



BANK OF GHANA

Monetary Policy Report

FISCAL DEVELOPMENTS

December 2010

2.0 Highlights of Budgetary Developments

Broad Coverage, Jan-Sep 2010

Available data on the execution of the 2010 budget through the third quarter, on broad basis, indicated that:

- Total revenue and grants stood at GH¢5,999.75 million (22.9% of GDP) compared with GH¢4,724.75 million (21.8% of GDP) for 2009. The outturn was 1.8 percent more than the budgetary projection for the period mainly on account of unexpected stronger performance of domestic revenue (both tax and nontax) but petroleum tax and SSNIT contribution to NHIL remained soft. The stronger performance of domestic revenue was moderated by weak donor support – grants fell short of target by almost 22 percent – especially project grants which accounted for only 56 percent of what was expected for the period.
- Total expenditure for the period under review amounted to GH¢8,215.42 million (31.4% of GDP) compared with GH¢5,896.50 million (27.3% of GDP) for the corresponding period in 2009. The expenditure outturn exceeded the budget projection by 7.4 percent due mainly to expenditure overruns on goods & services, interest payments, reserve fund, and capital expenditure (both domestic and external financed).
- These developments resulted in a broad deficit of GH¢2,294.27 million (8.8% of GDP) compared with GH¢1,508.85 million (7.0% of GDP) for the corresponding period in 2009 and a target of GH¢1,968.57 million (7.5% of GDP).

Narrow Coverage, Jan-Nov 2010

Provisional data from the banking sector on the execution of the 2010 budget show that for the first eleven months of the year:

- Total revenue and grants grew, in year-on-year terms, by 25.4 percent compared with 20.7 percent growth registered in the same period of 2009, and was more than the end-November target by 4.7 percent.
- The pace of spending saw a significant pickup, reaching 32.8 percent in year-on-year terms compared with an annual decline of some 5 percent for the same period in 2009. Consequently, total expenditure was 6 percent more than the end-November target.
- As a result of these developments, the narrow budget deficit reached 6.7 percent of GDP exceeding the end-November target of 5.6 percent of GDP, and end-December target of 5.0 percent of GDP.
- The narrow deficit of 6.7 percent of GDP was financed mostly from domestic sources.

2.1 Revenue Performance (Narrow Coverage, Jan-Nov 2010)

Total revenue and grants witnessed an annual growth of 25.4 percent and was 4.7 percent more than the Jan-Nov 2010 target.

Total revenue and grants¹ for the first eleven months of 2010 amounted to GH¢6,447.12 million (24.6% of GDP) compared with GH¢5,142.39 million (23.6% of GDP) for the corresponding period in 2009. In year-on-year (y-o-y) terms, total revenue and grants grew by 25.4 percent compared with 20.7 percent growth registered for the same period in 2009. The outturn for end-November 2010 exceeded the indicative target by some 4.7 percent.

Total grants (excluding project grants) received for the period under review amounted to GH¢562.81 million (2.2% of GDP) compared with GH¢526.37 million (2.4% of GDP) for the same period in 2009. The outturn was 16.6 percent higher than what the budget

¹Grants exclude project grants

envisaged for the period on account of apparent improved performance by HIPC assistance².

Domestic revenue collection amounted to GH¢5,884.32 million (22.5% of GDP) compared with GH¢4,616.02 million (21.2% of GDP) recorded for the same period in 2009 and a target of GH¢5,672.72 million (21.7% of GDP). The growth in domestic revenue mobilization has also improved in year-on-year terms to 27.5 percent from 22.7 percent for the corresponding period in 2009.

Tax revenue for the period under review amounted to GH¢5,302.13 million (20.3% of GDP) compared with GH¢4,045.99 million (18.6% of GDP) for the corresponding period in 2009. This represented a y-o-y growth of 31 percent compared with 19.4 percent growth for the same period in 2009. The growth in tax revenue was slowed by considerable annual decline in the collection of National Health Insurance Levy (NHIL).

Import duty, import VAT and petroleum taxes collected by CEPS for the first eleven months of 2010 amounted to GH¢2,042.72 million compared with GH¢1,627.81 million for the same period in 2009. The outturn represented some 8 percent shortfall of end-November target.

Income and property taxes collected by IRS for the period under review amounted to GH¢2,073.38 million compared with GH¢1,500.25 million for the same period in 2009. In year-on-year terms, income and property taxes grew significantly by 38 percent compared with a growth of 35 percent for the corresponding period in 2009. The outturn also exceeded the end-November target by 7.5 percent.

Domestic VAT and excise duty collected by the VAT Service amounted to GH¢834.49 million compared with GH¢551.78 million for the same period in 2009. This represented an annual growth of 51 percent compared with 15 percent growth registered for the same period in 2009. The outturn was also almost 5 percent more than the end-November budgetary projection.

² This result should be interpreted with caution because HIPC assistance includes exceptional financing

Cocoa duty for the first eleven months of 2010 amounted to GH¢301.66 million compared with GH¢161.13 million for the corresponding period in 2009 and end-November target of GH¢37.55 million.

National Health Insurance Levy (NHIL) received from SSNIT amounted to GH¢46.88 million compared with end-November target of GH¢205.02 million, which represented a year-on-year decline of 77 percent.

Non-tax revenue (Lodgement) received amounted to GH¢232.54 million compared with the outturn of GH¢152.38 million recorded for the corresponding period in 2009 and a target of GH¢529.02 million.

Table 2.1: Total Revenue and Grants (in millions of Ghana Cedis)

	2009	2010	2010	Outturn	2010
(Million Ghana Cedis)	Jan-Nov	Jan-Nov	Jan-Nov	as % of	y-o-y
	Outturn	Outturn	Target	Target	Growth
TAX REVENUE	4,045.99	5,302.13	5,143.70	103.08	31.05
<i>% of GDP</i>	<i>18.605</i>	<i>20.269</i>	<i>19.663</i>		
Import Duty, Import VAT, Petroleum Tax	1,627.81	2,042.72	2,249.26	90.82	25.49
Income and Property Taxes	1,500.25	2,073.38	1,929.59	107.45	38.20
Domestic VAT and Excise Duty	551.78	834.49	796.78	104.73	51.24
Cocoa Duty	161.13	304.66	37.55	811.43	89.08
National Health Insurance Levy (SSNIT)	205.02	46.88	130.51	35.92	(77.13)
NON-TAX REVENUE (Lodgement)	152.38	232.54	529.02	43.96	52.60
<i>% of GDP</i>	<i>0.701</i>	<i>0.889</i>	<i>2.022</i>		
Others	417.65	349.64	0.00		(16.28)
GRANTS	526.37	562.81	482.46	116.65	6.92
<i>% of GDP</i>	<i>2.420</i>	<i>2.151</i>	<i>1.844</i>		
Program Grants	327.86	288.26	297.67	96.84	(12.08)
HIPC Assistance	138.42	205.25	102.84	199.58	48.28
MDRI Assistance	60.09	69.29	81.95	84.55	15.31
TOTAL DOMESTIC REVENUE	4,616.02	5,884.32	5,672.72	103.73	27.48
<i>% of GDP</i>	<i>21.226</i>	<i>22.494</i>	<i>21.686</i>		
TOTAL REVENUE & GRANTS	5,142.39	6,447.12	6,155.18	104.74	25.37
<i>% of GDP</i>	<i>23.647</i>	<i>24.646</i>	<i>23.530</i>		

2.2 Expenditure Outturn (Narrow Coverage, Jan-Nov 2010)

Total expenditure (excluding externally financed capital expenditure) was 6 percent more than budgetary projection, reflecting overruns in discretionary spending.

Total expenditure (excluding externally financed capital expenditure) for the first eleven months of 2010 amounted to GH¢7,833.31 million (29.9% of GDP) compared with GH¢5,900.99 million (27.1% of GDP) spent in the corresponding period in 2009. This outturn was 6 percent more than the end-November target and also represented a year-on-year growth of almost 33 percent compared with an annual decline of 5 percent recorded for the same period in 2009. The pickup in the tempo of government spending was driven mainly by considerable growth in discretionary spending, especially HIPC financed expenditure, MDA drawings and other payments.

Domestic expenditure³ made during the period under review amounted to GH¢6,608.24 million (25.3% of GDP) compared with GH¢5,050.06 million (23.2% of GDP) for the same period in 2009 and an end-November target of GH¢6,239.75 million (23.9% of GDP). In year-on-year terms, the pace of domestic expenditure increased from a decline of 10.4 percent in the first eleven months of 2009 to a growth of almost 31 percent for the same period in 2010.

Statutory payments made for the period under review amounted to GH¢5,418.52 million (20.7% of GDP) compared with GH¢4,139.02 million (19.0% of GDP) for the corresponding period in 2009 and a target of GH¢5,895.36 million (22.5% of GDP). Despite a year on year growth of almost 31 percent, the outturn fell short of the target by some 8 percent indicating likely build up of arrears. Of significant note are delayed transfers towards the national health fund, social security payments, wages & salaries, District Assemblies Common Fund (DACF), and Ghana Education Trust Fund (GETFund).

Total interest payments for the period under review amounted to GH¢1,225.07 million (4.7% of GDP) compared with GH¢850.93 million (3.9% of GDP) paid in 2009. This

³ Domestic expenditure is defined as total expenditure minus total interest payment and reflects expenditures that affect economic activity in the current period.

outturn exceeded the end-November target by almost 9 percent, driven mainly by more than expected domestic interest payments.

The wage bill (including pensions & gratuities and other wage related expenditure) amounted to GH¢3,231.56 million (12.4% of GDP) compared with GH¢2,485.39 million (11.4% of GDP) paid for the corresponding period in 2009, representing a year-on-year growth of 30 percent compared with 17.6 percent growth for the same period in 2009. Despite the significant growth, the wage bill fell short of target by more than 10 percent, indicating the Single Spine Salary Scheme (SSSS) was yet to be fully implemented.

There was a significant surge in the pace of discretionary payments during the first eleven months of 2010, reflecting expenditure overruns in HIPC financed expenditure, MDA drawings and other payments. During the period under review, discretionary payments grew in year-on-year terms by 37 percent to GH¢2,414.79 million (9.2% of GDP) from GH¢1,761.97 million (8.1% of GDP) in the same period of 2009. The outturn also exceeded end-November target by about 64 percent.

Table 2.2: Total Expenditure (in millions of Ghana Cedis)

	2009	2010	2010	Outturn	2010
(Million Ghana Cedis)	Jan-Nov	Jan-Nov	Jan-Nov	as % of	2010
	OUTTURN	OUTTURN	Target	Target	y-o-y
					Growth
STATUTORY PAYMENTS	4,139.02	5,418.52	5,895.36	91.91	30.91
% of GDP	19.033	20.714	22.54		
Total interest payments	850.93	1225.07	1,125.68	108.83	43.97
% of GDP	3.913	4.683	4.30		
Interest domestic	651.09	982.13	861.66	113.98	50.85
Interest external	199.84	242.94	264.02	92.01	21.56
DACF	188.57	235.92	363.77	64.85	25.11
GET Fund	119.62	187.55	263.56	71.16	56.79
Wages & Salaries, Pensions & SSP	2,485.39	3,231.56	3,593.47	89.93	30.02
% of GDP	11.429	12.354	13.74		
Wages & Salaries	2,158.28	2,739.43	3,115.86	87.92	26.93
o/w subvented organisations' personal emol	471.02	690.79	-		46.66
foreign missions' personal emol	58.38	61.74	-		5.75
Social Security Payments	125.45	126.25	206.75	61.07	0.64
Pensions and Gratuity	201.65	365.88	270.85	135.08	81.44
Petroleum Related Fund (Expenditure)	262.03	234.14	4.76	4919.64	(10.64)
National Health Fund	232.48	304.27	424.23	71.72	30.88
Road Fund	-	-	119.88		
DISCRETIONARY PAYMENTS	1,761.97	2,414.79	1,470.08	164.26	37.05
% of GDP	8.102	9.23	5.620		
HIPC Financed Expenditure	174.17	243.30	102.84	236.57	39.69
MDRI Drawings	65.74	62.43	81.95	76.18	(5.04)
MDA Drawings and Other Payments	1,522.06	2,054.81	1,285.28	159.87	35.00
SSNIT Payments	-	54.25	-		
DOMESTIC EXPENDITURE	5,050.06	6,608.24	6,239.75	105.91	30.85
% of GDP	23.22	25.26	23.853		
TOTAL EXPENDITURE	5,900.99	7,833.31	7,365.43	106.35	32.75
% of GDP	27.135	29.945	28.156		

2.3 Budget Balance and Financing (Narrow Coverage, Jan-Nov 2010)

The narrow fiscal deficit ended October 2010 at 6.7% of GDP, significantly higher than the programme target of 5.6% of GDP for the period under review.

Government budgetary operations for the first eleven months of 2010 resulted in a narrow fiscal deficit of GH¢1,753.45 million (6.7% of GDP) compared with GH¢924.0 million (4.2% of GDP) registered for the corresponding period in 2009 and an indicative target of GH¢1,458.27 million (5.6% of GDP), implying the indicative target was considerably breached.

The Net Domestic Financing (NDF) of the budget deficit amounted to GH¢2,214.06 million (8.5% of GDP) compared with GH¢932.09 million (4.3% of GDP) registered for the corresponding period in 2009. Under the financial programme, NDF was expected to end December at GH¢1,687.95 million (6.5% of GDP).

Table 2.3: Budget Balance and Financing (in million Ghana Cedis)

	2009	2010	2010
(Million Ghana Cedis)	Jan-Nov	Jan-Nov	Jan-Nov
	OUTTURN	OUTTURN	Target
REVENUE AND GRANTS	5,142.39	6,447.12	6,155.18
EXPENDITURE	5,900.99	7,833.31	7,365.43
OVERALL BALANCE(commitment)	(758.60)	(1386.19)	(1210.25)
% of GDP	(3.488)	(5.299)	(4.627)
Road Arrears	(19.26)	(165.14)	(151.51)
Non-Road Arrears	(145.15)	(202.13)	(60.04)
VAT Refund	(6.50)	0.00	(36.47)
OVERALL BALANCE(Cash)	(929.50)	(1753.45)	(1458.27)
% of GDP	(4.274)	(6.703)	(5.575)
Divestiture Receipts	5.50	0.00	0.00
OVERALL BALANCE(Cash Incl. Dive	(924.00)	(1753.45)	(1458.27)
% of GDP	(4.249)	(6.703)	(5.575)
FINANCING	924.00	1753.45	1240.26
DOMESTIC NET	932.09	2214.06	1537.01
% of GDP	4.286	8.464	5.876
Banking	692.78	999.17	1537.01
Bank of Ghana	83.44	(131.56)	1537.01
Deposit Money Banks	609.34	1130.74	0.00
Non-Bank	239.31	1214.88	0.00
Other Financing (Domestic)	0.00	(445.00)	(440.00)
FOREIGN NET	(8.08)	(15.61)	143.25
% of GDP	(0.037)	(0.060)	0.548
Loan Disbursement	261.54	269.86	578.92
Loan Repayment	(269.63)	(285.46)	(435.67)

2.4 Analysis of Public Debt

The provisional total public debt stock stood at US\$11,303.27 million (61.8% of GDP) at the end of September 2010 from US\$9,202.94 million (60.7% of GDP) at the end of December 2009.

Domestic debt rose from GH¢6,083.19 million or US\$4,195.06 million (28.1% of GDP) at the end of December 2009 to GH¢7,591.93 million or US\$5,304.96 million (29% of GDP) by the end of the third quarter of 2010. Of this amount, 40.4 percent were short-term instruments (was 43.5% in Dec-09 and 39.7% in Aug-10), 42.8 percent were medium-term instruments (was 34.3% in Dec-09 and 43.1% in Aug-10), and 16.8 percent were long-term instruments⁴ (was 22.2% in Dec-09 and 17.2% in Aug-10).

The stock of external debt stood at US\$5,998.31 million (32.8% of GDP) at the end of the third quarter of 2010 compared with US\$5,007.88 million (32.6% of GDP) at the end of December 2009.

Together, the provisional total public debt stock stood at US\$11,303.27 million (61.8% of GDP) at the end of September 2010 from US\$9,202.94 million (60.7% of GDP) at the end of December 2009.

Debt servicing (i.e. amortisation and interest payments) for the first eleven months of 2010 amounted to GH¢528.40 million (2.0% of GDP) compared with GH¢469.47 million (2.2% of GDP) for the corresponding period in 2009.

2.5 Conclusions:

- The narrow fiscal deficit of 6.7 percent of GDP for the first eleven months of 2010 significantly exceeded the end-November 2010 target of 5.6 percent of GDP and end-December 2010 target of 5.0 percent putting the realization of the revised end-December broad fiscal deficit target of 9.6 percent of GDP at risk.

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.

- Net Domestic Financing (NDF) for the first eleven months of 2010 was markedly more than envisaged under the financial programme for 2010 mainly because of significant shortfall in expected loan disbursements.
- The issue of possible accumulation of arrears would have to be looked at carefully to ensure that it does not overburden the implementation of the 2011 budget.