INSTITUTE FOR FISCAL STUDIES

POLICY BRIEF No.21

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IFS' REVIEW OF THE 2024 BUDGET

1. INTRODUCTION

In mid-November, the government tabled the 2024 budget statement within the context of the three-year IMF program that Ghana formally adopted in May 2023, which seeks to address the present fiscal and macroeconomic crises. Since the program's adoption, macroeconomic conditions have seen some improvement, with year-on-year inflation declining to 35.2% in October 2023 after peaking at 54.1% in December 2022. The volatility of the cedi depreciation against foreign currencies has also eased, while some calm has returned to the financial sector after the government completed its domestic debt restructuring exercise.

Nevertheless, the economy is not out of the woods, as the macroeconomic environment is far from stable given the still-high inflation rate of 35.2%, which is way above the single digit rate the country enjoyed before the crisis. Additionally, economic growth remains well below the pre-crisis level, as real GDP growth is projected to be only 2.3% in 2023 relative to, for instance, the 5.1% registered in the pre-crisis year of 2021. As IFS has demonstrated previously,[1] and as should be clear to all by now, the cause of the current macroeconomic instability is the country's parlous fiscal position, which existed even before both the Covid-19 pandemic and Russian-Ukraine war. As such, it would take strong and effective fiscal consolidation to restore enduring macroeconomic stability. This deserves critical policy attention because the low growth and the associated high unemployment rate being currently registered in the country are the result of the prevailing macroeconomic instability.

[1] *See, for instance, "IFS' Assessment of the Government of Ghana's Fiscal Consolidation Efforts in the Face of the Rapidly Deteriorating Macroeconomic Environment",* https://www.ifsghana.org/wp-content/uploads/2022/08/IFS-Assessment-of-Governments-Fiscal-Consolidation-Efforts.pdf

The focus of this review, therefore, is to assess the strengths and effectiveness of the fiscal program and targets set out in the 2024 budget statement, and offer recommendations to the government. Before we do this, however, we demonstrate in the next section how macroeconomic stability is critical for accelerated economic growth in Ghana.

2. Macroeconomic Stability: A Critical Driver of Economic Growth in Ghana

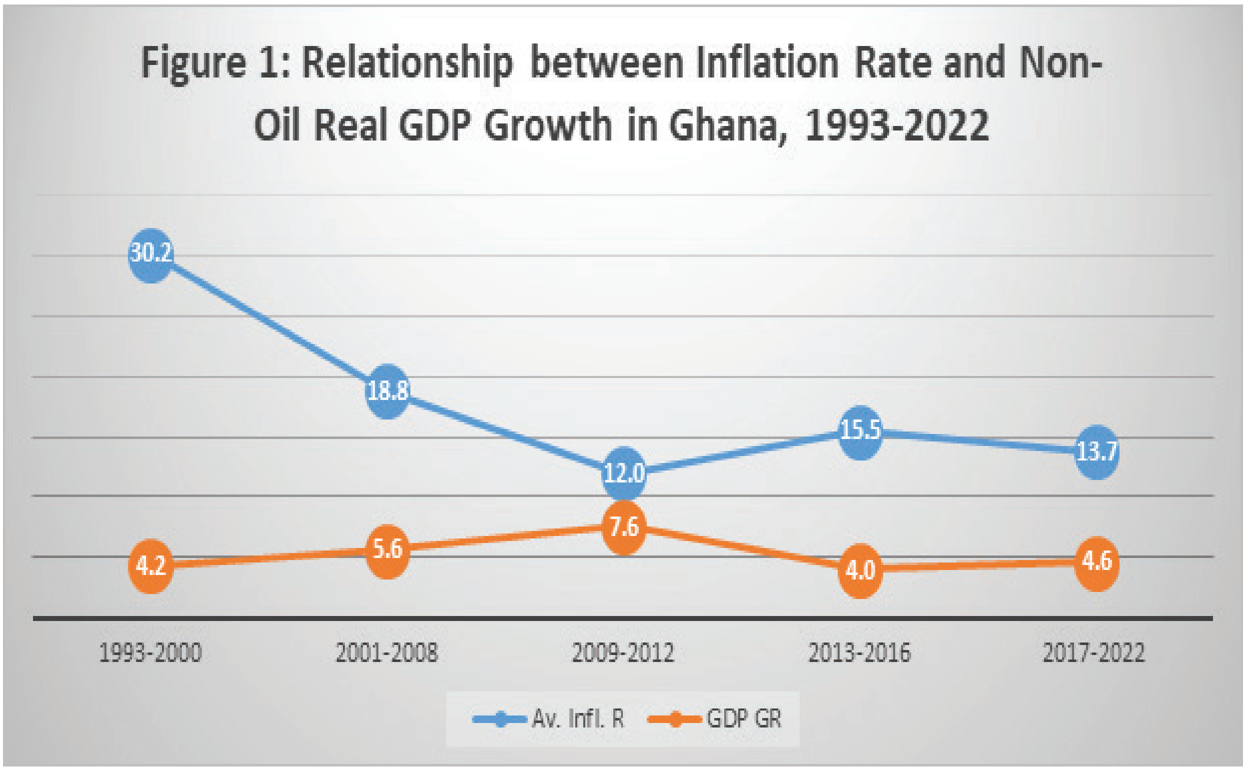
To stimulate economic growth, which remains below the pre-crisis level as noted above, the government unveiled a 15-month accelerated growth strategy in the 2024 budget statement. This strategy, the government indicates, is part of a broader five-year (2024–2028) growth strategy, whose goal is to reinvigorate industrialization, agricultural transformation, and value-addition, as well as create employment opportunities for the youth.

According to the government, the strategy is expected to deliver interventions in selected strategic sectors, key among which are agriculture; aquaculture; trade and industry; digitalization and technology; and tourism and sports. In addition to attracting fresh investment into these sectors, the government states that the strategy will focus on scaling up existing growth-oriented programs, such as Planting for Food and Jobs, One District One Factory (1D1F), Community Mining, Ghana CARES, and the Infrastructure for Poverty Eradication Program (IPEP).

To finance the growth strategy, the government plans to raise US$500 million from the International Finance Corporation (IFC), in addition to leveraging the resources of state-owned financial entities, such as Development Bank Ghana (DBG), GEXIM Bank, and Venture Capital Trust Fund, to provide loans, partial guarantees, and venture capital to private firms with transformational projects in the selected sectors.

While the government's concern over the current low rate of economic growth is understandable, it is important to point out that the sharp deterioration in economic growth rate from 5.1% in 2021 to projected 3.1% and 2.3% in 2022 and 2023 respectively is mainly due to the high macroeconomic instability the country is currently witnessing. Inflation rate, for instance, which averaged 10.0% in 2021, sharply increased to 31.5% in 2022. From January to October 2023, average inflation rate increased further to as high as 43.4%.

Indeed, macroeconomic stability has been the main driver of economic growth in Ghana. This is because macroeconomic stability boosts private investments and enhances economic activities in general, as it provides certainty regarding costs, prices and markets, which is crucial for business planning. The opposite is the case for macroeconomic instability. This critical relationship in Ghana is demonstrated by Figure 1, using inflation rate as the indicator of macroeconomic stability[2]. The figure shows a clear inverse relationship between inflation rate (macroeconomic stability in 2017–2022, reflected in a decline in average inflation rate to 13.7% in the period, raised non-oil real GDP growth to 4.6%.



stability) and non-oil real GDP growth rate in Ghana.

We can see from the figure that as the average inflation rate fell from 30.2% in 1993–2000 to 18.8% in 2001–2008 and further to 12.0% in 2009–2012, non-oil real GDP growth rate rose from 4.2% in 1993–2000 to 5.6% in 2001–2008 and further to as high as 7.6% in 2009–2012. However, as the macroeconomic situation worsened in 2013–2016, indicated by an increase in average inflation rate to 15.5% in the period, non-oil real GDP growth rate dropped to 4.0%. Subsequently, relative improvement in macroeconomic

Thus, the more stable the macroeconomic environment is in Ghana, the stronger the rate of economic growth, and vice versa. This, therefore, means that to improve the low economic growth rate Ghana is presently witnessing, restoration of macroeconomic stability should be the main priority. As pointed out in the introduction, a critical driver of macroeconomic stability in Ghana is fiscal prudence as measured by the fiscal balance. Therefore, any interventionist policy by the government in the real sector aimed at stimulating economic growth, which will end up worsening the country's fiscal

[2] *For a more technical analysis of this relationship, using impulse-response functions and variance decompositions, see the appendix of IFS' Occasional Paper No. 18: Boakye (2018), "Ensuring Strong Broad-Based Economic Growth and Significant Reduction in Unemployment in Ghana".*

balance will undermine macroeconomic stability. This will end up undermining the very economic growth the government wants to stimulate. Simply put, to achieve accelerated economic growth in Ghana, the priority should be ensuring enduring macroeconomic stability.

3. Summary of 2023 Projected Fiscal Outturns and 2024 Fiscal Targets

The government expects its overall fiscal balance in 2023 to turn out better than targeted, with the budget deficit (on cash basis) projected at GH¢49.09 billion (5.3% of GDP) against the mid-year budget target of GH¢54.95 billion (6.4% of GDP). However, in a typical fashion, revenue is expected to be below target, with a projected outturn of GH¢133.88 billion (15.7% of GDP), compared to the mid-year budget estimate of GH¢134.91 billion (15.8% of GDP). This means the projected lower deficit rests solely on lower expenditure, with total expenditure and arrears clearance forecast to be GH¢178.97 billion (21.0% of GDP) against the mid-year budget figure of GH¢189.86 billion (22.2% of GDP). This implies a reduction of GH¢10.90 billion (1.3% of GDP). More than 90% of the reduction, equivalent to GH¢10.09 billion, is expected to result from lower interest payment. In fact, relative to the original 2023 budgeted amount, interest payment is projected to decrease in 2023 by as much as GH¢17.78 billion. This projected large decrease in interest payment in 2023 is the result of the domestic debt restructuring and the year-long external debt service moratorium.

In 2024, the government's key fiscal goal is to improve the primary balance (on commitment basis) to a surplus of 0.5% of GDP from a projected deficit of 0.5% of GDP in 2023. Revenue is forecast to improve over the previous year, with total revenue and grants budgeted to increase from GH¢133.88 billion (15.7% of GDP) in 2023 to GH¢176.41 billion (16.8% of GDP) in 2024, indicating an improvement of 1.1 percentage points of GDP. Domestic revenue is budgeted to increase from a projected outturn of GH¢131.40 billion in 2023 to GH¢173.30 billion in 2024, while foreign grants is budgeted to increase from GH¢2.47 billion to GH¢3.11 billion in the same period. Of the budgeted domestic revenue in 2024, tax revenue is GH¢143.17 billion, representing 82.6%, while the sum of non-tax and other revenues is GH¢30.13 billion, representing the remaining 17.4%.

Government expenditure is also expected to rise in 2024, with total expenditure and arrears clearance budgeted to increase to GH¢238.29 billion (22.7% of GDP) from GH¢178.97 billion (21.0% of GDP) in 2023. As a ratio of GDP, the growth in expenditure is largely driven by interest payment, which is forecast to rise from 4.1% of GDP (GH¢34.77 billion) in 2023 to 5.3% of GDP (GH¢55.93 billion) in 2024. On the other hand, non-interest expenditure is budgeted to grow in nominal terms to GH¢182.36 billion in 2024 from GH¢144.20 billion in 2023. As a ratio of GDP, non-interest expenditure is expected to increase from 17.0% in 2023 to 17.4% in 2024.

4. Analysis of the 2024 Budget

I. On Revenue

To begin with, the government has had a tradition of overtargeting revenue. For instance, in 2022 and 2023, the government budgeted total revenue and grants to be 20% and 18% of GDP respectively. However, in the 2024 budget, the government has targeted to collect only 16.8% of GDP in total revenue and grants. One would therefore be tempted to argue that the 2024 revenue projection is realistic and thus obtainable. Nevertheless, we still see it to be overoptimistic and difficult to achieve. Table 1 helps to illustrate this point.

Table 1: Total Revenue and Grants Outturns as Ratios of GDP, 2017-2023

Year	Outturns (%)
2017	15.1
2018	15.4
2019	15.0
2020	14.1
2021	15.4
2022	15.8
2023	15.7*
Average	**15.2**

Source of data: Ministry of Finance
**This is a projected figure*

We can see from the table that excluding the pandemic-induced outturn of 14.1% of GDP in 2020, total revenue and grants has ranged narrowly between 15.0% and 15.8% of GDP since 2017, despite the various revenue measures outlined in previous budgets. In addition, revenue has never improved beyond 0.4 percentage points of GDP in any year during the period. Therefore, for total revenue and grants to GDP ratio to break beyond the upper bound of 15.8% of GDP by a full 1 percentage point to 16.8% in 2024, there should be more robust revenue policies supporting it. Yet, the 2024 budget's revenue policies are not much different from what have been pursued in the past, despite the government's development of the Medium-Term Revenue Strategy, 2024–2027[3]. In fact, the anticipated improvement in revenue in 2024 is based, largely, on revenue measures (such as excise tax increases, imposition of a growth and sustainability levy, and some changes that have been made to the income tax act) that were introduced in 2023 but whose full effects are expected to be realized in 2024. This is despite the fact that these measures failed to improve revenue in 2023 even though most of them came into effect in May

[3] *See Ministry of Finance, 2023, Medium-Term Revenue Strategy (MTRS) (2024–2027)*

2023. Indeed, total revenue and grants to GDP ratio, which was expected to improve on account of these measures, is projected to rather decline to 15.7% in 2023 from 15.8% in 2022.

Another reason for our view on the 2024 revenue projection stems from the revenue estimates for certain tax handles, which are clearly overstated and are thus unrealistic. These include (1) an estimated increase in revenue from the e-levy by 103.9% (from GH¢1.03 billion in 2023 to GH¢2.10 billion in 2024); (2) an estimated 108.2% increase in communications service tax (from GH¢0.73 billion in 2023 to GH¢1.52 billion in 2024); (3) an estimated 55.1% increase in revenue from GETFund and NHIL levies; etc. These estimates are way out of line with the historical growth rates of these taxes. For instance, on monthly basis, revenue from the e-levy grew in 2023, on average, by 30.7% relative to 2022 despite the reforms that were instituted in 2023, which the government promised would lead to a drastic increase in the revenue from the levy. It is therefore difficult to understand how it can grow at more than 100% in 2024 on monthly basis.

It is important to point out that while the MTRS proposes a plethora of tax policy measures, albeit not significantly dissimilar to the ones that have been implemented over the years, it contains just a single recommendation for the extractive sector, which is a proposal to "consolidate all legal statutes containing any direct fiscal provisions for the extractive sector into a comprehensive single law." Even regarding this single recommendation, it is hard to see how it can help improve the low revenue generation from the extractive sector. This is because IFS' research has shown that the low revenue from the country's extractive sector is the result of the reliance on fiscal instruments under concession regimes with limited state participation in the sector, and the non-use of production sharing agreements (PSA).

In fact, we find it confounding that despite the government's claims that the MTRS is the basis of its medium-term revenue reforms, the medium-term revenue targets incorporated in the 2024 budget statement are not aligned with the targets set in the MTRS. For instance, while the MTRS seeks to increase tax revenue as a proportion of non-oil GDP from around the current 13% to between 18%–20% by 2027, the 2024 budget statement forecasts tax revenue to non-oil GDP ratio to reach only 16.1% in 2027. Again, in contrast to the MTRS target to grow non-tax revenue as a proportion of GDP from 2.2% to 4% by 2027, the 2024 budget statement forecasts the non-tax revenue to GDP ratio to reach only 2.1% in 2027. Thus, besides the MTRS not meeting our expectations of a robust revenue strategy, its credibility is also put in doubt by the disconnect between its targets and those outlined in the 2024 budget statement.

II. On Expenditure

As we stated in our review of the 2023 mid-year budget[4], the positive effect of the debt restructuring exercise is only temporary and should not be counted upon to deliver a long-term improvement in the country's public finances. It is clear from the 2024 budget statement that 2023 has already witnessed the maximum effect of the debt restructuring program in terms of savings from interest payment and debt service expenditure in general. This fact is illustrated in Table 2.

Table 2: Interest Payment and Debt Service in Nominal Terms and as Ratios of Total Revenue and Grants

Year	Interest Payment (GH¢bn)	Debt Service (GH¢bn)	Int. Pay. Ratio (%)	Debt Service Ratio (%)
2022	45.69	53.19	47.3	55.0
2023	34.77	50.33	26.0	37.6
2024	55.93	76.69	31.7	43.5

Source of Data: Ministry of Finance

We can see from the table that interest payment sharply declined from GH¢45.69 billion in the crisis year of 2022 to GH¢34.77 billion in 2023 due to the domestic debt restructuring and foreign debt service freeze. However, it is budgeted to rise sharply to GH¢55.93 billion in 2024. As a ratio of total revenue and grants, interest payment, which sharply decreased from 47.3% in 2022 to as low as 26.0% in 2023, is expected to increase by 5.7 percentage points to 31.7% in 2024. The story is similar regarding total debt service expenditure—that is, interest payment plus amortization. After falling from GH¢53.19 billion in 2022 to GH¢50.33 billion in 2023, debt service expenditure is budgeted to increase sharply to GH¢76.69 billion in 2024. As a ratio of total revenue and grants, total debt service, which sharply declined from 55.0% in 2022 to 37.6% in 2023, is expected to rise by 5.9 percentage points to 43.5%.

Unlike interest expenditure, compensation of employees and goods and services are expected to be relatively contained in 2024. From Table 3, we see that the ratio of compensation to total revenue and grants, which fell from 40.8% in 2022 to 38.3% in 2023, is expected to reduce further to 36.1%. Also, goods and services expenditure as a ratio of total revenue and grants, which increased from 8.2% in 2022 to 8.8% in 2023, is budgeted to fall to 6.3% in 2024. Nevertheless, while the budgeted declines in these two expenditures as ratios of total revenue and grants are commendable, they are not strong enough to make up for the budgeted rebound in interest payment and debt service expenditures as ratios of total revenue and grants in 2024.

[4] *See IFS Policy Brief No. 19: "Review of the Government of Ghana's 2023 Mid-Year Budget and Fiscal Policy Direction in the Face of the Current Fiscal and Macroeconomic Crises"*, https://www.ifsghana.org/wp-content/uploads/2023/10/Policy-BRIEF-19.pdf

Table 3: Compensation of Employees and Goods & Services Expenditure in Nominal Terms and as Ratios of Total Revenue and Grants

Year	Compensation (GH¢bn)	Goods & Services (GH¢bn)	Comp. Ratio (%)	Goods & Services Ratio (%)
2022	39.43	7.93	40.8	8.2
2023	51.21	11.81	38.3	8.8
2024	63.68	11.07	36.1	6.3

Source of Data: Ministry of Finance

Unlike compensation of employees and goods and services, capital expenditure is budgeted to sharply increase in 2024. We can see in Table 4 that, after remaining virtually unchanged in nominal terms between 2022 and 2023, total capital expenditure is budgeted to grow by as much as 54.3% from GH¢18.61 billion in 2023 to GH¢28.72 billion in 2024. As a ratio of total revenue and grants, total capital expenditure, which fell from 19.3% in 2022 to 13.9% in 2023, is budgeted to increase to 16.3% in 2024. Interestingly, the budgeted increase in total capital expenditure is driven by a sharp increase in domestically financed capital expenditure. Domestically financed capital expenditure is budgeted to almost double in nominal terms to GH¢18.24 billion in 2024 from a projected amount of GH¢9.39 billion in 2023, accounting for almost 90% of the increase in total capital expenditure.

As a ratio of total revenue and grants, domestically financed capital expenditure is budgeted to increase by as much as 3.3 percentage points from 7.0% in 2023 to 10.3% in 2024.

Since IFS has long called for increased budgetary allocations to capital expenditure to help accelerate economic growth and development, the budgeted increases in capital spending in 2024 should ordinarily be welcomed by us. However, given the country's fragile fiscal position, and because governments have historically used capital spending to pursue political goals in election years, helping to generate fiscal overruns and macroeconomic instability, the large increase in domestically financed capital expenditure is concerning to us. If the move is politically motivated, then some of the expenditure is likely to be inefficient,

Table 4: Capital Expenditures in Nominal Terms and as Ratios of Total Revenue and Grants

Year	Total Capex (GH¢bn)	Domestic Capex (GH¢bn)	Foreign Capex (GH¢bn)	Total Capex Ratio (%)	Domestic Capex Ratio (%)	Foreign Capex Ratio (%)
2022	18.69	6.33	12.36	19.3	6.6	12.7
2023	18.61	9.39	9.22	13.9	7.0	6.9
2024	28.72	18.24	10.48	16.3	10.3	6.0

Source of Data: Ministry of Finance

since certain projects would be selected based on political rather than economic considerations, as has happened over the years. In that case, it would be much better to save some of this expenditure to help cut the deficit and reduce associated debt service payments.

Given the increases in interest payment and capital expenditure ratios and the limited nature of the declines in compensation of employees and goods and services ratios, the overall fiscal deficit is budgeted to increase to 5.9% of GDP in 2024 from a projected 5.3% of GDP in 2023[5]. This, again, shows the temporary nature of the effects of the debt restructuring program, since it had reduced the deficit sharply from 10.7% of GDP in 2022 to the 5.3% of GDP in 2023. The budgeted increase in the deficit ratio in 2024 is against the backdrop of the fact that, as argued earlier, total revenue and grants for 2024 has been overprojected and is thus unachievable. This is not good, given that a strong and sustained fiscal consolidation is required to ensure macroeconomic stability and improved economic growth as discussed earlier.

5. Recommendations

I. The foreign debt restructuring should be expedited, and the government must work to secure debt cancellation as part of its agreement with creditors. As discussed above, interest payment is budgeted to increase significantly in 2024. This partly reflects large accrued foreign debt service obligations that have to be budgeted for since the foreign debt restructuring process has not been completed. We therefore urge the government to expedite the restructuring to secure the much-needed debt service relief to aid its fiscal recovery. In addition, for the relief to be significant and impactful, it should include cancellation of some of the debts.

II. Further efforts to rein in non-interest expenditures should be pursued by, among others, reviewing the flagship programs: While the budgeted decreases in compensation expenditure and goods and services as ratios of total revenue and grants are commendable, the government must take further steps to reduce these expenditures, especially in the face of the still-large debt service obligations despite the debt relief already secured. To this end, we urge the government to act on its commitment under the IMF program to review its flagship programs to help cut down budgetary spending and improve efficiency.

[5] *It should also be noted that grants to other government units (earmarked transfers) as a ratio of total revenue and grants is also budgeted to increase by 0.8 percentage points from 21.6% in 2023 to 22.4% in 2024.*

III. The government should review the extractive sector component of its Medium-Term Revenue Strategy (MTRS) in line with IFS' recommendations: The MTRS fails woefully to tackle Ghana's weak revenue generation from the extractive sector. The government should therefore reconsider the extractive sector component of the strategy and revise it to incorporate recommendations long advocated by IFS, most importantly our call for active state participation in the sector and/or the use of production sharing agreements to substantially improve revenue generation[6].

IV. Align the targets in the MTRS with the medium-term targets in the annual budget statements: As we pointed out in Section 4, there is a misalignment between the MTRS and the medium-term revenue targets of the 2024 budget statement. This creates a credibility challenge for the budget in the minds of stakeholders, including investors, since budgeted figures are expected to reflect broader policies and strategies underlying them.

V. The government must strongly resist the temptation to engage in fiscal populism for electoral gains in 2024. Large budget deficits and overruns in election years within the Fourth Republic have often led to fiscal and macroeconomic crises. These have stymied real GDP growth as demonstrated in Section 2. The government must, therefore, refrain from fiscal populism and thus overspending in the election year of 2024, as failure to do so, considering the present fragile fiscal and macroeconomic circumstances, would prolong the current economic crisis or even worsen it after the elections. The sharp budgeted increase in domestically financed capital expenditure in the election year of 2024 is a clear sign of fiscal populism, as it is seldom to find domestically financed capital expenditure almost doubling in one year, especially as the country finds itself in the middle of fiscal and macroeconomic crises.

[6] *For more on this recommendation, see IFS' Occasional Paper No.24: Boakye (2020), "The Role of the Extractive Sector in Ghana's Comparatively Low Public Sector Revenue Mobilization".*

INSTITUTE FOR FISCAL STUDIES

Residential Address
No. 13, 2nd Close, Airport Residential Area, Accra, Ghana

Postal Address
P.O. Box CT 11260, Cantonment Accra, Ghana

+233 302 786 991
info@ifsghana.org
www.ifsghana.org