90.8
2012	90.9
2013	108.0
2016	122.4
2017	115.0
2018	110.0
2019	123.3

Sources of Data: *Ministry of Finance*
**Note that the poor fiscal outcome in year 2000 forced Ghana to opt for the HIPC initiative in 2001.*

The increasing rigidity in Ghana's budget limited fiscal flexibility, considerably weakened the government's ability to ensure effective fiscal consolidation, and made the government incapable of effectively managing any fiscal and macroeconomic shocks that might hit the country. It also set the stage for greater and greater borrowing, since high degree of fiscal rigidity creates an atmosphere for self-propelling high deficits through feedbacks from large debt service expenditures. It is, therefore, important to note that, generally, high degree of rigidity in a country's budget (as had characterized Ghana's budget since 2013) fundamentally drives the country to borrow beyond sustainable levels, usually unwillingly[4].

[4] It is against this background that the Institute for Fiscal Studies, Ghana (IFS) closely and intensely monitors this fundamental fiscal variable, although most fiscal monitoring institutions, including the IMF, do not do so, or at least not with the same level of closeness and intensity.

Therefore, sensing a clear fiscal danger that lay ahead, in February 2017, the Institute for Fiscal Studies (IFS) organized a public forum in Accra to present findings from two studies we had conducted on the subject[5], and to warn the new government that had then been sworn in (the Akufo-Addo government) of a fiscal catastrophe that awaited the country if bold fiscal decisions were not taken to address the increasing rigidity in the country's budget. In the forum, we recommended policies that we believed, if implemented, would reduce the sizes of earmarked transfers, compensation of employees, and debt service expenditure so that noticeable 'fiscal breathing space' would be created for the country. On earmarking, for instance, among other things, IFS advised the government to place a limit on earmarked transfers, and to comprehensively review all the existing earmarked funds so that the less essential ones would be closed down and the moneys involved brought to the general budget. And on compensation, the IFS advised, among other things, that the compensation bill as a ratio of total revenue and grants had to be reduced to match international standards, with the reduced ratio set as a ceiling, beyond which it could not rise. The reduction in the ratio, we further advised, could be achieved if the government ensured that the growth rate of the compensation bill fell below the growth rate of total revenue and grants over a given number of years, which would naturally lead to a gradual reduction in the ratio of the compensation bill to total revenue and grants. Of the recommendations provided by the IFS, the one the new government firmly embraced was the placing of a limit on earmarked transfers. Therefore, the government enacted the Earmarked Funds Capping and Realignment Act, 2017 (Act 947) to impose a cap on earmarked expenditure. This helped to ease the degree of rigidity in the country's budget from 122.4% of total revenue and grants in 2016 to 115.0% in 2017, and to 110.0% in 2018. However, the expenditure savings from this measure, which should have been used to help reduce borrowing, were soon rapidly consumed by the new spending programs the government brought on board (Free SHS, 1D1F, NABCO, etc.). Government borrowing therefore remained large, adding to debt service expenditure. Consequently, the decline in the rigidity ratio was short-lived, with the result that it increased to an unprecedented high of 123.3% of total revenue and grants in 2019. Of this, debt service expenditure alone amounted to 58.1% of total revenue and grants. The implication of the total rigid expenditure to revenue ratio of 123.3% in 2019 was that the government had to borrow the equivalent of 23.3% of its revenues for the year to finance earmarked expenditure, compensation, and debt service alone. This implied that all other expenditures (goods and services, capital expenditure, arrears clearance, etc.) could only be financed through additional borrowing, reinforcing a vicious cycle of borrowing and heightening rigidities as explained above. Such was Ghana's precarious fiscal state in 2019 before COVID 19 hit the country. In fact, as at the end of 2019, Ghana's poor fiscal fundamentals (in terms of the fiscal 'choke' imposed by the rigid expenditures) were akin only to those of Sri Lanka and Lebanon, two countries that were in deep fiscal troubles[6]. It was for this reason that, as far back as August 2019, in its assessment of the 2019 mid-year budget,

[5] Boakye, S. (2017), "Fiscal Rigidities and their Effects in Ghana: What Should the Government Do?" (IFS' Occasional Paper No. 9); AND Boakye, S. (2016), "Revenue Earmarking in Ghana: Management and Performance Issues" (IFS' Occasional Paper No. 7).

[6] For details, see IFS Policy Brief No. 15 (August 2022): "IFS' Assessment of the Government of Ghana's Fiscal Consolidation Efforts in the Face of the Rapidly Deteriorating Macroeconomic Environment".

IFS warned as follows: "Overall, the fiscal policy path the country is on is unsustainable, as the country's indebtedness looks likely to worsen on the basis of current spending and borrowing decisions. The government has to reverse course with a strategy that will reduce borrowing significantly in order to improve the debt dynamics, particularly with regard to the ballooning debt service costs."

Therefore, when the pandemic struck Ghana in early 2020, IFS had hoped that in using fiscal policy to respond to its socio-economic impacts, the government would be mindful of the country's precarious fiscal position as at the end of 2019 and thus be exceptionally prudent. We recognized the need for the government to only borrow and spend resources to fight the pandemic and protect the vulnerable. Thus, we expected the government to refrain from additional expenditures that were not essential in addressing the pandemic and its effects on the poor and vulnerable. Instead, the government threw caution to the wind and took certain poorly targeted and hard-to-justify fiscal decisions. These included (i) announcing a 15% salary increase for civil servants in March 2020 after the pandemic had already hit the country, when in many countries that had been hit by the pandemic, salaries had begun to be cut; (ii) providing free water for all consumers from April to December 2020, including for those who were not vulnerable and could pay for their water consumption; (iii) subsidizing, by as much as 50%, the electricity consumption of households outside the lifeline or vulnerable category; and (iv) giving away revenue by lowering the communications service tax from 9% to 5% from September 2020. In fact, to make things worse, in 2020, the government borrowed from the Bank of Ghana to the tune of GH¢10 billion and basically gifted a chunk of it to individuals in bits and pieces in an informal fashion, doing this in the name of what the government called 'COVID 19 Revitalization'.

In our assessment of the government's fiscal policy amidst the pandemic, which we presented at **a press conference in August 2020**, the IFS described these actions by the government as "head-scratching". We, therefore, asked the government the following questions: "(i) What is actually driving these head-scratching fiscal decisions and choices in the face of COVID 19, whose end is still not yet known? (ii) Is the government not aware that the country's fiscal position was already in a precarious state before the pandemic hit? (iii) Is the government again not aware that it was too much borrowing that landed the country in the state in which it found itself in the 1970s and 1990s, which caused the country to call on the IMF and the World Bank for an economic bailout in the 1980s and debt forgiveness in the 2000s?"

Judging from the weak and fragile nature of Ghana's fiscal position before the pandemic hit the country, and the poor nature of the fiscal choices that were being made in the face of the pandemic, we concluded that the government's policy choices were borne out of "fiscal populism" because of the then impending 2020 general elections. We therefore recommended to the government to refrain from such fiscal populism, since it did not bode well for the fiscal and macroeconomic health of the country. Fearing a major downgrade to the country's credit-worthiness due to the high debt service expenditure in the face of the low revenue mobilization, which would trigger fiscal and macroeconomic crises, we recommended in the press conference, among other things, that the government ought to immediately seek debt reliefs, including debt forgiveness, from its major creditors [both domestic and foreign] so as to minimize the enormous size of the country's debt service expenditure, which was consuming the biggest chunk of the country's revenues.

Indeed, the government did not pay much heed to our recommendations. Therefore, the country's poor fiscal fundamentals did not only linger, but they also gathered additional steam, due, of course, to the continuous borrowing. Things got out of control when the country's credit-worthiness was downgraded as junk by the international credit rating agencies starting from January 2022 as we expected, triggering the current fiscal and macroeconomic crises, which pushed the government to resort to the IMF for the present program. In fact, COVID 19 and the Russia-Ukraine war played only minor roles, as their contributions to the crises are fundamentally less significant[7].

3.0 Summary of the Program's Objectives and Policies

The program's key objective, according to the IMF, is to "restore macroeconomic stability and debt sustainability, while laying the foundations for higher and more inclusive growth." To achieve this, the program will pursue: (i) an "ambitious and lasting" fiscal adjustment, complemented by a comprehensive debt restructuring; (ii) appropriately tight monetary and exchange rate policies; (iii) structural fiscal reforms to entrench debt sustainability; (iv) measures to strengthen financial sector stability; and (v) structural reforms to support inclusive economic growth.

On fiscal consolidation and debt restructuring, the program's plan is frontloaded and aims to reduce the primary balance on a commitment basis by 5.1 percentage points (ppts) of GDP, from -3.6% of GDP in 2022 to 1.5% of GDP in 2025–2026. To deliver the consolidation, total revenue and grants is planned to increase from 15.7% of GDP in 2022 to 18.7% of GDP in 2026, a gain of 3.0 ppts of GDP, while primary expenditure on a commitment basis is planned to fall from 19.3% of GDP in 2022 to 17.2% of GDP in 2026, a reduction of 2.1 ppts of GDP.

Initial revenue measures to support the consolidation were introduced in the 2023 budget and include an increase in the VAT rate from 12.5% to 15%, removal of the benchmark value discounts on imports, conversion of the fiscal stabilization levy into a Growth and Sustainability Levy (GSL), and upward revisions to income and excise taxes. The expenditure plank of the consolidation is based principally on reductions, in percent of GDP terms, to earmarked transfers, capital expenditure, and energy subsidies and transfers.

To complement the fiscal adjustment in restoring public debt sustainability, the government pledged to comprehensively restructure its domestic and external debts. Within this context,

[7] *For more on the last point, see IFS Policy Brief Nos. 15 and 16.*

the program estimates that the restructuring of domestic government bonds, which was concluded in February 2023, would yield cash debt relief of GH¢50 billion in 2023 alone. The program is also targeting debt service relief of US$10.5 billion over the 2023–2026 period from the external debt restructuring.

On monetary and exchange rate policies, the objective of the program is to reduce inflation to the Bank of Ghana's (BoG) target range of 6–10% by the end of 2025. To this end, the BoG is expected to, among others, maintain a tight monetary policy stance and cease lending to the government. On exchange rate policy, the program will pursue a deeper foreign exchange market and a flexible exchange rate. Policies in furtherance of this goal include reforming the BoG's foreign exchange auctions and rescinding export surrender requirements for the mining sector.

On structural fiscal reforms, the program seeks to address revenue mobilization challenges, public financial management weaknesses, and fiscal risks from state-owned enterprises. On domestic revenue mobilization, a Medium-Term Revenue Strategy (MTRS) is to be prepared to outline measures to attain the program's revenue targets. Policies to be considered in the strategy include reviewing VAT and customs exemptions; reforming corporate income taxes; increasing progressivity in personal income taxes; linking fuel levies to inflation or exchange rates; and adopting a new fiscal regime for the extractive sector. The public financial management reforms include a comprehensive review of statutory funds to rationalize their operations; amendment of the Fiscal Responsibility Act (FRA) to strengthen it; and reform of the Fiscal Responsibility Advisory Council to enable it play a role in enforcing the FRA. To address fiscal risks from state-owned enterprises, comprehensive reforms are to be implemented to limit fiscal risks from the energy sector, while a strategy to ensure Cocobod's financial viability is to be prepared.

On structural reforms to support inclusive growth, the program's measures comprise a review of local content legislation to encourage foreign direct investment; promotion of entrepreneurship through initiatives like the YouStart program; implementation of the African Continental Free Trade Area (AfCFTA); and accelerated implementation of the Ghana CARES (Obaatan Pa) Program, including the Economic Enclave Projects. However, reflecting the ongoing macroeconomic difficulties alongside tight fiscal and monetary policies, economic growth is forecast to fall sharply from 3.2% in 2022 to an average of 2.2% in 2023–2024. Afterwards, growth is projected to rebound to about 5% per annum from 2025 onwards.

4.0 Assessment of the Program

In this section, we first discuss the strengths we have identified with the program, taking into consideration its objectives, scope, and policies. Next, we analyze the aspects of the program that IFS sees as limitations and shortcomings.

4.1 The Strengths of the Program

To begin with, we see that the scope of the program and the adopted strategies generally reflect the severity, breadth, and depth of the crisis at hand. In particular, the comprehensive public debt restructuring that is required under the program is a consequence of the country's extremely large debt service burden that has reached levels similar to what drove Ghana to opt for the HIPC debt relief in the 2000s. This has resulted, as we pointed out above, from the excessive borrowing and thus large debt buildups over quite a long period of time due to the weak revenue mobilization and extreme rigidity that have characterized the country's budget since the beginning of the past decade. As we stated earlier, as far back as August 2020, IFS advised the government to immediately seek debt reliefs, including debt forgiveness, from its major creditors so as to minimize the enormous size of the country's debt service expenditure.

We also welcome the strategy of frontloading the fiscal consolidation, given the need for a strong and credible adjustment effort amid the high macroeconomic instability. We take note, however, of the fact that the consolidation targets in the program and the 2023 budget statement do not account for any realized or anticipated savings from the ongoing debt restructuring. It is our expectation that once the restructuring is completed and the resultant debt service savings are ascertained, these would be used to bolster the consolidation by targeting stronger fiscal balances than currently programmed.

The structural fiscal reforms that the program proposes are broadly appropriate, and many accord with IFS' recommendations to the government over the years. For instance, as we saw earlier, as far back as 2017, IFS, in addition to proposing a cap on earmarked expenditure, urged the government to review all earmarked/statutory funds with a view to closing down the non-essential ones and applying the savings to help with fiscal consolidation. Although the government capped earmarked expenditure, it did not conduct the review. Yet, IFS continued to advocate this position, most recently in August 2022, when we assessed the government's fiscal consolidation efforts in the face of the rapidly deteriorating macroeconomic environment.[8] We are glad, therefore, that a key structural reform benchmark in the program is that the government should conduct a comprehensive review of statutory funds to assess their relevance and streamline them.

We further support the planned comprehensive review of the government's flagship programs, which we, again, have long recommended. For instance, in IFS' review of the 2023 budget statement, which we published as Policy Brief No.16 in December 2022, we stated as follows: "For a balanced and credible fiscal consolidation to take hold, which would help gradually to restore fiscal sustainability and macroeconomic stability, the government should stop treating certain expenditures as untouchable or exempt from rationalization. We therefore recommend again, as we have done in the past, that the government should reduce

[8] *Boakye, S. and Mensah, L. D. (2022) "IFS' Assessment of the Government of Ghana's Fiscal Consolidation Efforts in the Face of the Rapidly Deteriorating Macroeconomic Environment", Institute for Fiscal Studies (IFS) Policy Brief No. 15.*

expenditure on its ‘flagship’ programs, such as Free SHS, Agenda 111, 1D1F, Ghana CARES, and YouStart, by rationalizing or terminating some of them, as appropriate, based on a comprehensive review.”[9]

Proposals to strengthen the Fiscal Responsibility Act (FRA) and reform the Fiscal Responsibility Advisory Council are also commendable. In fact, this is in line with what IFS has been advocating since the Fiscal Responsibility Act was passed and the Fiscal Responsibility Council was set up in 2018. Among others, we have been calling for a stricter fiscal balance rule to be adopted in the FRA, arguing that the current 5% of GDP fiscal deficit limit ratio is too large by international standards, and is above the fiscal deficit limit of 3% of GDP that the West African Monetary Zone (WAMZ) considers to be prudent for member states (including Ghana). To help institute strong monitoring and compliance mechanisms for the fiscal responsibility rules, we have also been calling for the Fiscal Council to be independent from the government. It is therefore refreshing to find the program aligning with these recommendations.

Moreover, we see it to be in order the program's proposed actions to mitigate fiscal risks from state-owned enterprises, including the “comprehensive reforms” to be implemented in the energy sector. The energy sector, in particular, has routinely accumulated and passed on huge financial liabilities and exposures to the central government, reflecting unsound policies, poor planning and oversight, poor financial and organizational management, and extraordinary levels of inefficiency in the sector. This makes the planned reform of the sector commendable, since the threat it poses to fiscal management and sustainability is substantial.

4.2 Shortcomings and Limitations of the Program

(i) Slow Speed of the External Debt Restructuring:

First, we believe that the restructuring of the external debt component of Ghana’s public debt has not been given the urgency that it deserves. Even though the underlying ECF-supported program has been given full approval by the Executive Board of the IMF as stated in the introduction, details of the negotiations and the kind of savings to be made regarding the external debt restructuring are not yet known, as, to the best of our knowledge, negotiations are still ongoing, even though the domestic debt restructuring has largely been completed. In fact, as we stated in our review of the 2023 budget statement and the debt restructuring program, “given that the external debt component of Ghana’s public debt has serious exchange rate implications, the main trigger of the current macroeconomic instability, we expected the government and its IMF/World Bank partners to pay greater attention to the restructuring of the external debt. We do not, therefore, understand why the restructuring of the external debt has been made contingent on the completion/success of the domestic debt restructuring.” It is clearly visible from the approved program that the external debt restructuring is critical to help the country meet its large fiscal and external financing needs,

[9] *Boakye, S. and Mensah, L. D. (2022) “The 2023 Budget Statement and Ghana’s Current Debt Restructuring Program: IFS’ Assessment and Recommendations”, Institute for Fiscal Studies (IFS) Policy Brief No. 16.*

as the crisis has severely restricted both the space and opportunities to borrow by the government. The estimated external financing gap, net of IMF- and World Bank-pledged financing, of US$10.5 billion over 2023–2026 suggests that a deep external debt restructuring is required, which underlines the need for the government to seek a speedy and impactful debt relief by negotiating for permanent debt service savings in addition to rescheduling of obligations.

(ii) The overreliance on taxation for revenue mobilization:

The program's effort to increase government revenue mobilization relies unduly on taxes. As a prior action for the program, many taxes were introduced in the 2023 budget, and more are likely to follow under the tax-centered revenue strategy. Yet, overreliance on taxation is certain to hurt businesses and industries, and ultimately harm the economy's competitiveness and long-term growth potential.

(iii) No explicit policies in the program that aim to ensure that Ghana follows the footsteps of countries that generate considerable amounts of revenue from the extractive sector and use extractive exports to stabilize their currencies:

Although in relation to its peers, Ghana's public revenue generation is low and should be expanded, a tax-centered approach is not the way to go. From IFS' research, the revenue gaps between Ghana and its peers are largely due to the country's relatively poor revenue generation from the extractive sector, which is the result of leaving the sector in the hands of multinationals through concession arrangements that yield paltry revenue to the state, while the multinationals repatriate billions of dollars in resource rents. For instance, IFS has found that out of the US$22.72 billion worth of minerals produced in Ghana from 2015–2018, only US$1.48 billion, representing a meager 6.5%, was paid as revenue to the government. The remaining US$21.24 billion or 93.5% went to the private producers of the minerals, mainly the multinationals, even though mineral resources are publicly endowed from God and should therefore benefit the state, which holds them in trust for the people. In terms of economic rents, only 10.5% of the US$14.14 billion in economic rent (or supernormal profit) generated from mineral production over the same period was paid as revenue to the government, leaving private producers to keep as much as 89.5% of the supernormal profits. This is in spite of the fact that governments are generally understood to be entitled to all the economic rents or supernormal profits (i.e., profits above normal profit) from their extractive resources. In contrast, in Botswana, for example, government mineral revenue constitutes about 95% of the supernormal profit/economic rent and about 52% of the total value of production. In the oil sector, the government of Ghana's revenue amounts to less than 20% of the total value of production, whereas the Nigerian government is able to secure about 52% of the total value of oil produced in that country. These wide differences in extractive sector revenue generation are because in Nigeria and Botswana, the governments are active participants with significant stakes in their oil and mining sectors, respectively, while the Ghanaian government has limited direct participating interests in its extractive sector, and instead over-relies on fiscal instruments under concessionary arrangements to generate revenue. So, the potential for the government of Ghana to boost revenue from the extractive sector is considerable, and if this was exploited, the country would be able to substantially grow domestic revenue—and close the gaps with peers—without burdening the economy with growth-hampering taxation[10]. Yet, there are no explicit policies in the program, for now, that aim at ensuring active participation of the state in the extractive sector for greater domestic revenue mobilization. Indeed, the government of Ghana and IMF cannot behave as if they do not see this, given that IFS has, for some time now, been hammering this issue.

In addition to the government revenue implication, there are very serious balance of payments and exchange rate implications of the extractive sector concession regime in Ghana, which indirectly places ownership of the extractive resources in the hands of mostly the multinationals to whom concessions are granted. This is because, given that the extractive sector is dominated by the multinationals, with little participation by the state, only a limited portion of foreign exchange from the exports of extractive commodities (i.e., oil and minerals) comes back to Ghana to help defend the value of the cedi. Yet, extractives constitute the biggest chunk of total exports, representing, for instance, an average of 63% of the value of total exports in 2011–2022. The limited actual inflows to Ghana from these exports implies that, in practice, the current account of the balance of payments does not generate foreign exchange inflows as significant as the reported figures on paper suggest. This has been pushing the government of Ghana to rely on the capital and financial account of the balance of payments (or foreign borrowing) for actual inflows of foreign exchange to defend the cedi. Simply put, with the country not practically getting so much from the export of the extractives, which, again, are publicly endowed resources, the government of Ghana has to borrow externally before the cedi can be stabilized, which, as we are currently witnessing, is not sustainable. Why should this be so? It is important to point out that this is not about what some people call ‘resource nationalism’, but about what poor citizens of Ghana need to also prosper and help avoid the constant recurrence of economic crises that financially devastate their lives.

(iv) The abolition of the surrender requirement and the push for a full-blown flexible exchange rate regime:

It is important to note that, with the limited foreign exchange inflows from exports, the BoG has been compelled to administratively intervene in the foreign exchange market to manage and support the cedi. Whether this is the best policy theoretically or not, it is necessary given the practical circumstances. It is therefore difficult to understand the program’s policy of introducing a more flexible exchange rate regime by getting rid of the BoG’s export surrender requirements, which represent an appropriate back-door approach to guarantee that some of the foreign exchange from export proceeds is returned to or stays in the country for the defense of the cedi. That, simply, is the second-best strategy given the circumstances. The question now is, with foreign exchange inflows through the current account limited by the

[10] *For more on this, see IFS Occasional Paper No. 24: 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*

nature of ownership of export commodities, how meaningful is the program's push for a more flexible exchange rate regime and the abolition of the surrender requirement?

(v) Central bank financing:

Under the program, central bank financing of the government is prohibited, with the BoG and Ministry of Finance being required to sign a memorandum of understanding to this effect. Also, the BoG Act is to be revised to, among others, tighten the provisions on central bank lending to the government. While restraints on monetary financing of the government are generally needed to help manage inflation, especially given the behavior of the government in this regard, particularly in 2020, a blanket prohibition, as the IMF is advocating, is unduly restrictive and can be counterproductive, especially in times of crisis, when the central bank may be required to step in to moderate the effects by advancing resources to the government. For instance, while we admit that monetary growth last year (2022) was excessive, the Bank of Ghana had to step in to provide some liquidity to the government to mitigate the impact of the crisis on the public sector and thus to ensure that the government was able to financially steer the affairs of the country in the face of the crisis, given the virtual block of the country from the external financial market and the shallow nature of the domestic financial market. Thus, in seeking to review the legislative provisions on central bank lending to the government, care must be taken not to extinguish the BoG's role as the lender of last resort to the government.

5.0 Recommendations

We have discussed the economic management weaknesses and fiscal policy missteps and their outcomes that necessitated the current IMF program. We have also analyzed and evaluated the program's main strengths and weaknesses. On the basis of the analysis, we make the following recommendations to both the government and IMF:

I. ***Take steps to increase extractive sector (both oil and minerals) revenue generation through direct state participation or at least production sharing arrangement as part of the government's medium-term revenue mobilization strategy to be prepared under the program.*** Given the great potential for Ghana to expand revenue generation from the extractive sector through active state participation or the use of production sharing arrangement, the government should avoid the excessive reliance on taxes to grow revenue, which, as said earlier, has serious long-term growth implications, since these taxes make domestic businesses and industries less competitive. Thus, the medium-term revenue strategy to be prepared as part of the program with the IMF should include plans to change from the present dominant royalty-tax revenue model under concession regime in the extractive sector to one based on active state participation/ownership in the sector in the form of joint ventures, or one based on production sharing arrangements. Greater state participation (or production sharing regime) in the extractive sector would not only greatly increase domestic revenue generation, bringing Ghana closer to the performance of its peers, but would also give the country greater control over earnings from extractive exports, which would ensure increased foreign exchange inflows through the current account to support the cedi exchange rate. It should be known that developing economies with large extractive resource endowments that have been able to use these resources to achieve high income status, such as Chile, Saudi Arabia, Qatar, United Arab Emirates, Botswana, and many others, have all relied on active state participation in the extraction of their extractive resources and/or use production sharing arrangements. On the other hand, countries like Ghana, Zambia, Burkina Faso, and others, though have large extractive resource endowments but rely on royalty-tax approach under concession regimes, are wallowing in poverty because of limited revenue flows from these resources to the governments under the concession regimes they employ. Thus, practically, it is wrong to argue that all extractive resource revenue generation regimes lead to the same results[11]. This should serve as a lesson to the government of Ghana when reviewing the extractive sector fiscal regime as part of the program. We at IFS strongly believe that any review that results in a continuous reliance on royal-tax approach under concession arrangement will not lead to any significant revenue inflows to the government of Ghana in the long run, which would entrench the country in poverty and repeated fiscal/economic crises.

II. ***The government should not adopt the program's suggestion to adjust fuel levies in line with inflation or exchange rate changes to raise more revenue.*** It should first be recognized that fuel price changes have powerful effects, both directly and indirectly, on inflation in Ghana. Therefore, adjusting fuel levies in line with inflation, which is bound to raise fuel prices also in line with inflation, would feed back into inflation, requiring further raise in the fuel levies, thereby creating a vicious cycle of higher and higher fuel prices and thus worsening inflation/macroeconomic instability in Ghana. Similarly, since exchange rate depreciation usually causes fuel and other prices to rise, leading to inflation, adjusting fuel levies in line with currency depreciation would further raise fuel prices, generating more inflation. These would be too high a macroeconomic price to pay in a bid to increase revenue.

III. ***The BoG should maintain export surrender requirements for the extractive sector to help secure foreign exchange inflows to defend the cedi.*** As we argued earlier, the dominance of multinationals in Ghana's extractive sector means that they control a sizeable proportion of export proceeds, limiting foreign exchange inflows to the country from these exports. Until this situation is remedied, it is necessary that the BoG adopts measures, such as the export surrender requirements, to secure foreign exchange inflows to help defend the cedi and build up its foreign reserves.

[11] *For more on this, see IFS Occasional Paper No. 24: 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*

IV. ***Pursue the external debt restructuring with expedition and seek permanent debt service savings for impactful relief.*** The program's external financing gap estimates indicate that Ghana's balance of payments and foreign reserves positions remain under stress, with the outlook substantially dependent on the country securing concrete external debt relief. We therefore urge the government to expedite the external debt restructuring negotiations to further improve fiscal and macroeconomic certainty. Stronger facilitation from the IMF is, of course, needed.

V. ***The government should ensure that its growth-oriented programs are not pursued at the expense of implementing a strong fiscal consolidation, which is needed to restore macroeconomic stability.*** This is because studies at IFS have found that macroeconomic stability is a critical prerequisite for strong economic growth in Ghana. Therefore, given the high macroeconomic instability the country is currently witnessing, policies intended to stimulate growth, such as YouStart and Ghana CARES, are most unlikely to achieve their desired outcomes. The program's projection of very weak growth rates in the next two years attests to this fact. As such, it is best for the government to concentrate on pursuing a strong fiscal consolidation and achieving macroeconomic stability before the direct growth-oriented policies are pursued. This would make the government have the fiscal space and supportive macroeconomic conditions to ensure the success of these interventionist polices on growth and employment generation.

VI. ***This and future governments of Ghana must refrain from fiscal populism as a moral imperative.*** While many of the program's reforms, such as the planned reform to strengthen the fiscal responsibility act and the associated fiscal responsibility council, are in order, experience in Ghana shows that no amount of structural and institutional reforms can solve the problem of fiscal populism and its financial and economic fallouts if those who control political power and the state institutions are bent on using the country's fiscal resources for political gain. As a form of moral suasion, therefore, IFS pleads with the present and future governments of Ghana to refrain from fiscal populism, as it is one of the major causes of the country's recurring fiscal and macroeconomic troubles/crises. Indeed, the overwhelming majority of those who form governments in Ghana profess religion, and are, thus, expected to have high moral standards. Why then, for the sake of political power, are the country's fiscal resources imprudently spent, leading to repeated fiscal and economic crises that devastate the lives of Ghanaians? There is no moral justification for this. We should remember that we shall all be responsible for our actions before God.

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