



Bank of Ghana Monetary Policy Report

Fiscal Developments

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2.0 Highlights of Budgetary Developments

Broad Coverage, January – December 2012

Provisional data on the execution of the budget showed that for the year 2012,

- Total revenue and grants mobilised was equivalent to 23.2 percent of GDP below the budgeted target of 24.3 percent of GDP;
- Government spending (including arrears clearance and discrepancy) was equivalent to 35.2 percent of GDP exceeding the programme ceiling of 31.0 percent of GDP;
- These developments resulted in a budget deficit equivalent to 12.0 percent of GDP against a target of 6.7 percent of GDP and compared to a deficit equivalent to 4.3 percent of GDP in 2011;
- The deficit was financed largely from domestic sources.

Table 1: Fiscal indicators (GH¢ millions)

| | 2011 | 2012 | 2012 |
|--|------------------|------------------|------------------|
| | Outturn | Prov. Outturn | BUDGET |
| Overall Budget Balance | (2,395.4) | (8,648.7) | (4,669.0) |
| % of GDP | (4.3) | (12.0) | (6.7) |
| Rev & Grants | 12,851.6 | 16,668.4 | 16,927.6 |
| % of GDP | 22.8 | 23.2 | 24.3 |
| Grants | 1,175.0 | 1,160.3 | 1,549.7 |
| % of GDP | 2.1 | 1.6 | 2.2 |
| Total Expenditure (excl. Arrears Clearance) | 13,380.0 | 20,944.7 | 19,035.7 |
| % of GDP | 23.8 | 29.2 | 27.3 |
| Current Expenditure | 9,705.0 | 15,973.4 | 13,063.3 |
| % of GDP | 17.2 | 22.2 | 18.7 |
| Capital Expenditure | 3,675.0 | 4,971.3 | 5,972.3 |
| % of GDP | 6.5 | 6.9 | 8.6 |

2.1 Revenue Performance

Total revenue and grants fell short of the 2012 budget target by 1.5 percent mainly on account of lower than expected grants.

Total revenue and grants realised in 2012 amounted to GH¢16,668.4 million (23.2% of GDP), 29.7 percent higher than the outturn in 2011. This was driven mainly by domestic revenue, which exceeded the budgeted target marginally by less than one percentage point. The overall revenue outturn was however moderated by the under-performance of Grants which fell short of the programmed target by GH¢389.4 million (25.1%).

Table 2: Total Revenue and Grants (GH¢ millions)

| | 2011 | 2012 | 2012 |
|--|-----------------|-----------------|-----------------|
| | Outturn | Prov. Outturn | BUDGET |
| Income and Property | 4,036.6 | 5,536.2 | 5,874.4 |
| Personal (PAYE) | 1,360.9 | 2,204.4 | 1,789.4 |
| Self-Employed | 132.4 | 163.9 | 177.9 |
| Companies | 1,568.0 | 2,361.5 | 2,685.6 |
| Company taxes on oil | - | - | 384.1 |
| Others | 975.3 | 806.4 | 837.4 |
| Other Direct Taxes | 794.8 | 714.1 | 589.3 |
| <i>o/w Royalties from Oil</i> | 184.4 | 270.2 | 236.9 |
| <i>o/w Royalties from Minerals</i> | 261.0 | 311.9 | 191.2 |
| NRL - Arrears | 2.9 | 0.2 | 0.0 |
| NFSL | 128.5 | 23.4 | 60.0 |
| Airport Tax | 49.1 | 68.8 | 55.6 |
| Domestic Goods & Serv. | 606.2 | 730.3 | 693.7 |
| Excise Duty | 167.7 | 185.8 | 218.2 |
| Petroleum Tax | 438.5 | 544.5 | 475.5 |
| <i>o/w Debt Recovery Levy</i> | 31.9 | - | - |
| International Trade | 1,516.0 | 1,990.1 | 2,123.9 |
| Imports | 1,511.0 | 1,886.9 | 1,986.1 |
| Import Duty | 1,511.0 | 1,886.9 | 1,986.1 |
| Export | 5.0 | 103.2 | 137.8 |
| Cocoa duty | 5.0 | 103.2 | 137.8 |
| VAT | 2,376.1 | 2,777.3 | 2,802.8 |
| Domestic | 987.4 | 1,061.2 | 1,060.5 |
| External | 1,388.6 | 1,716.0 | 1,742.3 |
| National Health Insurance Levy (NHIL) | 550.2 | 714.0 | 682.1 |
| CEPS Collection | 285.4 | 363.9 | 327.4 |
| VATS Collection | 186.2 | 212.2 | 233.6 |
| SSNIT Contribution | 78.5 | 137.9 | 121.2 |
| Other Revenue Measures | 135.0 | 128.4 | 145.7 |
| Mobile Phone Tax on Air Time | 135.0 | 128.4 | 145.7 |
| Import Exemptions | 634.6 | 778.9 | 382.7 |
| TAX REVENUE | 9,854.6 | 12,655.1 | 12,705.3 |
| NON-TAX REVENUE | 1,822.0 | 2,853.0 | 2,672.6 |
| Lodgement | 1,099.7 | 1,062.4 | 1,531.6 |
| Income and Fees | 311.8 | 361.7 | 275.4 |
| Dividend/Interest & profits from Oil | 481.8 | 699.8 | 618.8 |
| Surface Rentals profits from Oil | - | 0.8 | - |
| Dividend/Interest & Profits | 306.1 | - | 57.1 |
| Fees from granting of new Stability Agreements | - | - | 525.0 |
| Hedging Profits | - | - | 55.3 |
| Retention | 722.3 | 1,790.6 | 1,141.0 |
| TOTAL REVENUE | 11,676.6 | 15,508.1 | 15,377.9 |
| GRANTS | 1,175.0 | 1,160.3 | 1,549.7 |
| Project grants | 688.1 | 512.3 | 794.0 |
| Programme grants | 244.4 | 502.5 | 436.1 |
| HIPC assistance (multilaterals) | 131.5 | 56.7 | 190.9 |
| Multilateral Debt Relief Initiative (MDRI) | 110.8 | 88.8 | 128.8 |
| World Bank | - | 88.8 | 61.7 |
| African Development Bank | - | - | 67.0 |
| TOTAL REVENUE & GRANTS | 12,851.6 | 16,668.4 | 16,927.6 |

Income and property taxes amounted to GH¢5,536.2 million in 2012, below the budget target of GH¢5,874.4 million on account of lower corporate taxes. Of the total taxes received from Income and Property, personal income taxes and corporate taxes accounted for 39.8 percent and 42.7 percent respectively. The shortfall in corporate taxes was partly due to the non-implementation of the 10 percent increment of corporate tax rate from 25 to 35 percent for mining companies as stated in 2012 Budget statement, as well as the non-realisation of corporate taxes from the oil companies.

Taxes realised from domestic goods and services (excluding VAT and NHIL) amounted to GH¢730.3 million, exceeding the budget target by GH¢36.6 million, on account of higher revenue from petroleum taxes.

VAT collections totalled GH¢2,777.3 million, 16.9 percent higher than the budget target for 2012. On a year-on-year basis, VAT collections recorded a growth of 20.6 percent. VAT collections comprised domestic and external components of GH¢1,061.2 million and GH¢1,716.1 million respectively.

International trade taxes amounted to GH¢2,769.0 million in 2012, exceeding the budget target of GH¢2,506.6 million by 10.8 percent. The improved performance of import duty was attributed to factors including increased imports, improvements in import valuations, and the cedi depreciation during the year.

2.2 Expenditure Outturn

Total expenditure and arrears clearance (including discrepancy) exceeded the budget target by 17.2 per cent mainly as a result of the more than budgeted increases in personnel emolument.

Total expenditure amounted to GH¢20,944.7 million (29.2% of GDP) compared with the targeted GH¢19,035.7million (27.3 % of GDP) in 2012. Of the total, recurrent expenditure was GH¢15,973.4 million and capital expenditure of GH¢4,971.3 million.

On a year-on-year basis, recurrent expenditure grew by 64.6 percent. Furthermore, non-interest payments accounted for 76.3 percent of the recurrent expenditure. These high non-interest payments were driven mainly by Personnel Emoluments and Transfers which together accounted for 82.3 percent and 71.9 percent of non-interest expenditure and domestic revenues respectively.

Payment for goods and services as well as transfer payments fell below their respective budget targets by 18.2 percent and 25.8 percent.

Total interest payments made in 2012 amounted to GH¢2,436.2 million, reflecting a year-on-year growth of 51.2 percent. The outturn exceeded the budget target of GH¢2,191.2 million by 11.2 percent. Interest payments have generally increased due to higher government borrowing coupled with higher interest rates.

Total capital expenditure was GH¢4,971.3 million compared to the budget target of GH¢5,972.3 million in 2012. Domestically-financed capital expenditure was GH¢2,436.7 million, 9.5 percent below the budget target and represented an annual growth of 21.4 percent. Foreign-financed capital expenditure was GH¢2,534.6 million, representing 77.3 percent of the programmed amount and a yearly growth of 4.8

percent. The shortfall was due to low disbursements of project loans and grants. Statutory Payments in respect of Education Trust Fund, Road Fund and District Assembly Common Fund were GH¢406.5 million, GH¢362.8 million and GH¢195.7 million respectively.

Table 3: Total Expenditure (GH¢ millions)

| | 2011 | 2012 | 2012 |
|---|-----------------|-----------------|-----------------|
| | Outturn | Prov. Outturn | BUDGET |
| RECURRENT | 9,705.0 | 15,973.4 | 13,063.3 |
| Non-Interest Expenditure | 8,093.8 | 13,537.3 | 10,872.2 |
| Personal Emoluments | 4,534.9 | 6,665.5 | 5,637.5 |
| Goods & Services | 723.9 | 1,321.8 | 967.2 |
| Items 2-5 (1) | 723.9 | 1,321.8 | 967.2 |
| Transfers | 2,504.6 | 4,477.8 | 3,560.0 |
| Pensions | 369.4 | 390.0 | 263.5 |
| Gratuities | 80.9 | 68.4 | 126.3 |
| Social Security | 320.5 | 53.7 | 462.5 |
| National Health Fund | 377.0 | 587.2 | 682.1 |
| Other Transfers | 1,356.9 | 2,569.5 | 1,555.6 |
| Subsidies | - | 809.0 | 470.0 |
| Reserve Fund | 330.5 | 1,072.1 | 707.5 |
| Interest Payments | 1,611.2 | 2,436.2 | 2,191.2 |
| Interest Domestic | 1,307.9 | 1,879.7 | 1,683.4 |
| Interest External | 303.3 | 556.4 | 507.8 |
| CAPITAL | 3,675.0 | 4,971.3 | 5,972.3 |
| CAPITAL(Domestic Financed) | 1,962.8 | 2,436.7 | 2,691.3 |
| Development | 1,962.8 | 2,436.7 | 2,691.3 |
| Educational Trust Fund | 320.6 | 362.8 | 545.1 |
| Road Fund | 141.1 | 195.7 | 179.5 |
| Petroleum related Fund | 8.6 | 8.8 | 8.5 |
| District Assembly Common Fund | 622.0 | 406.5 | 847.1 |
| Other Cash Expenditure | 558.6 | 1,049.6 | 749.2 |
| Transfer to GNPC from Oil Revenue | 311.9 | 413.3 | 361.9 |
| CAPITAL(Foreign Financed) | 1,712.2 | 2,534.6 | 3,281.0 |
| TOTAL EXPENDITURE | 13,380.0 | 20,944.7 | 19,035.7 |
| ARREARS CLEARANCE | | 3,829.8 | 2,560.9 |
| DISCREPANCY | - | 542.5 | - |
| TOTAL EXPENDITURE & ARREARS CLEARANCE | | 25,317.0 | 21,596.6 |
| NOTE: (1). Includes expenditure on Maintenance, Repairs, Transport and Travels | | | |

2.3 Budget Balance and Financing

The fiscal deficit for 2012 was equivalent to 12.0% of GDP against a budget target of 6.7% of GDP.

The developments in government revenues and expenditures resulted in an overall budget deficit on cash basis (including divestiture and discrepancy) of GH¢8,648.7 million (12.0% of GDP) compared with GH¢2,395.4 million (4.3% of GDP) in 2011. The deficit was mainly financed from domestic sources (about 81.1 percent) through the issuance of domestic bonds and bills. The net domestic financing of GH¢7,018

million (9.8% of GDP) was 154.2 percent in excess of the end-year programmed target of GH¢2,760.6 million (4.0% of GDP).

Table 4: Budget Balance and Financing (GH¢ millions)

| | 2011 | 2012 | 2012 |
|--|------------------|------------------|------------------|
| | Outturn | Prov. Outturn | BUDGET |
| REVENUE & GRANTS | 12,851.6 | 16,668.4 | 16,927.6 |
| EXPENDITURE & NET LENDING | 13,380.0 | 20,944.7 | 19,035.7 |
| Overall Balance (Commitment Basis) | - 528.4 | - 4,276.3 | - 2,108.1 |
| <i>% of GDP</i> | <i>- 0.9</i> | <i>- 6.0</i> | <i>- 3.0</i> |
| Road Arrears | - 312.1 | - 359.8 | - 250.0 |
| Non-Road Arrears | - 1,536.5 | - 3,306.3 | - 2,233.8 |
| Tax Refund | - 89.2 | - 163.7 | - 77.1 |
| Overall Balance (Cash Basis) | - 2,466.2 | - 8,106.1 | - 4,669.0 |
| <i>% of GDP</i> | <i>- 4.4</i> | <i>- 11.3</i> | <i>- 6.7</i> |
| Discrepancy | 70.7 | - 542.5 | - 0.0 |
| Overall Balance (Incl. Divestiture) | - 2,395.4 | - 8,648.7 | - 4,669.0 |
| <i>% of GDP</i> | <i>- 4.3</i> | <i>- 12.0</i> | <i>- 6.7</i> |
| FINANCING | 2,395.4 | 8,648.7 | 4,669.0 |
| DOMESTIC (NET) | 1,988.1 | 7,018.0 | 2,760.6 |
| BANKING SECTOR | 315.6 | 2,445.1 | 980.3 |
| Bank of Ghana | 557.4 | 2,196.8 | 1,234.2 |
| o/w Transfer to Ghana Petroleum Fu | - | 90.8 | 234.6 |
| o/w Stabilisation Fund | - | - | 164.2 |
| o/w Heritage Fund | - | - | 70.4 |
| Commercial banks | - 241.8 | 339.1 | 19.3 |
| NON-BANK | 1,672.6 | 4,386.0 | 1,780.3 |
| Others Domestic Financing | - | 187.0 | - |
| Others Financing | - 572.0 | 355.0 | 1,381.7 |
| FOREIGN (NET) | 979.3 | 1,275.6 | 526.7 |
| INFLOWS | 1,447.6 | 1,855.0 | 1,378.7 |
| Project Loans | 1,024.0 | 1,667.4 | 1,105.3 |
| Program Loans | 423.6 | 187.6 | 273.4 |
| AMORTIZATION | - 584.3 | - 623.6 | - 982.6 |
| EXCEPTIONAL FINANCING | 115.9 | 44.2 | 130.6 |
| HIPC Relief (Cologne terms) | 115.9 | 44.2 | 130.6 |

2.4 Analysis of Public Debt

Ghana's total public debt rose to 46.7 percent of GDP in December 2012 from 34.4 percent of GDP in December 2011.

Domestic debt stock went up by 56.5 percent in 2012 to GH¢18,535.2 million (25.8% of GDP) from GH¢11,841.1 million (17% of GDP) in 2011. Of this amount, 31.5 percent was in short-term instruments (36.8% in Dec. 11), 51.5 percent in medium-term instruments (47.3% in Dec. 11), and 17 percent in long-term instruments (15.9% in Dec. 11).

The stock of external debt declined marginally by 2.1 percent to US\$7,978.5 million in 2012 from US\$7,816 million in 2011.

Cumulatively, total public debt amounted to GH¢33,534.7 million (46.7% of GDP) in 2012, compared with GH¢23,959.7 million (34.3% of GDP) in 2011. Domestic debt constituted 55.3 percent of the total public debt with external debt accounting for the remaining 44.7 percent.

Table 5: Total Public Debt (GH¢ millions)

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|----------------|-----------------|-----------------|-----------------|-----------------|
| | DECEMBER | DECEMBER | DECEMBER | DECEMBER | DECEMBER |
| TOTAL DOMESTIC DEBT (GH¢m) | 4,800.2 | 6,103.0 | 8,280.1 | 11,841.1 | 18,535.2 |
| SHORT TERM | 2,022.6 | 2,643.1 | 3,214.5 | 4,353.3 | 5,839.2 |
| MEDIUM-TERM | 1,752.5 | 2,107.5 | 3,788.3 | 5,601.1 | 9,544.5 |
| LONG-TERM | 1,025.1 | 1,352.3 | 1,277.3 | 1,886.7 | 3,151.5 |
| HOLDINGS OF DOMESTIC DEBT (GH¢m) | 4,800.2 | 6,103.0 | 8,280.1 | 11,841.1 | 18,535.2 |
| BANKING SYSTEM | 3,250.5 | 4,247.6 | 5,289.1 | 7,004.6 | 8,980.9 |
| NON-BANK | 1,111.2 | 1,371.8 | 1,426.0 | 2,568.5 | 4,614.9 |
| FOREIGN SECTOR (Non-Resident) | 438.5 | 483.6 | 1,565.0 | 2,268.1 | 4,939.4 |
| TOTAL EXTERNAL(US\$m) | 4,035.1 | 5,007.9 | 6,254.6 | 7,816.0 | 7,978.5 |
| MULTILATERAL | 2,028.3 | 2,461.8 | 3,057.7 | 4,441.5 | 3,756.7 |
| BILATERAL | 1,168.2 | 1,687.2 | 2,169.2 | 2,338.4 | 2,716.1 |
| COMMERCIAL | 838.5 | 858.9 | 1,027.7 | 1,036.1 | 1,505.7 |
| TOTAL EXTERNAL(GH¢m) | 4,899.0 | 7,154.8 | 9,218.0 | 12,118.6 | 14,999.5 |
| TOTAL PUBLIC DEBT (GH¢m) | 9,699.2 | 13,257.7 | 17,498.0 | 23,959.7 | 33,534.7 |
| NOMINAL GDP (GH¢m) | 30,178.6 | 36,597.6 | 46,232.0 | 56,282.4 | 71,847.0 |
| TOTAL DEBT /GDP RATIO (%) (NON-OIL) | 32.1 | 36.2 | 37.8 | 42.6 | 46.7 |
| EXTERNAL DEBT/GDP | 16.2 | 19.5 | 19.9 | 21.5 | 20.9 |
| DOMESTIC DEBT/GDP | 15.9 | 16.7 | 17.9 | 21.0 | 25.8 |

2.5 Conclusion

The overall budget deficit exceeded the programmed target for the year 2012 by 85.2 percent, primarily due to expenditure overruns. Also, the net domestic financing of the budget more than doubled the December programmed ceiling. The widened fiscal deficit in 2012 poses a threat to macroeconomic stability and underscores the need for fiscal consolidation. Going forward therefore, commitment to fiscal discipline is critical to avoid over spending and accumulation of new arrears in 2013.