

Social Contract for Ghana's Political and Economic Transformation

Article VII

Fiscal Responsibility

*The **Citizens' Convention for Ghana's Political and Economic Transformation** took place in Accra on June 18-19, 2024, drawing 510 participants representing numerous stakeholder groups from civil society, government and business. Building on 18 months of research and nationwide engagements, participants agreed on specific goals and targets for the seven key issue areas underpinning the Compact and **Citizens' Declaration for a Social Contract with the Government of Ghana**, which the convention adopted by acclamation. The issue areas are: gender equality, youth employment and skills, vision and planning, fiscal responsibility, private sector development, climate change, and health.*

Background

For many decades, Ghana has faced the recurring challenge of poor fiscal outcomes. This has taken the form of large fiscal deficits, frequently sharp debt buildups, onerous debt service costs, and sharply declining public investment. For example, since 1992 the fiscal deficit has averaged 6.3 percent of gross domestic product (GDP), more than double the 3 percent of GDP target of West African Monetary Zone (WAMZ) convergence criteria. A key feature of the deficits has been their tendency to spike in election years. Each spike is usually followed by a period of fiscal adjustment in which the deficit is reduced before it surges again in the next election year. This election year deficit has averaged 8.1 percent of GDP, nearly 50 percent larger than the 5.6 percent average outside election years.

The recurring large deficits have led to sharp debt buildups in the past 30 years, undermining macroeconomic stability and sectoral development. The public debt burden, measured by the debt-to-GDP ratio, has been high and rising since the 1990s because of unrestrained government borrowing. Public debt reached a peak of 185.2 percent of GDP in 2000 before rapidly falling to 31.1 percent in 2007 due to debt relief from the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDR) initiatives. However, the ratio rose steadily in subsequent years to over 100 percent by December 2022. One of the key drivers of Ghana's debt buildup has been the pivot from concessional finance to Eurobonds as the main source of budget financing. These dollar-denominated instruments on commercial terms have contributed substantially to increases in the debt burden. Other drivers of the fiscal deficits and debt accumulation include energy sector costs and the financial sector clean up.

A major result of rising public debt has been the rapid growth of debt service. From 17.9 percent of total revenue and grants in 2007, debt-service costs rapidly rose to 70.1 percent in 2021, similar to the level that pushed Ghana to seek debt reduction under the HIPC initiative in 2007. Interest payments in turn rose to 46.2 percent of total government revenues and grants in 2021. The high debt-service costs have soaked up the public investment needed to build infrastructure and drive economic growth, productivity, job creation, and overall improvements in the quality of life.

The causes of Ghana's poor fiscal outcomes include weak domestic revenue mobilization, uncontrolled spending, debt management challenges, and the economy's lack of resilience in the face of negative external shocks. Ghana's current domestic revenue as a share of GDP is around 13 percent, well below

the sub-Saharan average of 15 percent. Only 2.4 million out of Ghana's 13.7 million workers pay direct taxes. This excludes the very large informal sector. Furthermore, Ghana does not collect enough revenue from its natural resources. For example, Ghana's extractive sector revenue as a ratio of extractive sector value added stands at only 19.3 percent, compared with an average of 50.9 percent for other African countries.

Ghana also loses significant sums yearly through tax evasion by corporations, , multinationals, individuals and organizations, as well as from corruption at the ports. According to the Auditor-General's reports, Ghana lost GHS13.32 billion in the 2016-2020 period from various financial malpractices and over-expenditure in public institutions, Metropolitan, Municipal and District Assemblies, and state-owned enterprises.

Ghana's economic structure has remained largely unchanged since independence in 1957, with continuing reliance on the export of unprocessed primary commodities. The low level of diversification has not allowed Ghana to build sufficient resilience, making the economy highly vulnerable to external shocks such as COVID-19 and the Ukraine war. This was a major factor in Ghana going to the International Monetary Fund in 2023 for its 17th financial bailout since independence.

The latest (2023) African Transformation Index (ATI) confirms this lack of structural change¹. Ghana is rated as a low economic transformer with an overall ATI score of 19.1 out of 100, compared with the African average of 30.3 out of 100 for the period 2000 to 2020. Using the DEPTH framework², the report shows that Ghana performs poorly in diversifying its production and exports. Its exports are still concentrated in crude oil and other unprocessed primary commodities such as gold, timber, and cocoa. The manufacturing sector, which is expected to grow and absorb much of the labor force, has instead declined over this period.

Actions and targets for fiscal responsibility in Ghana

1. Fiscal deficits

Issue: Decades of fiscal deficits, particularly in elections years

- **Action:** Maintain consistency in spending in relation to public borrowing regulations, institutional mandates and program targets.
- **Target 1:** By 2027, achieve the West African Monetary Zone fiscal deficit target of 3 percent of GDP.
- **Target 2:** By 2035, achieve and maintain a balanced budget.

2. Government revenue

Issue: Low revenue collection due to tax evasion, corruption and administrative weaknesses

- **Action:** Tighten financial controls, broaden the tax base, implement findings of Auditor-General's reports, and promote far greater engagement by citizens on fiscal responsibility and accountability mechanisms.
- **Target 1:** By 2027, increase total government revenue as a ratio of GDP to the sub-Saharan African average of 20.5 percent.

¹ Published by the African Center for Economic Transformation. Available at <https://acetforafrica.org/ati/>.

² The **DEPTH** framework uses indicators to measure: **D**iversification of production and exports; **E**xport competitiveness; **P**roductivity; **T**echnology upgrading; and **H**uman well-being.

- **Target 2:** By 2030, Increase total government revenue as a ratio of GDP to at least that of an upper middle-income country.

3. Government expenditure

Issue: Consistent overspending by governments, especially in election years

- **Action:** Observe spending limits in strict accordance with budgeted programs and revenue growth to achieve long-term fiscal balance and reduce the bloated public sector payroll.
- **Target 1:** By 2027, reduce total government expenditure as a ratio of GDP to 23.5 percent from an estimated 27.4 percent in 2022.
- **Target 2:** By 2027, reduce the compensation bill-to-revenue ratio from 45.2 percent in 2021 to 35 percent.
- **Target 3:** By 2030, lower the compensation bill-to-revenue ratio to at most 30 percent and maintain this ratio as a ceiling over the long term.

4. Debt service:

Issue: Growth of domestic and external debt service limits development spending

- **Action:** Increase production and productivity, tighten revenue collection and mobilization.
- **Target:** Reduce interest payments as a ratio of total government revenue from 47.8 percent in 2021 to 30 percent by 2030 and to 10.1 percent by 2035.

5. Economic transformation

Issue: Ghana's unchanged economic structure relies on raw material exports

- **Action:** Accelerate modernization and diversification in all productive sectors, paying particular attention to digitalization and upgrading the services sector
- **Target:** By 2027, increase Ghana's overall ATI score to 30 percent and to 35 percent by 2030.