



Bank of Ghana Monetary Policy Report

Fiscal Developments

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1.0 Highlights of Budgetary Development

Narrow Coverage, January-September 2011

Provisional banking data on the execution of the 2011 budget show that by the third-quarter of 2011:

- Total revenue and grants increased by 46.5 per cent to GH¢7,441.0 million (13.9% of GDP), compared to the corresponding period in 2010.
- The level of government spending increased by 34.1 per cent to GH¢8,728.8 million (16.3% of GDP) compared with the corresponding period in 2010.
- Consequently, fiscal operations resulted in a narrow budget deficit equivalent to 2.4 per cent of GDP compared with 3.1 per cent of GDP recorded over a similar period the previous year.
- The primary balance¹ recorded a deficit of 0.4 per cent of GDP; against the deficit of 1.3 per cent of GDP recorded in the corresponding period last year.
- The narrow budget deficit of GH¢1,287.8 million (2.4% of GDP) together with a foreign loan repayment of GH¢42 million, resulted in a financing gap of GH¢1,329.8 million. This gap was financed from the issuance of domestic bonds and bills.

Table 1: Fiscal Indicators (in millions of Ghana Cedis)

Table 1: Fiscal Indicators (Million Ghana Cedis)	OUTTURN	
	2010	2011
	JAN-SEPT	JAN-SEPT
Dom. Primary Balance	(596.26)	(235.5)
% of GDP	(1.29)	(0.44)
Overall Balance	(1,429.70)	(1,287.78)
% of GDP	(3.09)	(2.41)
Grants	523.77	356.74
% of GDP	1.13	0.67

¹ Primary balance is the difference between domestic expenditure and domestic revenue.

Total Revenue & Grants	5,079.29	7,441.04
% of GDP	10.99	13.93
Total Revenue	4,555.52	7,084.30
% of GDP	9.85	13.26
Tax Revenue	4,105.79	6,073.86
% of GDP	8.88	11.37
Total Expenditure	6,170.64	8,728.81
% of GDP	13.35	16.34
Net Domestic Financing	1,803.35	1,329.80
% of GDP	3.90	2.49

2.0 Revenue and Grants Performance: January-September 2011 (Narrow Coverage)

Total revenue and grants exceeded the January-September 2010 outturn by 46.5 per cent, driven mainly by improvement in domestic revenue mobilization particularly by the customs division of the GRA and the advent of oil revenues.

Total revenue and grants for the first nine months of 2011 amounted to GH¢7,441.0 million (13.9% of GDP). This outcome was 46.5 per cent higher than the collections of GH¢5,079.3 million (9.5% of GDP) for the corresponding period in 2010.

Programme grants recorded for the period under review amounted to GH¢340.6 million (0.6% of GDP). This amount exceeded the January-September 2010 outturn by 18.1 per cent.

Domestic revenue mobilization in the first nine months of 2011 was robust recording an increase of 55.5 per cent over collections in the corresponding period of 2010. Total domestic revenue realised amounted to GH¢7,084.3 million (13.3% of GDP)

For the review period, tax revenue amounted to GH¢6,073.9 million (11.4% of GDP) exceeding the outturn of corresponding period of 2010 by 47.9 per cent.

The performance of Customs Division of GRA² improved significantly, pushing up revenue mobilization during the first nine months of the year. Import Duty, Import VAT³ and Petroleum taxes collected amounted to GH¢2,498.9 million. This outturn exceeded the GH¢1,614.2 million registered in the corresponding period of 2010 by 54.8 per cent. The strong performance of Customs collections was attributed to a number of factors including increased volume of imports

² GRA: Ghana Revenue Authority

³ VAT: Value Added Tax

due to investments and the application of a new valuation module in assessing imports as well as a decline in the use of permits. Reduction in bonded warehouse leakages also contributed significantly to this development.

Domestic Direct Taxes collected from January-September of 2011 amounted to GH¢2,408.1 million, indicating an increase of 45.5 per cent over the corresponding period in 2010. The efficient monitoring and periodic auditing measures adopted by the Domestic Tax Direct unit of GRA improved collections over the period.

Domestic VAT and Excise Duty collected by the Domestic Tax-Indirect division of GRA amounted to GH¢939.3 million, showing an increase of 32.2 per cent over the outturn of GH¢710.2 million for the corresponding period in 2010. Improved monitoring and better auditing measures adopted helped push up receipts for the period. However, the monitoring challenges that continue to plague Communication Service Tax (CST) accounted for the shortfall in this category of tax during the period.

Non-Tax revenue lodgements by the end of the third-quarter of 2011 amounted to GH¢525.9 million compared with the GH¢193.8 million realised for the January-September 2010 period.

Table 2: Total Revenue and Grants (in millions of Ghana Cedis)

Table 2: Total Revenue & Grants	2010	2011
(Million Ghana Cedis)	Jan-Sept	Jan-Sept
	Outturn	Outturn
TAX REVENUE	4,105.8	6,073.9
<i>% of GDP</i>	8.9	11.4
Customs (Import Duty, Import VAT, Petroleum Tax & NHIL)	1,614.2	2,498.9
Domestic Tax Direct (Income and Property Taxes)	1,654.6	2,408.1
Domestic Tax Indirect (Domestic VAT, Domestic Excise Duty, CST & NHIL)	710.2	939.3
Oil Revenue	0.0	168.7
Cocoa Duty	84.7	5.0
National Health Insurance Levy (SSNIT)	42.1	53.8
NON-TAX REVENUE	193.8	525.9
Lodgement	193.8	525.9
Others	255.9	484.6
GRANTS	523.8	356.7
<i>% of GDP</i>	1.1	0.7
Program Grants	288.3	340.6
TOTAL DOMESTIC REVENUE	4,555.5	7,084.3
<i>% of GDP</i>	9.9	13.3
TOTAL REVENUE & GRANTS	5,079.3	7,441.0
<i>% of GDP</i>	11.0	13.9

3.0 Expenditure Outturn, January-September 2011 (Narrow Coverage)

Total expenditure (excluding externally financed capital expenditure) was 34.1 per cent more than the January-September 2010 outturn, driven mainly by overruns in discretionary spending.

Total expenditure (excluding externally financed capital expenditure) for the first nine months of 2011 amounted to GH¢8,728.2 million (16.3% of GDP), compared with GH¢6,509.0 million (14.1% of GDP) recorded in the corresponding period in 2010. This represented an increase of 34.1 per cent. The surge in the pace of government spending was mainly on account of increased expansion in discretionary spending particularly by the Ministries, Departments and Agencies (MDAs).

Statutory payments made for the period under review totalled GH¢5,609.5 million (10.5% of GDP) reflecting an expansion of 32.4 per cent over payments made for a similar period in 2010.

Total interest payments for the review period under review amounted to GH¢1,139.1 million (2.1% of GDP). This exceeded the outturn of GH¢1,018.9 million (1.9% of GDP) registered in the corresponding period in 2010 by 11.8 per cent. Domestic interest payments constituted about 83.0 per cent of the total interest payments for the period, marginally lower than the 83.6 per cent recorded in a similar period in 2010.

The wage bill (including pensions, gratuities and other wage related expenditure) amounted to GH¢3,337.4 million (6.2% of GDP). This amount absorbed 47.1 per cent of domestic revenues mobilised over the nine-month period. Compared to the corresponding period in 2010, the wage bill recorded a growth of 37.3 per cent.

Discretionary payments for the period amounted to GH¢3,119.3 million (5.8% of GDP) compared with the GH¢ 2,271.6 million (4.6% of GDP) recorded by the end of the third quarter of 2010.

Table 3: Total Expenditure (in millions of Ghana Cedis)

Table 3: Expenditure Outlays	2010	2011
(Million Ghana Cedis)	Jan-Sept	Jan-Sept
	Outturn	Outturn
STATUTORY PAYMENTS	4,237.4	5,609.5
<i>% of GDP</i>	9.2	10.5
Total interest payments	1,018.9	1,139.1
<i>% of GDP</i>	2.2	2.1
Interest domestic	851.4	945.2
Interest external	167.4	193.9
DACF	221.7	216.2
GET Fund	144.6	270.7
National Health Fund	230.6	345.2
Wages & Salaries, Pensions & SSP	2,431.3	3,337.4
<i>% of GDP</i>	5.3	6.2
<i>Wages & Salaries</i>	1,518.6	2,152.5
<i>Subvented organisations pers. Emoluments</i>	99.6	719.2
<i>Foreign missions personnel .emoluments</i>	220.3	52.7
<i>Social Security Payments</i>	543.0	117.2
<i>Pensions and Gratuity</i>	49.8	295.9
Petroleum Related Fund (Expenditure)	190.3	300.9
DISCRETIONARY PAYMENTS	2,271.6	3,119.3
<i>% of GDP</i>	4.9	5.8
MDA Drawings and Other Payments	2,023.2	3,104.0
TOTAL EXPENDITURE	6,509.0	8,728.8
<i>% of GDP</i>	14.1	16.3

4.0 Budget Balance and Financing (Narrow Coverage, January-September 2011)

The narrow fiscal deficit for the first nine months of 2011 amounted to 2.4 per cent of GDP compared with the 3.1 per cent of GDP recorded in the corresponding period in 2010.

Government budgetary operations for the first nine months of 2011 resulted in a narrow fiscal deficit-, of GH¢1,287.8 million (2.4% of GDP) compared with GH¢1,429.7 million (3.1% of GDP) registered for the corresponding period in 2010. The deficit of GH¢1,287.8 million, together with a net foreign loan inflow of GH¢42.0 million created a resource gap of GH¢1,329.8 million (2.5% of GDP). The gap was financed mainly from the issuance of domestic bonds and bills. The net domestic financing was well within the end-September programmed target of GH¢1,542.1 million (2.9% of GDP).

Table 4: Budget Balance and Financing (in million Ghana Cedis)

Table 4: Budget Balance & Financing	2010	2011
(Million Ghana Cedis)	Jan-Sept	Jan-Sept
	Outturn	Outturn
REVENUE AND GRANTS	5,079.3	7,441.0
EXPENDITURE	6,509.0	8,728.8
OVERALL BALANCE(Cash Incl. Divestiture)	-1,429.7	-1,287.8
<i>% of GDP</i>	-3.1	-2.4
FINANCING	1,429.7	1,287.8
DOMESTIC NET	1,803.3	1,329.8
<i>% of GDP</i>	3.9	2.5
Banking	874.2	-315.6
Bank of Ghana	29.9	-121.1
Deposit Money Banks	844.3	-194.5
Non-Bank	929.1	1,645.4
o/w Non-Residents	665.3	1,019.2
Other Financing (Domestic)	-445.0	0.0
FOREIGN NET	71.3	-42.0
<i>% of GDP</i>	0.2	-0.1
GDP AT CURRENT PRICES	46,232.0	53,411.0

5.0 Analysis of Public Debt

Ghana's total public debt increased from 37.8 per cent of GDP in December 2010 to 41.7 per cent of GDP in September 2011, representing a growth of 27.1 per cent.

Total domestic debt at the end of September 2011 was estimated at GH¢11,432.0 million (21.4% of GDP) showing an increase of 38.1 per cent over the end-December 2010 stock of GH¢8,280.1 million (17.9% of GDP). External debt stock rose by 15.6 per cent to US\$7,103.1 million over the end December 2010 stock position. Cumulatively, total public debt amounted to GH¢22,245.8 million at end September 2011, equivalent to 41.7 per cent of GDP. In the corresponding period of 2010, total public debt was 37.8 per cent of GDP.

While increases in short, medium and long term holdings accounted for the overall rise in the domestic debt compared to the end December stock in 2010, the increase in external debt stock was explained by net disbursements and variations in exchange rates amounting to US\$849.1 million.

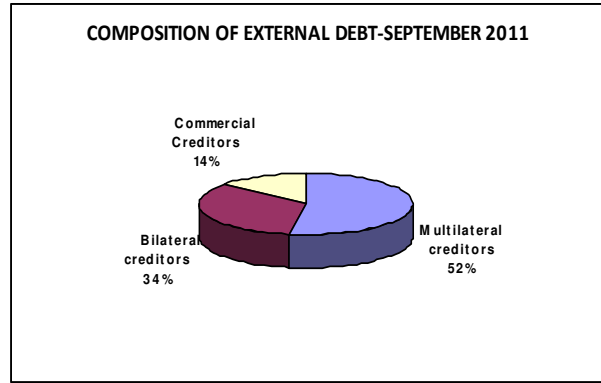
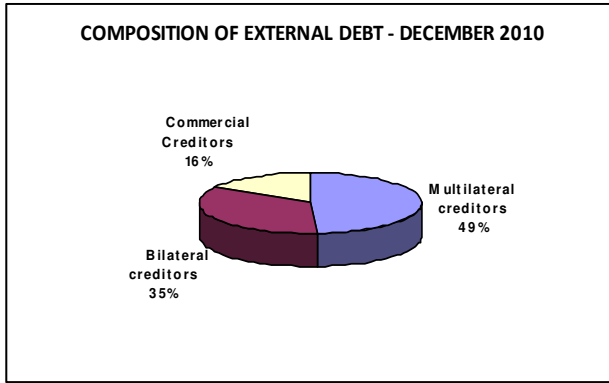
Domestic debt constituted 51.4 per cent of the total public debt with external debt making up the remaining 48.6 per cent. Of the total domestic debt, 32.8 per cent were short-term instruments (down from 38.8% in December 2010), 50.2 per cent were medium-term instruments (up from 45.8% in December 2010), and 16.8 per cent were long-term instruments⁴ (up from was 15.4% in December 2010).

Table 4: Total Public Debt (in million Ghana Cedis)

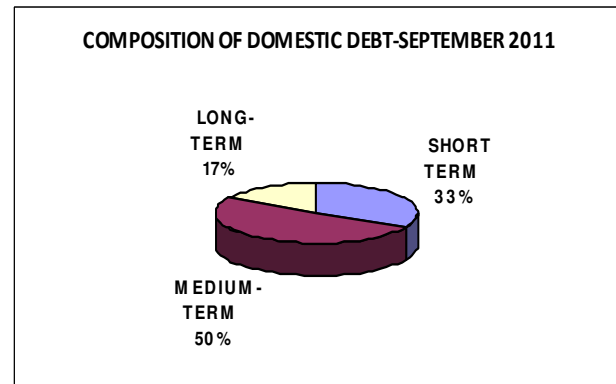
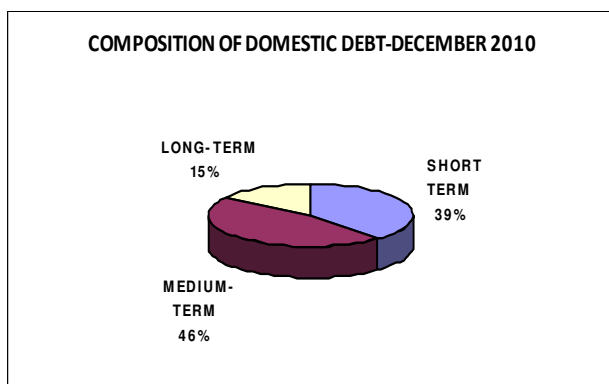
	2010	2011			GROWTH (%)	AS A % OF
Table 4: Total Public Debt	DECEMBER	MARCH	JUNE	SEPTEMBER	DEC.10-SEPT.11	TOTAL DEBT
TOTAL DOMESTIC DEBT (GH¢m)	8,280.1	9,526.6	10,825.0	11,432.0	38.1	51.4
SHORT TERM	3,214.5	3,447.2	3,500.0	3,752.0	16.7	16.9
MEDIUM-TERM	3,788.3	4,155.3	5,401.0	5,756.0	51.9	25.9
LONG-TERM	1,277.3	1,924.0	1,924.0	1,924.0	50.6	8.6
HOLDINGS OF DOMESTIC DEBT (GH¢m)	8,280.1	9,526.6	10,825.0	11,432.0	38.1	51.4
BANKING SYSTEM	5,289.1	5,670.9	6,589.0	6,613.3	25.0	29.7
NON-BANK	2,991.1	3,855.7	4,236.0	4,818.7	61.1	21.7
TOTAL EXTERNAL(US\$m)	6,254.6	6,681.9	7,082.6	7,103.1	13.6	
MULTILATERAL	3,057.7	3,367.7	3,709.0	3,719.8	21.7	16.7
BILATERAL	2,169.2	2,292.1	2,372.1	2,390.0	10.2	10.7
COMMERCIAL	1,027.7	1,022.0	1,001.6	993.4	(3.3)	4.5
TOTAL EXTERNAL(GH¢m)	9,218.0	10,036.8	10,669.3	10,813.8		48.6
TOTAL PUBLIC DEBT (GH¢m)	17,498.1	19,563.4	21,494.3	22,245.8	27.1	
NOMINAL GDP (GH¢m)	46,232.0	53,411.0	53,411.0	53,411.0	15.5	
TOTAL DEBT /GDP RATIO (%) (NON-OIL)	37.8	36.6	40.2	41.7		

⁴ Short term instruments have maturities of between 91 days to one year; medium term instruments are of maturities of between two to five; long term instruments have maturities above five years.

COMPOSITION OF EXTERNAL DEBT



COMPOSITION OF DOMESTIC DEBT



6.0 OUTLOOK AND CONCLUSION

The execution of the budget from January through September 2011 showed improved domestic revenue mobilisation. With additional inflows expected from all the revenue agencies, it is anticipated that substantial government receipts will be raked in at the end of the year.

Expenditures however, appear to be running faster than expected. Pressures from wages and salaries and cost under-recovery in the energy sector could pose a serious threat to the fiscal consolidation process.