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Ghana: A Review of the 2015 Budget

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The views expressed in this paper are the views of the IFS

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Abstract

Ghana is currently facing serious economic crisis. The country is experiencing a rapidly declining economic growth, double digit deficits for two years running, current account deficits also in double digits, and a public debt stock which is almost above the sustainable threshold. The domestic currency witnessed a rapid depreciation in the first three-quarters of 2014 amid dwindling foreign reserves and inflation which has crawled back to double digits since January 2013. To address the economic crisis requires a strong fiscal adjustment in the short term and structural transformation over the medium to long term. Fiscal consolidation has to aim at a credible and effective rationalization and rebalancing of expenditure as well as enhancing significantly domestic revenue. However, the 2015 Budget presented in November 2014, with theme "Transformation Agenda: Securing the Bright Medium Term Prospects of the Economy" did not go far enough to address the crisis. This is because the Budget responses were sketchy and also lacked transformational ambition. The budget did not provide details of the drivers of the transformation process and the expected outcomes. Although, the Budget outlined some tax policy and expenditure management measures, these too did not go far enough. As a result, the economic crisis is expected to continue in 2015 and in the medium term if additional measures are not introduced to support fiscal consolidation, ensure macroeconomic stability and reverse the declining growth.

1. Background

On Wednesday, November 19, 2014, the Government of Ghana presented to Parliament the Budget Statement and Economic Policy for the 2015 Financial Year. The theme for the Budget was "Transformational Agenda: Securing the Bright Medium Term Prospects of the Economy". As it is commonly known, a budget is an instrument of government economic policy and a strategy to deal with a country's growth and development issues. In this vein, this paper reviews the 2015 Budget by discussing the state of the economy, highlighting the key challenges, and assessing the adequacy and effectiveness of the government policies and strategies proposed to address the economic challenges.

The rest of the paper is organized as follows. Section two discusses the state of the economy as at November 2014, outlining the growth trends, the fiscal and macroeconomic challenges. Section three covers the key aspects of the 2015 Budget, focusing mainly on the underpinning macroeconomic framework, policies and strategies for resource mobilization and expenditure management. Section four evaluates the 2015 Budget proposals in terms of their appropriateness and effectiveness in addressing the economic challenges currently confronting the country. It also analyses the extent to which the Budget sets the agenda for economic transformation in the country. Section five concludes the paper with some policy recommendations.

2. The State of the Economy as at 2014

2.1 Declining economic growth

After achieving a record high growth of 15 percent in 2011 (supported by the first full year of oil production), and 8.8 per cent in 2012, economic growth slowed down to 7.6 percent in 2013 and it is projected to be 6.9 percent in 2014 (Table 1). On average, the real GDP growth declined from 10.6 percent between 2010 and 2012 to 7.3 percent between 2013 and 2014. Even, excluding the oil sector, a significant decline in the real GDP growth is discernible. The average growth rate of the non-oil real GDP declined from 8.5 percent between 2010 and 2012 to 7.2 percent between 2013 and 2014. The slowdown of the economy was driven by the industrial and services sectors.

After recording a growth of 41.6 percent in 2011, the highest ever in the history of the country, the growth of the industrial sector slowed down to 11.0 percent in 2012 due principally to the normalization of the impact of the oil production. The expansion of gold mines and the development of the oil sub-sector underpinned the strong performance of the industrial sector in 2011 and 2012. The growth of the industrial sector dropped sharply in 2013, with the rate falling to 7.3 percent. In 2014, the industrial sector is projected to grow by 4.6 percent (Table 1). The slow growth of the industrial sector in the last two years, in particular, was the result of a number of factors, including the energy crisis that has engulfed the country; high cost of credit attributed to the soaring lending rates; deterioration in existing economic infrastructure, especially transport; high cost of imported machinery, equipment and essential raw materials due to the depreciation of the cedi exchange rate; and low investment. Nonetheless, the coming on stream of gas in early 2015 may make the industry the fastest growing sector in the country.

The growth of the services sector has also experienced a slowdown, from 10.2 percent in 2012 to 9.6 percent in 2013. The projected growth of 4.6 percent for the services sector in 2014 is the lowest since 2009 (see Table 1). Like industry, the services sector which is dominated by transport and storage, government services and trading has been seriously affected by the high cost of credit and the impact of the depreciating cedi exchange rate (see Table 1).

Table 1: Real Gross Domestic Product Growth (%)

Sector	2009	2010	2011	2012	2013	2014*
Agriculture	7.2	5.3	0.8	2.3	5.2	5.3
Industry	4.5	6.9	41.6	11.0	7.3	4.6
Services	5.6	9.8	9.4	11.0	9.6	4.6
Total	4.0	8.0	15.0	8.8	7.6	6.9

Source: 2015 Budget Statement (2014, Appendix 1A, P.159). *GSS projection;

The agricultural sector which depends largely on weather conditions witnessed increased growth in the last three years after a short period of stagnation. After recording a growth of less than 1.0 percent in 2011, the agricultural sector's growth increased to 2.3 percent in 2012. The growth rate of the sector more than doubled to 5.2 percent in 2013 and again to a projected 5.3 percent in 2014 (Table 1). The recovery of the agricultural sector is due mainly to the support given to the food crop and fishing sub-sectors through the introduction of the fertilizer subsidy program, seed improvement and quality standardization, agricultural mechanization and the rehabilitation and extension of various irrigation schemes. The cocoa sector rehabilitation scheme and other support to cocoa farmers have contributed to increased cocoa production in the last few years.

Table 2: Sectoral Distribution of Gross Domestic Product (%)

Sector	2009	2010	2011	2012	2013	2014*
Agriculture	31.8	29.8	25.3	23.0	21.9	20.6
Industry	19.0	19.1	25.6	28.6	28.5	29.2
Services	49.2	51.1	49.1	48.4	49.6	50.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: 2015 Budget Statement (2014 p. 12)

Although the Ghanaian economy has been experiencing declining growth in recent years, it has been showing signs of structural changes, albeit on a small scale, with the share of industry growing in size relative to agriculture, whose share has been declining (Table 2). The agricultural sector still employs close to half of the country's workforce, however commercial oil production together with investment in related services and mining activities have given strong impetus to the increase in industry's share of domestic output, thereby boosting overall industrial production. Nevertheless, manufacturing activities have been on a decreasing trend, constrained by weak technological base, continued reliance on imported raw materials and machinery, high labor and electricity costs in addition to costly credit.

Against the backdrop of supportive commodity prices and increasing output, exports have also played a large role in the country's growth. Merchandise exports increased more than three times on a current dollar basis between 2006 and 2014. As a share of GDP, merchandise exports more than doubled over the same period, from 18 percent to 43 percent. Ghana's exports are concentrated on three main commodities: cocoa, gold and oil, with the share of gold and oil in total merchandise exports increasing from 60.2 percent in 2011 to 64.3 percent in 2013 (BoG, 2013) and therefore becoming the main drivers of the country's export growth since 2013. As we know, cocoa has played an important role in the country's export profile, accounting for 19 percent of total merchandise exports in the first three-quarters of 2014, but the sector is suffering from a number of problems, including ageing cocoa farmers and cocoa trees, swollen shoot disease, which have tended to limit the sector's potential mobility up the value chain. Nevertheless, cocoa continues to play a significant role in the country's growth and unlike gold and oil, the receipts from cocoa exports impact significantly on the lives of many Ghanaians because all the receipts come back to the country.

2.2 Fiscal deterioration

Ghana's fiscal position has deteriorated dramatically over the last three years. The overall fiscal deficit which witnessed a sharp deterioration, increasing from 4.0 percent of GDP in 2011 to 11.5 per cent of GDP in 2012, due largely to the increased spending on wages and salaries, transfers to other government units, and huge payment of arrears, has since not seen any significant consolidation. In 2013, the country again recorded a deficit of 10.1 percent of GDP, thus remaining at double-digit deficit for two consecutive years. The indications are that, the government will not be able to meet its overall deficit target in 2014, which was revised upwards from the original 8.5 percent of GDP to 8.8 percent of GDP in the revised budget. The government now projects the overall fiscal deficit for 2014 to be 9.5 percent (see Table 3).

Table 3: Ghana: Central Government Fiscal Position

Indicator	2009	2010	2011	2012	2013	2014*
In GH₵'billion						
Total Revenue and Grants	6.9	8.8	12.9	16.7	19.5	24.7
Total Expenditure*	9.1	12.2	15.4	24.8	29.8	35.7
Overall Budget Deficit (incl. divestiture)	2.1	3.0	2.4	8.6	9.5	10.9
As % of GDP						
Total Revenue and Grants	18.8	19.1	21.8	22.8	20.8	15.4
Total Expenditure and Net Lending	22.9	25.0	22.4	28.6	29.4	21.3
Overall Budget Deficit (incl. divestiture)	5.8	6.5	4.0	11.5	10.1	9.5

Source: Government of Ghana Budget Statements (various issues); *includes arrears and tax refunds

This shows that, the extent to which government expenditure in each year has been in excess of revenue has increased, implying that the country has been living beyond its means. Indeed total revenue and grants increased from GH₵6.9 billion in 2009 to GH₵8.8 billion in 2010, GH₵12.9 billion in 2011 and then to GH₵16.7 billion in 2012. Total revenue and grants continued to rise to GH₵19.5 billion in 2013 and is expected to reach GH₵24.7 billion in 2014. Total expenditure (including arrears and tax refunds), on the other hand, increased steadily from GH₵9.1 billion in 2009 to GH₵15.4 billion in 2011 and GH₵24.8 billion in 2012. Thereafter, the expenditure rose to GH₵29.8 billion in 2013 and is projected at GH₵35.7 billion in 2014. This means that while total revenue and grants is expected to increase by some 258 percent between 2009 and 2014, total expenditure is expected to increase by over 292 percent over the period. As a result, the overall fiscal deficit is expected to increase steadily from GH₵2.1 billion in 2009 to GH₵10.9 billion in 2014, except for the drop to GH₵2.4 billion in 2011. As percentage of GDP, however, the fiscal deficit dropped sharply from 6.5 percent in 2010 to 4.0 percent in 2011 but shot up to 11.5 percent in 2012. The deficit is expected to drop to 9.5 percent in 2014, from 10.1 percent in 2013 (see Table 3), which is still quite high. According to the government, the projected higher fiscal deficit in 2014 is mainly as a result of the projected shortfall in revenue and grants, arising from the slowdown in economic activity caused mainly by the energy crisis, lower import volumes and the non-disbursement of program grants from the development partners (Government of Ghana, 2014).

Expenditure

On the expenditure side, the adoption of the single spine salary structure (SSSS) in 2009 and the resultant sharp increases in compensation of employees, rising interest costs, and transfers to other government institutions were the major contributors to the fiscal deterioration between 2009 and 2014. Compensation of employees (wages and salaries, pensions, gratuities and health insurance) jumped from GH₵2.5 billion, equivalent to 6.8 percent of GDP in 2009 to GH₵4.0 billion, equivalent to 8.7 percent of GDP in 2010 in the wake of the implementation of the SSSS. Compensation of employees continued to increase, reaching GH₵7.2 billion in 2012 and is projected at GH₵11.2 billion in 2014 (see Table 4). Compensation of employees was equal to 57.3 percent of total tax revenue in 2012, 66.3 percent in 2013 and an expected 57.5 percent in 2014. The 66.3 percent ratio achieved in 2013 was way above the 35 percent threshold set in the Budget to meet the convergence criteria in the West Africa Monetary Zone. Although increases in wages and salaries, especially from mid-2010, and arrears payments contributed to the high employees' costs/revenue ratios the major cause of the increase was the slow growth in revenue.

Relative to the wage bill in 2009, the implementation of the SSSS in mid-2010 added the equivalent of 1.7 percent of GDP to the wage cost, with a significant portion of it to be paid as arrears. The impact on the wage bill increased further after 2010 on account of the agreed increase in the wage differentials from 1.7 percent in 2010 to 1.8 percent in 2011 and 2.0 percent in 2012. With the migration to the new salary structure finalized in 2013, the bulk of the wage increases and arrears are expected to have been paid. Despite this, wage pressures remain a serious concern due to the growing discontent among Ghanaians as a result of the removal of subsidies, hike in energy prices and high inflation.

Rising interest costs, reflecting higher borrowing and public debt, is another important factor behind the country's deteriorating fiscal position. As a result of the high fiscal deficits incurred by the government and financed through increasing indebtedness, the country has been shouldering a huge and increasing interest payment burden. Total interest payment, which stood at GH₵1.0 billion or 2.7 percent of GDP in 2009 had by 2013 reached GH₵4.5 billion or 4.7 percent of GDP. The expected outturn of total interest payment for 2014 is GH₵7.8 billion, giving an expected increase of 680 percent between 2009 and 2014 (Table 4). Interest payments accounted for 17.6 percent of domestic revenue in 2009, rising to a projected 32.6 percent in 2014 partly as a result of high domestic interest costs. This is indeed very alarming because the interest payment burden which is expected to reach 6.8 percent of GDP is getting closer to the level that pushed the government to opt for the HIPC debt relief in 2001. In fact, if the government's projected interest payment outturn for 2014 is realized, then for the first time since 2000, total interest payment will be larger than total capital expenditure.

Table 4: Summary of Central Government Expenditure

Indicator	2009	2010	2011	2012	2013	2014**
In GH₵'billion						
Total Expenditure*	9.1	12.2	15.4	24.8	29.8	35.7
Compensation of Employees	2.5	4.0	4.5	7.2	9.7	11.2
Goods and Services	0.6	1.0	0.7	1.3	1.4	1.1
Interest Payments	1.0	1.4	1.6	2.4	4.5	7.8
Transfers to Other Government Units	1.3	2.0	2.5	4.5	4.5	5.2
Arrears Payment	0.6	0.6	1.8	3.7	2.2	3.0
Capital Expenditure	2.5	3.2	3.7	5.0	4.8	5.5
As % of Total Expenditure*						
Compensation of Employees	27.5	32.8	29.2	29.0	32.5	31.4
Interest Payments	11.0	11.5	10.4	9.7	15.1	21.8
Transfers to Other Government Units	14.3	16.4	16.2	18.1	15.1	14.6
Arrears Payment	6.6	4.9	11.7	14.9	7.4	8.4
Capital Expenditure	27.5	26.2	24.0	20.2	16.1	15.4
As Percentage of GDP						
Total Expenditure*	24.8	25.7	25.1	33.1	31.8	31.1
Compensation of Employees	6.8	8.7	7.5	10.0	10.4	9.7
Interest Payments	2.7	3.0	2.7	3.4	4.7	6.8
Transfers to Other Government Units	3.5	4.2	4.2	6.0	4.9	4.6
Arrears Payment	1.6	1.3	3.0	5.1	2.3	2.6
Capital Expenditure	6.8	6.7	6.2	6.6	5.1	4.8

Source: Ministry of Finance, Budgets Statements (various issues); *includes arrears and tax refunds; **projection

Government expenditure arrears (delays in the government's payments to contractors and wage entitlements, non-transferred statutory funds, and unpaid debts owed by state-owned institutions) have also become an important contributory factor to the deterioration of the country's fiscal position since 2012. Following the government's decision to clear arrears from the system as quickly as possible, arrears payments jumped from 10.6 percent of domestic revenue in 2009 to 23.8 percent in 2012, before declining to 11.7 percent in 2013. Arears payment is expected to rise to 12.5 percent of domestic revenue in 2014. Arrears payment totaled GH₵6.7 billion between 2009 and 2012 and a projected GH₵5.2 billion between 2013 and 2014. Indeed, the full scale of arrears payment in 2014 will not be known until the year-end data is compiled, although the projection for the year is 8.4 percent of total government expenditure (see Table 4). The major cause of the arrears problem, apart from the wage arrears resulting from the implementation of the SSSS, has been the weak budget management system reflected in huge off-budget commitments (unfunded mandates) by line ministries which always result in substantial contingent liabilities to the government balance sheet.

Transfers to other government institutions (including transfers to statutory funds and subsidies to other government units) have also increased significantly and rapidly in recent years and have contributed to the fiscal deterioration. Transfers increased steadily from GH₵1.3 billion or 14.3 percent of total expenditure in 2009 to an expected GH₵5.2 billion or 14.6 percent of total expenditure in 2014. In fact, transfers to other government institutions reached 18.1 percent of total expenditure or 6.0 percent of GDP in 2012.

Capital expenditure (reflecting public investment spending) increased steadily between 2009 and 2012. Capital expenditure rose steadily from GH₵2.5 billion in 2009 to GH₵5.0 billion in 2012, reflecting an increase of 100 percent over the period. Capital expenditure however dropped to GH₵4.8 billion in 2013 and is expected to rise to GH₵5.5 billion in 2014. This reflects an expected increase of 14.6 percent between 2013 and 2014. As a percentage of total government expenditure however, capital expenditure declined steadily from 27.5 percent in 2009 to 16.1 percent in 2013. Capital expenditure is expected to decline further to 15.4 percent of total expenditure in 2014. This means that if the 2014 target is realized, then the share of capital expenditure in total government expenditure would have dropped by 12.1 percentage points between 2009 and 2014. The same declining trend is observed in the capital expenditure/GDP ratio. Indeed, the projected capital expenditure in 2014 is less than interest payments for the year. Although there are problems of absorptive capacity of government investment in many areas, nonetheless the sharp drop in the share of capital expenditure in the total expenditure is due partly to non-disbursement of some project loans and grants.

Revenue

Total government revenue and grants has been on an increasing trend during the review period. Total revenue and grants increased from GH₵6,881.3 million in 2009 to GH₵16,688.4 million in 2012. The increase in revenue and grants continued after 2012 and is expected to reach ₵24,739.2 million in 2014. As a percentage of GDP, total revenue and grants increased from 18.8 percent in 2009 steadily to a peak of 22.2 percent in 2012. Thereafter the revenue and grants dropped to 20.8 percent of GDP in 2013 and is expected to rise to 21.6 percent in 2014 (see Table 5).

Domestic revenue increased in each year since 2009 reaching GH₵15,508.1 million in 2012, from GH₵5,674 million in 2009, reflecting an increase of 173 percent over the four-year period. It is expected that domestic revenue will continue to rise to GH₵23,937 million in 2014, indicating an increase of 54.3 percent between 2012 and 2014. As a percentage of GDP, domestic revenue increased steadily from 15.5 percent in 2009 to 20.7 percent in 2012, and thereafter dropped to 20.0 percent in 2013. Domestic revenue is expected to rise to 20.9 percent of GDP in 2014 (see Table 5). As a share of total revenue and grants, domestic revenue generally increased over the review period mainly because of the decline in the share of grants from the country's development partners.

Since 2009, several tax policy measures and tax administration reforms have been implemented by the government to enhance domestic revenue performance. On the tax policy side, the base

Table 5: Summary of Central Government Revenue

Indicator	2009	2010	2011	2012	2013	2014*
In GH₵'million						
Total Revenue and Grants	6,881.3	8,810.8	12,908.0	16,668.4	19,471.6	24,739.2
Domestic Revenue	5,674.0	7,730.6	11,676.6	15,508.1	18,732.1	23,937.0
Tax revenue	4,657.5	6,294.7	9,641.0	12,388.9	14,307.7	19,399.9
Non-tax revenue	870.3	1,226.1	1,822.0	2,852.9	4,265.4	4,289.2
Grants	1,207.3	1,080.2	1,231.4	1,160.3	739.4	802.1
As % of Total Revenue and Grants						
Domestic Revenue	82.4	87.7	90.5	93.0	96.2	96.8
Tax Revenue	67.7	71.4	74.7	74.3	73.5	78.4
Non-tax Revenue	12.6	13.9	14.1	17.1	21.9	17.3
Grants	17.5	12.3	9.5	7.0	3.8	3.2
As Percentage of GDP						
Total Revenue and Grants	18.8	18.5	21.1	22.2	20.8	21.6
Domestic Revenue	15.5	16.3	19.1	20.7	20.0	20.9
Tax Revenue	12.7	13.2	15.7	16.5	15.3	16.9
Non-tax Revenue	2.4	2.7	3.0	4.0	4.6	3.7
Grants	3.3	2.3	2.1	1.6	0.8	0.6

Source: Ministry of Finance, Budgets Statements (various issues); *projection

of income tax was broadened to cover large taxpayers in the private and informal sectors, many exemptions were cut, and tax agreements with some companies were revisited. A system for assessing and collecting income tax using the value of vehicles registered was introduced while the retention of internally generated funds by ministries, departments and agencies (MDAs) was reviewed. Plugging loopholes in the tax system, reducing tax evasion, and taxing rents from natural resources to make the tax system more efficient and less dependent on indirect taxes were also pursued.

On the tax administration side, efforts have been made to close the leakages associated with customs valuation and invoicing, transiting of goods, free zone exemptions and the bonded warehousing facility. The Customs Division was strengthened to reduce smuggling and abuse of the transit goods arrangement, while the various revenue agencies of the government were integrated into one institution, i.e., Ghana Revenue Authority (GRA), to improve efficiency.

Despite all the efforts made, domestic revenue has not performed as expected during the review period. The mixed performance of domestic revenue is reflected mostly in the tax revenue, which increased from 12.7 percent of GDP in 2009 to 16.5 percent in 2012 and thereafter dropped to 15.3 percent in 2013. Tax revenue is projected at 16.9 percent of GDP in 2014. Tax revenue increased its share in total revenue and grants from 67.7 percent in 2009 to 74.7 percent in 2011, but the share dropped steadily thereafter to 73.5 percent in 2013. Tax revenue is expected to rise to 78.4 percent of total revenue and grants in 2014 (see Table 5).

Non-tax revenue's contribution to total revenue and grants increased steadily to 14.1 percent in 2011 from 12.6 percent in 2009 but shot up sharply to 21.9 percent in 2013. As a percentage of GDP, non-tax revenue increased from 2.4 percent in 2009, rising steadily to a peak of 4.9 percent in 2013. In 2014, non-tax revenue is expected to contribute 17.3 percent of the total revenue and grants, equivalent to 3.7 percent of GDP in 2014 (see Table 5).

Grants from development partners have been on a declining trend during the review period, dropping steadily from GH₵1.2 billion in 2009 to GH₵739.4 million in 2013. This reflects a reduction in grants by 38.7 percent between 2009 and 2013. Grants are expected to increase marginally to GH₵802.1 million in 2014. As a percentage of total revenue and grants, grants declined sharply from 17.5 percent in 2009 to an expected 3.2 percent in 2014. In relation to GDP, the performance of grants has also been very poor, declining from 3.3 percent in 2009 to a projected 0.6 percent of GDP in 2014 (see Table 5) due to the non-disbursement of some project grants. The attainment of a middle-income status has also led to a reduction in the country's prospects of large increases in ODA inflows, including grants, even as the prospects of aid effectiveness improve.

2.3 Macroeconomic instability

Ghana is currently facing serious macroeconomic instability caused mainly by the large and growing fiscal and current account deficits, reinforced by a hamstrung monetary policy and external shocks. The instability has reflected in exchange rate volatility, soaring interest rates, rising inflation, and mounting debt and debt-servicing costs (Table 6).

Table 6: Selected Economic Indicators

Indicator	2009	2010	2011	2012	2013	2014 (Sept)
Real GDP Growth (%)	4.0	8.0	15.0	8.8	7.2	4.6*
Fiscal Deficit/GDP Ratio (%)	5.6	6.8	4.3	11.8	10.9	9.5
Inflation (year-on-year, %)	16.0	8.6	8.6	8.8	13.5	16.5
Exchange Rate (end period, ₵/$)	1.4284	1.4738	1.5505	1.8800	2.2000	3.1970
Monetary Aggregates (Growth Rates in %)						
Money Supply (M2+)	24.7	33.8	33.2	24.3	19.1	33.6
Total Domestic Credit	16.1	15.4	17.0	39.3	30.2	29.3
Interest Rates (%)						
Bank of Ghana Policy Rate	18.0	13.5	12.5	15.0	16.0	19.0
91-day Treasury Bill	23.7	12.3	10.3	22.9	18.8	25.5
182-day Treasury Bill	26.5	12.7	11.1	22.9	18.8	26.4
1-year Note	20.0	12.7	11.3	22.9	17.0	22.5
2-year Note	23.3	12.7	12.4	23.0	16.5	23.0
External Sector (US$'m)						
Trade Balance	-2,206.5	-2,962.0	-3,052.3	-4,220.4	-3,848.3	-681.3
Current Account Deficit	1,598.5	2,700.5	3,675.1	4,921.6	5,702.3	
Overall Balance of Payments	1,158.8	1,462.7	546.5	-1,210.9	-1,165.9	-699.7*
Gross Foreign Reserves	3,164.8	4,724.9	5,382.8	5,349.0	5,632.2	5,679.1

Source: Bank of Ghana (2013; 2014); *Ministry of Finance projection for full year

The period 2009-2012 witnessed a significant improvement in macroeconomic management. The inflation rate reduced to a single digit in June 2010 and remained in single digit till January 2013, thus representing 32 consecutive months of single digit inflation. The inflation rate was 8.8 percent in both December 2012 and January 2013. Since January 2013, however, the inflation rate has resumed a rising trend. Having increased to a double digit rate of 10.4 percent in February 2013 inflation continued to increase, reaching 13.5 percent in December 2013 and 15.0 percent in June 2014. By the end of November 2014, the inflation rate had reached 17.0 percent.

The large fiscal deficits, which have caused interest rates to accelerate thereby increasing the cost of capital and thus dampening output, have been a major factor behind the increasing inflation rate after 2012. Another important factor causing the high inflation rate is the high depreciation rate of the cedi that was witnessed during the first three quarters of 2014, which increased costs of imports in cedi terms and thus increased the imported component of the inflation rate. The pass-through effects of the various upward adjustments in the prices of petroleum products in the past two years have also been a significant contributor to the increasing inflation rate since February 2013.

As Table 6 shows, interest rates, including the monetary policy rate dropped sharply between 2009 and 2011. The 91-day Treasury bill rate dropped to 10.3 percent in 2011 from a high of 23.7 percent in 2009. Over the same period, the 181-day Treasury bill rate dropped from 26.5 percent to 11.1 percent (see Table 6). All the other short-term instruments experienced similar drops in their rates during the period.

Interest rates assumed an upward trend after 2011 and increased very fast between January and September 2014. The Bank of Ghana policy rate increased to 16 percent in May 2013, up from 15.5 percent in December 2011, and remained unchanged until February 2014 when it was increased to 18 percent. For five months beginning in February 2014, the monetary policy rate remained at 18 percent. In July 2014, the rate was increased to 19 percent and remained at this level until October 2014 when it was raised again to 21 percent (see Tables 6 and 7). In both July and October 2014, the Bank of Ghana cited increased risk in the inflation outlook as the reason for increasing the policy rate.

Table 7: Ghana: Inflation, Interest Rates and Exchange Rate (Jan-October 2014 in %)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct
Inflation	13.8	14.0	14.5	14.7	14.8	15.0	15.3	15.9	16.5	16.9
Government Securities										
91-days	19.6	21.1	23.7	24.0	24.1	24.1	25.0	25.0	25.5	25.8
182-days	19.4	20.9	21.2	21.0	21.3	21.3	26.3	26.4	26.4	26.4
1-year	17.0	17.0	22.5	23.0	22.5	22.5	22.5	22.5	22.5	22.5
2-years	16.0	17.5	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0
Monetary Policy Rate	16.0	18.0	18.0	18.0	18.0	18.0	19.0	19.0	19.0	21.0
Average Interbank Overnight Rate	16.3	17.6	18.1	20.7	24.0	24.1	24.1	24.2	24.3	24.0
Exchange Rates										
US$/GH₵	2.21	2.44	2.65	2.74	2.89	2.98	3.03	3.13	3.20	3.20
GB£/GH₵	3.66	4.05	4.44	4.58	4.84	5.04	5.13	5.20	5.18	5.01
EUR/GH₵	3.05	3.33	3.67	3.78	3.94	4.05	4.06	4.13	4.04	3.98

Source: Bank of Ghana (Oct. 2014)

Interest rates across the yield curve increased sharply between January and September 2014 due to the active participation of the government in the auction market for deficit financing. The 91-day Treasury bill rate jumped from 19.6 percent in January 2014 to 25.5 percent in September 2014. Over the same period, the interest rate for the 182-day instrument increased from 19.4 percent to 26.4 percent; the rate for the 1-year and 2-year notes were 22.5 percent and 23 percent, respectively in September 2014, from 17 percent and 16 percent, respectively in January 2014. The average interbank market rate has also been moving upwards as banks found government securities a better outlet for their investments. The interbank rate increased steadily from 16.3 percent in January to 24.3 percent in September 2014 (see Table 7).

It should be pointed out that, although since July 2014 total liquidity or broad money supply has increased its pace of growth, it was generally quite moderate at the beginning of 2013. The average growth rate of total liquidity as measured by M2+ stood at 19.1 percent in 2013 and from January-June 2014, the average growth rate increased to 28.2 percent. These average growth rates of total liquidity have been below the historical trend. For instance, the average growth rate of total liquidity stood at 29.6 percent in 2010, 38.3 percent in 2011 and 29.6 percent in 2012. In fact, the average growth rate of total liquidity from January 2000 to December 2012 stood at 34.9 percent. Consequently, while we cannot completely rule out the impact of liquidity growth on the increasing inflationary pressures, liquidity growth has not been the major cause of inflation this time around. Based on the foregoing analysis, we can conclude that the recent inflationary pressures have been largely cost-push.

The cedi depreciated against the dollar from January to May 2012 by some 15 percent when the Bank of Ghana failed to sterilize the increased domestic liquidity in a timely manner. The authorities reacted quickly after excess systemic liquidity became apparent by raising the policy rate by 150 basis points to 15% and reintroducing sterilization measures to mop up the excess liquidity. In 2013, the cedi depreciated against the dollar by 15 percent, and between January and September 2014, it depreciated against the dollar by 30.9 percent, dropping from GH₵2.2101=USD1.000 in January to GH₵3.1970=USD1.000 in September. Against the pound and the euro, the cedi depreciated by about 29.5 percent and 25.4 percent, respectively, over the same period (Tables 6 and 7), making the cedi the worst performing currency in the world (see Bloomberg, July 30. 2014). Initially, the Bank of Ghana responded to the crisis by tightening monetary policy and enforcing the existing regulations in the foreign exchange market but this could not contain the crisis. The pace of depreciation and volatility of the cedi exchange rate appear to have slowed down since September 2014 following the successful issue of the USD1.0 billion Eurobond by the government and the COCOBOD syndicated loan of USD1.7 billion for cocoa purchases. Despite this, far-reaching measures are required to stabilize the currency on a long-term basis.

Ghana has also been susceptible to external shocks, in the form of currency depreciation, volatility in commodity prices and sudden stops in portfolio inflows into the domestic capital market for government securities. This vulnerability is reflected in the large current account deficit, low levels of foreign currency reserves, and a large share of foreign currency denominated public sector debt. The country's current account deficit has been rising in recent years, reaching US$4,921.6 million in 2012 and US$5,702.3 million in 2013, each of which was above 12 per cent of GDP (see Table 6).
The deterioration in the current account was the result of a number of factors: a deterioration in the country's terms of trade leading to sharp decline in export revenues, declining growth of current transfers, and an increasing import bill. Growth in export revenues, which impressively stood at 36.3 percent in 2010 and 60.7 percent in 2011 declined to only 5.9 percent in 2012 and to a paltry 1.5 percent in 2013. Total merchandise exports receipts dropped by 2.8 percent at the end of September 2014 compared to the receipts at the end of the same period in 2013. Over the same period, gold export receipts also dropped by 10.1 percent, crude oil exports receipts dropped by 1.7 percent, and cocoa beans export receipts by 11.4 percent. Export

receipts have thus been stifled by the continued dependence on gold, cocoa and oil, whose prices have been fluctuating since 2013. Gold prices dropped from US$1,678.8 per fine ounce in 2012 to US$1,223.0 in 2013, representing a loss of US$455.8 per fine ounce in 2013 while cocoa prices recovered from US$2,365 per ton in 2012 to US$2,779 per ton in 2013 (Bank of Ghana, 2013). On the other hand, imports of goods and services have been growing very rapidly, reaching USD17,598.6 million in 2013, representing 50 percent of GDP in the year as a result of inadequate domestic industrial production in the face of a multitude of bottlenecks, including poor infrastructure, erratic energy supply and high cost of credit. The value of merchandise imports dropped by 17.8 percent at the end of September 2014 compared with the level recorded at the end of September 2013, attributed mainly to the decline in non-oil imports which was seriously affected by the depreciation of the Cedi during the period. Total non-oil merchandised imports declined by 22.8 percent over the period, while oil imports (including gas) increased by just 2.2 percent (Government of Ghana, 2014).

Capital inflows, especially FDI inflows, were since 2012 not enough to meet the current account deficit, making the financing of the external deficit to remain under extreme pressure. FDI inflows fell short of the current account deficit by US$319 million in 2011, US$1,627.1 million in 2012, and a further US$2,477.8 million in 2013 (BoG, 2013). Consequently, the overall balance of payments, which recorded comfortable surpluses of US$1.16 billion in 2009, US$1.46 billion in 2010 and US$546.5 million in 2011 moved into a huge deficit of US$1.21 billion in 2012. In 2013, the overall balance of payments recorded a deficit of US$1.17 billion, and for the first six months of 2014, the deficit amounted to US$1.5 billion.

The deterioration in the balance of payments since 2012 caused the country's gross international reserves which had increased by as much as US$2.2 billion to US$5.38 billion in 2011 to increase by only US$250 million to US$5.63 billion in 2013. Because of this, the months of imports cover of the gross international reserves reduced from 4.1 months in 2010 to 2.9 months in 2012 and 3.1 months in 2013 (Bank of Ghana, 2013). The gross international reserves stood at US$4.2 billion at the end of August 2014, implying a decrease of about US$1.4 billion from December 2013. Consequently, the gross international reserves could only provide for 2.4 months of imports cover in August 2014. But, due to the inflows from the US$1 billion Eurobond issued in September 2014 and the Ghana Cocoa Board's US$1.7 billion trade finance facility contracted in the same month, gross international reserves increased sharply to US$6.6 billion in November 2014, which was sufficient to cover 3.8 months of imports.

2.4 Mounting public debt

Public debt stock has risen significantly in recent years as the fiscal expansion of the government was exacerbated by election-related spending in 2008 and 2012. The stock of total public debt which increased from GH₵13.3 billion in 2009 to about GH₵24.0 billion had by end-September 2014 jumped to GH₵69.7 billion. Total domestic debt stood at GH₵6,103 million in 2009, rising to GHC₵18,431 million in 2012 and then GH₵26,665.8 million in 2013, representing an increase of 202 percent between 2009 and 2012 and 44.7 percent in 2013 only. Similarly, the stock of public external debt increased from US$5,007.9 million in 2009 to US$9,153.6 million in 2012, reflecting an increase of 82.8 percent, and then to US$11,341.9 million in 2013, showing an increase of 23.9 percent in one year (see Table 8).

As a percentage of GDP, the total public debt stock which only increased from 36.1 percent of GDP in 2009 to 39.7 percent of GDP in 2011 jumped to 48 percent in 2012 and 55.5 percent in 2013 (see Table 8). The phenomenal increase in the public debt stock within such short space of time has eroded the fiscal space the country gained through the HIPC debt relief in 2004 and the multilateral debt forgiveness in 2006 when debt was brought down to 26 percent of GDP. The pace of the recent debt accumulation suggests that the country could return to HIPC status sooner than later.

Table 8: Stock of Public Debt

Description	2009	2010	2011	2012	2013
Total Domestic Debt (GH₵'million)	6,103.0	8,280.1	11,841.1	18,431.0	26,665.8
Short-Term Instruments	2,643.1	3,214.5	4,353.3	5,734.9	8,806.4
Medium-Term Instruments	2,107.5	3,788.3	5,601.1	9,752.7	12,576.8
Long-Term Instruments	1,352.3	1,277.3	1,886.7	2,943.3	5,282.5
Total Domestic Debt/GDP (%)	16.7	17.9	20.0	25.6	31.6
Holdings of Domestic Debt (GH₵'million)	6,103.0	8,280.1	11,841.1	18,431.0	26,665.8
Banking Sector	4,236.6	5,289.1	7,004.6	8,961.6	13,967.5
Non-Bank Sector	1,866.4*	1,426.1	2,568.5	4,530.0	6,941.5
Foreign Sector (Non-residents)		1,565.0	2,268.1	4,939.4	5,756.7
Total External Debt (US$'million	5,007.9	6,254.6	7,653.0	9,153.6	11,341.9
Multilateral Debt		3,057.7	3,696.1	4,336.8	4,490.7
Bilateral Debt		2,169.2	2,955.3	3,108.4	3,538.9
Commercial Debt		1,027.7	1,001.5	1,708.4	3,312.3
Total External Debt/GDP (%)	19.4	20.5	20.8	22.1	23.9
External Debt Service/GDP (%)	1.3	1.2	1.1	1.3	0.8
External Debt Service/Exports (%)	4.3	4.1	2.9	3.3	2.3
Total Debt Stock/GDP Ratio (%)	36.1	38.4	40.8	47.7	55.5

Source: Bank of Ghana (2013) *includes Foreign sector (non-residents)

Based on an assessment of external public debt indicators, Ghana now faces a high risk of debt distress. The country's overall debt vulnerabilities have increased, and its debt-service to domestic revenue ratio has approached a high risk level. This does not include the liabilities of the Bank of Ghana and the debt of public enterprises that are not guaranteed by the government. The risk could increase further when these institutions liabilities are taken into account.

As mentioned earlier, the stock of public debt (including government guaranteed debt) stood at GH₵52.1 billion, equivalent to 55.5 percent of GDP at the end of December 2013. The debt-servicing costs were almost 40 percent above the budgeted level and consumed some 20 percent of government revenue (Moody's, 2014). By September 2014, the public debt had reached GH₵69.7 billion or 60.8 percent of GDP, a level many analysts consider to be just above the sustainable threshold. Ratings agency Standard and Poor downgraded Ghana's credit ratings in October 2014 to a level that suggested a low ability of the country to pay its debts on time. Driven by loose fiscal policy, deteriorating financing terms and external pressures, several of the country's public domestic and external debt indicators have deteriorated. As the IMF observed, robust growth and additional fiscal consolidation measures, combined with a more ambitious medium-term adjustment, would greatly reduce the risk of worsening debt and debt service indicators. Delays in fiscal consolidation will keep public debt service at unacceptably high levels (IMF, May 2014).

3. The 2015 Budget Proposals

3.1 Growth and transformation

As indicated earlier, the 2015 Budget has as its theme "Transformational Agenda: Securing the Bright Medium Term Prospects of the Economy". The government indicated in the Budget that the transformation agenda has three broad objectives, viz. economic diversification, macroeconomic stability, and social inclusion. The success of the program rests on three strategic interventions, namely:

- strengthening and deepening the essential elements and institutions of good governance;
- promoting export-led growth through products that enhances the country's comparative strength in agricultural raw materials; and
- anchoring industrial development through prudent use of natural resources based on locally processed value addition.

The government's strategy is to embark on an export-led development by leveraging the country's new oil and gas resources toward the creation of a robust manufacturing sector and high-value agricultural production. This, it is hoped, will boost the country's foreign exchange earnings and also enhance domestic production to reduce the importation of such items as rice, fish, poultry and tomatoes. The government also emphasized the importance of a stable macroeconomic environment and sustainable debt dynamics for the achievement of its growth and development objective. To this end, it is pursuing a fiscal consolidation strategy to reduce the twin deficits and lower inflation over the medium term. To make progress in poverty reduction, ensure that the benefits of growth are widely shared, and build a workforce ready to take on higher-skilled jobs, the government intends to strengthen the country's social safety net and continue investing in utilities, health and education. To support local industries, VAT on locally produced pharmaceuticals and some of the raw materials used in the production of these pharmaceuticals has been removed. Import duty and VAT on inputs for the production of machetes, exercise and textbooks will also be removed. Government will also fully commission the gas processing facilities to supply up to 150 million standard cubic feet of lean gas for better power generation flexibility and make savings on crude oil imports.

3.2 Fiscal consolidation

Although a formal agreement between Ghana and the IMF was not concluded before the budget was presented, the policy measures contained in the 2015 Budget show the government's determination to achieve a faster fiscal consolidation in line with the recommendations made by the IMF during the May 2014 Article IV Consultation. Initially, and as part of the government's home-grown economic and financial policies for the medium term, the government had aimed at lowering the budget deficit to 5.3 percent of GDP by end 2017, while the IMF had recommended the deficit to be reduced to 2.5 percent of GDP in the same period. The 2015 fiscal targets however indicate a rapid acceleration in the fiscal deficit reduction, from a projected 9.5 percent of GDP in 2014 to 6.5 percent in 2015 and continuing to 3.5 percent of GDP in 2017, though still higher than the IMF target. According to the government, this fiscal consolidation is to be achieved through strong growth in revenue and grants, a slowdown in the pace of expenditure expansion, improved public financial management, and the implementation of new debt management strategies.

Revenue Measures

The Budget seeks to increase domestic revenue in 2015 by 28.9 percent to GH₵30,855.4 million which is equivalent to 22.9 percent of GDP, through new tax policy measures and revenue administration reforms. The targeted domestic revenue also implies a mobilization of additional GH₵6,918.4 million over and above the projected figure of GH₵23,937.0 million in 2014 (Table 9), at a time when economic growth is expected to slow down to 3.9 percent. The additional revenue is expected to be generated from the imposition of a special tax of 17.5 percent on petroleum as part of a rationalization of VAT regime and changes in the petroleum pricing structure; 17.5 percent VAT on fee-based financial services; 5 percent flat VAT on real estates; extension of the national fiscal stabilization levy of 5 percent and special levy of 1-2 percent; and increase in withholding tax on directors' remuneration from 10 percent to 20 percent.

Table 9: Summary of Revenue and Grants

Description	2014 Projected Outturn (GH₵'million)	2015 Estimates			% Change over 2014 outturn
		Amount (GH₵'million)	As % of Total Revenue and Grants	As % of GDP	
Total Revenue and Grants	24,739.2	32,406.2	100.0	24.0	31.0
Domestic Revenue	23,937.0	30,855.4	95.2	22.9	28.9
Tax Revenue	19,399.9	25,406.0	78.4	18.8	31.0
Non-Tax Revenue	4,289.2	4,705.7	16.3	3.9	9.7
Others	248.0	182.6	0.6	0.1	-26.4
Grants	802.1	1,550.8	4.8	1.1	93.3

Source: Government of Ghana (2015)

Other tax policies measures that will be implemented in 2015 include a review of the sliding scale excise duty on alcoholic beverages to ensure efficiency, increase in the excise duty rate from 150 percent to 175 percent to further reduce the consumption of tobacco products and its associated health problems, and amending the National Health Insurance Act to conform with the provisions of the VAT Act 2013 (Act 870).

The government also indicated that, the Free Zones Act will be reviewed and corporate tax rate for companies will be increased from 8 percent to 15 percent after the enjoyment of the 10 years tax holiday, pretty much in line with the IMF proposal in its May 2014 Report which called for a thorough review of the tax regime for free zones companies to reduce tax expenditures. To rein in more tax expenditures, the government proposed to abolish the use of VAT Relief Purchase Order in granting tax reliefs and indicated that the refund system will be beefed up to enable payments to be paid when requests are duly vetted and certified. Tax exemptions granted in loan agreements are also to be reviewed to reduce the scope of exemptions granted and the use of special permits to clear imported goods drastically reduced. Upfront exemptions are also to be replaced by a Tax Credit System for entities benefitting from exemptions. This means that, under the Tax Credit System, exempted entities will pay all import duties and taxes in full and then apply for tax credit notes, which will be used to offset future tax liabilities.

The tax measures proposed in the Budget and outlined above are expected to generate additional revenue of GH₵6,006.1 million, reflecting an increase of 31 percent to bring total tax revenue in 2015 to GH₵25,406 million. Non-tax revenue is expected to increase by GH₵416.5 million or 9.7 percent in 2015 due perhaps to the predicted slowdown of economic growth. Grants are expected to pick up strongly in 2015 to GH₵1,550.8 million from GH₵802.1 million projected for 2014, indicating an increase of 93.3 percent. Overall, total revenue and grants is expected to increase from a projected GH₵24,739.2 million in 2014 to GH₵32,406.2 million in 2015. The 2015 total revenue and grants target represents an increase of 31 percent from the previous year and is equivalent to 24 percent of GDP (see Table 9).

Expenditure Management

Total expenditure (including arrears clearance) in 2015 is estimated at GH₵41,222 million, equivalent to 30.5 percent of GDP. This figure represents an increase of GH₵5,552.8 million or 15.6 percent over the projected expenditure outturn in 2014. Of this amount, a large chunk amounting to GH₵12,312.9 million and equivalent to 29.9 percent of total expenditure (including arrears clearance) and 9.1 percent of GDP is proposed to fund compensation of employees. Interest payments are estimated to increase from the projected GH₵7,844.7 million in 2014 to GH₵9,577.2 million in 2015. The interest payments provision in 2015 is equal to 7.1 percent of GDP and reflects an increase of 22.1 percent over the expected 2014 figure. The budgeted interest payments also accounts for 23.2 percent of the total expenditure in 2015.

Table 10: Summary of Expenditure

Description	2014 Projected Outturn (GH₵'million)	2015 Estimates			% Change over 2014 outturn
		Amount (GH₵'million)	As % of Total Exp. & Arrears	As % of GDP	
Total Expenditure and Arrears Clearance	35,669.2	41,222.0	100.0	30.5	15.6
Total Expenditure*	32,368.5	39,152.6	95.0	29.0	21.0
Compensation of Employees	11,159.7	12,312.9	29.9	9.1	10.3
Goods and Services	1,085.0	1,970.0	4.8	1.5	81.6
Interest Payments	7,844.7	9,577.2	23.2	7.1	22.1
Subsidies	618.8	50.0	0.1	0.0	-91.9
Grants to Other Govt. Units	5,242.6	7,408.6	18.0	5.5	41.3
Capital Expenditure	5,471.7	6,956.8	16.9	5.2	27.1
Others	897.4	877.1	2.1	0.6	-2.2
Arrears and Tax Refunds	3,300.7	2,069.5	5.0	1.5	-37.3

Source: Government of Ghana 2015 Budget Statement (2014); *excludes arrears and tax refunds

Transfers to other public institutions (including National Health Fund, Education Trust Fund, Road Fund, Petroleum Related Fund, District Assembly Common Fund, retention of internally-generated funds, and transfers to GNPC from oil revenue) are estimated at GH₵7,408.6 million in 2015, representing 18 percent of total expenditure including arrears payment, 41.3 percent increase over the projected figure for 2014, and equivalent to 5.5 percent of GDP (Table 10).

The provision for capital expenditure in the 2015 budget is GH₵6,956.8 million, representing 5.2 percent of GDP, 16.9 percent of the total expenditure including arrears clearance, and 27.1 percent increase over the projected 2014 figure (Table 10). As is always the case, the capital budget bore the brunt of the government's expenditure retrenchment and the 2015 provision is not an exception, and is even less than the budgeted interest payments.

According to the government, almost all public sector workers have been migrated onto the single spine salary structure and the single spine-specific arrears of about GH₵3.0 billion since the roll-out of the policy in 2010 have been cleared. As a result, the budget forecasts a fall in expenditure on wage arrears from a projected GH₵562 million in 2014 to GH₵371 million in 2015. Spending on non-wage arrears, including deferred payments to statutory funds is also expected to decline by 50.9 percent from GH₵2.42 billion in 2014 to GH₵1.19 billion in 2015. In all, expenditure on arrears and tax refunds is expected to decline by GH₵1.23 billion, i.e., from GH₵3.3 billion in 2014 to GH₵2.07 billion in 2015. This is expected to support the reduction of expenditure growth from 23.3 percent in 2014 to 15.6 percent in 2015 (see Table 10).

To ensure that the rising wage expenditure is contained to help reduce the growth in expenditure, the government proposes to continue implementing the net freeze policy on employment (excluding education and health) and non-replacement of departing public sector employees in overstaffed areas. The Budget also indicates that the Public Services Commission has initiated a human resources audit in the MDAs. On the management of payroll, the Budget proposes a full implementation of the electronic salary payment voucher system and payroll audits to help reduce the incidence of ghost workers on the government payroll and enhance the credibility of the payroll system. A new performance management system which has been introduced will be rolled out across the public sector in 2015. Government also signaled to workers that wage negotiations in 2015 will be done within the budgetary constraints to ensure sustainability of the Single Spine Wage Policy. Although the wage negotiations have not commenced, the preference of the government for a faster deficit reduction coupled with the budgetary constraints leaves little room for a significant upward adjustment in salaries. This underpins the proposed increase for compensation of employees in 2015 of 10.3 percent.

The expenditure proposals in the Budget assume no spending on petroleum products and utility subsidies, except for the normal provision made for electricity subsidies to consumers in the lifeline program. Strict implementation of the existing price adjustments mechanism for utility tariffs and fuel prices is however to be enforced.

In the medium term, government proposes to introduce measures to realign expenditures under the statutory funds which are being catered for under the Consolidated Fund. As a transitional measure, spending from the statutory funds will be assigned to their respective MDAs to remove the rigidities in the budget and restore balance in favor of capital expenditure. Funding requirements of some self-financing projects will also be removed from their respective MDAs and placed under the Ghana Infrastructure Fund (GIF).

Financing the deficit

The 2015 Budget will result in an overall deficit of GH₵8,815.9 million, equivalent to 6.5 percent of GDP. Financing of the deficit will come from both domestic and foreign sources. Net domestic financing is estimated at GH₵7,560.1 million, equivalent to 5.6 percent of GDP, and financing from foreign sources is estimated at GH₵1,255.8 million, equivalent to 0.9 percent of GDP.

For domestic financing, the strategy is to moderate or reduce the growth of domestic debt; lengthen the maturity profile of domestic debt in order to reduce rollovers and refinancing risks; develop benchmark yield curve by implementing instrument targeting to ensure transparency and predictability; and issue infrastructure bonds for self-financing projects. Accordingly, a total of GH₵627.1 million will be paid into the Ghana Petroleum Fund and GH₵283.1 million into the new Sinking Fund to be established (see Table 11). External financing will continue to focus on concessional borrowing while restricting non-concessional borrowing to viable and self-financing projects on competitive basis and exploring hedge options to improve the predictability of debt; and enforcing strict embargo on or limiting new loan financing.

Table 11: Financing of Budget Deficit

Description	2014 Projected Outturn (GH₵'million)	2015 Estimates			% Change over 2014 outturn
		Amount (GH₵'million)	As % of Total Financing	As % of GDP	
Total Financing	10,930.1	8,815.9	100.0	6.5	-19.3
Foreign	5,192.5	1,255.8	14.2	0.9	-75.8
Domestic	5,548.7	8,611.8	97.7	6.4	56.7
of which Banking Sector	4,021.9	3,696.0	41.9	2.7	-8.1
Non-Banks Sector	2,283.5	5,001.6	56.7	3.7	119.0
Ghana Petroleum Funds	347.7	-627.1	-7.1	-0.5	-280.3
Sinking Fund	0.0	-283.1	-3.2	-0.2	-
Contingency Fund	-50.0	-141.6	-1.6	-0.1	-183.2

Source: Government of Ghana (2015)

3.3 Debt management

The government's debt management strategy focuses on providing a more cost-effective access to the international and domestic capital markets to meet the country's development financing needs. The key initiatives to consolidate sustainability and efficiency in debt management will include the establishment of a "Sinking Fund" to manage the orderly redemption of sovereign bonds and other debt instruments; continue with the on-lending and escrow arrangements to minimize the impact of loans on the public debt portfolio; and widening the scope of financing opportunities through the issuance of 7-10 year domestic bonds. As part of the government's initiative to consolidate sustainability and efficiency in debt management, creditworthy ministries, municipalities, departments and agencies (MMDAs) will from 2015 have the support of government to issue municipal bonds to access funding from the domestic capital market for commercially viable projects.

4. Evaluation of the 2015 Budget Proposals

4.1 IMF fingerprints

The 2015 Budget has the IMF fiscal consolidation fingerprints, even though no formal agreement was reached with the Fund before it was presented to Parliament. To restore confidence and build resilience, the Fund had recommended in its May 2014 Article IV

Consultation a comprehensive policy package that targets additional fiscal adjustment and entrenches the structural and legislative reforms that ensure more significant and durable consolidation over the medium term. The Fund proposed a credible program for reducing the public sector wage bill, including streamlining of sub-vented agencies as the key for addressing the fiscal imbalances, restoring confidence, and creating fiscal space for priority spending. Public financial management reforms were to be accelerated together with a relaxation of the rigid earmarking of tax revenues. The Fund also found scope for raising revenue by reducing tax expenditure and increasing compliance. It identified a set of measures that would allow for a larger deficit reduction. To contain the immediate vulnerabilities, while recognizing the limited space for large upfront adjustment, the Fund had urged the adoption of additional short-term revenue and expenditure measures to achieve additional savings. The measures, among others, include the need to enforce budget discipline in all areas, and the rigorous enforcement of commitments, such as tight wage limits and no aggregate subsidies on fuel and utilities. This required that electricity tariffs have to be raised above cost-recovery levels, once gas comes on stream, to compensate for the underpricing that have been taking place (IMF, May 2014).

The specific short term adjustment measures and the medium term structural measures recommended by the Fund in its May 2014 Report included among others a higher ad valorem tax or VAT on fuel; hikes in excise taxes; higher taxes on real estate; a freeze on new exemptions; public sector wage retrenchment and multi-year wage agreements; cutting off sub-vented agencies from the public payroll; legislative changes to relax the transfer rules for statutory funds; and acceleration of financial management reforms. Each of these measures proposed by the Fund has been adopted by the government in the 2015 Budget (for full details of the IMF proposals, see IMF, May 2014 pp.16 & 17).

It has been difficult in the past for the government to undertake strong fiscal adjustment on its own without an IMF program. This state of affair cannot continue forever. Ghana has to muster courage and discipline to undertake the needed fiscal adjustment on its own. Closing the fiscal gap will send the right signal to investors and donors and ensure inflow of more resources to the country. It will also help stem the emerging debt crisis by slowing the pace of borrowing and the resultant rising debt-servicing costs. This was what the government's homegrown strategy to address the current macroeconomic imbalance was designed to achieve. Unfortunately, the strategy lacked specific, quantified, and time-bound actions, especially with respect to the planned rationalization of the public service and tax policy measures (see Government of Ghana, April 2014).

4.2 Economic transformation

As indicated earlier, the theme for the 2015 Budget is "Transformational Agenda: Securing the Bright Medium Term Prospects of the Economy". Without doubt, the theme for the Budget is very appropriate. As is well known, Ghana's economy still relies heavily on agriculture, which employs about half of the country's labor force, while manufacturing activities have been stagnating over the years. At the same time, exports are concentrated in gold, cocoa and oil, making the economy vulnerable to terms of trade shocks. The economy is also experiencing serious instability at the macro level, caused by the growing twin deficits and weak monetary policy. The characteristics of the economy point to the need for a serious transformation. The question that needs to be posed therefore is: does the 2015 Budget set the path for a serious transformation of the economy?

Economic transformation can be defined as a dynamic process through which a country's economy, society and institutions modernize and move to more developed levels (see ECA, 2013; ACET, 2013; Breisinger and Diao, 2008). Although no single theory fully describes the transformation process, it can generally be described by several stylized facts that almost universally characterize the outcome of this process. First, economic structure changes significantly during the transformation period, when industrialization triggers a rapid increase in the share of manufacturing in the economy, and a concomitant decline in agriculture's share. Second, the share of the total labor force employed in the agricultural sector falls, while that in other economic sectors rises. However, that does not imply an absolute decline in the number of laborers employed in the agricultural sector, as the share of agricultural employment in the total labor force can decline relatively slowly compared with declines in the agricultural sector's GDP share in the economy. Third, within this process, the center of the country's economy shifts from rural areas to cities, and the degree of urbanization significantly increases (Breisinger and Diao, 2008).

Development economists summarize the drivers of transformation into the following elements: promoting innovation and technology-led productivity growth; transforming agriculture and diversifying the economy; developing economic inter-linkages; investing in human capital and developing skills of the labor force; investing in infrastructure and reducing transaction costs; and undertaking institutional changes. In all cases where economic transformation has succeeded, the articulation of a national vision to motivate the people was crucial.

Quite clearly, the Government of Ghana 2015 Budget and Economic Policy is short of transformational ambition. First, the budget does not explain the form that the proposed transformation will take. The budget does not provide details of the drivers of the transformation process and the expected outcomes. It does not indicate how innovation and technology-led productivity growth will be pursued, how to transform agriculture and manufacturing to diversify the economy, and how to foster inter-sectoral linkages. There is no public investment program or well-designed infrastructure plan that will support growth, reduce transaction costs and enhance the country's competitiveness. Details of investment in human capital and development of skills of the labor force are foggy, and there are no plans and strategies to effect the required institutional changes. Second, the budget does not address a number of issues and risk areas with strong policies, strategies and innovative solutions, leaving the transformation process and outcomes in the hands of good fortune. What transformation would mean in terms of growth and success for individual businesses or opportunities for households to have access to more disposable income is silent in the budget. Details of transformation in the efficiency of government, set against the rising recurrent expenditure and the disappointing projected economic growth rate, are also muted.

For the financial year 2015, the government estimates a drop in economic growth to 3.9 percent (inclusive of oil) and 2.7 percent (exclusive of oil). Real GDP growth is projected to reach 4.9 percent in 2016 and 5.5 percent in 2017, giving an annual average growth rate of 4.4 percent between 2015 and 2017. These growth rates are disappointingly low and are so because many of the dampening factors are not expected to improve, especially in 2015. The budgeted capital expenditure for the year, for example, is equivalent to 5.2 percent of GDP, which is lower than the budgeted interest payments, equivalent to 7.1 percent of GDP, which does not promote growth. The growth projection in 2015 marginally exceeds the rate of population growth, implying low levels of per capita income and development, limiting the strength and shock-absorption capacity of the economy. What seems to be missing in the budget is the recognition of the fact that while there can be growth without economic transformation, there can never be economic transformation without growth. High and sustained growth is thus very critical for economic transformation.

Without doubt, the underlying structure of the Ghanaian economy is weak, reflected in a narrow production base, over-dependence on primary and unprocessed export commodities, weak industrial base and high import dependence. This has tended to stifle economic growth and development, and manifested in general economic and financial imbalances. Short term vulnerabilities have risen significantly amid high fiscal and current account deficits. The country's foreign reserve position is weak alongside mounting public debt. High interest rates and a volatile currency have depressed private sector activity, and spreads on the country's Eurobonds have risen above those of regional peers.

The 2015 Budget, in its annual time frame cannot be expected to transform the economy and address its underlying structural weaknesses, although it might have such intentions in a medium term time frame. The reality of the matter is that the 2015 budget lacks growth-orientation as it fails to provide adequate and credible policies and strategies to consolidate the fiscus and also maintain macroeconomic stability. To transform the economy through diversification will require significant infrastructure investment and hard work to remove the main bottlenecks to growth, mainly lack of affordable financing, inadequate electricity supply and water, and poor transport infrastructure. Good roads and railway system, adequate and reliable power supply, adequate water, and good sanitation systems provide the anchor to sustainable growth and development.

Domestic demand has been the country's key growth driver, spurred by rising private consumption, public spending on infrastructure, and strong investment growth in the extractive industry. Despite this, the country still suffers from supply-side constraints that require increased investment spending, most notably in electricity production and transport. To sustain high growth targets, government will have to scale up investment spending, accompanied by significant private sector participation. Transformation will not take place until the economy changes from one dominated by the public sector to one where the most important levers for expanding the scope and scale of the GDP and its growth are the private sector and households. It will only be transformed when (i) the cost of running government is low; (ii) the private sector and private consumption are the most important drivers of growth; (iii) there is a shift from debt-financed growth to investment-funded growth and development; (iv) private local and foreign investors have the right tools and incentives to operate; and (v) the budget signals and fuels ambition in all economic actors to succeed.

To help address the infrastructure funding needs, the government established the Ghana Infrastructure Fund in 2013. This has to be supported by specific action plans to entrench significant fiscal consolidation to restore confidence in the government's ability to close the large fiscal imbalance and to provide the needed space for infrastructure and social priority spending. It is also expected that further development of the country's oil and gas potential will ensure strong growth over the medium term as investment spending continues its strong pace. In addition, the requirement to invest at least 70 percent of the benchmark oil revenue in identified priority areas, including road and other infrastructure improvements, agricultural modernization, and capacity building as provided for in the Petroleum Revenue Management Act should be strictly enforced to support the transformation process. The objective is to make investment to become the important driver of economic growth in the country.

4.3 Credibility of GDP growth figures

The credibility of the real GDP growth figures presented in the 2015 Budget, in particular the real GDP growth figure for 2014 is questionable. The budget shows an economy that is slowing down in real terms. Real GDP growth dropped from 15 percent in 2011 (when oil production first came on stream) to 8.8 percent in 2012 and dropped further to 7.6 percent in 2013. The declining growth was reflected in the major sectors of the economy, except agriculture which in three years running saw a rising trend in growth, from 0.8 percent in 2011 to 5.2 percent in 2013 (Table 12).

Table 12: Real Gross Domestic Product Growth (%)

Sector	2011	2012	2013	2014*	2014**	2015 Projected
Agriculture	0.8	2.3	5.2	5.3	5.3	2.9
Industry	41.6	11.0	7.3	4.6	4.6	5.2
Services	9.4	11.0	9.6	4.6	4.6	3.9
Total	15.0	8.8	7.6	4.6	6.9	3.9

Source: 2015 Government Budget Statement, Appendix 1A, P.159. *Ministry of Finance projection; ** GSS projection

Quoting the revised Ghana Statistical Service (GSS) GDP data, the 2015 Budget indicates that the economy is expected to grow by 6.9 percent in 2014, down from the revised target of 7.6 percent in 2013. The agricultural sector will continue its increasing trend with a growth rate of 5.3 percent in 2014, up from 5.2 percent in 2013, and the industrial sector at 4.6 percent, down from 7.3 percent in 2013. The services sector will record its lowest growth rate in two decades of 4.6 percent in 2014, down from 9.6 percent in 2013 (Table 12). If these sectoral growth rates for 2014 are true, then how can the economy as a whole grow by 6.9 percent? The only way by which real GDP will grow by 6.9 percent in 2014 is for net indirect taxes to increase by over 30 percent, and indeed this is so in the GSS GDP estimates. The GSS estimates the increase in net indirect taxes to be 30.9 percent in 2014 compared to the Ministry of Finance's estimate of 4.6 percent (see 2015 Budget Statement, Annexure 1A, p. 158), making the Ministry of Finance to project a real GDP growth of 4.6 percent for 2014. It should be noted that all the projected sectoral growth figures for 2014 are the same for both the GSS and the Ministry of Finance, except the figures for net indirect taxes. What therefore made the estimated net indirect taxes by the GSS to be different from that of the Ministry of Finance?

Which of the two real GDP growth figures is correct, and why did the Ministry of Finance publish two different GDP growth figures with such a wide margin in the 2015 Budget document?

Further, if the GSS growth figure of 6.9 percent is correct, then what will cause the growth rate to reduce from 6.9 percent in 2014 to 3.9 percent in 2015, or for the non-oil real growth rate to reduce from 6.2 percent in 2014 to 2.7 percent in 2015? Attributing such huge decline in real GDP growth to the proposed fiscal consolidation as the government has said in the Budget (see 2015 Budget Statement, paragraph 124) cannot be true.

The records show that fiscal consolidation in Ghana does not lead to declines in economic growth but rather the opposite. Between 2001 and 2005 when the government embarked on a fiscal consolidation process which saw sharp reduction in the fiscal deficit, real GDP growth continued to accelerate in each year. Quite recently, between 2009 and 2011 when the government pursued a strong fiscal consolidation process by reducing drastically the fiscal deficit, the real GDP growth did not decline, except for 2009. Even for 2009, the decline in real GDP growth was not due to the cut in fiscal deficit rather it was caused by the impact of the global financial crisis which affected all regions of the globe. Indeed, a well-designed fiscal consolidation package should lead to a cut in fiscal deficit through efficiency in government spending, rebalancing of expenditure in favor of capital investment, and enhancing domestic revenue, which together should foster macroeconomic stability and in turn support economic growth. Given the importance of GDP growth in policy formulation and analysis, the government needs to indicate the true projected real GDP growth in 2014. Is it 4.6 percent or 6.9 percent?

4.4 Fiscal consolidation

The 2015 Budget proposals will not help the government to achieve the required fiscal consolidation because the revenue projections are unrealistic while the expenditure measures did not go far enough. The Budget targets a deficit of 6.5 percent of GDP for 2015 from a projected deficit of 9.5 percent in 2014, reducing to 3.5 percent in 2017. If these targets can be achieved, then the 6.0 percentage point reduction in the deficit should foster macroeconomic stability in the medium term. The issue however is that the deficit targets are not realistic and therefore cannot be relied upon to foster macroeconomic stability, particularly because the revenue estimates are overly optimistic while the expenditure estimates show little sign of retrenchment. The Budget attempts to increase revenue by imposing additional tax burden on the same small taxpayer base without any serious attempt to expand the coverage to include individuals and firms not paying taxes at all and without taking bold, sufficient and credible measures to rein in expenditure.

Domestic revenue is expected to increase by an amount equal to 5.1 percent of GDP in 2015 when the projected real GDP growth rate is 3.9 percent, compared to the expected increase of 4.6 percent of GDP in 2014 with real GDP growth projected at 6.9 percent, and an increase equal to 3.4 percent of GDP in 2013 when the real GDP growth was 7.6 percent (see Table 13).

Given that the real GDP growth has been projected to decline in such a dramatic fashion in 2015, where does the government expect the sharp increases in revenue to come from, especially where there are no concrete measures to expand the tax base? The budget's optimistic revenue projections are therefore inconsistent with the forecasted slowdown of economic growth (see Table 13).

Table 13: Domestic Revenue Performance

Description	Change from Previous Year (GH₵'000)			Change as % of GDP		
	2013	2014	2015	2013	2014	2015
Domestic Revenue	3,224,018.0	5,204,921.0	6,918,368.2	3.4	4.6	5.1
Tax Revenue	1,790,397.8	5,092,214.8	6,006,164.9	1.9	4.5	4.4
Non-Tax Revenue	1,412,456.2	23,757.9	977,619.4	1.5	0.0	0.7
Memorandum Item						
Real GDP Growth (%)	7.6	6.9	3.9			

Comparing the budget with the actual revenue and grants in the last four years as shown below also provide further support to the argument that the 2015 revenue and grants estimates are overstated. In 2011, actual revenue and grants exceeded the budget by 2.4 percent of GDP. Since then, actual revenue and grants have deviated from the budget, with the margin increasing in 2013 and 2014, and there is nothing to show that the 2015 actual revenue and grants will not be short of the budgeted figure.

Total Revenue and Grants/GDP Ratio (%)

	2011	2012	2013	2014*	2015
Budget	18.7	22.4	25.4	24.7	24.0
Actual	21.1	22.2	20.8	21.6	
Deviation	2.4	-0.2	-4.6	-3.1	

*projected outturn

Although government revenue is likely to increase in 2015 as a result of stronger and more consistent inflow of oil revenues and the revenue enhancing measures proposed, the 2015 target is unlikely to be achieved. The unrealistic nature of the revenue estimates raise questions about the credibility of the macro-fiscal framework underpinning the budget projections. It also helps strongly in putting the government's fiscal consolidation policy at risk.

Tax Proposals

First, as many analysts have pointed out, the imposition of 17.5 percent special petroleum tax on petroleum products, essentially a modified VAT with no input VAT crediting, appears to be ill-advised and unnecessary, considering its possible knock-on effects in an import dependent economy like Ghana. The tax will trigger increases in fuel prices, thereby pushing prices of goods and services up and exerting upward pressure on headline inflation. The upward pressure on prices will increase the cost of doing business in the country and may be passed on to consumers.

The increase in budgeted revenue from excises to GH₵2,426.8 million in 2015 from the expected revenue of GH₵949.8 million in 2014 appears to be too ambitious and cannot be realized unless the 17.5 percent special petroleum tax proposed for 2015 is treated as an excise tax. But, as has been pointed out, this special levy is not an excise tax but a modified VAT. The proposed downward review of excise duty to achieve improved efficiency should however provide some stimulus to the brewery industry in the country to accelerate the use of local raw materials. Although the introduction of the local raw material policy in 2012 led to some innovation in the brewery industry, resulting in the manufacture of new brands of beer using cassava and rice, the proposed reductions in the rates in 2015 appear to be too much that the potential revenue loss may be quite large and significant. The risk of miscalculation of the volume of local raw materials used in order to qualify to use the lower tax bracket is also real. Since one key objective for the imposition of excise is revenue generation, it may be advisable to collapse the applicable excise duty ranges to two, instead of the four proposed in the Budget.

The government's decision to maintain the 5% national fiscal stabilization levy on banking, insurance and telecommunication companies seems not only to be ill-advised but also unfair as the burden has been on the same companies since 2009. Given that this levy was last imposed by the government in 2010, the current imposition has the potential to discourage investors from investing in the financial and telecommunication industries, as the two industries look like a fertile ground for raising easy revenue by the government.

The removal of VAT on some locally produced pharmaceuticals and some of the raw materials used for the production of these pharmaceuticals is a good idea as this will contribute to the growth of the pharmaceutical industry. Likewise, the elimination of the 20 percent import duty on mobile phone devices will reduce the cost of handsets in the country where taxes make up about 35 percent of the cost of smartphones. This will enable many more ordinary Ghanaians to afford smartphones that allow them to access the life-changing potential of the internet. The extension of Tax Identification Number (TIN) to cover other sectors of the economy is long overdue as this will facilitate the widening of tax net and ultimately increase tax revenue.

The government's capacity to expand the revenue base rests on its ability to implement effective revenue-enhancing measures. With revenues coming in below targets in 2013 and 2014 budget cycles, effective revenue-enhancing measures are important to support the reduction of the fiscal deficit in 2015 and over the medium term. The fiscal deficit in 2013 significantly overshot the government's original target, mainly on the account of continued robust spending combined with subdued revenue intake. To address the revenue shortfall, the government implemented several revenue-enhancing measures, including tariff hikes and the removal of fuel and electricity subsidies. However, these measures were insufficient to offset the spending overruns. The 2014 Budget also outlined a commitment on the part of the government to continue strengthening revenue generation through a number of measures, such as enhancing the performance of the GRA, streamlining VAT exemptions, raising VAT rates and extending this to include the financial services, and introducing a windfall tax on mining profits. The implementation of VAT on financial services was put on hold until 2015 while the windfall tax on mining services could not be implemented due to the fall in gold prices and the consequence contraction in mining production and profits. As a result, the 2014 mid-year budget had to review downwards the total revenue target in a significant way, from 24.7 percent of GDP in the original budget to 22.9 percent in the revised budget. The question therefore is: what is in the 2015 Budget proposals to show that the revenue targets will not suffer the same fate as the previous budgets, recognizing in particular the projected low GDP growth?

Additional domestic revenue could have been raised in 2015 without imposing new taxes or tempering with the existing tax rates. Property tax, for example, is one area that has considerable potential but is not fully explored. There is also a spate of tax exemptions and the clearance of imported goods by special permits. The outstanding amounts that need to be regularized from exemptions and use of special permits may be equal to the additional revenue that the special levy of 17.5 percent on petroleum products is expected to generate. To this end, all exemptions awaiting parliamentary approval must be submitted and the revenue involved in the cases which do not qualify recovered. The use of special permits to clear goods is not only a way to circumvent parliamentary scrutiny and consideration for exemption but also tantamount to the granting of unauthorized tax credit and should therefore be reviewed.

There are also massive revenue leakages, arising from imports under-declaration, abuse of the bonded warehousing and transit goods facilities, pervasive tax frauds and corruption that could have been plugged to generate additional revenue to the government. It is also believed that just about 1.5 million people in the country pay direct tax, reinforcing the position that there is scope to widen the tax net instead of piling up more on the already taxed. The majority of the country's 26 million people operate in the informal sector, where hardly taxes are paid on their incomes, making the government to rely over the years on transaction-based taxes like the VAT. Imposing new taxes when the existing leakages have not been plugged is as Kunateh (2014) said "fetching water with a basket". It also makes taxpayers feel cheated.

In addition, the 2015 Budget did promise a major overhaul of the pricing, tax and levy structure for energy utilities and petroleum products, but no details of the specific measure or the changes contemplated were provided. A move towards full cost-recovery utility pricing for all users and the automatic utility price adjustment mechanism should be pursued rigorously. This should however be accompanied by well-targeted utility subsidies for poor households.

Expenditure Rationalization

The expenditure proposals contained in the 2015 Budget do not signal a bold attempt to consolidate government spending. Total government expenditure (including arrears) drops by just 0.6 percentage points of GDP in 2015 and by 2.9 percentage points over the medium term. Expenditure consolidation of this nature cannot be described as ambitious. The Budget also does not provide any serious attempt at rebalancing expenditure in favor of capital investment. Recurrent expenditure continues to account for a large portion, some 82 percent of total expenditure in 2015. Further, the Budget cannot respond flexibly to changes in government priorities and or accommodate domestic shocks, due principally to the earmarking of a huge component of the resources as statutory transfers, in addition to other statutory obligations such as wages and salaries, debt amortization, and interest payments.

Although the Budget indicates a slowdown in spending on wages and salaries, the targets for 2015 and the medium term still remain high (see Table 14). The Budget states that payroll management measures are being implemented and will be intensified to reduce ghost workers on the government payroll, but this is a process that commenced in 2011. In fact, it was estimated that the project when completed will cut down the wage bill by between 25-30 percent in fiscal year 2012 and beyond.

Table 14: Selected Expenditure Indicators (% of GDP)

Description	2013	2014 (Rev Projection)	2015 (Budget)	2016 (Budget)	2017 (Budget)
Compensation of Employees	10.4	9.7	9.1	8.4	7.7
of which wages and salaries	8.8	8.2	7.6	7.0	6.5
Interest Payments	4.7	6.8	7.1	6.3	5.8
Transfers to other Government Units	4.9	4.6	5.5	5.5	5.6
Capital Expenditure	5.1	4.8	5.1	5.6	5.2
Arrears Payments	2.3	2.6	1.2	2.8	0.8
Total Expenditure*	31.8	31.1	30.5	28.7	28.2

Source: Computed from Government Budget Statements, various issues; *includes arrears and tax refunds

The Budget does not contain strong wage policy reforms in the public sector to control the wage bill in the medium term. The policy of net freeze on employment and non-replacement of departing public sector employees' in over-staffed areas as a means of containing the wage bill falls flat on its face for two main reasons. First, the high public sector wages and salaries bill reflects structural lapses in recruitment and the wage policy itself. In the past, repeated wage overruns have emanated from serious weaknesses in payroll management and recruitment in sub-vented agencies. Control of the wage bill was lost because staffing and wage demands and negotiations occurred outside the budget process, and were not subject to budgetary constraints, policy priority objectives, productivity growth and trade-offs among competing spending needs. Second, the two big ministries, viz. education and health, that account for over 60.0 percent of the total MDAs wages and salaries are not affected by the net freeze on employment policy. By excluding education and health sectors, the net freeze on hiring policy still leaves room for further growth in payroll numbers in these two areas, which will not lead to a significant reduction in the total wage bill.

The growing wages and salaries bill is not linked to productivity, so while costs increases on one side, there is no commensurate increase in the services the expenditure buys. The high wage bill also adds to the fiscal rigidity and makes the government budget more vulnerable to shocks, as the necessary adjustments become difficult. The government's position with regard to wage adjustment is that negotiations will be conducted within the budgetary constraints to ensure sustainability of the SSSS. But given the nature of wage negotiations in the country, this may create some challenges for the government. With the implementation of single spine salary structure completed, what is left in terms of wage policy is for the government to establish a systematic approach to wage negotiation by discontinuing the practice where adjustments in public sector wages take place after the approval of the budget. The wage setting framework should be linked to the budgetary process to improve budget preparation and execution.

Given the heavy burden of the civil service wage bill, a reform in this area should be a top priority. The key objective of the reform is to link public sector pay to productivity; maintain the competitiveness of public sector incomes relative to the private sector; and determine the optimal number of employees needed to efficiently deliver public services. The reform should involve specific interventions to contain the wage bill in the short term, while dealing with the wage policy and employment reform in the medium term. The short term measures should include combining attrition with selective hiring freeze, re-centralizing recruitment in the Office of the Head of Civil Service; strengthening the computerization of staff and payroll control system of all MDAs, including the implementation of corrective measures to address data inaccuracies, robustness of controls, and enhancement of capacity for smooth operation; performing annual audit of the personnel database by a joint team of the Auditor General and the Internal Audit Agency; and avoiding across-the-board wage increases. A functional review of the civil service will also need to be undertaken to provide an objective basis for a plan and schedule for right-sizing. Over-staffed sub-vented agencies should be restructured, and those sub-vented agencies that are no longer relevant to the government's objectives should be liquidated, and those that need to be partially or fully commercialized should be instructed to do so within an agreed time frame.

The proposed interest payments in the Budget are disproportionately high and incompatible with the long term growth objective but no concrete measures are outlined to reduce the cost of borrowing by the government. Rather, the budget expects 97.7 percent of the deficit financing in 2015, rising to over 149 percent in 2017 to come from domestic sources where interest are soaring. In order to reduce interest payments and free some resources for capital investment to support growth, the government may have to consider negotiating with its major creditors with a viewing to securing some grace period in the payment of interest on the debt stock.

No serious measure is contained in the Budget to address the issue of statutory transfers, except to indicate that "in the medium term, government will realign expenditures under the Statutory Funds, and as a transitional arrangement, government will enhance the administrative process for aligning statutory fund expenditures to national policies and priorities". The problem with many of the Statutory Funds is twofold, viz. (i) the manner in which the Funds are resourced (i.e., earmarking of portions of tax revenue by law) and (ii) the lack of proper coordination of the use of the funds with those of their parent ministries. Given the need for a strong fiscal consolidation, the legal protection given to the rigid expenditure items, including the statutory funds, would need to be revisited to provide increased space for fiscal maneuver.

The removal of subsidies is certainly one of the measures that will bring relief to the Budget and facilitate fiscal consolidation. However, it often turns out that the political will to pursue this action is not unwavering. Even when the budget does not make provision for subsidies, the government always ends the year with a huge subsidy bill, some of which it is unable to pay, calling for rollovers to the following year as arrears. This makes it extremely doubtful whether the target of GH₵50 million provided for 2015 is realistic.

The continued build-up of domestic arrears in 2015 and in the medium term is also a major concern. Notwithstanding this, the budget was silent on how to reduce the arrears payment and prevent their re-occurrence in the medium term. The fiscal program pursued between 2009 and 2012 was designed to provide adequate resources to cover arrears payment and clear them out of the system. As a result, arrears payment totaled GH₵3.1 billion between 2009 and 2011. In 2012 alone, arrears totaling GH₵3.7 billion was paid because of the government decision to avoid a roll-over of arrears to the incoming new government in 2013. After such huge payments of arrears, it is surprising that the government paid arrears amounting to GH₵2.2 billion in 2013 and is expected to pay additional GH₵3.0 billion in 2014. The question that needs to be asked is: are all these payments really arrears?

The build-up of arrears reflects a combination of weak commitment control systems and the underlying imbalances in the budget design. The government will have to find ways to pay the old arrears as soon as possible. But since the country's current debt situation may not permit borrowing to immediately clear the old stock of arrears, the government may opt instead to announce a plan for their future clearance, which may include a securitization of the current stock of arrears. In this case, the government will recognize the existence of its implicit financial liabilities, set a timetable for their clearance, and issue to the claimants market-negotiable titles with a set maturity. The government also has to develop an appropriate arrears control mechanism as part of the existing budgetary procedures. Above all, there is the need for a comprehensive study of the issue of arrears and how they have been treated in the government budget statements, with the view to finding lasting solutions to the problem.

Ghana's large fiscal deficit has developed over several years, and will need time and careful planning to bring it down to a sustainable level because of the structural rigidities in the budget and the serious social and political consequences of making a very large one-off adjustment. For this reason, a multi-year adjustment of macroeconomic policies, under which fiscal policy will carry the brunt of the adjustment, has to be adopted. The fiscal strategy for 2015 and medium term is to plan to pull back from the expansionary fiscal policies. The efficiency of public spending would also need to be enhanced through public expenditure tracking surveys, with the view to cutting non-essential, fruitless and wasteful public spending; better aligning the annual budget with the growth and poverty reduction strategy (GPRS) objectives; inculcating performance orientation in the public sector through effective implementation of performance management and development system (PMDS); improving evaluation of investments and projects; and strengthening the legal framework for public-private partnerships (PPPs).

Deficit Financing

The Budget allocates a disproportionate share of the deficit financing in 2015, some GH₵8,611.8 million of the total GH₵8,815.9 million, to domestic sources which is quite a departure from the recent past when a significant portion of the financing came from external sources. This is because the large fiscal deficits and rising debt outlook are quickly worsening the country's external borrowing terms, requiring a resort to domestic financing. But while the move may be reasonable, the level of the domestic financing if accommodated by the Central Bank will boost money supply growth and inflation, undermining the targeted inflation rate. Also, if the deficit is financed by the banking system, it will lead to a crowding out of the private sector for loanable funds and increase the costs of borrowing. This will have a devastating effect on private businesses, including the shrinking manufacturing sector which is already reeling from high cost of credit. Besides boosting liquidity, deficit financing of this size will raise concerns not only about fiscal dominance but also the credibility of the Bank of Ghana's inflation-targeting framework.

Other than official funding, the external financial account remains dependent on significant inflows of foreign direct investment, remittances and the roll-over of short-term external debt. These funding sources are confidence sensitive and could be at risk since the Budget did not send a strong signal to investors of the Government's commitment to economic and fiscal reforms. And there is no strategy designed to enhance remittances from Ghanaians living abroad to unplug a flood of relatively low cost funds for projects directly related to revamping domestic production and exports to transform the economy on a sustainable basis.

4.5 Inflation

Inflation is targeted at 11.5 percent in 2015 and 8.0 percent over the medium term. The country has returned to double digits inflation in the last two years, driven by currency depreciation, pass-through effect of the adjustment in fuel and utility prices, and fiscally-driven demand pressures. Given the current level of interest rates in the country, the volatile nature of the cedi exchange rate, and the weak expenditure retrenchment proposals, setting inflation target of 11.5 percent for 2015 is unrealistic, although the medium term profile seems realistic. Since the current high inflation seem to be mostly cost-push with the soaring interest rates as the main channel by which the fiscal pressure causes inflation, it is inappropriate for the Bank of Ghana to continue fighting inflation by increasing the monetary policy rate which eventually leads to increases in other interest rates. Increases in the monetary policy rate as a means of fighting inflation is in fact a counterproductive strategy. Even if fiscal stabilization takes hold and contributes to keep down domestic demand and pressure on interest rates and the exchange rate and thus reduce inflation, other drivers of inflation such as food, fuel and utility prices are hard to predict.

4.6 External sector

Ghanaians preference for foreign goods and services is a major factor undermining the country's external balance but the budget has very little to say about foreign trade and payments policies and targets. This preference for foreign goods over the local ones is also having a serious negative toll on goods produced locally. Between 2012 and 2013, Ghana lost $1.3 billion in export revenues on account of the decline in cocoa and gold prices. At the same time, the country's import bill dropped marginally by US$162.9 million (Bank of Ghana, 2013). In 2013 alone, the country spent a whopping $1.5 billion in foreign currency on the import of rice, sugar, wheat, tomato products, frozen fish, poultry and vegetable cooking oils. Rice accounted for $374 million, fish $283.3 million, wheat $226.7 million, poultry $169.2 million, cooking oils $127 million, and tomato products $112.1 million (Kunateh, Dec. 2014).

Although the country's trade deficit reduced from 5.6% of GDP in September 2013 to 1.8% as at the end of September 2014, the improvement was due to the impact of the sharp cedi depreciation, discouraging imports rather than encouraging growth in exports. This reduction in the trade deficit is clearly unsustainable in the medium to long term unless there is an export-led and value addition strategy to expand and diversify the country's exports and increase its foreign exchange earnings relative to imports. From this standpoint, the trade initiatives proposed in the 2015 budget are appropriate but not ambitious.

The budget indicates that foreign reserves will be increased to cover up to 3-4 months of imports over the medium term. This is in the right direction since a reasonable level of reserves is required as a cushion against future external shocks to the economy, particularly via the export side. In the short term, there is probably not much that can be done by way of addressing the fundamental problem of dependence on gold, cocoa and oil exports which renders the economy vulnerable to shocks. The external sector will continue to experience a widened current account deficit, exacerbated by a decline in commodity prices of the three major export commodities. The only way to deal effectively with the external shocks and sustain the stability of the exchange rate is to transform the economy for it to produce high-value exports, but this is one area where the budget is less ambitious.

With the exception of some food processing and significant exports of gold, unprocessed cocoa and oil, Ghana is relatively less integrated into the global value chains due to its infant industry structure. Yet, compared to its regional peers, the country has the industrial capabilities to export and drive regional value chains in the ECOWAS countries. Ghana's geographical proximity to ECOWAS markets, projected growth in consumption and lower standards requirements offer Ghanaian industrial firms opportunities to scale up and increase their productivity (AfDB, 2014). For the industrial sector to grow, the government needs to tackle the constraints relating to costs of credit and the unreliable supply of energy, transport infrastructure bottlenecks, technological innovations, etc., in order for the leading industrial sectors in construction materials, textiles, agro-processing, plastics and pharmaceuticals to expand.

4.7 Public debt management

The 2015 Budget is sketchy and lacks innovative approach to the management of the country's debt. Debt management is more addressed in the Budget in terms of how to maximize borrowing than minimizing the cost of borrowing. The debt management strategy provides for a continuation of cost-effective access to international and domestic capital markets to meet the country's development financing needs. No strategy is provided to manage the high and rising public debt and the associated debt-servicing burden. Meanwhile, public debt as a ratio of GDP is at a level considered by many analysts to be above the sustainability threshold. The government debt market is also concentrated at the short-term end of the market, putting pressure on the budget from the high rate and high cost of refinancing. The proposal to lengthen the maturity of some of the government debt by issuing long-term debt and finding some funds to pay off the short-term debt is an appropriate one. The government's decision to migrate some commercially viable projects and their associated loans to the management of the Ghana Infrastructure Fund (GIF) is also good as it will lead to a reduction in the government's debt stock. It is also important that most of the loans contracted are used to finance projects that will enable the economy to grow to reduce the debt servicing burden. Despite this, the fiscal outlook still poses serious challenges for debt sustainability and the country is likely to be at a high risk of debt distress on account of unfavorable trends in the country's debt service relative to domestic revenues and export earnings.

To achieve the medium term debt targets, government will have to adopt a comprehensive debt management strategy that puts caps on the levels of gross concessional and non-concessional borrowing. Limits should also be placed on contracting and/or guaranteeing of non-concessional loans that can become liabilities to the government. To effectively monitor the public debt stance, strict measures and quantitative targets would have to be set to guide the efficient delivery of cash and debt management, suggesting the need to strengthen the Financial Administration Law and the accompanying Regulations.

There is no gainsaying the fact that the economy is cash-strapped, and it is obvious that the large fiscal deficit cannot be funded in a manner that does not exacerbate the public debt or cause more inflation and further currency depreciation. The fact of the matter, however, is that, development cannot be justified by high and unsustainable public debt. The country's debt can only be reined in through sustained fiscal prudence to help reduce borrowing. It is also important that most of the loans contracted are used to develop the economy to enable it 'grow out of debt.' It will be a fatal mistake to use loans to fund recurrent spending that does not have a direct bearing on growth. It is also expected that the widening external imbalance is narrowed by revamping agricultural and domestic industrial production.

4.8 Impact of the Falling Crude Oil Prices

The falling crude oil prices on the world market present another serious challenge to the 2015 Budget. The 2015 Budget estimates total revenue from oil at US$1.24 billion (GH₵4.2 billion), equivalent to 3.1 percent of GDP and representing a benchmark price of US$99.38 per barrel and output of 37.2 million barrels. Of the total oil revenue, the Annual Budget Funding Amount will be US$721.82 and the Ghana Petroleum Funds will receive US$309.35 million (to be distributed between the Ghana Stabilization Fund and the Ghana Heritage Fund in the order of US$216.54 million and US$92.81 million, respectively). For 2016 and 2017, the expected benchmark prices are US$102.37 and US$99.90, respectively; the estimated outputs are 42.31 million barrels for 2016 and 54.96 million barrels for 2017; and estimated revenue of US$1.44 billion in 2016 and US$1.71 billion in 2017 (GoG, 2014).

Between June 2014 and the third week in December, the price of oil plunged more than 50 percent to US$61. Oil analysts predict that the price could fall below US$50 per barrel before it rebounds. If the current crude oil price depression continues in 2015, it will have serious negative implications for the Budget and the fragile economic recovery. At US$100 per barrel reference price and based on the current output of about 100,000 barrels per day, the country could earn over US$700 million annually from oil exports not including corporate tax receipts, surface rentals and other charges. However, at a price level between US$60 and US$70 that figure plummets below US$500 million on the same output basis complicating the country's efforts to dig out from the deep budget deficits. The country is also set to nearly double oil production to about 190,000 barrels per day by 2016, with the expected receipts from the output going to help finance critical infrastructure to support the economy to grow. Now, it isn't clear where that revenue will come from. There is therefore a need for serious revision of the domestic revenue estimates for 2015 and rebalancing of expenditure in favor of capital investment.

Although the 2015 Budget anticipates the impact of the continuous decline of crude oil prices and its implications for government's fiscal position for the rest of 2014 and 2015 in terms of revenues underperformance, the government is handicapped in terms of its ability to revise down the reference benchmark price. This is because the benchmark prices are calculated by rules stipulated under the Petroleum Revenue Management Act (PRMA) as a seven-year moving average of dated Brent crude price. Hence, in the event that crude prices continue to fall below the 2015 projected benchmark of US$99.38 per barrel on the international markets, the government may be forced to make withdrawals from the Ghana Stabilization Fund to shore up forex reserves and to augment the annual budget funding amount. To this end, it is a good that the government intends to submit a proposal to Parliament to review the PRMA to allow it to incorporate a lower benchmark price should indicators point towards a downward price trend over the course of the fiscal year regardless of the seven-year moving average. As some analysts have also argued, it is better to underestimate petroleum revenues and plan likewise for the ancillary expenditures in line with ABFA than to overestimate and be left with a huge revenue gap to fill, which ultimately translates into withdrawals from the Stabilization Fund.

Besides the fiscal implications, cheaper fuel may help the country suppress inflation by keeping import costs down. The 2015 Budget has however staked the medium term receipts from oil and gas on higher prices, but with the falling prices, the expected foreign exchange inflows and corporate tax receipts are set to reduce sharply. This may have serious impact on the exchange rate of the cedi which was tumbling even before the oil prices started dropping.

4.9 Public sector employment

The Budget is also silent on the extent of its impact on employment generation, which is one of the greatest challenges confronting the country today. Although the government itself recognizes the threat of the rising unemployment to national security, there is no concrete strategy in the budget to address this problem. It is estimated that about 6-7 million jobs (more than half of the current labor force) need to be created in the next two decades to absorb new entrants into the labor market. The success of this hinges on increasing production from the extractive industries with diversified private sector-led growth in more labor intensive sectors. Unfortunately, the measures announced in the budget to solve unemployment problem do not signal any urgency or provide any hope to the people, especially the teeming youth and university graduates who roam the streets in the urban centers across the country. As the TUC stated in its statement "Better Policies and Better Management for Better Ghana" issued in November 2014, the continued implementation of the policy of net hiring freeze in the public sector without supporting it with investment in the labor market institutions such as the Ministry of Employment and Labor Relations and its agencies to deal with the country's employment and labor issues makes it appears that the government does not recognize the enormity of the unemployment problem in the country.

4.10. Role of the private sector

With the government putting a freeze on employment into the public service (excluding education and health) and non-replacement of departing employees in overstaffed areas, the burden of job creation falls on the private sector. Yet, the Budget did not provide concrete evidence that private businesses can expect to become more profitable and grow in scale and scope required to create more jobs. No incentive is provided to support private sector firms to reduce the negative impact on consumer spending and the cost of doing business arising from the new taxes, charges and other revenue generating initiatives and policies proposed in the budget. This will lead to the creation of uncertainty for business owners and local and foreign investors. One can therefore expect that the private sector will continue to execute business and investment plans on the basis of a worst-case scenario as the safest option to remain in business. Implicit in this is that the highest possible prices will be charged to consumers, fuelling inflation; growth will continue to slow down as projected by the budget itself; and profit extraction will override re-investment. Addressing the bottlenecks confronting the private sector would have provided a strong indication of the government's commitment to transformation.

The centrality of the private sector in economic growth and transformation should be acknowledged, and the government's role in supporting the private sector to this end should be viewed as critical. A clear strategy to expand business firms' access to credit, access to domestic and international (export) markets, reduce business risks and the soaring interest rates, and create a conducive business enabling environment (including a more business friendly regulatory environment, improved land use planning and administration, creation of business linkages to foster transfer of know-how and technological innovation) is required to support the development of the private sector. A bold policy to provide the Ghanaian private sector with the opportunity to take over the provision of some economic infrastructure while limiting foreign participation to strategic management and/or partners with minority equity stakes will also be a welcome innovation. That way, inflation-neutral and sustainable development can happen in a fairly short period of time. Other financing methods such as public-private partnerships (PPPs) and off-balance sheet guarantees for the implementation of high priority and strategic projects should also be explored vigorously. With the PPP law coming into effect, the government should consider prioritizing the use of PPPs for most of the public sector projects in order to take advantage of the opportunity of raising more foreign direct investment for development without adding to the public debt stock but shoring up the value of the cedi and raising overall productivity in the economy.

4.11 Utilization of the September 2014 US$1.0 billion Eurobond proceeds

The Budget is also silent on the USD1.0 billion Eurobond issued in September 2014 and how the funds have been used by the government. The explanation by the Minister of Finance on this matter (see Daily Graphic, December 1, 2014) was not convincing. The Minister intimated that he will go back to Parliament to give full details of the use of the Eurobond proceeds when in fact the details are contained in the prospectus that was issued by the government to facilitate the issuance of the bond. The prospectus has this to say on the use of the bond proceeds.

> "The Republic expects the net proceeds of the issue of the Notes to amount to approximately US$988,710,000, which the Republic expects to utilize principally to fund

budgeted capital investments in government projects, including projects in which the Republic is investing together with development partners. The Republic expects to apply the balance of any remaining proceeds to the repayment of outstanding short-term domestic debt. The Republic expects the total expenses of the issue of the Notes to amount approximately US$2.9 million.

The Republic expects to allocate most of the net proceeds primarily toward government investment projects funded through the Ministry of Energy, Ministry of Local Government and Rural Development, the Ministry of Roads and Highways, the Ministry of Water Resources, Works and Housing as well as the Ministry of Transport. The Republic expects that projects in which the Republic is investing together with development partners will take priority in the allocation of the proceeds (Government of Ghana, Sept.2014, p.22)".

Quite clearly, the proceeds of the bond are to be used to invest in government projects and to partly retire outstanding short-term domestic debt. While the Ministry of Finance issued a press statement explaining that the government was using the US$1.0 billion Eurobond money judiciously, there is an allegation that the money has been used to pay debts owed to the Central Bank, and this allegation appears to be true judging from the manner in which the Bank of Ghana financed the budget deficits during the third quarter of 2014.

Table 15: Financing of the Budget Deficit, 2014 (GH₵'million)

	Q1	Q2	Q3				Q1-Q3
			July	Aug	Sept	Total	
Foreign (net)	759.5	457.4	221.6	139.3	3,178.3	3,539.1	4,756.1
Borrowing	902.5	912.5	267.1	241.8	3,289.0	3,797.9	5,612.9
of which sovereign bond	0	0	0	0	3,161.9	3,161.9	3,161.9
Amortization	-143.0	-455.1	-45.5	-102.5	-110.7	-258.7	-856.8
Domestic (net)	2,168.3	1,599.9	1,288.3	843.8	-3,304.7	-1,172.6	2,595.6
Banking Sector	2,341.4	768.9	1,353.4	754.9	-3,412.3	-1,303.9	1,806.3
of Bank of Ghana	2,721.4	629.6	940.5	1,057.6	-2,998.6	-1,000.5	2,350.4
Non-Bank Sector	-173.0	831.0	-65.1	88.9	107.5	131.3	789.3
Debt Repayment from GSF	0	0	0	0	0	0	0
Other Domestic Financing	-35.6	-59.2	-16.6	-6.0	-16.4	-39.0	-133.9
Ghana Petroleum Fund	-385.8	439.9	-219.6	-234.1	0	-453.7	-399.5
Total Financing	2,506.6	2,388.0	1,273.7	742.9	0	1,873.8	6,768.3

Source: Government of Ghana Budget Statement (2014)

Table 15 shows that the proceeds of the US$1.0 billion Eurobond money (equivalent to GH₵3,161.9 million) came in September 2014 as part of the foreign borrowing to finance the 2014 budget deficit. Up to August 2014, the Bank of Ghana had provided funds to finance the budget deficit. The Bank provided deficit financing of GH₵2,721.4 million in quarter one (Q1), GH₵629,6 million in Q2, and GH₵1,998.1 million in July and August, bringing the total of the Bank's financing of the deficit between January and August 2014 to GH₵5,349.1 million. In September, the Bank of Ghana received payment amounting to GH₵2,998.6 million out of the total of GH₵3,289 million the government borrowed from abroad to partly pay the debt owed to it. Of the total GH₵3,289 million borrowed from abroad, GH₵3,161.9, reflecting over 83 percent, was the Eurobond proceeds. Clearly, the GH₵2,998.6 million paid to the Bank was most likely the Eurobond proceeds less the transaction costs.

What is more worrying about the Eurobond issue is that, the less the public knows about the use of the proceeds, the easier it is for the funds to be used for other things unrelated to the purposes for which they were raised, and the less the risk of being held to account. In the interest of transparency and accountability therefore, the government must provide the public with details of the utilization of the September 2014 Eurobond proceeds, including the specific projects that the government has in mind to fund. It is also important to mention that full details of the projects for which US$102 million of the 2013 USD1.0 billion Eurobond proceeds was used as counterpart funding and also the new projects for which US$250 million was used are still lacking.

4.12 Energy crisis

The 2015 Budget relied heavily on the completion of gas pipelines and processing plant to produce gas from the Jubilee fields, the coming on stream of additional gas and crude oil from the TEN fields, and the prospects of additional energy from the implementation of the Millennium Challenge Corporation (MCC) Compact II Agreement to solve the energy crisis and drive the transformation agenda. While these developments are useful for addressing the medium to long-term power sector challenges, they do not deal with the current problems of load shedding. Gas from the Jubilee is expected in late 2014 or early 2015; gas from the TEN fields is expected in 2016; and gas from Sankofa in 2018. According to studies by the Africa Centre for Energy Policy (ACEP), the gas from Jubilee and TEN fields will not be able to meet fully the total current demand. The gas from Jubilee will enhance power supply but will not add to the generation capacity. At most it will substitute for light crude oil, save VRA of millions of dollars from the procurement of light crude oil, complement gas from Nigeria, lengthen the maintenance period of power plants, and ensure the burning of cleaner fuel. Power from the Kpone Thermal Power Plant and TICO expansion is planned to come on stream early 2015, but this will not be enough to meet the current shortfall, the annual demand growth, and reserve requirement (ACEP, Dec. 2014). The budget mentions 803.5 megawatts of new power generation capacity in 2015, but fails to provide information on the projects under consideration, their funding availability, and fuel to power the additional plants.

The MCC Compact II promises to overhaul power distribution in the country by seeking to position the Electricity Company of Ghana (ECG) as a credible off-taker, hence the partial privatization of the Company being contemplated (ACEP, December, 2014). While the government seeks to increase the access rate from 76 percent in 2014 to 80 percent in 2015, the major problem has to do with supply and the efficiency in distribution. It appears however that the government is more focused on expanding access to power than in ensuring the reliability of supply. It needs to be recognized that, until ECG becomes a profit making company, the country will not have enough money to invest in the power sector to fully deal with the supply and distribution problems even if it is fully divested. The ACEP's view that increasing access to electricity without ensuring a reliable supply will make electricity more expensive, especially to the poor and rural communities, is therefore correct.

4.13 Ghana Export-Import Bank

Access to credit has been one of the challenges facing local industries and many economists and businesses have long advocated for some kind of special financing scheme to support them so that they can grow and become competitive. The decision to establish an EXIM Bank to support export-oriented activities is therefore a good one in principle, particularly because access to credit had been one of the key obstacles facing local industries and also because it should help address the country's over-dependence on low-value primary exports, by providing a strong base for export finance, especially for non-traditional exports.

The issue with the establishment of the Ghana EXIM Bank is that, the Agricultural Development Bank (ADB), National Investment Bank (NIB), Bank for Housing and Construction (BHC), Cooperative Bank, and Merchant Bank were all established by the government for similar purposes but along the line they abandoned their original mandates as government funding dried out and became typical commercial banks. In the end, many of them were either sold off and/or collapsed. One is therefore not sure if the EXIM Bank will not suffer the same fate, and how is the proposed bank going to be different from the previous ones? What is it that the EXIM Bank will do that the Merchant Bank that was sold recently could not have done? These are questions and concerns that need to be addressed fully before a new public institution is created.

4.14 Capital market development

First, Ghana Cocoa Board's (COCOBOD's) international credibility has grown since its first US$140 million successful syndicated loan was raised in 1993 with the country's own Ghana Commercial Bank and the then Chemical Bank, both in London, as the lead arrangers. We therefore expect that if the proposed longer term cocoa bond is wholly or partially issued on the domestic capital market, it will attract investors and deepen activity on the market. Second, the expected takeover of Ghana National Gas Company by the Ghana National Petroleum Company will also provide a bigger capacity for capital market borrowing to fund energy infrastructure projects and reduce the debt burden on the government. Also, the takeover will provide the opportunity for obtaining credit ratings from the international rating agencies which will have positive impact on the country's capital market in the long term. If initiatives to list the Government of Ghana's medium term securities on the Ghana Stock Exchange materialize, this will also enhance information flow and price discovery for government bonds. This strategy will also lead to an increase in investor participation on the domestic capital market, improving liquidity and deepening the country's bond market.

4.14 Corruption in the public sector

The 2015 Budget is silent on how the government intends to deal with the perceived corruption, cronyism and incompetence in the public sector and strengthen state institutions to drive the "Better Ghana Agenda". A number of Ghanaians perceive the government, law enforcement authorities, parliament, and judicial officials as corrupt. A large majority of Ghanaians are also of the view that corruption has increased in recent years, and that the government has performed poorly in fighting this destructive canker in the country (Center for Democratic Development, 2014). However, the perception of deepening corruption in the public sector is perhaps a confirmation of the numerous scandals that have recently hit public institutions, public servants and political office-bearers. Huge funds have allegedly been misappropriated through the implementation of programs and projects by the Ghana Youth Employment and Entrepreneurship Agency (GYEEDA), Savannah Accelerated Development Authority (SADA), National Service Scheme (NSS) and other dubious judgment debts that are yet to be retrieved. While corruption in high places is worrying, it is dreadful that institutions that are charged with maintaining peace, law and order and nurturing democracy in the country are increasingly gaining dishonor for corrupt practices. As Asante (2014) pointed out, corruption breeds in a system of confused direction and lack of clarity as to who takes the decision. When corruption affects the entire administrative system of a nation, it is difficult to uproot. But it can and must be rooted out by bold leadership. Heads of public institutions should find corrupt practices intolerable and the government should outline a ruthless action to root out the practice which is seriously undermining development plans in the country.

5. Conclusion

The 2015 Budget has as its theme "Transformational Agenda: Securing the Bright Medium Term Prospects of the Economy". The theme is very appropriate, but given the current economic crisis facing the country, reflected in declining economic growth, concentration of exports in a few primary commodities, fiscal deterioration, macroeconomic instability, and increasing debt stock, the Budget responses are sketchy and short of transformational ambition. The Budget does not provide details of the drivers of the transformation process and the expected outcomes. It also does not indicate how innovation and technology-led productivity growth will be pursued; how to transform agriculture and manufacturing to diversify the economy; and how to foster inter-sectoral linkages. There is no public investment program or well-designed infrastructure plan that will support growth, reduce transaction costs and enhance the country's competitiveness. Details of investment in human capital and development of skills of the labor force are foggy, and there are no plans and strategies to effect the required institutional changes. The role of the private sector as an important lever for expanding the scope and scale of GDP and its growth is not clearly articulated in the Budget. As such, the Budget will not be able to accelerate the transformation of the economy and improve the lives of the people.

Ghana has a bad record of meeting fiscal deficit targets as budget overruns tend to be the norm, with serious implication for growth and transformation. The Ghanaian economy cannot be transformed without achieving high and sustained growth. But, with the pervasive macroeconomic instability, manifested in high fiscal deficits, high inflation, exchange rate volatility, soaring interest rates, growing current account deficits, and mounting public indebtedness and debt servicing costs, the business climate has become unfavorable to sustained strong growth, requiring strong fiscal consolidation. Unfortunately, the country has been toying with the problem of fiscal consolidation in the last few years.

To address the fiscal challenges, the 2015 Budget introduces a number of measures including the following.

- Introducing new taxes and revising some of the existing tax rates;
- Freezing net employment in the civil service;
- Enhancing financial management (including payroll management);
- Realigning expenditures from the Statutory Funds; and
- Focusing on cost-effective access to the international and domestic capital markets for the country's development financing needs.

While the fiscal measures outlined in the Budget are all commendable, they do not go far enough to address adequately the economic crisis currently confronting the country. A budget that seeks to set the agenda for economic transformation should have recognized the need for strong fiscal adjustment in the short-term and structural transformation over the medium to long term.

Given that fiscal deficits in recent years are both expenditure and revenue-driven, fiscal consolidation should aim at credible and effective rationalization and rebalancing of expenditure, while enhancing significantly domestic revenue. Expenditure can be rationalized and rebalanced through a number of ways, including the following.

- Proper right-sizing of the public sector to increase productivity and optimal use of resources;
- Effective management of public sector recruitment and government payroll system;
- Abolishing subsidies while fashioning out innovative ways to help the poor keep up and improve their living standards;
- Renegotiating the payment of interest to creditors to secure some grace period and improve cash flows to help rebalance expenditure in favor of public investment;
- Slowing down borrowing; and
- Finding ways to either pay outstanding arrears or securitizing them.

Domestic revenue can also be strongly enhanced not through quick fix measures of imposing more taxes on the current narrow tax base, but through:

- A comprehensive review of tax exemptions <u>and</u> putting a stop to the use of special permits to clear imported goods;
- Devising innovative ways to bring in the large informal sector to expand the tax base;
- Undertaking a comprehensive review of the fiscal regimes of the mining and petroleum industries to maximize tax revenue;
- Ensuring that all qualified taxpayers (both individuals and companies) discharge their tax obligations by ensuring that the requirement for filing tax returns is strongly enforced;
- Enhancing tax administration by improving the collection, monitoring and compliance mechanisms to plug the massive leakages currently taking place; and
- Curbing corruption and theft which have become pervasive in the public sector.

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