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A REVIEW OF THE 2026 BUDGET STATEMENT AND ECONOMIC POLICY OF THE GOVERNMENT OF GHANA

1. INTRODUCTION

The 2026 budget statement, tabled by the government on November 13, 2025, has the theme "Resetting for Growth, Jobs, and Economic Transformation." According to the government, the core policy objectives are to consolidate macroeconomic stability, accelerate economic transformation and job creation, and strengthen national security and the social sectors to promote inclusive growth.

This paper offers a critical assessment of the 2026 budget statement and economic policy of the government. In doing this, it identifies the main strengths and weaknesses of the budget, paying particular attention to issues of credibility and challenges to the government's plans.

The structure of the paper is as follows. Coming next after the introduction, Section 2 reviews macroeconomic developments in 2025. Section 3 then reviews fiscal developments in 2025 and the government's fiscal program for 2026. Section 4 presents our assessment of the budget statement. And Section 5 provides policy recommendations.

2. MACROECONOMIC DEVELOPMENTS IN 2025

The year 2025 has been characterized by a critical phase of macroeconomic stabilization and recovery within the framework of Ghana's 2023-2026 Extended Credit Facility (ECF) program with the IMF.

The disinflationary trend that began in 2023 strengthened in 2025, supported by a tight monetary policy stance of the Bank of Ghana (BoG) and the government's commitment to fiscal consolidation. Inflation rate, which stood at 23.8% in December

2024, declined steadily to 13.7% in June 2025, and further to 9.4% by the end of the third quarter of the year. In fact, inflation rate reached as low as 8.0% in October 2025.

With respect to the exchange rate, the Ghanaian cedi has experienced a strong performance in 2025, as it has witnessed a sharp appreciation against the US dollar. From the start of the year to the end of October, for example, the Ghanaian cedi appreciated cumulatively by 34.9%. This marks a dramatic reversal from the high depreciation rates of 30.0%, 27.8% and 19.2% in 2022, 2023 and 2024 respectively. This strong performance was anchored on several key factors. These include the renewed market confidence, due to the successful debt restructuring and continued adherence to the IMF program; a strong external sector performance, driven by robust gold exports and remittance inflows; and the Bank of Ghana's (BoG) interventionist policies, particularly the "Gold-for-Reserves" program, which has provided a structural boost to foreign exchange reserves.

In response to the macroeconomic stability, real GDP growth has been quite robust in 2025. Having registered a growth rate of 5.7% at the end of 2024, real GDP continued to impressively expand in the first half of 2025, recording 6.3% growth rates (on year-on-year basis) in both the first and second quarters of the year. The strong performance of real GDP growth in the first half of 2025 was driven by the non-oil sector. Non-oil real GDP growth rate stood at as high as 7.7% and 7.8% in the first and second quarters of 2025 respectively. With regard to the three major sectors, the services sector saw the highest growth rate in the first half of 2025, as it registered growth rates of 7.8% and 9.9% in the first and second quarters of the year respectively. At the same time, the agricultural sector, whose growth rate stood at a mere 2.8% at the end of 2024, strongly rebounded, recording growth rates of 6.6% and 5.2% in the first and second quarters of 2025, respectively. However, growth rate of the industrial sector, which stood at 7.1% in 2024, saw sharp declines, as the sector recorded growth rates of only 4.1% and 2.3% in the first and second quarters of 2025, respectively. In fact, the industrial sector growth in the first half of 2025 was dragged down by the oil subsector growth, as the subsector contracted by whopping 18.1% and 22.5% in the first and second quarters of the year, respectively.

It is important to note that the Bank of Ghana's Monetary Policy Committee (MPC) maintained a cautious but gradually easing stance in its monetary and interest rate policies. Because low inflation necessitates a low monetary policy rate, with disinflation solidifying in the second half of 2025, the Bank of Ghana's policy rate, which was kept at 28% from March to June 2025, eased to 25% in July 2025, and further to 21.5% starting in September 2025. In response to the improved macroeconomic stability and the reduction in the Bank of Ghana's policy rate, average lending rate of the banks declined from 30.25% in December 2024 to 24.15% in August 2025.

The banking sector continued its gradual recovery throughout 2025, showing better asset growth and profitability. Key indicators like the Capital Adequacy Ratio (CAR) also remained robustly above the regulatory minimum requirement of 13%, signifying a sound capital base. Additionally, investor sentiment in the domestic capital market has strengthened, with the Ghana Stock Exchange-Composite Index (GSE-CI) recording a gain of 71.5% between January and October 2025.

The country's external sector position has seen significant improvement in 2025, thereby providing a critical anchor for the macroeconomic stability. Merchandize trade balance improved by as much as US$2.42 billion from a surplus of US$3.77 billion in 2024 to a surplus of US$6.19 billion from January to August 2025. This pushed the current account surplus to more than double from US$1.68 billion in 2024 to US$3.44 billion from January to June 2025.

The improvements in the merchandize trade and current account balances were propelled by a sharp improvement in total exports. Total exports increased by US$5.69 billion from US$12.03 billion in the first eight months of 2024 to US$17.99 billion in the same period in 2025. The increase in total exports was mostly driven by gold exports, which increased by as much as US$4.56 billion from US$6.65 billion from January to August 2024 to US$11.20 billion in the same period in 2025. Although oil exports declined by as high as 33.8% to US$1.83 billion from January to August 2025 relative to its value in the same period in 2024, it is interesting to note that for the first eight months of 2025 alone, as much as US$13.03 billion in gold and oil (two publicly endowed extractive resources) was exported from Ghana. Owing to these positive developments, gross international reserves improved from US$8.98 billion or 4.0 months of import cover in December 2024 to US$10.73 billion or 4.5 months of import cover in August 2025.

3. FISCAL DEVELOPMENTS IN 2025 AND ANALYSIS OF THE 2026 BUDGET

3.1 Fiscal Developments in 2025

Marked improvements in fiscal outcomes have been witnessed in 2025. The overall cash deficit (including discrepancy) outturn in the first three quarters of the year as a share of GDP stood at 2.3%, representing 1.7 percentage points lower than what was targeted for the period. This compares favorably with the overall cash deficit of 5.7% of GDP recorded during the same period in 2024. For the entire year, the overall cash deficit is projected to be GH¢39.72 billion or 2.8% of GDP. If realized, this would be as much as GH¢21.69 billion or 2.4 percentage points lower than the actual overall cash deficit of GH¢61.41 billion or 5.2% of GDP recorded in 2024. Indeed, the projected improvement in the fiscal position in 2025 over the 2024 outturn is more striking in terms of the deficit on commitment basis. The overall fiscal deficit (on commitment basis) is projected to be GH¢25.25 billion or 1.8% of GDP in 2025, a whopping GH¢67.40 billion or 6.1 percentage points lower than the actual overall commitment deficit of GH¢92.65 billion or 7.9% of GDP recorded in 2024.

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The sharp improvement in the fiscal balances in 2025 stems from lower total expenditure growth. Total expenditure (on cash basis), which grew by as high as 51.2% in 2024, has been projected to grow by only

7.3% to GH¢266.21 billion in 2025. Compensation of employees is projected at GH¢80.03 billion in 2025, representing 16.0% increase over the outturn of GH¢67.19 billion in 2024. Interest payment is projected to increase by only 8.3% to GH¢51.05 billion in 2025 from the actual outturn of GH¢46.79 billion in 2024. Capital expenditure is projected to be GH¢23.86 billion in 2025. If realized, this would be GH¢5.53 billion lower than the actual capital expenditure outturn of GH¢29.39 billion in 2024.

Total revenue and grants outturn for 2025 is projected to increase by 21.4% to GH¢226.49 billion (16.0% of GDP) relative to the actual outturn of GH¢186.59 billion in 2024. However, the projected total revenue and grants outturn for 2025 is GH¢3.46 billion or 0.4 percentage points of GDP short of the 2025 mid-year revised budget target of GH¢229.95 billion or 16.4% of GDP. The projected shortfall in total revenue and grants in 2025 against its mid-year revised budget target is being driven by weaker-than-expected tax revenue, which is projected to be lower by GH¢3.40 billion.

3.2 Analysis of the 2026 Budget

The 2026 budget shows fiscal expansion over the 2025 projections, as the targeted fiscal deficits are higher. The overall fiscal deficit on commitment basis is budgeted to grow by GH¢9.11 billion to GH¢34.36 billion or 2.2% of GDP in 2026 from the projected outturn of GH¢25.25 billion in 2025. Thus, the 2026 deficit on commitment basis represents an increase of 0.4 percentage points of GDP over the 2025 projected outturn. On cash basis, the overall fiscal deficit is budgeted to increase to GH¢64.19 billion in 2026 from the projected outturn of GH¢39.72 billion in 2025. As a ratio of GDP, the overall deficit on cash basis is budgeted to increase by 1.2 percentage points to 4.0% in 2026.

To achieve these fiscal deficits, total revenue and grants is budgeted to increase by GH¢41.60 billion or 18.4% to GH¢268.09 billion in 2026 from the projected outturn of GH¢226.49 billion in 2025. As a ratio of GDP, total revenue and grants is expected to increase by 0.8 percentage point to 16.8% in 2026 from the projected outturn of 16.0% in 2025. Tax revenue is expected to drive the increase in total revenue and grants, as it is budgeted to increase by GH¢37.37 billion or 20.0% to GH¢223.93 billion in 2026, relative to the projected outturn of GH¢186.56 billion in 2025. Non-tax revenue and foreign grants, on the other hand, are expected to grow by only 0.6% and 14.6% to GH¢26.74 billion and GH¢3.07 billion respectively in 2026.

To boost revenue mobilization, the following tax revenue measures are to be introduced by the government: (i) comprehensively overhaul VAT by ending the COVID-19 Health Recovery Levy, restoring input tax deductibility of GETFund and NHIL levies, bringing the effective VAT rate to 20% from 21.9%, scrapping VAT on reconnaissance and mineral prospecting, raising the VAT registration threshold from GH¢200,000 to GH¢750,000, and extending the VAT zero-rating for locally manufactured textiles to 2028; (ii) strengthen VAT compliance through the introduction of digital tax solutions for cross-border digital transactions, roll out fiscal electronic devices (FEDs), introduce a VAT reward scheme, and tighten the enforcement of the laws governing tax arrears and tax exemptions; (iii) close revenue leakages at ports using AI-driven pre-arrival cargo inspection; and (iv) establish a special GRA recovery unit to recover lost revenues.

On expenditure, total expenditure on commitment basis is budgeted to increase by GH¢50.72 billion or 20.2% to GH¢302.46 billion in 2026 from the projected outturn of GH¢251.74 billion in 2025. As a ratio of GDP, total expenditure is budgeted to increase to 18.9% in 2026 from the projected outturn of 17.8% in 2025.

Capital expenditure is budgeted to witness a drastic increase to GH¢57.53 billion in 2026, representing GH¢33.67 billion or 141.1% nominal growth over the 2025 projected outturn of GH¢23.86 billion. Compensation of employees is budgeted to increase by 12.5% to GH¢90.76 billion in 2026 from the projected outturn of GH¢80.70 billion in 2025. Interest payment is budgeted to increase by 13.1% to GH¢57.71 billion in 2026 from the projected outturn of GH¢51.05 billion in 2025.

4. ASSESSMENT

The continued improvement in the macroeconomic environment in 2025 is a welcome development. Indeed, the 5.7% and the 6.3% real GDP growth rates recorded in 2024 and the first half of 2025 respectively, compared with the depressed growth in the crisis years of 2022 and 2023, mean that the economy is now returning to the high growth rates it witnessed in the past. The high growth rates in the past two years, resulting from the steady disinflation, decline in interest rates, and strengthening of consumer and business confidence, should provide the foundation for accelerated growth, at least in the medium term.

We also welcome the reforms by the government to prevent arrears accumulation, a persistent public financial management challenge in Ghana. These reforms, as outlined in the budget, include the implementation of a new Commitment Authorization System under the amended Public Procurement Act, as well as the establishment of a Compliance Division at the Ministry of Finance to enforce compliance by Ministries, Departments, and Agencies (MDAs) with commitment controls. If effectively operationalized and sustained, these measures could significantly enhance expenditure discipline by ensuring that MDAs incur obligations only when budgetary provision exists. This would help to curb the chronic buildup of arrears, thereby improving budget credibility and fiscal performance.

Notwithstanding these positive elements, the budget statement has weaknesses that warrant corrective action by the government. These are:

I. Under-projected Real GDP Growth Rates

Despite the clear indication that the economy is returning to the high growth path it was on in the past, given the high growth rates of 5.7% and 6.3% in 2024 and the first half of 2025 respectively as pointed out above, the government has projected a growth rate of 4.8% for the full year of 2025. It has also projected the same rate of growth for 2026. Additionally, the government has projected an average growth rate of 4.9% for 2026–2029. This, indeed, is paradoxical. This is because (1) the 2025 full-year growth projection implies that real GDP growth ought to decline sharply in the second half of 2025 to a mere 3.3%. This is not realistic. There has been no negative development in the second half of the year that will cause real GDP growth to fall abruptly to this level. On the contrary, the steadily improving macroeconomic stability suggests that growth will remain robust in the second half of 2025; and (2) the government has provided no evidence of any expected disturbances that would weaken the current growth momentum in the medium term. Instead, it has declared its intent to drive growth, jobs, and economic transformation through enhanced macroeconomic stability, tax reforms, new industrial policies, and a scale-up in capital investment from 2026 onwards. Clearly, the improving macroeconomic environment and the optimistic policy stance of the government are inconsistent with the projected declines in real GDP growth for the whole year of 2025 and the medium term.

II. Unrealistic Revenue Projections

To start with, in our assessment of the 2025 mid-year budget and fiscal policy review, we stated in reference to the government's revised revenue target for the full year as follows: *"…the revised target for total revenue and grants will most likely not be achieved. This is especially as the mid-year review did not respond credibly to the challenges that constrained revenue mobilization in the first half of the year*[1]*."* Against this background, the IFS feels vindicated that the government has now lowered the projected total revenue and grants outturn for the full year of 2025 from the 16.4% to 16.0% of GDP.

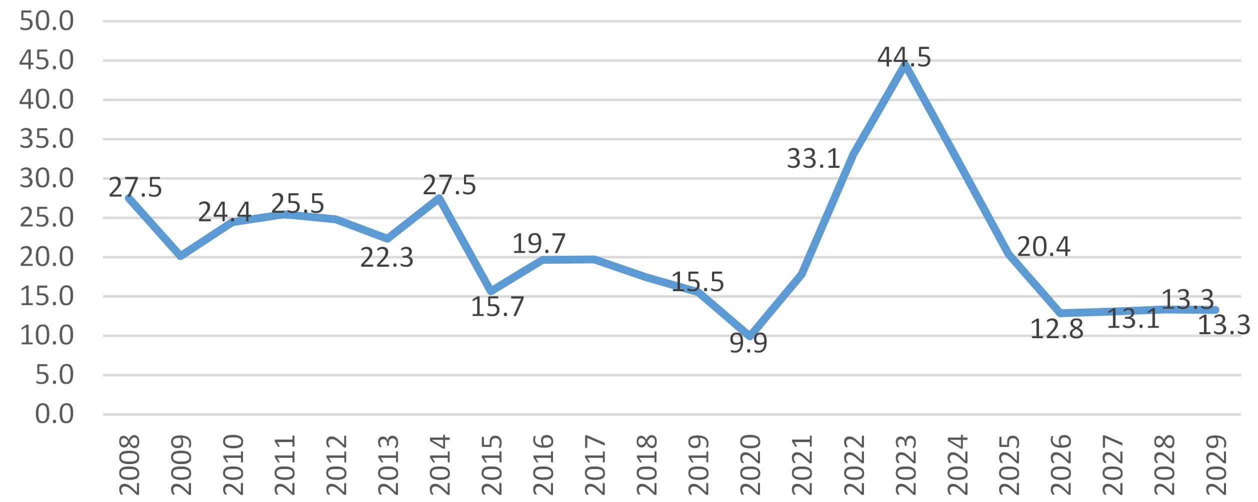
Interestingly, the government has projected total revenue and grants as ratios of GDP for 2026, 2027, 2028 and 2029 to be 16.8%, 17.2%, 17.1% and 16.9% respectively. We believe that the government is, again, very unlikely to achieve these projected total revenue and grants to GDP ratios, particularly when it comes to the 2026 ratio. The reasons are as follows:

1. We believe that the revenue measures in the budget do not have the potential to cause total revenue and grants to GDP ratios to increase to such levels. First, the central measure, the VAT reforms, is mostly tax-reducing in nature and thus could even limit revenue mobilization. Second, the other measures center on using technology to plug leakages. Yet, for all its talked-about benefits, the use of technology has not, historically, led to significant improvements in Ghana's revenue-to-GDP ratio.

2. The total revenue and grants to GDP ratios for 2026-2029 have been made higher than what they are supposed to be by under-projected nominal GDP figures, which serve as the denominators to these ratios. The reason is that the projected nominal GDP figures reflect unrealistically low growth rates. Figure 1 illustrates this point.

[1] *See IFS Policy Brief No. 24: "An Assessment of the Government of Ghana's 2025 Mid-Year Fiscal Policy Review."*

Figure 1: Growth of Nominal GDP (%)



Source of data: Ghana Statistical Service

We can see from the figure that, apart from 2020 when GDP growth completely collapsed in Ghana due to the COVID-19 pandemic, the nominal GDP growth rates from 2026 to 2029 are not in sync with the rest of the data, as they are below the historical norm. One may try to attribute this to the single digit inflation rate the country has begun to experience. However, this argument is not tenable, since many of the high nominal GDP growth rates in the figure cover years of single digit inflation rates. What is actually dragging down the government's projected growth rates of nominal GDP and thus its levels are the under-projected real GDP growth rates described in Point I above. Thus, by understating real GDP growth rates despite the economy's return to a high growth path, the government is likewise understating the nominal GDP figures. This has artificially reduced the denominators used in calculating the total revenue to GDP ratios, making these ratios higher than what they ought to be.

III. Exceptionally Poor Performance of Capital Expenditure

Despite the critical need for public investment to support growth, competitiveness, and public service delivery, and despite the government's Big-Push policy, capital expenditure in 2025 has been very low. In fact, actual capital expenditure in the first nine months of 2025 represented only 41.5% of the budget amount. This is a record level of underspending for capital expenditure relative to budget, at least in the last decade. This is demonstrated by Table 1. From the table, which compares budgeted and actual capital expenditures in the first nine months of each year from 2016 to 2025, we see that the 2025 actual spending as a ratio of the budgeted amount stands out in terms of its smallness.

Table 1: Budgeted and Actual Capital Expenditures in the First Nine Months of the Year

Year	Budget (GH¢bn)	Actual Spent (GH¢bn)	Actual as Ratio of Budget (%)
2016	4.51	5.31	117.7
2017	4.69	3.84	81.9
2018	4.72	3.33	70.5
2019	6.20	5.44	87.7
2020	6.49	8.98	138.4
2021	8.53	10.44	122.3
2022	12.07	12.28	101.8
2023	16.70	10.88	65.1
2024	22.66	23.10	101.9
2025	26.59	11.01	41.4

Source of data: Ministry of Finance

The weaker-than-anticipated revenue mobilization in 2025 is a primary cause of the exceptionally large capital expenditure shortfall. Financing difficulties also contributed to the situation. For example, whereas the government budgeted for GH¢8.74 billion as project loans in the first nine months of the year, it was able to secure only GH¢2.83 billion, roughly one-third of the target.

For the full year, capital expenditure is projected to rise to GH¢23.86 billion from GH¢11.01 billion as of the third quarter. This implies that the capital expenditure in the fourth quarter is expected to be more than double what has been spent so far. However, given the trend so far and the reduced nature of the projected outturn for total revenue and grants for 2025, the prospect of this target being met is weak.

It is important to point out that even if the government succeeds in meeting this new target of GH¢23.86 billion for 2025, capital expenditure for the year will still remain very poor.

Figure 2: Capital Expenditure to Total Revenue and Grants Ratio (%)

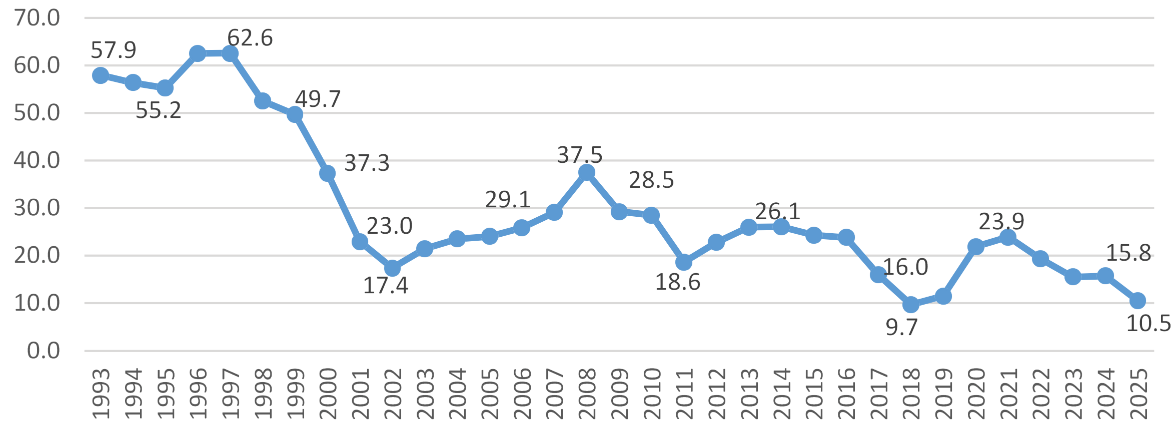


Figure 2 illustrates this point. The figure shows central government capital expenditure to total revenue and grants ratio since the beginning of the Fourth Republic (1993 to 2025). What is clear is that, except for 2018, the projected capital expenditure outturn in 2025 as a ratio of total revenue and grants (10.5%) is the lowest in the Fourth Republic. Clearly, capital expenditure in 2025 has fallen to a historically low level.

We recognize that the government has sharply increased capital expenditure target for 2026 to GH¢57.53 billion, representing 21.5% of total revenue and grants. While this would be good news if achieved, we do not see how this target for 2026 will not suffer a fate similar to what the 2025 target suffered, if the targeted deficit ratio is to be maintained. The reason is that, as analyzed under Point II above, the government is very unlikely to achieve the targeted total revenue and grants for 2026.

IV. Re-emerging Problem of High Fiscal Rigidity

Another concern is the reemergence of high fiscal rigidity. Fiscal rigidities are institutional, legal, contractual or other constraints that limit the ability of the government to change the size and structure of the public budget, at least in the short term. By their nature, compensation, debt service (interest payment and amortization) and earmarked expenditures are the rigid expenditures. The sum of these expenditures is called total rigid expenditure. Anytime total rigid expenditure exceeds 100% of total revenue and grants, borrowing becomes unavoidable. This is because without borrowing, the government would not be able to fund these expenditures, which cannot be cut in the short term due to their rigidity. Because borrowing in turn increases the degree of rigidity through debt service expenditure, whenever total rigidity exceeds 100% of total revenue and grants, the fiscal situation enters into a self-propelling cycle of borrowing, leading to debt distress or even debt crisis. In 2022, total rigid expenditure accounted for 121.2% of total revenue and grants. This led to the recent debt crisis, causing the debt restructuring.

Although after the debt restructuring, total rigid expenditure ratio dropped sharply from 121.2% in 2022 to 85.0% in 2023, driven by a large decline in the debt service expenditure ratio from 55.0% to 24.7%, the rigidity problem is re-emerging. This is because total rigid expenditure has begun to significantly rise again. This fact is illustrated by Table 2. We can see from the table that in 2024, the total rigid expenditure ratio rose by 5.4 percentage points to 90.4%. The main driver was an increase in the debt service ratio by 4.8 percentage points from 24.7% to 29.5%, largely due to the resumption of debt service payments that were suspended in 2023 as part of the debt restructuring. In the first three quarters of 2025, total rigid expenditure ratio has risen again by 6.4 percentage points to 96.8%, getting closer to the 100% threshold. All the three rigid expenditures saw increases in their ratios, as they rose faster than total revenue and grants, reflecting the revenue mobilization challenge in 2025. Interestingly, earmarked expenditure ratio rose by the biggest margin. In addition to the general revenue mobilization challenge, this was largely caused by the uncapping of four major earmarked funds by the government in the 2025 budget statement, a policy whose risks the IFS warned about in its review[2] of that budget in March 2025.

It should be noted that another effecn-creasing fiscal rigidity is that it narrows the government's discretionary fiscal space, leading to limited public investment. Therefore, the very low capital spending in the first three quarters of 2025, as discussed in Point III above, is partly the result of the sharp increase in fiscal rigidity in the period

Table 3: Rigid Expenditures as Ratios of Total Revenue and Grants Since 2022

Year	*Compensation ratio (%)*	*Debt service ratio (%)*	*Earmarked expenditure ratio (%)*	*Total rigid expenditure ratio (%)*
2022	*40.8*	*55.0*	*25.4*	***121.2***
2023	*37.4*	*24.7*	*22.9*	***85.0***
2024	*36.0*	*29.5*	*24.9*	***90.4***
2025Q1-Q3	*37.5*	*31.8*	*27.5*	***96.8***

Source of data: Ministry of Finance

The analysis above shows that fiscal rigidity is again becoming a key source of fiscal vulnerability for Ghana despite the debt relief provided by the recent debt restructuring. It should be further pointed out that the debt relief Ghana obtained from the recent restructuring was not as substantial as what the country gained in the 2000s under the HIPC initiative, when most of the country's external debt was canceled outright. Therefore, the fiscal space and budget flexibility generated by the recent restructuring are smaller than what was obtained after the HIPC initiative. Thus, unlike total rigid expenditure ratio dropping to 85.0% in 2023 after the recent debt restructuring,. it dropped to a much lower ratio of 66.8% in 2004 when the country reached HIPC completion point.

RECOMMENDATIONS

I. Revise the real GDP growth projections in the budget statement: We have shown that the real GDP growth rate projected for 2025 is unrealistically low given the performance in the first half of the year and the lack of any evidence about an imminent slowdown. Additionally, we have highlighted the inconsistency between the growth projections for 2026 and the medium term on one hand and the government's stated priorities in the budget statement to drive growth, jobs, and economic transformation on the other hand. This disconnect weakens the credibility of the macroeconomic framework anchoring the budget and indicates a lack of internal coherence in the budget statement. To address these, the government should revise upwards the growth projections for 2025 and the medium term. The 2025 growth projection should be revised to reflect current economic conditions, while the post-2025 projections should be revised to ensure consistency with the govern-

[2] See IFS Policy Brief No. 23: "An Assessment of the 2025 Budget Statement and Economic Policy of the Government of Ghana."

ment's own buoyant expectations.

We would like to caution the government here that it should take its macro-fiscal projections seriously in order to ensure the credibility of the national budget. The credibility issues with the projections in the 2026 budget statement, which we have demonstrated in this paper, come against the backdrop of similar issues that we identified with the 2025 budget statement. In our review of that budget statement, we questioned the credibility of the government's medium-term (2026–2028) interest payment projections, which were unbelievably low. Interestingly, the government has revised these projections upwards by a whopping 91.0% on average in the 2026 budget statement, proving IFS right. Given this pattern of forecast credibility issues, we believe the government should undertake a review of its macro-fiscal forecasting system to address its shortcomings.

***II. Do not rely solely on the tax system to strengthen revenue mobilization*:** Despite our persistent calls on the government of Ghana to leverage the country's extractive resources to increase revenue generation through active state participation or the use of production sharing agreements, this has not happened. On the contrary, the government has been overly reliant on tax policy changes to expand revenue, which has achieved disappointing results so far. Yet, we remain convinced, as our studies show, that focusing the country's efforts on the extractive sector by changing from the concession regime to active state involvement or the use of production sharing agreements will solve the country's recurring revenue underperformance. It will thus generate substantial revenue without worsening the tax burden on productive sectors. Additionally, with substantial revenue generation from the extractive sector, the country will be able to increase public investment appreciably to address the infrastructure gap and accelerate economic growth and job creation.

***III. Ensure that the increasing fiscal rigidity is halted and reversed*:** As demonstrated earlier, the problem of high fiscal rigidity is rearing its ugly head again. Therefore, the government must not be complacent about the current fiscal state. Without stronger revenue mobilization and rigorous control of rigid expenditures, the gains from the debt restructuring could quickly erode, leaving the country, once again, constrained by limited fiscal space. The government should be reminded that, as discussed earlier, the HIPC initiative reduced the degree of rigidity in the country's budget by greater margin and thus granted the country larger discretionary fiscal space than what the recent debt restructuring has offered. Yet, in less than two decades after the completion point of the HIPC debt relief initiative, the country experienced another debt crisis. The government should therefore take deliberate steps to arrest and reverse the increasingly high fiscal rigidity in the budget. To do this, revenue generation should be enhanced, as recommended above, and growth in each of the rigid expenditures should be kept below the growth rate of total revenue. As part of this, the government must reconsider the uncapping of the earmarked funds, because without doing so, earmarked expenditure will continue to help drive total rigid expenditure.

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