



**CENTRE FOR POLICY ANALYSIS**

**GHANA ECONOMIC REVIEW  
AND OUTLOOK**

**PART I: FOCUSING ON FISCAL  
PERFORMANCE**

**2008**

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## EXECUTIVE SUMMARY

### **Introduction**

On February 7, 2008 the ratings agency, Fitch Ratings, one of the big three – Moody’s Investment Services and Standard and Poor’s being the others - lowered its outlook on Ghana’s sovereign credit rating. This outlook downgrade had largely been expected as the energy crisis of 2006/7 had created a need for additional fiscal outlay. The emergence of sizeable fiscal and external current account imbalances associated with higher oil prices combined to make Ghana’s macroeconomic outlook more fragile than previously. Despite its problems, however, Ghana is widely regarded as one of the key frontier markets in Sub-Saharan Africa and has received much investor interest in recent months.

The downgrade sounded a rare note of warning on the country’s economy after a period of sound growth, debt cancellation and a successful debut international sovereign bond issue last year which was four times oversubscribed. The successful entry of Ghana into the Eurobond market has been described as an “unparalleled achievement” — the first move into global bond markets by a post-HIPC country and the second in two decades by a Sub-Saharan African country after South Africa. The 10-year sovereign Eurobond was listed on the London Stock Exchange in September 2007. The bond, scheduled to raise US\$750 million, booked almost US\$3 billion — a clear demonstration of investor confidence in the economy. About 40 percent of the bond was reportedly placed with US investors, 36 percent with UK investors, with the remainder going to the rest of Europe.

For 2007, CEPA forecasts a cash deficit equivalent to 9 percent of national income compared to the official projected outturn of 6.4 percent. Moreover, a preliminary assessment of the 2008 budget suggests a cash deficit of, at least 9.1 percent of national income compared to the 5.8 percent based on official projections. The divergences have been widening and it is such wide discrepancies between realised outturns, official projected outturns, and the budgetary targets that create “fiscal surprises” and which could invite a negative credit rating action in international financial markets as Fitch Ratings has warned. The critical issue of the moment is fiscal discipline and greater transparency on the budget would be in the national interest.

The Bank of Ghana has expressed grave concern over this matter. In a recent policy brief it warned as follows:

*Although fiscal policy has remained committed to the stabilisation process, recent trends point to the need for further consolidation to ensure long term fiscal sustainability. Within the context, the Government of Ghana has proposed legislation of a Fiscal Responsibility Law (FRL) to strengthen the commitment to fiscal discipline and debt sustainability. This raises a fundamental question as to whether such an Act will promote fiscal discipline. (BOG Policy Brief Fiscal Rules and Fiscal Discipline, February 2008, emphasis added)*

### **Real sector performance**

Ghana remains a trendsetter in Sub-Saharan Africa: the economy has been growing rapidly — well above Africa's average. Last year, 2007, marked the country's seventh consecutive year of accelerating real GDP growth and the fourth straight year of growth of 5 percent or better according to the Ghana Statistical Service (GSS). Indeed, it is the acceleration in the economic growth rate that exposed the severe infrastructural constraints, notably, in the energy sector in 2006 and 2007. In response, significant expenditures have had to be incurred to improve the generation, transmission and distribution of electricity.

On the demand (final expenditures) side of the GDP, large private inward transfers — received by NGOs, embassies, service providers, individuals etc. — have fuelled both consumption expenditure and investment particularly in housing. Strong domestic demand has also resulted from considerable fiscal stimulus on account of both recurrent and capital spending by government. Foreign demand especially in the commodities and tourism has also been buoyant. Thus, all the major components of aggregate demand have combined to pull the economy on to a higher growth path. They have also given rise to high non-oil import bills and widening trade imbalances on account of relatively weak supply response in the key sector of agriculture and manufacturing as well as inflation rates that have stubbornly remained above the single digit target.

### **Agriculture**

In the key productive sectors, agriculture remains the largest although its share has been declining somewhat over the recent past. Erratic rainfall patterns culminating in floods that washed away farms in northern Ghana have been blamed for the disappointing performance. In addition, given the concerns about environmental degradation — in particular, the rapid rate of deforestation — growth in

the forestry and logging sub-sector has remained low and declining and has been projected at 2.5 percent for 2007.

### **Services**

The Services sector is the second largest with a share which has been rising and currently standing at about 30 percent of GDP. It is projected to have performed better than expected in 2007. At about 8.2 percent, growth is projected to have exceeded the target by over 20 percent. The lead sub-sectors in the recent past have been Wholesale and Retail Trade, Restaurants and Hotels; and Finance, Insurance, Real Estate and Business Services. In 2007, both of these are reported to have over-performed by wide margins.

### **Industry**

High government capital spending — financed from domestic sources, external borrowing and aid disbursements — has contributed to robust activity in construction. The sub-sector has also benefited from rising demand in real estate and property. As a result, the sub-sector has registered consistently rapid growth.

New investments in the mining sector — especially in gold — are expected to continue to raise output over the medium term, boosting export earnings. Moreover, the discovery in June 2007 of commercial quantities of oil is expected to significantly further boost economic growth in the Industrial sector once extraction begins from about 2010.

The manufacturing sub-sector has, for some time now, been the weakest in the Industrial sector. On account of relatively low growth performance — below that of overall GDP — it has steadily lost share since 2005. The exceptionally poor performance of the sub-sector in 2007 has been blamed on the energy crisis as it is the most energy-sensitive of all. It must be emphasised, however, that the energy crisis only deepened an existing downward growth trend.

### **Fiscal performance (2007)**

According to the CEPA forecasts of the outturn, fiscal performance in 2007 was characterised by a revenue and grants outturn that fell short of its target by about 3 percent. It would appear that in response to the shortfall, payments were strenuously restrained through, among others, the imposition of cash limits. Total payments are therefore expected to be about 2 percent lower than the provision in

the revised budget. Experience here and elsewhere, strongly suggests that in the absence of a well functioning system for constraining commitments, however, the strict enforcement of cash ceilings on payments typically results in payment delays and arrears.

The overall deficit forecast for 2007 is over 40 percent above the official projected cash deficit largely on account of:

- higher than expected transfers to VRA to cover subsidies and other expenditures including for the purchase of generators and the fuel for their operations;
- the hosting of the AU summit;
- the 50<sup>th</sup> Anniversary Celebrations of Independence;
- the hosting of CAN 2008;
- higher than programmed wage bill; and
- excess spending on debt relief-funded poverty alleviation activities from HIPC debt relief.

### **Domestic interest payments**

Domestic interest payments were likely to exceed the budget estimates and by large margins, among other things, because:

- the official provisional outturn for 2006 grossly underestimated the cash deficit, (estimated by IMF at 2.6 percent of GDP), the size of domestic financing and therefore the end-year stock of domestic debt;
- the underestimation of the outturn of key expenditures contributed to under-provision for these in the 2007 budget; resulting in expenditure overruns and debt finance;
- unanticipated cost push factors, most notably, in international prices for petroleum and petroleum products, the related large transfers to VRA and other Utilities for procurement of generators, for purchase of diesel oil and as subsidies to consumers;
- large shortfalls in divestiture receipts (about 80 percent); and
- high private and public spending and domestic borrowing occasioned by the celebration of the 50<sup>th</sup> anniversary of Independence, AU Summit, CAN 2008 with consequent incipient upward pressure on interest rate.

### **Wage bill**

For most of the seven years of the present Administration, the wage bill — personnel emoluments — has been among the most difficult to contain within its budgetary provision. Different explanations have been given for this. In respect to the 10 percent overrun in 2006, the Finance Minister told Parliament that this had resulted “from some extraordinary pressures in the public sector labour market beginning in the second half of the year” (see Budget Statement 2007 paragraph 117). Analysis by function of the expenditure charged on the Consolidated Fund reveals that the wage component, particularly, in the social services of health and education has been the key driver of expenditure overruns over the 2002–2006 period.

### **Capital spending**

There has been a tendency for capital outlays — domestically financed and foreign financed — to fall short of the provisions in the budget. In respect of the foreign financed component this has been attributed to the inherent unreliability of foreign aid as development assistance. At the same time delays in aid-disbursements have often been compounded by liquidity problems of the MOFEP. For example, total investment outlays were “projected (at) 19.6 percent lower than the estimated amount in the 2006 Budget Statement” (paragraph 118 of Budget Statement 2007). Again, according to the 2008 budget, total investment outlays for the year 2007 are officially projected at 40.7 percent lower than the provision in the 2007 budget.

Another component of capital expenditure is transfers to Statutory Funds, namely: the Education Trust Fund (ETF), the Road Fund (RF), the Petroleum-related Fund (PF) and the District Assemblies Common Fund (DACF). These funds have been set up by Parliament and the transfers of collections of taxes and levies into them are statutory obligations. The provisions in the 2007 budget acknowledge the perennial problem of delayed transfers and arrears that have been experienced by the Administrators of these Funds.

### **External loan finance**

About GH¢193 million was withdrawn from the proceeds of the sovereign bond to finance the 2007 budget deficit. In the Budget Statement (2008) in an explanation of the use of debt proceeds, the Finance Minister told Parliament that “the fortunate thing is that the deficit does not emanate from

increased consumption expenditure ... (and further that) ... Government has implemented investments in high yielding infrastructure to grow the economy for higher wealth creation”.

### **Outlook**

From the perspective of sustainable macroeconomic stability the most pressing concern is for the Ministry of Finance and Economic Planning to address the emerging problem of stubbornly high and widening budget deficits. A high level of debt overhang could result in large future outlays for interest payments. Moreover, even if short-term interest rates are kept low, stubbornly high long-term interest rates would act as a brake on economic activity. Such high long-term interest rates could result from an expectation of ongoing inflation for which investors would require an extra margin of interest to offset the added uncertainty and risk.

### **Financing the deficit**

The risk with taking on more debt, especially for a country that has only recently benefited from massive external debt relief under the HIPC and MDR Initiatives needs to be carefully weighed against the gains expected from investment in these “growth-catalytic” areas. Preserving the newfound debt sustainability depends critically on realistic forecasts about the efficiency of expenditure outlays, the economic growth rate and the real exchange rate. Utmost vigilance would be called for on the part of government and the public at large.

In this regard, a matter of considerable concern is that the loan proceeds have substituted for, instead of adding to, domestic resources for funding the “specific projects in the energy, roads and railways sector”. Indeed the proceeds have been included in domestic resources and the funded “specific projects” have remained as yet not as clearly identifiable in the public mind as might be desired.

The cash deficit for 2008 is projected at the equivalent of 9.1 percent of GDP. This is 56.9 percent above the official projected outturn. As in previous years, this resulted in net domestic borrowing when net repayment had been intended. Consequently, CEPA projects conservatively an end of year domestic stock of debt equivalent to 14.9 percent of GDP compared to the official projection of 8.0 percent of GDP in the 2008 budget.

## **Conclusion**

An important lesson from experience is that democracy, in its relationship with economic development is a complex and highly charged issue. Indeed, our own experience with election year fiscal excesses in the Fourth Republic confirms that, unless combined with a system of checks and balances, democratic institutions carry risks as well as benefits. Fiscal excesses have occurred in election years (and the run-up to them). The tendency to overspend has also been larger in the highly contested elections — 1996 and 2000 in particular. Though 1992 cannot be described formally as highly contested, it was peculiar in the sense of being a “referendum” on the PNDC. In this sense, the 2000 elections could also be described as a referendum on the NDC and this year’s as one on the NPP. It is imperative that, a watchful eye be kept to avoid fiscal excesses in this election year.

## REVIEW OF BUDGET AND FISCAL OPERATIONS (2007)

### **Introduction and Background**

On February 7, 2008 the ratings agency, Fitch Ratings, lowered its outlook on Ghana's sovereign credit rating. This outlook downgrade had largely been expected as the energy crisis of 2006/7 had created a need for additional fiscal outlay. The emergence of sizeable fiscal and external current account imbalances associated with higher oil prices combined to make Ghana's macroeconomic outlook more fragile than previously.

The downgrade sounded a rare note of warning on the country's economy after a period of sound growth, debt cancellation and a successful debut international sovereign bond issue last year which was four times oversubscribed. It has reportedly tightened almost one percent since the launch. Despite its problems, however, Ghana is widely regarded as one of the key frontier markets in Sub-Saharan Africa and has received much investor interest in recent months.

The successful entry of Ghana into the Eurobond market has been described as an "unparalleled achievement" – the first move into global bond markets by a post-HIPC country and the second in two decades by a Sub-Saharan country after South Africa. The 10-year sovereign Eurobond was listed on the London Stock Exchange in September 2007. The bond, scheduled to raise US\$750 million, booked almost US\$3 billion – a clear demonstration of investor confidence in the economy. About 40 percent of the bond was reportedly placed with US investors, 36 percent with UK investors, with the remainder going to the rest of Europe.

In 2006, on account of serious slippages in the second half of the year, the fiscal deficit was found to have risen sharply to about 7.8 percent of GDP — much higher than official estimates incorporated in the 2007 Budget Statement presented to Parliament in November 2006. As reported by the IMF upon conclusion of the Article IV consultation by its Executive Board, the realised deficit was "over 2.5 percentage points higher than in the mid-year supplementary budget (reflecting among others) significant overruns in both the wage bill and subsidies and transfers to ..... enterprises in the energy sector". The Report went on to point out that: Public sector wage overruns stemmed from large wage increases in the health sector..... aimed at retaining skilled labour (but) which led to demands for additional increases in the rest of the public sector. Higher subsidies and transfers to the energy sector

reflected the suspension of pass-through of utility price increases to end-users (Public Information Notice (PIN) – 4 – DMSDRIC.DOC, May 31, 2007)

In the Report on the 2006 Accounts, the Accountant General qualified the revenue performance statement of the IRS because its revenue included an account which “related to 2007 collections”. It also included an amount which represented “inappropriate set of revenue transaction”. Together, these represented a little over 3 percent of total IRS revenue leading the AG to conclude that: “As a result, the whole of Government revenue ....(was) overstated.....” in that year.

CEPA had reported for the previous year, 2005, large collections made of non tax revenues in the single month of December. This had resulted in a “stronger than projected performance of non-tax revenue” described in official circles as reflecting “progress in the capacity of public enterprise to generate profits and of MOFEP in monitoring and ensuring the required transfers of dividends and profits to the budget.” Compared with the budget targets, the “over performance” was more than 35 percent:

- Transfers of dividends and profits to the Treasury more than doubled the target,
- Returns from the National Communications Authority (NCA) more than quadrupled the target, and
- Revenue from COCOBOD was six times more than projected.

Adjusting for these extraordinary receipts, the budget deficit for 2005 would be about 3 percentage points of GDP higher than the official 2.3 percent of GDP recorded. Not much of a surprise, such over performance has not been repeated. These and other developments, however, have led to the persistence of official estimates of cash deficit outcomes being numerically lower than realized outturns by the equivalent of between 2.5 to 3.0 percentage points of GDP over the 2005–2007 period.

For 2007, CEPA forecasts a cash deficit equivalent to 9 percent of national income compared to the official projected outturn of 6.4 percent. Moreover, a preliminary assessment of the 2008 budget suggests a cash deficit of, at least 9.1 percent of national income compared to the 5.8 percent based on official projections. The divergences have been widening and it is such wide discrepancies between realised outturns, official projected outturns, and the budgetary targets that create “fiscal surprises” and which could invite a negative credit rating action in international financial markets as Fitch

Ratings has warned. The critical issue of the moment is fiscal discipline and greater transparency on the budget would be in the national interest.

The Bank of Ghana has expressed grave concern over this matter. In a recent policy brief it warned as follows:

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Poor observance of performance targets and guidelines agreed with the IMF has prompted the question of whether there has been (and underlines the importance of) country ownership of policies. During the first two three-year Arrangements with the IMF over the 1995-2002 period, a large number of waivers were granted. This did not, however, prevent either of these Arrangements from being extended. It is hard to gauge, but the question remains as to whether a tougher line – imposition of sanctions as a law would have prescribed could have led to stricter discipline in policy implementation. These are among the key considerations in the discussion on the proposed Fiscal Responsibility Law. Indeed there is a “fundamental question as to whether such an Act will promote fiscal discipline”.

### **Performance of the economy (2007)**

Ghana remains a trendsetter in Sub-Saharan Africa: the economy has been growing rapidly — well above Africa’s average. Last year, 2007, marked the country’s seventh consecutive year of accelerating real GDP growth and the fourth straight year of growth of 5 percent or better according to the Ghana Statistical Service (GSS). Indeed, it is the acceleration in the economic growth rate that exposed the severe infrastructural constraints notably in the energy sector in 2006 and 2007. In response, significant expenditures have had to be incurred to improve the generation, transmission and distribution of electricity.

A number of short, medium, and long-term interventions targeted at resolving the energy crises have been pursued. The most significant of these was the successful negotiation with China of the loan of US\$562 million for the construction of the Bui Dam and Bui City. This investment — the second largest after the similar hydro-energy related Akosombo Dam — is also one of Africa's largest. It includes the construction of 100km of transmission lines.

According to the Budget (2008) an amount of US\$460 million — from the balance of the proceeds of the sovereign bond issue — would be channelled into the energy sector this year. The Takoradi Thermal Plant and the Kpong Hydroelectric Dam would be renovated to improve their efficiency and reliability. Investments are also contemplated in renewable energy — specifically solar and wind. The Osagyefo Barge is expected to become operational this year 2008. Finally, mini hydro-electric sites have been identified on the Pra, Ankobra, Tano and Oti Rivers.

With the resolution of the energy crisis, the country would be placed on a stronger footing for accelerated growth. As envisaged in the 2008 budget — dubbed Budget for Brighter Future — a considerable infusion of capital is envisaged to put in place the necessary infrastructure to make this growth realizable. The discovery of oil in commercial quantities — projected to come on stream in 2010 — is also widely regarded as representing a further potential spur to high growth rates.

On the demand (final expenditures) side of the GDP, large private inward transfers — received by NGOs, embassies, service providers, individuals etc. through the banks and finance companies — have fuelled both consumption expenditure and investment particularly in housing. Strong domestic demand has also resulted from considerable fiscal stimulus on account of both recurrent and capital spending by government. Foreign demand, especially in the commodities and tourism, has also been buoyant. Thus, all the major components of aggregate demand have combined to pull the economy on to a higher growth path. They have also given rise to high non-oil import bills and widening trade imbalances on account of relatively weak supply response in agriculture and manufacturing as well as inflation rates that have stubbornly remained above the single digit target.

### Agriculture

In the key productive sectors, agriculture remains the largest although its share has been declining somewhat over the recent past. Thus, including cocoa, its share of GDP declined from 36 percent in

2005 to 35.4 percent in 2006 and is projected to have declined further to 34.7 percent in 2007. On average, its contribution to GDP growth has been about 1.5 percent a year since 2005. In spite of the strong performance of the cocoa sub-sector, the agricultural sector growth rate has decelerated from 4.5 percent in 2006 to 4.3 percent in 2007 against a target of 6.1 percent. Erratic rainfall patterns culminating in floods that washed away farms in northern Ghana have been blamed for the disappointing performance. Moreover, given the concerns about environmental degradation — in particular, the rapid rate of deforestation — growth in the forestry and logging sub-sector has remained low and declining and has been projected at 2.5 percent for 2007.

### Services

The Services sector is the second largest with a share which has been rising and currently standing at about 30 percent of GDP. It is projected to have performed better than expected in 2007. At about 8.2 percent, growth is projected to have exceeded the target by over 20 percent. The lead sub-sectors in the recent past have been Wholesale and Retail Trades, Restaurants and Hotels, and Finance, Insurance, Real Estate and Business Services. In 2007, both of these are reported to have over-performed by wide margins.

### Industry

Industrial sector growth rate has been projected to decelerate from the 9.5 percent recorded in 2006 to a 7.4 percent in 2007 — marginally lower than the target of 7.7 percent set for the year. The energy crisis of 2006/7 has been blamed for the projected outcome as the electricity and water sub-sector is projected to have declined sharply in 2007. After the record growth of 24.2 percent in 2006 and against a target growth of 10 percent, the sub-sector is projected to have registered a negative growth of 15 percent in 2007 resulting in a significant loss in share of GDP from 3.1 percent in 2006 to 2.3 percent in 2007 and lower than it was in 2005.

High government capital spending — financed from domestic sources, external borrowing and aid disbursements — has contributed to robust activity in construction. The sub-sector has also benefited from rising demand in real estate and property. As a result, this sub-sector of industry has registered consistently rapid growth. According to the official statistics, after some deceleration to an annual rate of 8.2 percent in 2006 it was poised to perform at 11 percent in 2007 — a full percentage point higher than the target of 10 percent set for the year.

New investments in the mining sector — especially in gold — are expected to continue to raise output over the medium term, boosting export earnings. Over the last three years, gross domestic product originating in mining and quarrying grew at a rapidly accelerating pace — from 6.3 percent in 2005 to 13.3 percent in 2006 and is projected at an unprecedented 30 percent — five times the target for the year! as the Newmont gold mine was brought into full production. Moreover, the discovery in June 2007 of commercial quantities of oil is expected to significantly further boost economic growth in the Industrial sector once extraction begins from about 2010.

The manufacturing sub-sector has, for some time now, been the weakest in the Industrial sector. On account of relatively low growth performance — below that of overall GDP – it has steadily lost share since 2005. After hovering around 8.8 percent over the previous two years, the share fell by almost one percentage point to 8.1 percent on account of projected negative growth of 2.3 percent in 2007. The exceptionally poor performance of the manufacturing sector has been blamed on the energy crisis as the sub-sector is the most energy-sensitive of all. It must be emphasised, however, that the energy crisis only deepened the downward growth trend in the sub-sector. Against this rather dismal performance and notwithstanding the marginal decline in the construction sector growth rate, cement production, however, remained upward. Cement production reportedly rose by 16.4 percent to over half a million tonnes per quarter from the third quarter of 2007.

### **Fiscal performance (2007)**

Because of “significant uncertainties contained in the financial statements” the Auditor General (AG) felt unable to form an opinion as to whether the financial statements “give a true and fair view of the financial position of the GOG as at 31 December 2006 and the results of its operations cash flow and financial requirements for the year then ended” — Transmittal Letter to Rt. Hon. Speaker 28 June 2007. This has been a recurring qualifying statement on the financial statements on the Consolidated Fund by the Auditor-General over several years and which, moreover, can be expected to be repeated in respect of 2007 as well.

The GOG is mandated to carry out its fiscal operations on the basis of the budget estimates presented to and approved by Parliament. [Over the past 25 years, starting with the Economic Recovery Programme (ERP), except for short breaks such as at present, there has also been a Programme agreed

with the IMF which has run in parallel. This latter has been reviewed along the year and adjustments made as agreed with the IMF]. Accountability to Parliament and the general public, on the other hand, is based on the estimates presented to Parliament which, in principle, should be consistent with the Appropriations Bill passed by Parliament for the year under review.

The present review of fiscal performance for 2007 is based on CEPA forecasts of the outturn using data provided in publications of Financial Statements on the Consolidated Fund by the Controller and Accountant General's Department (CAGD) and the Report of the Auditor-General of recent years. Use is also made of data from the Ghana Statistical Service (GSS) and the Bank of Ghana (BOG). [The Government of Ghana (GOG) projections are also shown in the accompanying tables].

According to the CEPA forecasts of the outturn, fiscal performance in 2007 was characterised by a revenue and grants outturn that fell short of its target by about 3 percent. It would appear that in response to the shortfall, payments were strenuously restrained through, among others, the imposition of cash limits. Total payments are therefore expected to be about 2 percent lower than the provision in the revised budget. Experience here and elsewhere, strongly suggests that in the absence of a well functioning system for constraining commitments, however, the strict enforcement of cash ceilings on payments typically results in payment delays and arrears.

More generally, there are benefits and drawbacks to expenditure/payments control. For example, while taming the risks of over-spending on wages and salaries represents major progress in view of experiences of the of the current Administration, over-doing it risks worsening morale in a public sector where pay is generally deemed inadequate particularly for skilled and managerial grades in the social services — health and education. Again, taming domestically-financed capital outlays may be a good move that may indeed result from successfully checking collusive abuse of public funds (by some contractors and dishonest public officials). However, it may be a source of problems if it has other reasons — for example, “cuts occasioned by liquidity constraints faced by MOFEP in the course of the year” — and results in undue delays in the execution of important public works.

Consequently, while payments, for example, in respect of domestic capital expenditure were lower than provisions by over 40 percent, as in previous years, it is not clear how much of this can be considered as savings (on expenditure commitments basis) rather than simply payment arrears. Press

reports and ISODEC research [“Financing Decentralised Development: How well does the DACF work?” May 2005 (Revised)] in respect of transfers from the DACF to District Assemblies confirm the existence of several instances of significant payment delays and arrears. Moreover, comparing data from the CAGD and the BOG reveals incidence of substantial “direct debits” of government accounts in the banking system without such being reported in the financial statements of the CAGD.

The overall deficit forecast for 2007 is somewhat lower than the target in the revised budget but over 40 percent above the official projected cash deficit largely on account of:

- Unbudgeted-for transfers to VRA to cover subsidies and other expenditures including for the purchase of generators and the fuel for their operations;
- The hosting of the AU summit;
- The 50<sup>th</sup> Anniversary Celebrations of Independence;
- The hosting of CAN 2008;
- Higher than programmed wage bill; and
- Excess spending on poverty alleviation activities from HIPC debt relief.

Together with the clearance of outstanding commitments, the overall broad balance (modified cash basis) is estimated at 7.8 percent of GDP — much higher than the official projected outturn of 5.3 percent of GDP. The bulk of this deficit — about 60 percent — was financed through sales of government securities on the domestic market (including to foreign investors). Almost a fifth (1.3 percent of GDP) was financed with proceeds from the sovereign bond.

As the Press Release (January 28, 2008) of the Monetary Policy Committee (MPC) confirmed:

*Significant outlays were associated with the energy crisis including purchases of generation sets as a temporary measure, and the hosting of CAN 2008 African Cup of Nations Football tournament and the African Union Summit. These expenditures amounted to 2.2 percent of GDP. This deficit was financed on the domestic market to the tune of GH¢668.3 million (4.8 percent of GDP) as projected divestiture receipts of GH¢252.9 million fell short by GH¢137.8 million.*

## **Revenue**

Revenue comprises tax revenue, non-tax revenue, grants, HIPC receipts, and multilateral debt relief initiative (MDRI) receipts.

CAGD District Treasuries have persisted with their failure to receipt tax revenue with Treasury Counterfoil Receipts (TCRs). As a result, CAGD records on tax revenue collections are obtained directly from monthly returns submitted by the Revenue Agencies Governing Board (RAGB). The RAGB returns provide information on tax revenue collected and lodged excluding information on taxes collected which later become dishonoured cheques and their replacement. This has resulted in instances where cumulative totals of revenue collections at later dates have been lower than those published for earlier months of the year.

Such non-receipting of tax revenue is at variance with the stipulations of Regulation 15, FAR, 2004 LI 1802 which requires any public officer who holds public and trust monies to issue official receipts for them and lodge same into the relevant public fund bank account within 24 hours of receipt.

The non-compliance with LI 1802 denies the CAGD independent source data on revenue collections which could serve as a check on accuracy, completeness and validity of the monthly revenue returns submitted by the RAGB to the CAGD. It also denies the CAGD knowledge of the existence of dishonoured cheques and the extent and timeliness of their replacement.

Citing the GCNet System, introduced by CEPS at Tema, the CAGD has contended that technology has obviated the need for its own Treasury Counterfoil Receipts (TCRs). The contention is that the RAGB has instituted measures where lodgements are made directly into bank accounts and transferred straight to the Consolidated Fund. As the Auditor General has pointed out, however the GCNet System is a special case. The important point at issue is to ensure that the totality of taxes collected is captured at the source of generation so that cheques that subsequently become dishonoured would be independently determined by the CAGD. This would enable the CAGD to pursue timely replacement of such cheques. It would also improve the reliability of published monthly CAGD data and its use in monitoring fiscal performance (by institutions like CEPA). The Auditor General has also found instances of RAGB returns containing prepayments. In 2006 about 3 percent of IRS revenue was considered as representing “inappropriate set of revenue transaction”.

CEPA forecasts indicate that the performance of revenue in 2007 was below expectations. The total of revenue and grants is estimated at 26.8 percent of GDP compared to the budget target of 29.3 percent of GDP — a shortfall of about 8.5 percent. All major sources of revenue contributed to the shortfall with grants (highest shortfall of about a fifth), National Health Insurance Levy (about 11 percent), taxes on international trade and transactions (about 9 percent), and taxes on domestic goods and services (about 6 percent) contributing significantly. A relatively marginal shortfall in the collections of taxes on income and property (of about 1 percent) was also expected.

### **Direct Taxes**

The performance of direct taxes on income and property follows a trend discernible since 2005 — a continued good response to government policy of carefully reducing the tax rates combined with improvement in direct tax administration.

Among the sub-categories of taxes on income and property, corporate tax performed well. The CEPA forecast of GH¢418.54 million is 9.5 percent higher than the budget estimate. The overachievement of its target suggests that the government policy of carefully reducing tax rates — inducing compliance — together with the improvement in direct tax administration (especially the operation of the Large Taxpayer Unit (LTU)) continues to bear fruit. Personal income tax fell short of its target by 2.7 percent but the culprit for the overall underperformance was the miscellaneous direct tax sub-category — labelled Other in Table 1a. The CEPA forecast for this indicates a shortfall of a little over 26 percent. Given its miscellaneous nature and in the absence of a breakdown in the CAGD data it is not possible to provide explanations for the poor performance. The available data, however, suggests a possible over-optimism in the setting of the target in the 2007 budget since the performance is a massive improvement — more than 60 percent — over the outturn for the previous year, 2006.

### **Indirect Taxes**

Taxes on domestic goods and services — dubbed indirect taxes — also are forecast to perform below expectations. Overall, a shortfall of about 5.7 percent is anticipated. An examination of the CAGD data on which CEPA forecasts depend, however, indicates that the underperformance may be no more than a technicality — which turns the treatment of receipts of excise duties in the books of the CAGD. Excise duty collections are not mentioned in the monthly notes of “Important Statistics on the

Consolidated Accounts” by the CAGD. There are also indications that the Revenue Collection Agency involved is allowed to retain all or part of monthly collections for the running of the agency. A fuller account of performance would have to await the auditor General’s Report for the year 2007. The treatment, however, does not affect the budget deficit as the expenditure side of the accounts is also understated by an equivalent amount.

In contrast, the other two sub-categories of taxes on domestic goods and services — petroleum taxes and VAT — both over-performed, even if only marginally so. Petroleum taxes are expected to end the year about 1.4 percent above the target in the budget as the full pass-through policy has been effectively implemented. For its part, VAT — including on imports — is expected to barely exceed its target (in excess of less than one percent).

### **National Health Insurance Levy (NHIL)**

Collections of the National Health Insurance Levy are also expected to fall short of target by about 2 percent. This is on account of yet another technicality. The budget target includes the transfer from SSNIT on behalf of employees registered with that pension fund. According to the Act setting up the National Health Fund (NHF), SSNIT is to transfer 2½ percentage points of the 17½ percent it receives from employed in respect of employers registered with it to the NHF. It would appear that these transfers are made directly to the NHF without any involvement of the CAGD. The latter deals with collections made by CEPS (on imports) and the VAT Secretariat (on domestic goods and services). In respect of these, it is worth recalling that the NHIL is in effect a VAT at the rate of 2 ½ percent — the same as that earmarked for the Education Trust Fund (ETF). The 2007 budget estimate for this was an optimistic GH¢48.8 million (compared to a 2006 outturn of GH¢ 20.4 million) while that in the 2008 budget appears more realistic — a target of GH ¢35.4 million. From the above information, it is unlikely that the 2007 target was achieved.

### **Taxes on International Trade**

In respect of taxes on international trade and transactions — mainly cocoa export duty and import duties — it may be noted that the monthly financial statements of the CAGD for the first eleven months of 2007 recorded no collections of cocoa export levy. The official projected estimate has been accepted. This is based on the assumption that the non-reporting by the CAGD does not mean no collections were made. Rather with Administrative approval, tax collections agencies retain revenue

for their operations. Import duty collections, the larger component under this category of tax revenue, is forecast to have actually exceeded its target by almost 2 percent. This outcome is both on account of a rise in the effective duty rate (lowering of exemptions) and a larger than planned value of non-oil imports. Nonetheless, the implied effective duty rate on imports points to the desirability for further improvement in the collection effort of CEPS — an official policy objective.

### **Grants**

The substantial shortfall in donor disbursement of programme grants is consistent with existing trends and the unreliability of aid flows and once more raises concern in the light of apparently good relationships with Development Partners. Unfortunately the situation is likely to persist into the future.

### **Non-tax Revenue**

Over-performance is, however, expected in respect of Non-tax revenue (net of IGFs) of about 2 percent.

Non-tax revenue reported in the financial statements does not disclose its composition as would permit users of the statements to appreciate the performance of the various elements comprising the non-tax revenue.

Under section 29 of the FAA, Act 654 and “Administrative Instructions for Transitional Arrangements for the Implementation of the FAA” (MOFEP/FAA/FAR/01 of January 20, 2004) issued by Ministry of Finance and Economic Planning (MOFEP) (January 20, 2004) budgeting and reporting for non-tax revenue should be on the following lines:

- Fines, penalties and forfeitures;
- Sale of goods and services, including those procured through the use of GOG assets;
- Rent of GOG lands and buildings/facilities;
- Fees and charges;
- Licenses;
- Interest on loans and GOG investments;
- Dividends; and
- Miscellaneous – such as donations, contributions etc.

It is important that representations contained in financial statements be complemented by disclosures so as to enhance understanding of the statements. Most importantly, such non-disclosure contravenes the directive of MOFEP cited above.

The A-G has drawn attention to the practice whereby MDAs have collected and used portions of their IGF without the approval of Parliament, contrary to Article 176 (1a) and 178 of the 1992 Republic Constitution.

For 2006, the MDAs involved were the following:

- National Council for Tertiary Education
- Ghana Immigration Service
- Registrar General's Department
- Driver and Vehicle Licensing Authority
- 37 Military Hospital
- Ministry of Water Resources, Works and Housing
- Police Hospital
- Ministry of Foreign Affairs
- Prisons Service

The reliance of MDAs on administrative authorization from MOFEP to retain and use IGF for purposes of their operations is otherwise in contravention of Articles 176 (1a) and 178 of the 1991 Republican Constitution of Ghana as well as sections 6 (1) and 9 of the FAA, Act 654. With the passage into law of the Ministries (Retention of Funds) Bill — approved by President on December 14, 2006 though by June 2007 it had not received Presidential assent — the situation is being rectified.

Again some MDAs in part or whole, failed to submit monthly IGF reports to MOFEP, in contravention of Regulation (19(1) of FAR, LI 1802). This omission obscures information on total IGF collected, retained and disbursed, thus rendering the Public Accounts Financial Statements less informative.

Four of the defaulting MDAs in 2006 were the following:

- Forestry Commission
- Ghana Broadcasting Corporation
- Lands Commission
- Ministry of Fisheries

The FAR, 2004, LI 1802, Regulation 19 (1) enjoins a Head of Department to fully disclose all Non-tax Revenues collected, lodged or retained as part of the monthly report to MOFEP. Non-compliance with this Regulation is deemed as financial indiscipline, which is sanctioned under Regulation 8 LI 1802.

The effect of the above omission is that adequate information on IGF collected, retained and disbursed is not made available for purposes of the Public Accounts and related financial statements. Because of the unavailability of this information, CEPA forecasts and analyses on Non-tax Revenue exclude IGF.

In the recent past, for example in 2005, good performances in non-tax revenue has been presented as a reflection of progress in the capacity of public enterprises to generate profits, and of the Ministry of Finance and Economic Planning (MOFEP) in monitoring and ensuring the required transfers of profits and dividends to the Treasury. It may be noted that CEPA had been sceptical about those official accounts. In that year, among others, returns from National Communication Authority (NCA) more than quadrupled, and revenue received from COCOBOD was six times more than the budget target and all these transfers were in the month of December. The extraordinary performance of 2005 has not been repeated since.

### **Expenditures**

In spite of the tremendous improvements that have taken place — key among which is the clearance of the backlog of unaudited accounts (the AG published the 2006 audited accounts in mid-2007 and the CAGD has gazetted the accounts for 2007) — there still remain a number of problems. These relate to:

- Comprehensiveness of coverage;
- The accounting basis — modified cash versus accruals;
- Payment delays and arrears; and
- Internally generated funds.

Comprehensiveness of coverage

Comprehensiveness and transparency of the annual budget have improved since 2004 through the incorporation of information on Internally Generated Funds (IGFs) of the Ministries, Departments and Agencies (MDAs) of government (from non-tax revenue though not tax revenue), direct donor disbursements of project loans and grants, debt relief (from the HIPC and MDR Initiatives) and Statutory Funds (DACF, GETFund, NHIF, RF and Petroleum-related Fund) in the Budget Statement.

In-year reporting on the public accounts, however, has been less comprehensive. A recent external review of public financial management in Ghana sponsored by the UK DFID and the World Bank and CEPA research found as follows:

*.....discretionary expenditures that are charged on Consolidated Fund that are under the management of the Controller and Accountant General's Department (CAGD) in recent years have averaged about 50 percent of the overall total of Central Government expenditures in the yearly Appropriations (CEPA Public Expenditure Management in Ghana – 2006).*

These problems with data comprehensiveness have also been raised repeatedly by the IMF staff (see for example the IMF Country Report No 07/210 of June 2007, page 56):

*The CAGD and the BOG have been missing a substantial part of central government spending, such as donor flows disbursed directly to ministries and those arising from internally generated funds.*

Finally, in successive annual reports of the Auditor-General, attention has been drawn to the coverage problem with CAGD data:

*Once again project grants and loans ..... though budgeted for, were not captured in the financial statements for the period because the CAGD lacked information on project grants (and loans) inflows..... To ensure comprehensive financial reporting, MOFEP should formally request Development Partners to furnish it and CAGD with information on all projects funding for inclusion in the public accounts (see Report of the Auditor-General (2004) page 4).*

Again, specifically on project loans, the A-G has observed:

*Existing accounting treatment for project loans, (does) ..... not satisfy the requirement of Section 18 of the Loans Act, 1970, Act 335 ..... the reporting of project loans (should) be undertaken to a level where the substance of the loan can be appreciated by users of the financial statements of the Public Accounts [see Auditor-General Report (2005) paragraph 16 page 4].*

#### The accounting basis

The CAGD prepares the Financial Statements on a modified cash basis. As explained in the notes to the accounts: the Government of Ghana “generally reports revenues in the period in which they are received (and) expenditure for government operations are recognized when goods and services are received and paid for”. The implication is that the year of recognition of expenditure in the Financial Statements of the CAGD is, whichever is the later of, year of receipt of the good or service, and the year when payment is effected.

With the promulgation of the Financial Administration Act 2003, Act 654, however, the goal is to prepare the accounts and financial statements on accrual basis so as to ensure full disclosure and completeness of information in the Financial Statements. In his 2006 report, the Auditor-General drew attention to the unsatisfactory state of affairs as follows:

*On the basis of the requirements of Regulation 186, FAR, LII802, which stipulates that the Public Accounts be compiled generally on the basis of accrual accounting, the existing basis of preparing the accounts contravenes the law (AG Report (2006) paragraph 23 emphasis added).*

#### Payment delays and arrears

Payments in respect of arrears clearance and liquidation of outstanding commitments (including VAT refunds) are reported in both Budget Statements and the Financial Accounts. However, the payments so made in a given year were parts of outstanding liabilities of the Consolidated Fund in the preceding year which should have been disclosed in the Financial Statements of that year. In current practice, this is not done. The exceptions have been in respect of arrears to some Statutory Funds in the 2003

Budget Statement and the acknowledgement of carryover of payments from election year 2004 into 2005. In respect of the former, the Finance Minister reported to Parliament in the 2008 Budget Statement:

*..... in 2003, Government made a commitment to ring-fence and pay over a five year period, the arrears of the GETFund and DACF that had accumulated over the years..... I am delighted to inform the House that in fulfilment of the promise the last and final instalments of these arrears ..... have been fully liquidated (paragraph 165 of Budget Statement 2008).*

The evidence, however, strongly suggests that new payment arrears have been accumulated in respect of Statutory Funds, road and non-road arrears which should have been disclosed in the Budget statement. Indeed a provision of GH¢42.7 million has been made for the liquidation of outstanding commitments in the 2008 budget. No such provision has been made for subsequent years leaving the impression that the entire stock as at the end-December 2007 would be cleared in 2008. The evidence of experience, however, is that this is standard practice (see for example the 2007 Budget Statement, Appendix Table 4a) simply the recurring failure to disclose information.

Regulation 191 (a) of the Financial Administration Regulations, 2004, LI 1802 enjoins the CAGD to submit a Statement of the financial assets and liabilities of the Consolidated Fund at the close of each year accompanied by qualifying information as may affect the significance of figures shown in the Statement. Moreover, on the basis of Section 41(2) of the Financial Administration Act, Act 654 which requires that the public accounts be compiled on generally accepted accounting principles, it is the opinion of the Auditor-General that the modified cash basis of accounting in use should allow for the inclusion of accrued liabilities of the Consolidated Fund and the failure to do so leads to understating the liabilities of the CF.

### *Internally Generated Funds*

There is also the issue of the administrative authority given by the MOFEP for the revenue collecting agencies to retain portions of their collections of tax reserve for financing their operations. In essence, these retentions of tax revenue are not different from those in respect of non-tax revenue which are

referred to as internally generated funds (IGFs). An examination of the monthly Financial Statements of the CAGD suggests that the retentions are netted out of the tax revenues and the corresponding expenditures are also not shown. The problem this poses is that when the CAGD data is supplemented with data from the Revenue Agencies Governing Board (RAGB) the revenues get grossed up while the expenditure estimates are not appropriately grossed up. This is because the counterpart payments are not available. As a result, the cash deficit could be under-estimated.

### **Recurrent spending**

Total recurrent spending is forecast at GH¢3,365.9 million representing a share of 24.1 percent of GDP. This is about 15 percent higher than the budget provision of GH¢2,916.1 million equivalent to about 20.9 percent of GDP. Both main components — interest payments and non-interest payments — exceeded their respective allocations in the revised 2007 budget.

#### *Interest payments*

Total interest payments on the public debt — domestic and external — is forecast at GH¢547.4 million, the equivalent to 3.9 percent of GDP. Compared with the budget provision, this represents an overrun of about 50 percent driven by the domestic component.

Additional debt relief became available in the second half of the year which made possible the higher expenditure provisions in the revised budget approved by Parliament in July 2007. Since interest expenditure provisions in the budget represent what is to be paid to creditors, debt service relief results in lower provisions. Consequently, as shown in the official projected outturn, external interest payments are expected to total GH¢98.4 million which would be 8.6 percent lower than had been provided for in the budget. Given its contractual nature, CEPA has accepted the official projection.

The domestic interest payments are forecast to amount to GH¢449 million. This is almost 80 percent higher than the official projected outturn which is about the same as the budget provision. The provision in the budget was grossly inadequate and unrealistic on account of, among other things, technical problems with projecting the cash deficit and the related public sector borrowing requirements. As assessments of CEPA, confirmed by IMF staff have pointed out, the 2006 cash deficit was much larger than the official estimate and the domestic borrowing associated with it. As a result, the trend decline in the domestic debt to GDP ratio has been reversed from end of 2006 as

noted by the IMF (domestic debt rose faster than GDP contrary to official claims to the contrary). Furthermore, in 2007, the divestiture receipts expected to finance the deficit fell short of the budget target by nearly 80 percent. This necessitated further domestic borrowing and consequently much higher interest payments.

CEPA has drawn attention to some flaws in official budgetary data and projections in its annual publications. Specifically in respect of 2006 this has also been done by IMF staff. To quote the latter on this issue:

*After years of sustained consolidation, the fiscal deficit widened to 7.7 percent of GDP in 2006 from 2.3 percent of GDP in 2005 and as against 5.1 percent of GDP in the mid-year supplementary budget. The higher deficit was financed by non-bank borrowing in part by issuing local currency bonds many of which were purchased by foreign investors. As a result (and contrary to claims in the 2007 budget) the trend decline in the ratio by domestic debt to GDP was reversed (IMF Country Report No 07/210 June 2007, paragraph 4, page 6, emphasis added)*

To summarise, domestic interest payments were likely to exceed the budget estimates and by large margins, among other things, because:

- the official provisional outturn for 2006 grossly underestimated the cash deficit, (estimated by IMF at 2.6 percent of GDP), the size of domestic financing and therefore the end-year stock of domestic debt;
- the underestimation of the outturn of key expenditures contributed to under-provision for these in the 2007 budget; resulting in expenditure overruns and debt finance;
- unanticipated cost push factors, most notably, in international prices for petroleum and petroleum products, the related large transfers to VRA and other Utilities for procurement of generators, for purchase of diesel oil and as subsidies to consumers;
- large shortfalls in divestiture receipts (about 80 percent); and
- high private and public spending and domestic borrowing occasioned by the celebration of the 50<sup>th</sup> anniversary of Independence, AU Summit, CAN 2008 with consequent incipient upward pressure on interest rate.

### Non-interest recurrent expenditure

On the face of it expenditure control appears to have been relatively stringently imposed on non-interest recurrent expenditure as a whole in 2007. Total payments are forecast at GH¢2,818.5 million (equivalent to a share of about a fifth of national income). Compared to the budget provision of GH¢2,551.3 million (representing a share of about 18.3 percent of GDP), this would mean over-expenditure of 10.5 percent. Different components, of non-interest expenditure, contributed differently to this outcome. The key ones are discussed below.

#### Personnel Emoluments (Item 1)

For most of the seven years of the present Administration, the wage bill — personnel emoluments — has been among the most difficult to contain within its budgetary provision. Different explanations have been given for this. In respect to the 10 percent overrun in 2005, the Finance Minister told Parliament that this had resulted “from some extraordinary pressures in the public sector labour market beginning in the second half of the year” (see Budget Statement 2007 paragraph 117). Analysis by function of the expenditure charged on the Consolidated Fund reveals that the wage component, particularly, in the social services of health and education has been the key driver of expenditure overruns over the 2002–2006 period.

By IMF staff estimates, the government wage bill reached over 10 percent of GDP in 2006 “absorbing close to half of domestic revenue” (ibid). The CEPA forecast of GH¢1,376.2 million (equivalent to 9.8 percent of GDP) is about 4.5 percent higher than the provision in the budget. Nonetheless, given the historical record, this could well prove to be an underestimate. A Deputy Governor of the BOG has been reported in the media to have included public sector wage overrun as a contributory source to the wider than expected cash deficit.

#### Administration and Service (Items 2 & 3)

Over the first three quarters of 2007, Administration (Item 2) and Service (Item 3) together recorded total expenditure outlay amounting to GH¢383.5 million. The corresponding amount in the preceding year was GH¢313.3 million. This means an average growth rate of about 22.4 percent on a year on year basis, reflecting the high pace of spending in 2007. On this basis, the official projected amount for the year of GH¢422.2 million — marginally lower than the GH¢427.7 million realised in 2006 appears unrealistically optimistic. Another way of making the same point is that compared to the

average quarterly expenditure of GH¢127.8 million over the first three quarters, fourth quarter spending is projected at GH¢38.7 million – is less than a third of the quarterly average. On this basis even the higher CEPA forecast of GH¢454.4 million is most likely an underestimate. It implies a fourth quarter estimate of a little over half the quarterly average over the preceding period. A more plausible estimate would be at least GH¢511.2 million (annualising the quarterly average of GH¢127.8 million).

#### Other transfers (including NHIF)

Other transfers — to the Public Utilities such as the Volta River Authority (VRA), the Electricity Company of Ghana (ECG) and the Ghana Water Company Limited (GWCL); the National Health Insurance Fund (NHIF); price subsidies for water, electricity and petroleum products — far exceeded the budgeted provision. This category of expenditure was listed by the Monetary Policy Committee of the Bank of Ghana as a source of excessive overspending in 2007. The official projected total of GH¢382.7 million is itself more than 60 percent above the budgeted provision. The CEPA forecast indicates that even this is most likely to be an optimistic projection. The evidence points to large transfers to the VRA to finance both capital and operational expenditure.

Moreover, prevarications in the implementation of pricing decisions of the Public Utilities Regulatory Commission (PURC) were bound to result in much larger than planned subsidies. Developments, later in the year, point to further increase of these unbudgeted subsidies for “Lifeline Consumers.” These energy-related expenditures are understandable and in the circumstances arguably unavoidable. Dealing decisively with the problem calls for hard choices to be made. More transparency, explicit provision and determined implementation of stated policies would be needed to ensure fiscal discipline.

#### National Health Insurance Fund

Included in the Other transfers is that the NHIF payment into the National Health Insurance Fund (NHIF) is undertaken in two phases. The first phase involves VAT collections and SSNIT deductions of 2.5 percent out of the 17.5 percent contributions into the Levy Account. The second phase entails the transfer of funds from the Levy Account into the NHIF by MOFEP and CAGD. It is only when the NHIF receives inflows that the National Health Insurance Commission can access it for purposes of running the National Health Insurance Scheme.

The AG notes that, in practice, SSNIT keeps contributions and effects payments quarterly into the NHIL Accounts. Moreover, these transfers are not regular resulting in significant stocks of arrears. On the other hand, section 78 (2) of the National Health Insurance (NHI) Act, 2003, (Act 6501) stipulates that:

*The Director-General of SSNIT shall at the end of each month cause to be transferred to the Fund 2.5 percent of each person's 17.5 percent of Social Security contributions for the preceding month.*

The AG examination of SSNIT handling of SSNIT contributions and subsequent payment into the Levy Account reveals that the timing of payments by SSNIT have been delayed by between two to four months. Furthermore, there appears to be no need for the existence and retention of accrued funds in the Levy Account. That account only serves as a conduit for transfers into the NHIF.

The non-adherence to the NHIL Act provision regarding transfer of funds into the NHIF — the account accessible to the National Health Insurance Commission — and the inordinate delay of the movement of funds from the Levy Account to the NHIF “could significantly deprive the National Health Insurance Commission (NHIC) of needed funds for the smooth running of the Scheme.” Finally there are discrepancies between the inflows into the Levy Account and the transfer payments presented in Financial Statements of the Public Accounts apparently due to the “absence of periodic reconciliation among SSNIT, CAGD, MOFEP and NHIC”. Up to November 2007, the monthly Financial statements of the CAGD showed no transfers whatsoever into the NHIF. On the other hand, as noted in respect of VRA and others, banking system data indicate direct debiting of government accounts without these being reported in the Financial Statements. As noted elsewhere in this report only about half of expenditures charged on the consolidated Fund is under the management of the CAGD.

### **Capital expenditures**

All three components of capital expenditure — domestically financed, foreign-financed and Statutory Funds — recorded “savings”.

### Domestically–Financed Capital Expenditure

There has been a tendency for capital outlays — domestically financed and foreign-financed — to fall short of the provisions in the budget. In respect of the foreign financed component this has been attributed to the inherent unreliability of foreign aid as development assistance. At the same time delays in aid-disbursements have often been compounded by liquidity problems of the MOFEP. For example, total investment outlays were “projected (at) 19.6 percent lower than the estimated amount in the 2006 Budget Statement” (paragraph 118 of Budget Statement 2007). Again, according to the 2008 Budget, total investment outlays for the year 2007 are officially projected at 40.7 percent lower than the provision in the 2007 budget. Moreover, in both 2006 and 2007, the domestically–financed component registered a larger shortfall than the aid foreign-financed. In 2007 for example, the shortfall in respect of the domestic-financed was projected at 43.5 percent compared to the 40.7 percent for total investment outlays.

In respect of 2006, the evidence not only confirms the shortfalls, it also brings out an aspect of the technical flaws with the official projections. The official projected outcome for 2006 given in the 2007 Budget Statement would have implied a shortfall of 65.1 percent. The revised provisional outturn for the same year, 2006, in the 2008 Budget Statement, however, implies a lower shortfall of 20.7 percent. This illustrates the technical weakness in the official projection model — a downward bias resulting in under-estimation of expenditure outlays.

### Foreign–Financed Capital Expenditure

CAGD data does not cover foreign flows and consequently CEPA has no independent estimates for these. Official projections in the 2008 budget, shown in Table 2a show foreign-financed capital expenditures falling short of the budget provision by almost 40 percent. Both project loan and project grant disbursements are projected to fall short of expectations in significant amounts – project loans by nearly a quarter and project grants by more than half. Thus, as observed above in respect of grants, aid flows can be extremely unreliable as source of financing development.

### Statutory Funds

The third component of capital expenditure is transfers to Statutory Funds namely: the Education Trust Fund (ETF), the Road Fund (RF), the Petroleum-related Fund (PF) and the District Assemblies Common Fund (DACF). These funds have been set up by Parliament and the transfers of collections

of taxes and levies into them are statutory obligations. The provisions in the 2007 budget acknowledge the perennial problem of delayed transfers and arrears that have been experienced by the Administrators of these Funds. In 2003, Finance Minister obtained parliamentary approval for the clearance of the accumulated stock of arrears over a 5-year period. Consequently, the provisions in the 2007 budget comprised the statutory obligations of the year together with a component of scheduled arrears clearance.

#### District Assemblies Common Fund (DACF)

According to CEPA forecasts, corroborated by ISODEC research findings, Government failed by a substantial margin to meet its statutory obligations, especially in relation to the DACF.

The DACF is a statutory fund created by the Fourth Republican Constitution (1992) as a mechanism for transferring financial resources from central government to the local authority government for investment in development projects and other purposes as defined in the Act that established the fund.

The specific ISODEC findings were the following:

- disparities between the statutory minimum 5 percent of tax revenue and the actual transfers to the fund for disbursement to the Assemblies,
- government inability to disburse even the amount declared as allocation to the DACF,
- inability of MLGRD to verify and/or challenge MOFEP — the amount declared as the statutory allocation of 5 percent of tax revenue to the fund,
- delays in the disbursement process — from the submission of the proposed formula to Parliament, getting Parliamentary approval making the allocations, and finally disbursing monies to the various Metropolitan, Municipal, District Assemblies (MMDAs) nor the receipt of the monies by the MMDAs, and
- from 1999 disbursements of the DACF steadily fell behind schedule reaching its climax in 2002 when only one quarterly disbursement was made.

Shortfalls in transfers to the DACF have been a recurring phenomenon. Moreover, the resultant commitments of the Consolidated Fund are not disclosed in the Financial Statements of the Public Accounts. For example, the AG reported that the commitments for the 2005 and 2006 financial years

were not disclosed in the respective Financial Statements. As he noted, such “omissions contravene Regulation 19 (a) of LI 1802”.

**Box 1 Fiscal Responsibility Law (FRL), transparency & discipline**

The passage into law of a Fiscal Responsibility Law (FRL) by itself is not sufficient to promote fiscal discipline. An FRL and its set of fiscal rules constitute an enabling instrument for the country to stay on a transparent, credible and sustainable fiscal path. Credibility requires vulnerability in the sense of penalties or sanctions for failure. Thus, the fiscal rules must be accompanied by sanctions for effective enforcement together with escape clauses during periods of adverse shocks. Strong and supportive governance structures such as an open and politically independent review panel or court (as opposed to a partisan body) would have to be established.

The fiscal rules essentially aim at disengaging fiscal policy from government influence. They also impose greater accountability on government finances, drive expectations and enhance transparency of the overall budgetary framework. They thus help tackle any predisposition to budget deficits by pre-empting spending overruns, thereby helping to address the political and institutional tendencies to raise expectations during economic booms for partisan political advantage in the electoral cycle.

Instrumentally, as in New Zealand, fiscal rules would set legal standards for transparency of fiscal policy and reporting holding the government formally responsible to the public for its fiscal performance. The experience with FRLs is that they work best when governments are fully committed to the process of fiscal prudence and determined not to sacrifice long-term development goals for short-term political expediency.

Fiscal consolidation is important to ensure that macroeconomic stability is not compromised in the course of scaling up investment in the growth-enhancing sectors. Given the current and recent record of large budget deficits and unsustainably high domestic and external public debts fiscal consolidation could be enhanced by effective fiscal rules.

Fiscal Transparency refers to the practice of a government disclosing to the public, information about its structures and functions, fiscal policy intentions, public sector accounts and fiscal projections. The lack of such transparency contributed to a loss of confidence and fed global instability in the late 1990s. Particularly, in Latin America, weaknesses were related to poor monitoring of off-budget fiscal activities that eventually had large fiscal consequences.

Fiscal transparency permits a clear assessment of:

- Past fiscal performance,
- The current fiscal position,
- Fiscal risks, and
- The future direction of fiscal policy.

Most important, identifying and better monitoring fiscal risks can prevent unpleasant fiscal surprises. More generally, improvements in the quality and timeliness of fiscal data can help improve the analysis of fiscal data and the quality of fiscal decisions.

Fiscal transparency, however, is more than improved monitoring of fiscal risks. It can also help to:

- Strengthen governance and reduce corruption;
- Enhance public understanding and thereby boost support for important fiscal reforms;
- Aid the efforts of donors and civil society to promote social spending, reduce poverty, and achieve greater social equity; and
- invigorate the business environment and attract investment by simplifying tax and business regulations and limiting administrative direction.

In 2006, the Public Accounts incorporated the total of the commitments for the year together with the arrears from the fourth quarter of the previous year and payment arrears due as of 2002. This created “a misleading impression that the whole payment into the DACF related to the year 2006”.

Fiscal rules require strong and supportive governance structures — an open and politically independent review panel or court (as opposed to a partisan body). Such independent institutions are critical in the enforcement of sanctions against violations of stipulated fiscal rules.

Fiscal rules, as in New Zealand, could set legal standards for transparency of fiscal policy and reporting holding the government formally responsible to the public for its fiscal performance. Fiscal Responsibility Law (FRL) is being contemplated the critical issues to consider include sanctions and their enforcement.

#### GETFund

Section 4 (2) of the GETFund Act 2000, Act 581 mandates the Value Added Tax Service (VATS) to pay directly into the GETFund bank accounts, the proportion of revenue required to be paid within thirty (30) days of receipt of VAT revenue.

Review by AG showed that:

- VATS in collaboration with MOFEP determine monthly the funds accrued to the GETFund; and
- Releases to the GETFund are then authorized, approved and paid by MOFEP, CAGD and the BOG respectively.

However, the accrued funds determined by VATS are not always communicated to the Administrator of the GETFund. Moreover, out of the amount transferred in the year under review a portion could be unacknowledged arrears relating to previous years. For example, in 2006 the amount paid into the GETFund represented only two thirds of the accrued funds in that year. Funds owed to the GETFund at the close of year therefore comprised outstanding payments for that year as well as arrears for previous years.

The delayed transfer of the funds to the GETFund bank accounts undermines the growth of the GETFund as well as programmes and projects the GETFund is used to finance. Moreover, the non-

communication of monthly assessed accrued funds by VATS to the Administrator of the GETFund could obscure amounts due to the GETFund and possibly non-payment of such funds — legally considered, a build-up of payment arrears.

In the view of the A-G:

..... the shift of responsibility from VATS to MOFEP for transfer of the accrued funds, contrary to the provision contained in VATS enabling enactment is to be blamed for the delayed transfers into the GETFund. This is because MOFEP in the face of budgetary constraints may prioritise national needs and thereby not effect transfer of accrued funds timeously into the GETFund bank accounts. (A-G Report 2006 page 14, emphases added)

In the 2007 budget, the provision for transfers into the Fund amounted to a fifth of the projected VAT collection. This is what the law prescribes since the transfer is based on VAT at the rate of 2½ percent — one-fifth of the total VAT rate of 12½ percent. The official projected outturn, however, would be about 18 percent of the expected VAT collections which would mean a planned transfer shortfall of about 20 percent. This shortfall is not acknowledged and no provision is made for it in 2008.

In contrast, the CEPA forecast suggests that there were transfer arrears from 2006 which were being cleared over the course of the year and which if continued through December would bring the total amount transferred to GH¢215.8 million. About GH¢178.6 million of this would have been in respect of arrears clearance.

A puzzling feature of the data in the 2008 budget is not only that there is an acknowledged but implied transfer in 2007; but also, as a consequence, no rectification is planned for 2008. Worse still, the provision of GH¢163 million would fall short of the statutory obligation of GH¢200 million by almost 20 percent.

### Road Fund

The Road fund was one of the Statutory Funds which the Finance Minister admitted to be owed accumulated arrears in 2003. As evident from the above list of sources of monies for the fund, it is difficult to monitor what has accrued in any particular year. Consequently, it is not possible to determine whether the statutory obligations have been met. As has happened in the past and continues

to happen in respect of payment obligations of government in general, transfer delays can be assumed to occur in respect of the Road Fund as well.

In 2007, a provision of GH¢111.4 million was made in the budget for the Road Fund. The official projected outturn suggests that government was determined to honour this obligation to the full. What evidence there is suggests that taxes and levies on the petroleum products marginally over-performed; and since the levies on petroleum products approved by Parliament for the Road Fund are determinant source of monies for the Fund, meeting the target in full realisation is important. The transfers into the fund in the course of the eleven months to December, the basis of the CEPA forecast, however, suggest that there were delays and shortfalls. Thus unless, all this was made up for in December, there would be a carryover into 2008 of about GH¢24 million — about 20 percent of accrued funds.

According to the Road Fund Act, Act 536, the Fund was established to “finance routine and periodic maintenance and rehabilitation of public roads....” It is also to be used to assist the Metropolitan, Municipal and District Assemblies in the exercise of their functions relevant to public roads ....”

Specifically, charges on the Fund are for:

- (a) routine and periodic maintenance of road and related facilities;
- (b) upgrading and rehabilitation of roads;
- (c) road safety activities;
- (d) selected road safety projects; and
- (e) such other relevant matters as may be determined by the Board.

Allocations from the Fund to implementing departments and bodies shall be based among others, on the condition of the road network, maintenance requirements, the length of the road network, and the relevant volume of the traffic.

The monies of the Fund derive from:

- levies approved by Parliament on petrol, diesel and refined fuel oil;
- bridge, ferry and road tolls collected by the Ghana Highway Authority;
- vehicle license and inspection fees;

- international transit fees, collected from foreign vehicles entering the country; and
- such monies as Parliament may approve.

### DACF

Given the statutory obligations under the Act that set up the District Assemblies Common Fund (DACF) — the DACF is fed with transfers amounting to 5 percent of tax revenue — the GH¢162.7 million provision in the 2007 budget suggests a planned clearance of delayed transfers accrued from 2006. This basis the official projected outturn in respect of revenue and payments suggest otherwise. Allowing for the overall shortfall in revenue, the GH¢146.2 million — about 10 percent lower than the provision in the budget — falls short of estimated accruals. Moreover, it leaves no room for the clearance of any outstanding commitment from 2006. The CEPA forecast — 16.7 percent lower than the official projection — indicates a strong possibility of further accumulation of delayed transfers in the DACF in the course of 2007.

### **Debt relief (HIPC & MDRI) - financed**

HIPC-financed expenditure is unclassified in the reported official provisional outturn. In the official projected outturn moreover, the budget estimate is retained as the projected outturn. MDRI-financed expenditure is treated in identical fashion. Again this does not do any credit to budget transparency — an important issue which the AG has drawn attention to in annual reports. Greater transparency could change the assessment of budget outcomes and their impact (see Box 1). For example, over-spending on HIPC-financed activities and the composition of such spending could make up for under-spending elsewhere. This however, — which has been reported to have occurred in 2007 — would also mean a corresponding higher overall deficit. There is also the related perennial issue of inadequate reconciliation of CAGD accounts with that in the banking system.

Bank statements with reconciled balances were not made available (to the AG) to make possible the substantiation of reported cash. The AG's review neither sighted regular monthly reconciliation of accounts constituting the Consolidated Fund, though there was evidence that Bank of Ghana submitted the statements to CAGD. Despite “persistent requests” to both BOG and CAGD for bank statements of accounts of inflows and outflows of the Consolidated Fund and their respective balances.... no response was received.

To obviate these anomalies, the AG has recommended that:

*bank accounts constituting the Consolidated Fund be clearly determined in accordance with the provisions of the Financial Administration Act (FAA), Act 654, and also all balances on bank accounts be reconciled before reporting in the Public Accounts Financial Statements — Report of the Auditor General (2006) paragraph 207.*

### **The deficit and its financing**

The overall budget balance — broadly defined as total revenue and grants minus the sum of payment vouchers issued by the CAGD and direct debit of government bank accounts authorized by MOFEP — is forecast at a deficit of GH¢1,155.2 million (see Table 3a). This is numerically lower — by about 7.7 percent — than the target set in the revised budget. It is, however, wider by a significant 45 percent than the deficit of GH¢795.9 million officially projected for 2007.

The overall cash balance which includes VAT refunds and clearance of road and non-road arrears is forecast at a deficit of GH¢1,253.6 million equivalent to 9 percent of GDP. This CEPA forecast marks a considerable deterioration from the 7.8 percent of GDP realized in 2006. In contrast, the official projection of the outturn equivalent to 5.7 percent of GDP would not only have been a vast improvement on the performance of 2006; it would have over-performed its target of 9.5 percent of GDP.

The presentation of the annual budget in November of the preceding year is in conformity with the dictates of the Fourth Republican Constitution. It is a commendable development in the budgetary process which moreover, enhances the implementation process. It however, has brought into sharp focus serious technical weaknesses in official projections of end-year outcomes. The “fiscal surprises” of 2006 could, to a considerable extent, be blamed on these weaknesses. It would appear that 2007 could turn out to be a repeat of the preceding year — a cash deficit almost 60 percent (the equivalent of about 3.3 percent of GDP)! worse than the official projected outcome. The disturbing observation is that this would be the third year since 2005 of realized outturns being worse than official projected outcomes and by increasingly large margins.

Financing the deficit has also posed considerable challenges. The sources of financing can be grouped into four — divestiture receipts, aid and aid-related (debt relief) receipts, external loans (sovereign bond) proceeds and domestic borrowing. The 2007 revised budget projected a cash deficit equivalent to 9.5 percent of GDP. Divestiture receipts were to finance about 40 percent of this deficit, aid and aid-related resources had a share of a little over a third, sovereign bond proceeds were to finance about a fourth and finally there was to be a small domestic net repayment. In the event, CEPA forecasts of the likely outcome show disappointing results in respect of divestiture receipts and aid disbursements. These outcomes together with lower than programmed draw-down of the sovereign bond proceeds resulted in recourse to massive domestic borrowing instead of net repayment.

### **Divestiture receipts**

The budget had anticipated net divestiture receipts of GH¢534.8 million. As recounted in the 2008 budget, the first three quarters of 2007 recorded no receipts. Nonetheless, it was projected that in the course of the fourth quarter, an amount of GH¢252.9 million would be realized “from the partial sale of Government shares in GOIL, SIC, WESTEL and Ghana Telecom “(see paragraph 147 of Budget Statement (2008). In the event, as reported of GH¢252.9 million fell short by GH¢137.8 million.

Consequently, the projected easing of borrowing pressure in the domestic financial market did not materialize. The 2008 Budget Statement had projected that: with the expected inflow of divestiture receipts, domestic financing of the budget will register a net borrowing of only GH¢75.2 million by the end of 2007 (paragraph 166). Gross domestic borrowing would remain at the end–September total of GH¢632.2 million while repayment of domestic debt increased by GH¢480.6 million beyond the end -September total of GH¢76.3 million to an end year total of GH¢557 million.

### **Aid and aid-related (debt-relief) finance**

Net aid inflows (new programme and project loans less amortisation) amounted to the equivalent by 1.3 percent of GDP. This was a little over the half of what had been expected in the 2007 budget. There were shortfalls in disbursements of both programme and project loans — reflecting the time-tested unreliability of aid as a source of development assistance.

In contrast the debt relief component was on target of about 0.7 percent of GDP. The difference in outcome is hardly surprising. Debt relief does not involve new aid disbursements. It may be recalled

that, once agreed in the context of the HIPC Initiative or the MDR Initiative, debt relief is simply a diversion of debt service from a payment outflow internal use — financing agreed domestic expenditures.

Together, aid and aid-related financing, therefore, amounted to the equivalent of 2 percent of GDP compared to the budget target of 3.5 percent of GDP. As a source of financing the deficit its share was just over one-fifth compared to the one-third target set in the budget.

### **External Loan (Sovereign Bond Issue)**

In the 2007 budget, the Government declared its intention to expand the scope and structure of sources for financing investments for accelerated growth. In pursuit of this the Minister told Parliament:

*“After achieving stable macroeconomic conditions and winning the confidence of markets as reflected in our B+ sovereign rating, the Government intends to enter the international capital market in 2007 as a sovereign borrower to diversify and broaden our funding options”* Budget Statement (2007) paragraph 1343.

He went on to assure the nation that the proceeds of the debt issue will be used for well-chosen infrastructure projects with demonstrated economic returns that will support the repayment of the debt. Moreover, *“the size of borrowing will be well within our debt sustainability levels”* (ibid paragraph 1344).

As stated elsewhere, (see also Table 3a) about GH¢193.9 million was withdrawn from the proceeds to finance the 2007 budget deficit. In the Budget Statement (2008) in an apparent justification of the use of debt proceeds, the Finance Minister told Parliament that *“the fortunate thing is that the deficit does not emanate from increased consumption expenditure ... (and further that) ... Government has implemented investments in high yielding infrastructure to grow the economy for higher wealth creation”* (paragraph 169). He however, went on to admit:

*Candidly, the purchase of emerging thermal plants and, especially, the procurement of crude oil at high prices for the thermal plants, the importation of compact fluorescent lamps (CFLs) for distribution free of charge, the purchase of prepaid*

*meters, and the massive injection of capital into the energy sector investments, have all put severe stress on our public finances (Budget 2008 paragraph 170, emphases added).*

### **Domestic Financing**

Among the key policy initiatives in 2007 was the opening of the domestic bond market to non-resident investors. As the Minister presented it to Parliament:

*The domestic debt portfolio in 2007 was realigned by extending the maturity profile, diversifying the investor base to include non-resident investors, and facilitating the development of the domestic capital markets. (One result was that)... the Banking and Non-bank sectors' shares decreased from 80.4 percent to 69.9 percent and (from) 19.6 percent to 19.3 percent respectively (paragraphs 184 & 188).*

In other words the Foreign Sector (Non-residents) holdings of GOG securities moved from zero at the end of 2006 to over 10 percent in the course of 2007. Together with the sovereign bond issue, this blurring of domestic and external debt supports the need for redefinition of the fiscal anchor from the current domestic debt to GDP ratio to the broader public (domestic and external) debt to GDP ratio.

In the official projected outturn, net domestic financing of the 2007 budget was expected to decline from the end-September level of GH¢555.9 million to an end-year level of GH¢75.2 million. This was to be achieved as follows:

- a freeze on further borrowing in the domestic bond market — keeping to the end-September cumulative level of GH¢632.2 million; and
- increasing domestic debt repayments from the end-September level of GH¢76.3 million to an end-year level of GH¢557 million — an increase of GH¢480.7 million.

Together, this would have ensured the net financing of the budget declining from the end-September level of GH¢555.9 million to the projected end-year level of GH¢75.2 million. The required GH¢480.7 million was to be funded from net divestiture proceeds — estimated at GH¢252.9 million together with drawdown on the sovereign bond issue proceeds — in the amount of GH¢193.9 million and aid (debt relief and programme loans) disbursements.

In the event, net divestiture receipts fell short of expectations by about GH¢157.8 million. By itself — assuming every thing else remaining as projected — this would have resulted in net domestic financing of the budget of GH¢223.0million, that is, above its target by an amount equal to the shortfall in divestiture receipts. Instead, as reported by the MPC of the Bank of Ghana, net domestic financing of the 2007 cash deficit was a massive GH¢668.3 million. Net borrowing beyond the shortfall in divestiture receipts amounted to GH¢435.3 million — equivalent to 2.7 percent of GDP.

This strongly suggests that the realized budget deficit for 2007 was much wider than had been officially projected. A conservative estimate is a deficit of about 8.4 percent of GDP — 2.7 percent of GDP above the official projection of 5.7 percent of GDP. By way of comparison, CEPA forecasts (allowing for VAT refunds and the clearance of outstanding commitments), place the 2007 cash deficit at 9.0 percent of GDP (see Table 3b). This is because divestiture receipts were not the only official projected target that proved over-optimistic. All other things did not remain equal. In particular, transfers to the Utilities proved much higher than had been officially projected.

## NEAR-TERM OUTLOOK (2008)

### **Introduction**

From the perspective of sustainable macroeconomic stability the most pressing concern for the long-term health of the economy is for the Ministry of Finance and Economic Planning to address the emerging problem of a stubbornly high and widening budget deficit. The economy has been growing rapidly in recent years and this has exposed severe capacity constraints notably in the energy sector. Dealing with the energy crisis, in turn, has created the need for additional fiscal outlays.

A high level of debt overhang could result in large future outlays for interest payments. Moreover, even if short-term interest rates are kept low, stubbornly high long-term interest rates would act as a brake on economic activity. Such high long-term interest rates would result from an expectation of ongoing inflation for which investors would require an extra margin of interest to offset the added uncertainty and risk.

The new President of Ghana will be confronted in 2009 with a dilemma echoing to that which former US President Clinton faced upon assuming office. As Alan Greenspan recounts it:

*Clinton found himself faced with a choice that was increasingly stark. Either he could opt for a package of spending programs that would fulfil some of his campaign promises, or he could opt for a deficit-cutting plan, whose success would depend on impressing financial markets and that would pay off in the longer term. There was no in-between — we couldn't afford both. This dilemma had opened a rift in the White House staff, some of whom privately ridiculed the deficit-cutting approach as a sell-out to Wall Street. (In the face of all this, Clinton far from) ... trying to fudge reality to the extent politicians ordinarily do ... (forced) himself to live in the real world in the economic outlook and monetary policy. His subsequent decision to go ahead and fight for the deficit cuts was an act of political courage. It would have been very easy to go the other way... a majority of congress people hated (his budget plan) – not surprisingly, since it aimed at abstract, distant goals and offered no new highway projects ... or other lucrative goodies to bring home to constituents ... Clinton had to fight, arm-twist, and horse-trade to push his budget*

through... But he persevered and a “consistent, disciplined focus on long-term economic growth became a hallmark of his presidency” (Alan Greenspan : The Age of Turbulence pp 146-150 emphasis added).

## **Revenue**

The total of revenues and grants is projected to increase faster than nominal GDP in 2008 in spite of an expected slow-down in grants disbursement. The latter may be an expectation of persistence of the experience in 2007. The projected disbursement of grants amounting to the equivalent of 6.4 percent of GDP was missed by a wide margin — over 20 percent — a shortfall equivalent to about 1.4 percent of GDP. The target — as ratio to GDP — set for 2008 is of the same order of magnitude as that realized in 2007.

The strong performance of total revenue in 2007 is expected to persist and in fact to improve further. Thus, the share of government revenue (tax and non tax) in national income is expected to rise from just under 23 percent in 2007 to about 25 percent in 2008. The important contributing factor and on which the realization of the overall projected outcome would depend is the new excise tax on phone airtime. This is projected to rake in over three hundred million Ghana cedis — equivalent to about 2 percent of GDP. Total Tax Revenue is projected to increase in-step with national income thus maintaining its share of about 22 percent (of GDP) in 2008.

Non tax revenue, in terms of share of national income, is targeted at a comparable level to that in the 2007 budget. The target for 2008, points to a determination to further strengthen the revenue mobilisation effort to ensure that non-tax revenues grow apace with national income. The realisation of projected over-performance in 2007 — equivalent to 1 percent of GDP has somewhat cast a doubt in light of these targets set for 2007 and 2008. At best, it is made to be the result of a one off occurrence.

## **Tax Revenue**

Tax revenues are derived from taxes on income and property, taxes on domestic goods and services, taxes on international trade and the National Health Insurance Levy. The latter, however, is by law, collected and transferred into the National Health Fund (NHF).

Of the three components that fund government operations, indirect taxes on goods and services contribute the most. The CEPA provisional outturn for 2007 shows a total for these amounting to a share of over 40 percent of total tax revenue. This pattern is expected to continue into 2008, with a share of about 42.8 percent. There are three categories of these indirect taxes namely: VAT (on domestic as well as imported goods and services), petroleum taxes and levies and excise duties (including the Airport Tax).

VAT collections are by far the most important. In 2007, CEPA estimates show a strong performance, slightly better than the target of 6.4 percent of GDP. The projected performance for 2008 is basically a continuation of that of 2007 although a slowdown in the pace of non-oil imports could result in a share of national income marginally below that achieved in 2007.

Petroleum taxes contribute about half of what VAT brings into total indirect taxes. In 2007, the target of 3 percent of GDP was realized and this is retained for 2008. In view of the high levels to which prices of petroleum and its products have risen in recent times and the presence of specific levies in the domestic price build-up, however, the retention of the target, in an election year, could prove unrealistic. A clamour for some respite could be anticipated as inflation persists at an annual rate in the environs of 12 percent or more (compared with the single digit official target).

Excise duty collections fell far short of expectations in 2007 and, perhaps as a reflection of this, the target (as share of national income) for 2008 is only a half of that for 2007.

In second place to indirect taxes, is the category of direct taxes on income and property. In 2007, the target set of about 6.4 percent of GDP was marginally over-achieved. A moderate further improvement is projected for 2008. The implied increased administrative efficiency, however, could prove difficult to realize in the face of calls from the Association of Ghana Industry (AGI) for reductions in some tax rates. Nonetheless the target is not unrealistic and may be achieved.

Direct taxes on employees (PAYE) and corporate incomes contribute the most in this category — with equal shares of over 40 percent each. A miscellany of other direct taxes (including on property — chiefly interest and rent income — and on the self employed) accounts for the remainder of about 15 percent of the total of direct taxes. This overall pattern of shares is projected to continue into 2008.

Taxes on international trade — import and export duties — come third as source of tax revenue. Import duties contribute the most in this category. In 2007 the target — equivalent to about 4 percent of national income — was overachieved although not by much. Import duty collections in that year constituted about 90 percent of the total taxes on international trade. For 2008, the target of 4.1 percent of GDP is about 5 percent higher than that of the previous year. In the light of the actual performance in 2007, the target appears realistic and likely to be achieved. With the projected rise in the volume of cocoa purchases in calendar year 2008, the likely paths of the exchange rate and international price of cocoa, the retention of the target — 0.45 percent of GDP — in 2008 also appears realistic and achievable in spite of the increases in the cocoa producer price for the 2008/9 crop year.

### **Expenditure**

Avoiding the persistence of budget surprises — overall budget deficits that are significantly wider than official assessments (and projected budget targets) — in 2008 would call for extraordinary effort at public expenditure management (PEM). A preliminary assessment of the 2008 budget points to a cash deficit a little wider than the CEPA forecast for 2007 and numerically 22 percent higher than 2008 budget deficit equivalent to 5 percent of GDP shown in Table 3b. In the 2008 Budget statement, the target set by the Finance Minister, however, was equivalent to a lower 4 percent of GDP.

The discussion above of the projected revenue in the budget concluded that while posing difficult challenges, the targets are not unrealistic and with some effort could be achieved. The problem with constraining the deficit in 2008 therefore lies with constraining spending to the targets in the budget.

Total expenditure in 2008 is projected at GH¢5774.9 million — 8 percent higher than the provision in the previous year. In relation to GDP, this represents a share of 35.4 percent compared to the 38.3 percent for 2007. A measure of the expenditure management effort that would be required can be discerned from the above, namely how in the light of past experience to effectively constrain increases in spending below the growth rate of national income in an election year. The CEPA preliminary assessment suggests that a more realistic but nonetheless optimistic scenario would be an expenditure share of about 39 percent of GDP. This would imply a moderately higher pace of spending — 18.9 percent rise — compared to a nominal GDP growth rate of 16.6 percent.

A key assumption in the CEPA assessment is that the usual ‘savings’ — payment delays and arrears — in capital expenditures would not occur in 2008. On the contrary, providers of goods and services to the State would be paid promptly and in full. With some effort, however, excessive spending would be avoided even in an election year — an objective that has proved elusive in the Fourth Republic — and capital outlays otherwise kept close to the budgetary provision.

The areas of concern and those likely to show significant overruns are interest and non-interest expenditures on the recurrent side, Statutory Funds on the capital side, and poverty-related expenditure funded with debt relief (HIPC-funded and MDRI-funded).

### **Interest payments**

While external interest payments are expected to stay close to target, the domestic counterpart in all probability is likely to be larger than the provision in the budget. This is because, as in 2006 and 2007, the official projected outcomes of the budget deficit have tended to be unduly optimistic. In turn, the domestic borrowing to finance the deficit has been under estimated. The resulting larger stock of domestic debt and the continued high borrowing and upward pressure on interest rate make the budgetary provision lower than warranted. Realised domestic interest payments, consequently, have persistently exceeded their budgeted provisions in recent years and this is likely to persist in 2008 for the same reasons.

### **The wage bill**

There is still some unrest on the labour front which could prove hard to contain in an election year. The official projected outturn of the wage bill for 2007 was equivalent to 9.9 percent of GDP. In comparison, the provision in the 2008 budget is the equivalent of 9.6 percent of GDP. To achieve this, the average wage increase would have to be constrained to a maximum of 18.7 percent. In CEPA’s view, this is likely to prove difficult. An increase of at least 20 percent is assumed.

### **Transfers to Utilities**

Another area of likely expenditure overrun is that of energy-related transfers of public Utilities — the VRA, ECG and GWCL — and price subsidies for water, electricity and petroleum products as cost pass-through becomes even more politically challenging. CEPA analysis suggests that excess spending here could be significant — estimated at the equivalent of a full percent of GDP. In Table 2

the line items under review are Reserve Fund (transfers to VRA) and other transfers (including to NHIF).

### **Poverty-related expenditure**

In respect of poverty-related spending — HIPC-funded and MDRI-financed — the problem would be how to cut back on such spending in a year like 2008. A Deputy Governor of the BOG has been quoted in the media as having cited this over at one of those recording expenditure overruns in 2007. The provision in the 2008 budget is determined by debt relief expected to be provided in that year. Actual spending even in normal times could be difficult to cut back in real terms. Planning to cut back in nominal terms by over 45 percent is well near impossible in an election year. Consequently, even more than in 2007, the provision in the budget is most likely to be exceeded.

### **Statutory Funds**

#### *Educational Trust Fund (GETFund)*

According to the Act setting up this Fund, VAT at the rate of 2.5 percent should be levied and transferred into the Fund. This has been added to the previously existing VAT, raising the rate from 10 percent to 12.5 percent. Consequently, its share is therefore 20 percent of the total VAT collections. The provision of GH¢177.5 million represented 20 percent of the projected VAT collection of GH¢887.6 million. The provision for 2008 of GH¢163 million is only 16.3 percent of the projected VAT collection of GH¢1,000.1 million. This is thus not consistent with the statutory requirement and to that extent would have to be adjusted in order to be in compliance. The required transfer would have to be raised by about 22.7 percent above the provision in the 2008 budget.

#### *District Assemblies Common Fund (DACF)*

The Minister for Local Government and Rural Development was reported in the press as having said that Cabinet and Parliament have given approval for increasing the transfers into the Fund. This is on account of the share of tax revenue earmarked for transfer to the Fund having been raised from 5 percent to 7.5 percent. On this account the provision in the 2008 budget should increase by a factor of 1.5 times the growth in tax revenue. As shown in Table 2a, the provision for 2008 is GH¢234.3 million. This is 44 percent higher than the 2007 provision. On the other hand, with tax revenue projected to grow in step with nominal GDP — i.e., at about 18 percent — the 2005 provision, would have to increase by about 77 percent in order for the statutory stipulations to be completed.

Consequently, (as with the GETFund) the provision in the 2008 budget would have to be adjusted upwards by about 22.9 percent.

### **The Deficit and Financing**

As envisaged in the 2008 Budget Statement, to spur growth in the absence of major scaling-up of aid, the Government of Ghana (GOG) issued the sovereign bond for financing the required infrastructure investment in energy and transport — dubbed the “growth-catalytic” areas.

The risk with taking on more debt, especially for a country that has only recently benefited from massive external debt relief under the HIPC and MDR Initiatives needs to be carefully weighed against the gains expected from investment in these growth-catalytic areas. Preserving the newfound debt sustainability depends critically on realistic forecasts about the efficiency of expenditure outlays, the economic growth rate and the real exchange rate. Utmost vigilance would be called for on the part of government and the public at large.

The 2007 revised budget made a provision of GH¢741.9 million for domestic investment (excluding Statutory Funds) for infrastructure in the energy and roads sectors. Of this GH¢350.6 million, representing 47.3 percent, was to be financed from the sovereign bond proceeds. According to the 2008 Budget Statement, “total investment outlays amounted to GH¢703.5 million, of which GH¢296.4 million as from domestic sources (paragraph 159). Included in these domestic sources, however, is an amount of GH¢193 million representing 65.1 percent — from the proceeds of the sovereign bond issue.

Providing the breakdown of the expenditure to be financed with the proceeds of the sovereign bond issue, the 2008 budget stated:

*An amount of US\$207.5 million equivalent to GH¢193.0 million has been earmarked for specific energy and road projects in 2007. The remaining amount of US\$542.5million, equivalent to GH¢515.8million, is earmarked to be utilised in 2008, also for specific projects in the energy, roads and railways sectors.*  
(Paragraph 253 Budget 2008, emphasis added)

The 2008 budget also provides that Domestic-financed Investment (excluding those financed from Statutory Funds) are projected to be GH¢745.8 million. In nominal terms, this is 151.6 percent above the official projected outcome for 2007 but barely higher than the GH¢741.9 million provision of - implying a sizeable decline in real terms. And yet the remainder of the proceeds of the bond issue amounting to US\$542.5 million has been earmarked for this purpose.

## **BOX 2**

### **Foreign Holdings of government debt**

Despite increased volatility in international capital markets, Gabon followed Ghana in December 2007, with a US\$1 billion bond issued to repay Paris Club debt, with terms similar to those for Ghana. Significant debt relief through the HIPC Initiative and the MDRI Initiative has contributed to substantially improved policy environments. Moreover, the external environment is favourable. The attraction for investors in search for yield, diversification and potential is visibly high in present circumstances.

“Mature stabilizers” – countries that have made significant progress toward macroeconomic stability and debt sustainability – like Ghana, have also succeeded in selling Treasury bills in their own currency to foreign investors. At the end of June 2007, foreigners held about 11 percent of Ghana’s domestic currency government debt valued at more than US\$400 million. (The corresponding figure for Zambia was 14 percent).

The heightened international investor interest presents both significant opportunities and challenges. With international donors failing to deliver on their Gleneagles promise to double aid to help low-income countries meet the MDGs, funds from private investors offer governments an alternative and readily available source of financing for major projects including urgent infrastructure needs.

But unless these new sources of debt finance are carefully managed, debt distress would recur. New borrowing must not undermine newly earned debt sustainability. Sound management of external and total debt and of public finances to ensure that debt proceeds are used effectively will be vital. Debt sustainability must remain central to economic planning. In line with the fact that the line between external and domestic debt is becoming increasingly blurred, Ghana has decided to shift the focus onto total debt in the definition of the fiscal anchor (rather than the domestic debt until now).

Strengthening public financial management (PFM) is essential, so that the spending financed with loans is efficient. The domestic investor base for local currency debt also needs to be broadened so that sudden capital inflows or outflows do not destabilize the market.

Despite the increasing importance of non-concessional financing, however, concessional financing must remain the main source of development finance for the foreseeable future. This is both a challenge and a responsibility for donors arising from international commitment made at Gleneagles. Moreover, such aid must be made more predictable and timelier than has been the case in the past.

Another factor to be taken into account is the increased role of emerging creditors such as China, India and Brazil. The main challenges here are transparency and integration into the country’s debt sustainability and macroeconomic frameworks.

In the final analysis, financing by the private sector, including non-debt creating foreign direct investment (FDI), will be the key to financing sustainable growth. For this, it would be essential to continue to improve the environment for doing business to encourage international investors to provide money not just to governments but also to the private sector.

In terms of shares of GDP, there is a projected decline from 5.3 percent in 2007 to 4.6 percent in 2008. Overall, despite the claims of investing for a brighter future in the budgetary provisions, investment share declines by a full percentage point of GDP between 2007 and 2008.

It is clear from the above that the loan proceeds have substituted for, instead of adding to, domestic resources for funding the “specific projects” in the energy, roads and railways sector. Indeed the proceeds have been included in domestic resources and the funded “specific projects” have remained as yet not as clearly identifiable in the public mind as might be desired.

The 2008 official cash budget deficit is shown in Table 3b at the equivalent of 5.8 percent of GDP. Compared with the 2007 budget deficit of 9.5 percent of GDP and CEPA forecast outturn of 9 percent of GDP, this would represent a tremendous improvement. However, the preliminary indications are that there would be expenditure overruns largely because the provisions for 2008 have been based on official projected outturns for 2007 which are unduly optimistic. For example, recurrent expenditures planned for 2008 are 2 percent lower than the likely outturn forecast by CEPA. Crudely adjusted, total expenditures are projected at 39 percent of GDP so that accepting the revenue and grants projection, on a modified cash basis, the 2008 deficit is projected at 9.1 percent of GDP that is about the same order of magnitude as the 9 percent forecast outturn of the previous year 2007. More importantly and worryingly, is the trend of widening deficits and outturns considerably at variance with the budget targets. These are trends that belie the continued commitment to the stabilisation process — at once underlining the necessity of a Fiscal Responsibility Law (FRL) and at the same time raising the awkward question as to what is needed to make such a law effective.

The cash deficit is projected to be 3.5 percent of GDP above the target in the 2008 budget and with all the financing sources exhausted, domestic borrowing would be higher by the equivalent amount. The financing of these deficits has also resulted in rising domestic and external indebtedness raising legitimate concerns about debt sustainability. On the domestic front, the end-year 2007 debt/GDP ratio is placed at 16.2 percent compared to the official projected ratio of 12.0 percent. Moreover, instead of planned net repayment equivalent to 2.3 percent of GDP, CEPA preliminary analysis suggests net borrowing equivalent to some 1 percent of GDP. The combined effect of the end-year 2007 stock of debt and the borrowing requirement in 2008 is an end-year domestic debt stock equivalent to 14.9

percent of GDP almost 75 percent higher than the official expectation of 8 percent of GDP (see also paragraph 272 of 2001 budget).

### **Inflation Outlook**

Under the current inflation targeting regime, the BOG (the monetary authority) and MOFEP (the fiscal authority) “have made a joint institutional commitment to price stability as the primary goal of monetary policy to which all other goals are subordinated. The numerical target range for inflation is announced in the context of the annual budget (for 2008) and the Bank of Ghana communicates on a regular basis with the public and the markets about its goals and decisions. The current medium-term goal is around 5 percent inflation and a single digit for 2008”. Because of the high transparency of the monetary strategy, the BOG faces a “greater degree of accountability for reaching its inflation target than it would otherwise” and because “the inflation target is agreed jointly with ..... (MOFEP), the accountability of the latter also increases” — IMF Survey Magazine (February 14, 2008, page 10).

Even after correction for cost-push effects — specifically, petroleum product price hikes and utility tariff increases — which admittedly have contributed to inflation outcomes, the record has been that inflation has remained above its target over most of the period of the present Administration (see page 7, Staff Report for the Second Review under the PRGF, July 19, 2004 available at [www.imf.org](http://www.imf.org)). The evidence points to higher than-programmed growth in Reserve (base or high powered) Money as the likely cause. Reserve Money velocity fell faster than expected which by itself has been a positive moderating factor on the impact of the Reserve Money growth on inflation.

Data on the sources of Reserve Money growth shows that after 2002, the increase in Reserve Money has largely come from accumulation of international reserves, incompletely sterilized by the increase in securities of the Bank of Ghana held by the private sector. Prior to 2001, rapid growth of Reserve Money could be attributed to lending by the Bank of Ghana to the government and the domestic financial sector.

Accumulating international reserves involves the purchase of foreign exchange by the BOG. In return, the BOG pays cash or increases the deposits of the seller’s bank — the reserves of the relevant bank at BOG increase. In either case, Reserve Money comprising cash holdings of the non-bank public and

the reserves of the commercial (deposit making) banks increases. Sterilization in turn involves the sale by the BOG of securities including Treasury Bills (in the possession of the BOG) to the public and banks in exchange for the appropriate amount of the Reserve Money outstanding. Sterilisation is thus a mopping up of the flood of money arising from the build up of international currency reserve by the BOG.

### **Exchange rate policy and disinflation**

It has been argued by IMF staff that the preferred stock levels of international currency reserves of the BOG would appear higher than those agreed with the IMF in the annual programmes. The well documented volatility and unreliability of aid disbursements would be enough to make this implicit preference of the BOG a sound choice.

In 2001-2003, the sharp increase in donor support and unpredictability of disbursements complicated macroeconomic policy implementation. Aid inflows were used both to build up reserves and to strengthen the fiscal position: Ghana has been referred to as an example of the “don’t spend, don’t absorb” [as also Mozambique see “Macroeconomic Management of Aid Inflows – Experience of low-income Countries and Policy Implications”, August 8, 2005 available at [www.imf.org](http://www.imf.org)]. The BOG is presented to have chosen to “let most of the external inflows to accumulate as reserves, thus offsetting some of the upward pressures on the exchange rate”. As a result, from mid-2004, the US dollar/cedi exchange rate has been kept increasingly stable.

IMF staff has suggested that the currency crisis of 2000 led to a significant undervaluation of the exchange rate — the cedi became highly over-depreciated. In their view, the subsequent strengthening of the exchange rate up to early 2006 was essentially a technical correction to redress the situation. The needed redress required a revaluation of the exchange rate in real terms. The staff argues that not allowing the cedi to sufficiently strengthen in foreign exchange markets, the pressure to revalue has had to come through higher inflation. They have estimated that as a result between 2002 and 2006, average yearly domestic inflation exceeded that of Ghana’s trading partners by about 13 percent.

At a fundamental level, the BOG appears to have been faced with the difficult task of deciding on a clear nominal anchor to guide inflation expectations. In the post-2000 period, all the potential candidates — monetary aggregate (broad or narrow), the exchange rate (depreciating to stable) or

inflation itself — have all missed their targets. The historical experience (long period of double-digit inflation), new institutions for macroeconomic stabilization (relatively short and not fully tested track record), cost push pressures and stop-go implementation of energy-price movements have combined in varying degrees to frustrate efforts to generate lower inflation expectations.

In 2007, the BOG moved from the so-called inflation-targeting lite framework to one of full inflation-targeting. It would appear that the rate of inflation is planned to be kept at its target by adhering closely to the monetary targets — it is assumed that this would be preferable to BOG than the interest rate instrument — and allowing the nominal exchange rate to become stronger as necessary. The problem of determining a clear nominal anchor to guide inflation expectations, however, would have to be decisively resolved. This is because if the above probable policy is not accompanied by the downward shift in inflation expectations, lowering the rate of inflation would come at the cost of lower economic growth rate. In the circumstances of an election year, a muddling through business as usual approach is most likely, with year on year inflation remaining in double digits — possibly rising to about 15 percent before declining to about 12 percent later in the year.

### **Conclusion**

“Economic history has many examples of success stories that quickly unravel, notably Ghana itself in the early 1990s”.

An important lesson from the 1990s is that, unless combined with a system of checks and balances, democratic institutions carry risks as well as benefits. Fiscal excesses have occurred in election years (and the run-up to them). The tendency to overspend has also been larger in the highly contested elections — 1996 and 2000 — than in others — e.g., 2004. Though 1992 cannot be described formally as highly contested, it was peculiar in the sense of being a “referendum” on the PNDC. In this sense, the 2000 elections could also be described as a referendum on the NDC and this year’s as one on the NPP. In view of this, a watchful eye needs to be kept on fiscal excesses.

On account of higher than targeted fiscal deficits and inflation, growth and poverty reduction have been slower than they would otherwise have been. More intensive effort at imposing fiscal discipline would continue to be needed. Fiscal slippages have predominantly reflected expenditure overruns rather than the revenue shortfalls and have occurred most severely in the run-up to elections.

Improved public expenditure management (PEM) appears key to bringing fiscal management under better control.

Until 2002, the lack of progress in achieving rapid reduction in inflation has been largely linked to poor fiscal discipline. After external and domestic sources of finance were exhausted, inflationary finance provided the only available means of finance.

In the more recent period, large unsterilised external inflows have fuelled high growth in monetary aggregates. Moreover, the preference for international reserves build-up (non-absorption of forex inflows) to nominal appreciation of the exchange rate has resulted in sizeable inflation (relative to trading partners) as the equilibrating instrument to avoid real exchange rate misalignment.

The experience in present circumstances, suggests that, for as long as the underlying fiscal discipline is lacking, inflation targeting on monetary aggregates would prove unsuccessful in limiting the resurgence of inflation.

## APPENDICES

**Table 1a: Revenue and Grants**  
(GH¢ mn)

	Revised	GOG	CEPA	Budget	CEPA
	Budget	Prov. Outturn	Prov. Outturn	Estimate	Prelim. Assess.
	2007	2007	2007	2008	2008
Total Revenue & Grants	4,094.2	3,892.1	3,964.9	4,960.8	4,960.8
Total Revenue	3,199.6	3,183.0	3,255.8	4,107.4	4,107.4
Total Tax Revenue (including NHIL)	3,096.2	3,026.0	3,098.8	3,652.6	3,652.6
Taxes on Income & Property (Direct)	887.7	896.4	907.6	1,122.4	1,122.4
<i>Personal</i>	382.3	373.3	371.8	458.8	458.8
<i>Corporate</i>	382.2	405.8	418.5	498.0	498.0
<i>Other</i>	123.2	117.3	117.3	165.7	165.7
Taxes on Domestic Goods & Services (Indirect)	1,412.5	1,330.6	1,389.2	1,548.5	1,548.5
<i>Excise (incl. Airport Tax)</i>	102.3	67.7	67.7	58.3	58.3
<i>Petroleum</i>	422.6	424.8	428.6	490.0	490.0
VAT	887.6	838.1	892.9	1,000.1	1,000.1
National Health Insurance Levy	182.4	169.7	178.6	235.4	235.4
Taxes on International Trade	613.6	629.3	623.4	746.3	746.3
<i>Import</i>	550.3	565.9	560.0	672.8	672.8
<i>Export (Cocoa)</i>	63.4	63.4	63.4	73.5	73.5
Non-Tax Revenue	103.5	143.0	143.0	124.8	124.8
Revenue Measures	0.0	14.0	14.0	330.0	330.0
Grants	894.5	709.1	709.1	853.4	853.4
GDP	13,976.7	13,974.6	13,974.6	16,295.8	16,295.8

Sources: CAGD, BOG and CEPA staff estimates.

**Table 1b: Revenue and Grants  
(percent GDP)**

	<b>Revised</b>	<b>GOG</b>	<b>CEPA</b>	<b>Budget</b>	<b>CEPA</b>
	<b>Budget</b>	<b>Prov. Outturn</b>	<b>Prov. Outturn</b>	<b>Estimate</b>	<b>Prelim. Assess.</b>
	<b>2007</b>	<b>2007</b>	<b>2007</b>	<b>2008</b>	<b>2008</b>
Total Revenue & Grants	29.3	27.9	28.4	30.4	30.4
Total Revenue	22.9	22.8	23.3	25.2	25.2
Total Tax Revenue (including NHIL)	22.2	21.7	22.2	22.4	22.4
Taxes on Income & Property (Direct)	6.4	6.4	6.5	6.9	6.9
<i>Personal</i>	2.7	2.7	2.7	2.8	2.8
<i>Corporate</i>	2.7	2.9	3.0	3.1	3.1
<i>Other</i>	0.9	0.8	0.8	1.0	1.0
Taxes on Domestic Goods & Services (Indirect)	10.1	9.5	9.9	9.5	9.5
<i>Excise (incl. Airport Tax)</i>	0.7	0.5	0.5	0.4	0.4
<i>Petroleum</i>	3.0	3.0	3.1	3.0	3.0
<i>VAT</i>	6.4	6.0	6.4	6.1	6.1
National Health Insurance Levy	1.3	1.2	1.3	1.4	1.4
Taxes on International Trade	4.4	4.5	4.5	4.6	4.6
<i>Import</i>	3.9	4.0	4.0	4.1	4.1
<i>Export (Cocoa)</i>	0.5	0.5	0.5	0.5	0.5
Non-Tax Revenue	0.7	1.0	1.0	0.8	0.8
Revenue Measures	0.0	0.1	0.1	2.0	2.0
Grants	6.4	5.1	5.1	5.2	5.2

Sources: CAGD, BOG and CEPA staff estimates.

**Table 2a: Expenditure**  
(GH¢ mn)

	Revised	GOG	CEPA	Budget	CEPA
	Budget	Prov. Outturn	Prov. Outturn	Estimate	Prelim. Assess.
	2007	2007	2007	2008	2008
Total Expenditure	5,346.0	4,690.0	5,120.1	5,810.3	6,355.4
Recurrent	2,916.1	2,970.4	3,365.9	3,353.1	3,682.9
Interest Payments	364.8	351.0	547.4	466.5	586.7
<i>Domestic</i>	250.5	252.7	449.0	352.3	472.6
<i>External</i>	114.3	98.4	98.4	114.2	114.1
Non-Interest Payments	2,551.3	2,619.4	2,818.5	2,886.6	3,096.2
<i>Personnel Emoluments</i>	1,316.7	1,376.8	1,376.2	1,559.9	1,613.3
<i>Administration</i>	356.7	320.9	346.6	385.6	423.7
<i>Service</i>	99.8	101.3	107.8	120.6	114.1
<i>Transfer to Households</i>	255.1	274.8	274.8	318.0	325.9
<i>Reserve Fund</i>	287.0	160.8	160.8	243.7	342.2
<i>Other (incl. NHIF)</i>	236.0	384.7	552.3	258.8	277.0
Capital	2,093.2	1,382.9	1,417.4	2,274.0	2,281.4
<i>Domestic (incl. net lending)</i>	741.9	418.5	425.4	743.8	749.6
<i>Funds</i>	454.6	411.1	438.8	530.0	537.8
Education Trust Fund	177.5	150.5	215.8	163.0	163.0
Road Fund	111.4	111.4	87.4	129.2	130.4
Petroleum-related Fund	3.0	3.0	13.9	3.5	0.0
District Assembly Common Fund	162.7	146.2	121.7	234.3	228.1
<i>Foreign</i>	896.6	553.2	553.2	1,000.2	994.0
HIPC-Funded	176.9	176.9	176.9	127.6	211.8
MDRI-Funded	159.9	159.9	159.9	55.6	179.3
GDP	13,976.7	13,974.6	13,974.6	16,295.8	16,295.8

Sources: CAGD, BOG and CEPA staff estimates.

**Table 2b: Expenditure  
(percent GDP)**

	<b>Revised Budget 2007</b>	<b>GOG Prov. Outturn 2007</b>
Total Expenditure	38.2	33.6
Recurrent	20.9	21.3
Interest Payments	2.6	2.5
<i>Domestic</i>	1.8	1.8
<i>External</i>	0.8	0.7
Non-Interest Payments	18.3	18.7
<i>Personnel Emoluments</i>	9.4	9.9
<i>Administration</i>	2.6	2.3
<i>Service</i>	0.7	0.7
<i>Transfer to Households</i>	1.8	2.0
<i>Reserve Fund</i>	2.1	1.2
<i>Other (incl. NHIF)</i>	1.7	2.8
Capital	15.0	9.9
<i>Domestic (incl. net lending)</i>	5.3	3.0
<i>Funds</i>	3.3	2.9
Education Trust Fund	1.3	1.1
Road Fund	0.8	0.8
Petroleum-related Fund	0.0	0.0
District Assembly Common Fund	1.2	1.0
<i>Foreign</i>	6.4	4.0
HIPC-Funded	1.3	1.3
MDRI-Funded	1.1	1.1

Sources: CAGD, BOG and CEPA staff estimates.

Table 3a: Financing (GH¢ million)

	Revised	GOG	CEP
	Budget	Provisional Outturn	Provisional Outturn
	2007	2007	2007
Total Revenue & Grants	4,094.2	3,892.1	3,964.0
Total Expenditure	5,346.0	4,690.0	5,120.0
OBB	(1,251.8)	(797.9)	(1,155.0)
VAT Refunds	(21.3)	(21.3)	(22.0)
Outstanding Commitment	(56.2)	(77.7)	(75.8)
<i>Roads</i>	(16.5)	(15.9)	(28.0)
<i>Non-Roads</i>	(39.7)	(61.8)	(47.8)
OBB (modified cash)	(1,329.3)	(896.9)	(1,253.0)
Discrepancy	(5.0)	85.0	(0.0)
Financing	1,334.3	811.9	1,253.0
<i>Divestiture (net)</i>	534.8	252.9	115.0
Financing (including divestiture)	799.5	559.0	1,137.0
Foreign (net)	373.9	189.9	176.0
<i>Borrowing</i>	598.9	446.3	433.0
Project	451.9	344.4	331.0
Programme	147.0	101.9	101.0
<i>Amortisation</i>	(224.9)	(256.4)	(256.0)
Exceptional Finance	117.7	100.0	100.0
<i>Trad. Resch.</i>	33.0	8.2	8.2
<i>HIPC</i>	84.7	91.8	91.8
Domestic (net)	(42.4)	75.2	668.0
Sovereign Bonds	350.6	193.9	193.0
Deferred GGLIBs	(0.3)	(0.1)	(0.1)
<i>Repayment</i>	(0.3)	(0.1)	(0.1)
GDP	13,976.7	13,974.6	13,974.6

Table 3b: Financing (percent of GDP)

	Revised	GOG	CEPA	Budget	CEPA
	Budget	Provisional	Provisional	Estimate	Prelim. Assess.
	2007	2007	2007	2008	2008
Total Revenue & Grants	29.3	27.9	28.4	30.4	30.4
Total Expenditure	38.2	33.6	36.6	35.7	39.0
OBB	(9.0)	(5.7)	(8.3)	(5.3)	(8.6)
VAT Refunds	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Outstanding Commitment	(0.4)	(0.6)	(0.5)	(0.3)	(0.3)
<i>Roads</i>	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)
<i>Non-Roads</i>	(0.3)	(0.4)	(0.3)	(0.1)	(0.1)
OBB (modified cash)	(9.5)	(6.4)	(9.0)	(5.8)	(9.1)
Discrepancy	(0.0)	0.6	(0.0)	0.0	0.0
Financing	9.5	5.8	9.0	5.8	9.1
<i>Divestiture (net)</i>	3.8	1.8	0.8	1.7	1.7
Financing (including divestiture)	5.7	4.0	8.1	3.9	7.4
Foreign (net)	2.7	1.4	1.3	2.7	2.7
<i>Borrowing</i>	4.3	3.2	3.1	3.8	3.8
Project	3.2	2.5	2.4	3.0	3.0
Programme	1.1	0.7	0.7	0.8	0.8
<i>Amortisation</i>	(1.6)	(1.8)	(1.8)	(1.1)	(1.1)
Exceptional Finance	0.8	0.7	0.7	0.5	0.5
<i>Traditional Rescheduling</i>	0.2	0.1	0.1	0.0	0.0
<i>HIPC</i>	0.6	0.7	0.7	0.5	0.5
Domestic (net)	(0.3)	0.5	4.8	(2.3)	1.0
Sovereign Bonds	2.5	1.4	1.4	3.2	3.2
Deferred GGILBs	(0.0)	(0.0)	(0.0)	0.0	0.0
<i>Repayment</i>	(0.0)	(0.0)	(0.0)	0.0	0.0

Sources: CAGD, BOG and CEPA staff estimates.

