INSTITUTE FOR FISCAL STUDIES

# POLICY BRIEF

No. 22

February 26, 2025

# WHAT SHOULD BE THE PRIORITIES OF THE NEW GOVERNMENT AS IT CONFRONTS THE ONGOING ECONOMIC DIFFICULTIES?

## 1. INTRODUCTION

Ghana's economic health has been very poor in recent years. Over the past three years, the country has suffered debt crisis, macroeconomic instability, and low growth, which have led to declining living standards, worsening unemployment, and disaffection with the government. This was caused by an extended period of sharp debt buildups and large debt service payments, which eventually led, in early 2022, to downgrades in Ghana's credit ratings and thus loss of access to the international bond market.

Since the past administration started implementing the International Monetary Fund (IMF)-supported program in 2023 to address the crisis, the extraordinarily harsh conditions that existed initially in 2022, when the crisis began, have improved. Yet, the economy has not recovered its footing, with fiscal, macroeconomic, and growth conditions remaining very challenging. At the same time, other critical issues which frustrate long-term economic development continue to endure.

This is the backdrop against which the new government, formed by President John Dramani Mahama and the National Democratic Congress (NDC), has assumed office. Given the situation it has inherited, what should its priorities be as it prepares the 2025 Budget and Economic Policy Statement, which, being its first budget, is likely to set the tone for the direction of economic policy in its term of office?

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## 2. IFS' VIEWS AS TO WHAT THE PRIORITIES OF THE NEW GOVERNMENT SHOULD BE

The following are the IFS' well-considered views on what the priorities of the new government should be.

### 2.1 Ensure Macroeconomic Stability by Pursuing Strong Fiscal Consolidation and Significant Reduction in Monetary Growth

*Background*

The implementation of the 2023-2026 Extended Credit Facility-supported Program with the International Monetary Fund (IMF) starting from 2023 has helped to reduce the excessive instability the Ghanaian economy went through as part of the 2022 fiscal and macroeconomic crisis. However, the Ghanaian economy remains very unstable, as inflation rate, the cedi depreciation rate and the other macroeconomic stability indicators remain stubbornly very high.

On inflation, the disinflation process, which began in January 2023 and which saw inflation rate reduce from 54.1% in December 2022 to 23.2% in December 2023, has stalled, as inflation rate continued to stay above 20% (at 23.5%) in January 2025. Given that inflation rate began to cross the 20% mark in April 2022 (at 23.6%), it implies that the current crisis has caused inflation rate to stay above 20% for 34 consecutive months now. This is very problematic, since such an extended period of time with inflation rate in Ghana exceeding 20% was thought to be a thing of the past. This is because before the current crisis, it had been absent in the country for the past two decades. In fact, from February 2004 to December 2021, a period of 215 months, inflation rate stood above the 20% mark for only 6 months – from February to July 2009. This followed the 2008 fiscal slippage in Ghana and the 2007-2008 global financial and food price crises. Interestingly, after these 6 months that saw inflation rate exceeding 20%, a powerful disinflation process set in, causing inflation to hit single digit rates for 31 consecutive months from June 2010 to December 2012. Therefore, the continuously high inflation rate of above 20% being currently witnessed in Ghana for such an extended period of time should be seen as alarming.

The cedi depreciation rate also remains very high, implying, again, that Ghana's macroeconomic environment remains very unstable. For instance, using end of period exchange rate, annual depreciation rate of the cedi against the US dollar stood at as high as 19.2% in 2024. Even though this is a significantly reduced rate compared with the 30.0% and 27.8% rates of cedi depreciation against the US dollar recorded in 2022 and 2023 respectively, it still represents a very high depreciation rate when compared with what the country had been able to achieve since the early 2000s. In fact, from 2001 to 2021, a period of 21 years, average annual depreciation rate of the cedi against the US dollar stood at only 9.4%. Interestingly, since 2001, with the exception of these three consecutive years (2022, 2023 and 2024), annual depreciation rate of the cedi against the US dollar of 19% and above has not lasted for more than one year before, as the situation is soon put under control. In fact, from 2001 to 2021, annual depreciation rate of the cedi against the US dollar of 19% and above happened in only two non-consecutive years – 2008 and 2014.

As IFS demonstrated in its review of the 2024 Budget and Economic Policy Statement of the Government (Policy Brief No. 21), macroeconomic instability has a very powerful negative effect on economic growth in Ghana. Therefore, if the high macroeconomic instability the country is still witnessing as demonstrated above is not forcefully reined in, the reduced pace of economic growth Ghana is currently witnessing could persist, which would undermine employment creation and worsen the country's unemployment problems.

As pointed out in the introduction, the high macroeconomic instability the country is witnessing was mainly caused by large fiscal deficits that led to sharp debt buildups, leading to excessive debt service costs. Therefore, to be able to achieve a stable macroeconomic environment, IFS calls on the new government to pursue a strong fiscal consolidation strategy that is capable of reducing and maintaining the fiscal deficit at very low levels. This policy should be pursued even as the suspended debt service payments, resulting from the domestic and foreign debt restructuring programs, are to resume.

***Measures Needed***

To succeed in this regard, the government must ensure the following:

1. Revenue growth must exceed what the country has seen in the past number of years. To achieve this kind of revenue growth, the government must think outside the box. It is important to first note that so much taxation of poor citizens and domestic businesses, which are already less competitive internationally, can have serious negative welfare and economic growth implications. It will also not lead to sustained growth in revenue necessary for a strong and enduring fiscal consolidation. IFS therefore wants to reiterate, forcefully, that the solution to Ghana's weak revenue mobilization problem lies in the country's extractive sector. Studies at IFS have shown that to increase government revenue to match African or even middle-income economies' average, the government of Ghana should either get actively involved in the extractive sector by taking commanding interests in the sector through the use of joint venture arrangements, or change the contractual arrangements in the extractive sector (both the oil and mining subsectors) from the current concession regime to production sharing regime. Ghanaians cannot be in dire need of revenue for budgetary bailout and development purposes while the lion's shares of revenues from the oil and mining sectors go to pockets of private companies, particularly foreign ones. For more information on this subject, see IFS'

December 2020 publication entitled "The Role of the Extractive Sector in Ghana's Comparatively Low Public Sector Revenue Mobilization".

2. Total expenditure growth must also significantly fall below total revenue growth, with particular regard to compensation, earmarked expenditure and debt service payments.

In addition to the fiscal factors, high growth in money supply has also contributed to the high macroeconomic instability currently prevailing in the country. For instance, growth rate of broad money supply (M2), which reduced to 12.0% in 2021, increased sharply to 27.8%, 37.2% and 33.7% in 2022, 2023 and 2024 respectively. This calls for a check on monetary growth.

*Measures Needed*

1. The Bank of Ghana must rein in monetary growth as a means of ensuring macroeconomic stability by using all the options of monetary control available to it, instead of relying mostly on the use of the policy rate.
2. With regard to the above point, IFS finds it is commendable that the Gold Purchase Program (GPP) of the Bank of Ghana[1], instituted under the previous government, has resulted, according to the Bank, in significant increase in gold reserves as a means of defending the cedi. However, the Institute calls on the new government to critically examine to ascertain a possible link between the program and the sharp growth in liquidity in Ghana since 2022. The result of this examination, weighed against the impact of the program on the Bank's international reserves, should inform the new government's decisions regarding whether it should continue the program or not, as part of the policy to stabilize the economy.

## 2.2 Boost Economic Growth to Reduce Unemployment through Expenditure Prioritization and Strategic Intervention in Agriculture

*Background*

Ghana experienced high economic growth from 2008 to 2013, recording average real GDP growth rate of 8.7% during the period. Although growth rate of real GDP declined sharply to an average of 2.8% in 2014-2016 due to a biting energy crisis during the time, which resulted from reduced generation capacity of the Akosombo dam owing to low levels of rainfall during the period, real GDP growth picked up again starting from 2017. From 2017 to 2021, with the exception of COVID-19 year of 2020, real GDP growth rate ranged from 5.1% to 8.1%, with an average rate of 6.5% during the period (excluding 2020).

However, the fiscal and macroeconomic crisis that began in 2022 has sharply depressed economic growth in Ghana. In 2022 and 2023, real GDP growth rate stood at only 3.8% and

[2] *In the Gold Purchase Program, the Bank of Ghana buys gold from gold producers in Ghana using the local currency, the cedi, for the purpose of shoring up its reserves.*

2.9% respectively, thus falling far below the pre-crisis average growth rate. What is more troubling is that according to the new projections by the IMF in December 2024 as part of the third review of the 2023-2026 Extended Credit Facility-supported program, real GDP growth rate is expected to stay low at least till 2029. Specifically, real GDP growth rate has been projected to range from 4.0% to 5.0%, with an average rate of 4.4% from 2024 to 2029. This implies that if things work out according to these projections, real GDP growth will stay significantly below the pre-crisis level up to 2029. This, indeed, is bad news for job creation and employment generation, given that the country is suffering from high rates of unemployment, particularly among the young population.

IFS therefore calls on the new government to strategically intervene in the real sector to help boost economic growth beyond what has been projected in order to significantly enhance job creation and reduce unemployment in the country. The Institute is, however, aware of the country's weak fiscal position. We therefore recommend that the government approaches this through expenditure prioritization in favor of critical real sectors. We recommend first and foremost the agriculture sector.

Agriculture has a great potential to stimulate accelerated economic growth and massive job creation, which can significantly bring down the rate of unemployment in Ghana. This is because all the natural conditions necessary for a thriving agriculture are present in Ghana. For instance, weather conditions such as the number of days in the year of sunshine and the levels of annual precipitation (rainfall) are favorable for a flourishing agriculture in Ghana. Also, for the size of its population, agricultural land, measuring 126,037.4 square kilometers as at 2021 according to World Development Indicators (WDI) of the World Bank, puts Ghana in a position of being able to achieve massive agricultural production, if the country's land tenure and administration challenges are addressed. Also, there is abundant supply of labor in the country, which, if appropriately incentivized and mobilized, can help to propel agricultural production.

However, agriculture in Ghana is underperforming its potential. Agriculture has seen its contribution to GDP decline from 26.9% in 2010 to 22.7% in 2023. In fact, the sector, which grew by 7.3% and 8.5% in 2020 and 2021 respectively, saw its growth rate sharply decline to 4.2% and 4.5% in 2022 and 2023 respectively. The sector's productivity challenges are evident in the declining growth rates of its subsectors. Crops, the largest contributor to the sector, saw its growth rate sharply reduce from 8.6% and 8.9% in 2020 and 2021 respectively to only 3.8% and 4.8% in 2022 and 2023 respectively. Cocoa production that is a key export commodity contracted by 0.3% in 2023, adversely affecting rural incomes and employment. Furthermore, the forestry and logging subsector experienced a decline of 5.0% in 2023. The poor state of agriculture is manifested by the fact that food items, such as rice, watermelon, orange, avocado, tomato and many others, are imported in large quantities into the country, thereby posing economic growth, food security, exchange rate and other challenges.

The IFS therefore recommends that, through expenditure rationalization, the new government strategically and forcefully intervene in the agricultural sector.

*Measures Needed*

1. Massively mobilize the youth for the production of key and strategic agricultural products on team basis by providing them with seed money (capital) on credit with no regard to political party affiliation. For this to succeed, the government has to facilitate the acquisition of agricultural lands by the mobilized youth. The government has to also ensure that monies lent out for this purpose are strictly paid back within stipulated periods of time.

2. Significantly expand irrigation coverage to ensure continuous agricultural production throughout the year.

3. Establish a number of fertilizer manufacturing plants in Ghana to ensure that adequate and affordable fertilizers are made available to farmers in order to boost agricultural productivity.

4. Significantly enhance extension services for farmers.

5. Enhance the provision or preferably set up a dedicated institution to take over the supply of adequate high-yielding and disease-resistant seeds throughout the country.

### 2.3 Reset Ghana's External Sector by Changing the Ownership Structure of the Country's Two Major Merchandize Exports

Ghana's merchandize export, which has been the main driver of the merchandize trade and current account balances, has had little effect on the strength of the Ghana cedi relative to foreign currencies. Table 1 illustrates this point.

*Table 1: The Insignificant Effects of Merchandize Exports on the Strength of the Ghana Cedi*

| *Variable* | *2017-2019* | *2020-2021* | *2022-2023* |
|---|---|---|---|
| Average Merchandize Exports (US$ million) | 14,815 | 14,600 | 17,099 |
| Average Merchandize Trade Balance (US$ million) | 1,751 | 1,571 | 2,784 |
| Average Current Account Balance (US$ million) | -1,970 | -2,338 | -55 |
| Average Rate of Cedi Depr. Against the US$ (%) | 8.7 | 4.0 | 28.9 |

Source of Data: Bank of Ghana

The data used to construct the table covers 2017-2023, a period that has seen Ghana's trade balance registering surplus yearly, driven by the performance of merchandize exports. For a better understanding, this period has been subdivided into three: 2017-2019, 2020-2021 and 2022-2023, representing the period before COVID 19, the period of COVID 19 and its aftermath, and the period of economic crisis in Ghana.

We can see from Table 1 that in 2017-2019, average merchandize exports stood at US$14,815 million. The trade and current account balances, on average, also stood at US$1,751 million and –US$1,970 million respectively during the period. Average depreciation rate of the cedi against the US dollar stood at 8.7% during the period. In 2020-2021, average merchandize exports declined by US$215 million to US$14,600 million. This drove the average merchandize trade balance to worsen by US$180 million to US$1,571 million and the average current account balance to worsen by US$368 million to -US$2,338 million. Despite the poor performance of the merchandize exports and its effects on the merchandize trade and current account balances, the depreciation rate of the cedi against the US dollar sharply declined by 4.7 percentage points to 4.0%. In 2022-2023, total merchandize exports impressively increased, on average, by as much as US$2,499 million to US$17,099 million. This drove the trade balance to also improve sharply to US$2,784 million. The negative balance in current account also drastically reduced to only an average of -US$55 million. Yet, instead of responding positively to these impressive performances, again driven by sharp improvement in merchandize export, average depreciation rate of the cedi against the US dollar worsened dramatically to a crisis rate of 28.9% in 2022-2023. These clearly show that merchandize export (and its effects on merchandize trade and current account balances) is an insignificant determinant of the value of the cedi against foreign currencies.

Indeed, the capital and financial account balance of the balance of payments has been the balance of payments variable that determines the strength of the cedi relative to foreign currencies in Ghana. Given that, as shown above, the cedi does not largely respond to the behavior of merchandize export and its impact on trade and current accounts, at least within the period under consideration, the main variable under capital and financial account of the balance of payments the government of Ghana has been using to manage the cedi is international borrowing. This point is illustrated by Table 2.

*Table 2: International Borrowing Under Capital and Financial Account is the Main Determinant of the Strength of the Cedi Against Foreign Currencies in Ghana*

| *Variable* | *2017-2019* | *2020-2021* | *2022-2023* |
|---|---|---|---|
| Average Cap. and Fin. Account Balance (US$ million) | 2,528 | 3,096 | -1,437 |
| Average Rate of Cedi Depr. Against the US dollar (%) | 8.7 | 4.0 | 28.9 |

*Source of Data: Bank of Ghana*

We can see from the table that in 2017-2019, average capital and financial account balance stood at US$2,528 million. As we already know, average depreciation rate of the cedi against the US dollar stood at 8.7% during this period. In 2020-2021, the depreciation rate of the cedi against the US dollar declined to 4.0% because, driven by increased Eurobond issuance during the period, average capital and financial account balance increased to US$3,096 million. However, in 2022-2023, the government of Ghana was unable to borrow externally due to the downgrade in Ghana's credit rating to junk status in early 2022, turning the capital and financial account into a negative balance of as much as -US$1,437 million. This is the cause of the dramatic average depreciation of the cedi against the US dollar by 28.9% in 2022-2023.

The critical question now is, why is it that growth in merchandize exports has insignificant effect on the strength of the cedi as we saw above, making the government of Ghana resort to external borrowing to defend the value of the cedi? To answer this question let us consider Table 3.

*Table 3: Gold and Oil Exports as the Driving Force Behind Ghana's Merchandize Exports, 2017-2023*

| *Variable* | *2017-2019* | *2020-2021* | *2022-2023* |
|---|---|---|---|
| Average Total Merchandize Exports (US$ million) | 14,815 | 14,600 | 17,099 |
| % of Total Merchandize exports | 100 | 100 | 100 |
| Average Gold and Oil Exports (US$ million) | 9,878 | 9,370 | 11,738 |
| % of Total Merchandize exports | 67 | 64 | 69 |
| Average Cocoa Export (US$ million) | 2,377 | 2,583 | 2,226 |
| % of Total Merchandize exports | 16 | 18 | 13 |
| Average Other Exports (US$ million) | 2,561 | 2,646 | 3,135 |
| % of Total Merchandize exports | 17 | 18 | 18 |

Source of Data: Bank of Ghana

We can see from Table 3 that, in addition to representing getting to 70% of total merchandize exports, gold and oil export is the main driving force behind movements in total merchandize exports during the entire period under consideration. For instance, in 2022-2023, gold and oil export increased, on average, by US$2,368 million, representing as much as 95% of the US$2,449 million average increase in total merchandize exports. This phenomenon is the root cause of the inability of total merchandize exports to have significant effect on the strength of the cedi as we saw earlier. The reason is that the concession agreements Ghana has with multinational companies in the oil and gold sectors make these companies have control over export revenues from these commodities, thereby limiting the actual amounts of foreign currencies from export of these commodities that flow into the Ghanaian economy. Thus, even though, on paper, exports of gold and oil are recorded in the balance of payments as large and growing, a significant part of inflows from them do not come back to Ghana in practice. Even the portion that comes back does not hit the Bank of Ghana's balance sheet for the management of the cedi. These are the causes of the limited practical effect of the total merchandize export on the value of the cedi.

It is important to note that the dependence on external borrowing as the means of managing the value of the cedi, which causes external debt buildups and external debt service difficulties, has been very problematic in Ghana. This is because it has largely been the cause of the numerous exchange rate crises Ghana has experienced, which has usually triggered full-scale macroeconomic crises. The current economic crisis, which began in 2022, is a case in point.

To stop this from recurring in the future, IFS calls on the new government to reset Ghana's external sector.

### *Measures Needed*

1. Change the ownership structure of the country's major merchandize exports. As we said under point 2.1 above, this should be done by the government getting actively involved in the gold and oil sectors by taking commanding interests through joint venture arrangements.

2. An alternative to the above, again, is the use of production sharing agreement. These will ensure that the bigger part of export revenues from these commodities return to Ghana in hard currencies for the defense of the cedi and thus help prevent future crises.

Thus, taking controlling interests in the extractive sector through joint venture arrangements or the use of production sharing agreements is of critical importance for two reasons: (1) it is needed for the generation of adequate fiscal revenue for effective fiscal management, and (2) it is instrumental in helping the country generate enough actual export revenue in foreign currencies for the stabilization of the cedi without the negative effect of external debt buildups and large foreign debt service payments, which make Ghana's economy crisis-prone.

## 2.4 Set realistic budgetary targets to ensure fiscal credibility

### *Background*

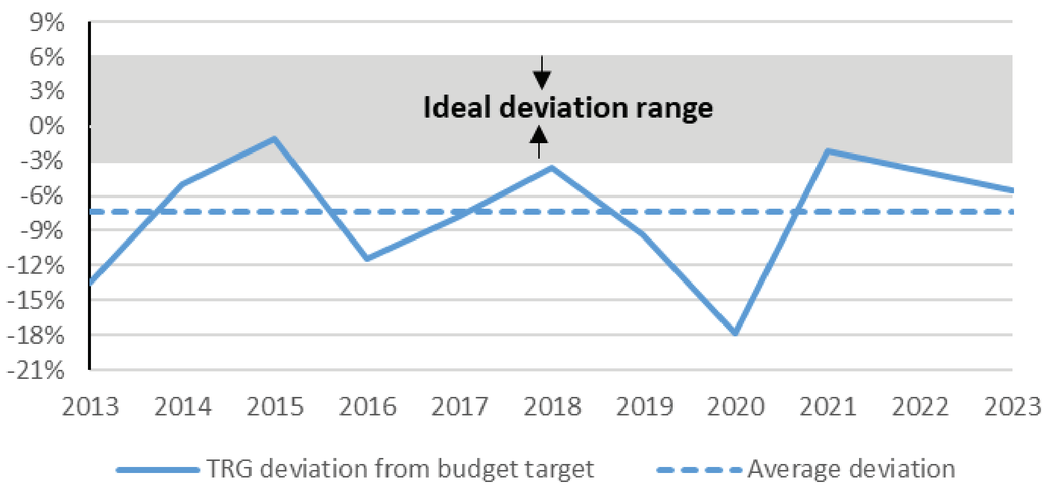
Effective fiscal policy rests, among others, on credible budgets. If a budget lacks credibility, its policy intentions are less likely to be achieved. Where this is a chronic challenge, it is likely to reduce confidence in fiscal policy, undercutting its effectiveness.

An essential feature of a credible budget is realistic revenue targets, since revenue is the cornerstone of any budget. The government of Ghana has a poor track record in this area. Over the years, budget statements have featured routine overprojection of revenues, which the IFS has consistently highlighted.[2] For instance, actual total revenue and grants was below the budget target every year from 2013 to

2023, with an average deviation of -7.4%.

With respect to the Public Expenditure and Accountability (PEFA) framework, which is a globally recognized standard for evaluating the performance of countries' public financial management systems, Ghana's annual revenue deviation was within the framework's ideal range of -3% to +6% for only 2 out of the 11 years from 2013 to 2023. In fact, Ghana's average revenue deviation of -7.4% is more than twice the lower limit of the range of -3%, implying undercollection of revenue below the threshold. This is demonstrated in Figure 1.

**Figure 1: Deviation of total revenue and grants (TRG) from the budget target, %**




The Ministry of Finance should therefore improve the realism of revenue targets to underpin budget credibility.

### *Measures Needed*

1. Review the Ministry's macro-fiscal forecasting framework and processes with a view to addressing possible optimism bias in the projection of revenue.

2. Improve estimation of the revenue impact of new tax policies by strengthening the underlying data and analyses. This issue was acutely highlighted when in 2022, for example, the actual revenue from the e-levy turned out to be only 8.5% of the projected amount.

3. Involve independent experts to evaluate and advise the Ministry about its forecasts.

4. Adopt a conservative approach to revenue projection, recognizing that revenue projections are not about what the government wants to collect but what it can collect, given the economic outlook and the government's policy efforts.

[2] *See various IFS budget reviews available at www.ifsghana.org.*

## 2.5 Do not look for the least opportunity to return to the international bond market

*Background*

Since 2000, Ghana has suffered two debt crises. The first, the HIPC crisis in 2001, was caused by an excessive build-up of external debt during the 1980s and 90s. Ultimately, it took debt forgiveness under the HIPC Initiative to save the country from a complete meltdown. The second crisis, which emerged in 2022, resulted from build-up of both external and domestic debts after HIPC, which accelerated in the past decade. However, its trigger was external, because it was precipitated by, as stated earlier, a loss of access to the international bond market in early 2022 after the country's credit ratings had been downgraded to junk status. Furthermore, during the recent debt restructuring to tackle the crisis, negotiations over external debt were more complex and protracted than those over domestic debt. So, while the nation must avert a return to excessive debt build-ups of any form at all costs, past experience shows it is especially imperative to avoid sliding back into another foreign debt entanglement.

The government should not therefore look for the least opportunity to return to the international bond market.

*Measures Needed*

1. The government should learn lessons from the past three years in which the country has carried on without borrowing from the international bond market. During this period, the government was compelled to pursue steps to ensure lower fiscal deficits. This stance should be maintained into the future, since low deficits imply low borrowing.

2. Since the crisis moved the central bank to more vigorously seek non-debt-creating avenues to increase its international reserves (the Gold Purchase Program), this should teach the government a lesson that the nation's natural resources can be leveraged for self-reliance.

## 2.6 Seriously and effectively fight corruption

*Background*

Corruption has long wreaked havoc on the country's development. It is pervasive and deep-rooted. For instance, according to a corruption survey commissioned by the United Nations Office on Drugs and Crime, it found that in 2021, 17.4 million individual bribes, totaling an amount of GH¢5 billion, were paid to Ghanaian public officials. In addition to bribery, corruption in the public sector is manifested in payroll fraud, rigged procurement, inflated and needless contracts, sell-offs of public assets, and plain theft, among others. By these means, corruption leads to depletion of public resources, poor public services, and an unfavorable business climate, hindering economic growth and development.

The government, therefore, has to seriously and effectively fight corruption to curb its malignant effects on governance and development.

*Measures Needed*

1. Punish swiftly and severely those found to have engaged in corruption, irrespective of their party affiliation or status in society. This will enable the establishment of a credible deterrence against it.

2. Review all public institutions with a view to identifying areas of operation that are corruption-prone for reforms.

3. Run a merit-based, disciplined, well-supervised, and efficient public sector, with a focus on high performance to meet public needs and expectations. This is premised on the understanding that corruption thrives less where there is a competent and effective public administration, which constrains the openings for various types of corrupt acts.

## CONCLUSION

We have clearly demonstrated in this paper that six critical areas of economic management should serve as the priorities of the new government:

(1) Ensuring macroeconomic stability through strong fiscal consolidation and reduced monetary growth; (2) Boosting economic growth to reduce unemployment through expenditure prioritization and strategic intervention in agriculture; (3) Resetting Ghana's external sector by changing the control structure of the country's two major merchandize exports; (4) Setting realistic budgetary targets to ensure fiscal credibility; (5) Refraining from returning to the international bond market at the least opportunity; and (6) Fighting corruption with seriousness and effectiveness.

Indeed, the backgrounds to these carefully selected priorities and recommendations show that the new government has a daunting task ahead. We, however, believe that if the government is able to muster courage and implement what we have recommended in this paper with dedication and commitment, significant strides can be made.

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