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THE GHANAIAN ECONOMY IN 2012:

HOW ACCURATE WAS THE REPORTED FISCAL DEFICIT?

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How Accurate was the Reported Fiscal Deficit?

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

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Abstract

This paper reviews the performance of the Ghanaian economy in 2012, with a view to establishing the accuracy and the causes of the reported huge fiscal deficit, amounting to 11.6% of GDP, posted during the period. The study finds that the strong performance of the economy achieved in 2011 continued in 2012, driven by the services and industry sectors, with the latter overtaking agriculture as the second largest contributor to the country's GDP. Improved macroeconomic policies, supported by a tight monetary policy, also helped to curb inflation and stabilize the domestic currency. On the fiscal front, total revenue and grants registered a shortfall of just 1.5% for the year, despite a significant drop in the disbursement of grants by development partners and the over-estimation of revenues from oil companies. On the expenditure side, however, there are some questions about some of the figures reported. Total expenditure was reported to be 17.5% more than the budget for the year, implying that the huge fiscal deficit posted in 2012 was due almost entirely to expenditure overruns, notwithstanding strong directives issued to all MDAs to maintain discipline in spending, recognizing that 2012 was an election year. The veracity of some of the huge spending overruns which contributed significantly to the overall deficit for the year cannot be established, leading to the conclusion that the reported fiscal deficit in 2012 is spurious. In our view, the actual fiscal deficit for 2012 should have been 8.3% of GDP and not the reported 11.6% of GDP.

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1.0 Introduction

The new administration that assumed office in January 2013 declared an overall fiscal deficit of 11.6% of GDP for 2012, one of the highest in the country's history. The year 2012 and the first six months of 2013, however, witnessed marked growth and macroeconomic stability. This raises doubts about the authenticity of the exceptionally-high deficit declared for 2012.

It may be recalled that the economy, which had gone through a period of stability largely due to HIPC and MDRI debt reliefs, experienced a great deal of instability from the beginning of 2008 through the first half of 2009. Inflation, which stood at 12.8% in January 2008, increased to 18.4% in June 2008 and stayed around 18% for the rest of 2008. By the end of June 2009, the rate had increased further to 20.7%. The cedi depreciated against the US dollar by 5.4% year-on-year in January 2008, increasing to 10.1% by June 2008 and further to 20.1% by end-December 2008. The depreciation increased further to 30.4% through May 2009 before declining marginally to 29.9% by end-June 2009. The year-on-year growth rate in broad money supply (M2+), which was 33.5% in January 2008, increased to 37.0% in June 2008 and further to 44.1% in December 2008. The broad money growth rate continued to stay generally high during the first half of 2009, recording 39.7% in June 2009. The heightened macroeconomic instability during January 2008-June 2009 was due largely to the sharp increase in the fiscal deficit in 2008 to 6.6% of the rebased GDP from 4.9% in 2007, driven largely by the large election-related expenditure overrun that year. The overall fiscal deficit (including divestiture and discrepancy) that had declined to 2.0% of GDP in 2005 due to the HIPC debt relief increased to 6.6% of the rebased GDP in 2008. Excluding divestiture proceeds (mainly from divestiture of Ghana Telecom), the fiscal deficit stood at 8.5% of GDP in 2008. The net financing needs therefore increased by a whopping 75% from GH¢1.13 billion in 2007 to GH¢1.98 billion in 2008, fueling the sharp increase in the growth of broad money supply, which contributed to the heightened macroeconomic instability.

Because of the high macroeconomic instability caused by the expansionary fiscal policy in 2008, the government that took office in January 2009 made fiscal consolidation a top priority. The overall fiscal deficit was reduced to 5.8% of GDP in 2009. By the end of 2011, the deficit had been further reduced to 4.0% of GDP. Owing to the strong fiscal consolidation efforts of the government, expenditure prioritization and improved general policy environment, the overall economy responded positively. Real GDP growth that had declined sharply from 9.1% in 2008 to 4.8% in 2009 increased to 7.9% in 2010 and further to 8.4% (without oil) and 14.0% (with oil) in 2011. Inflation sharply declined from July 2009, and by the end of June 2010 it had hit a single digit rate of 9.5% for the first time in more than 11 years (since May 1999). Indeed, inflation stayed at single digit for the rest of 2010 and throughout 2011. Also, the depreciation rate of the cedi against the US dollar averaged only 0.8% in 2010 and 5.5% in 2011. Gross international reserves improved sharply from 1.9 months of import cover at the end of 2008 to 3.5, 4.1 and 3.2 months of import cover at the end of 2009, 2010 and 2011 respectively.

In the election year of 2012, the economy continued to perform strongly. Real GDP growth was as high as 9.3%. Inflation stayed at single digit throughout the year. Broad money growth rate, which had jumped to an average of 38.3% in 2011 due to the sharp increase in economic activities during the year, came down to 29.6% in 2012, which, apart from the average in 2010, was the lowest since 2006.

Although during the first half of 2012 the cedi depreciated sharply in response to outflows in foreign capital, it remained stable relative to the US dollar during the second half of the year. Gross international reserves stood at 3.0 months of import cover at the end of 2012. Thus, like in 2004 and unlike in other election years, the macroeconomic environment remained stable in 2012. Also, unlike the aftermath of the previous election years that witnessed high macroeconomic instability (except in 2004 due to the relatively-low fiscal deficit), the macroeconomic environment continued to be stable during the first half of 2013 (i.e. six months after the elections). Even though the inflation rate saw some increase during the first half of 2013, the increase was relatively small. The year-on–year depreciation rate of the cedi against the US dollar, which had begun to decrease in the second half of 2012, continued its declining trend throughout the first half of 2013, reaching 3.8% in June 2013. Also, year-on-year growth rate in broad money supply saw additional significant decreases during the first half of 2013, reaching 14.2% in June 2013, which, apart from the November and December 2005 figures, was the lowest since the beginning of the Fourth Republic.

Indeed, the economic fundamentals throughout the year 2012 were very strong and remained so even six months after the end of the year. As a result, investor confidence in the economy soared so high that the 2007 Eurobond coupon rate/yield of 8.5% dropped to 4.82% in December 2012. Again, the yield of this same bond further dropped to 4.42% in January 2013.

The critical question that needs to be answered is: *How can such well-documented and favorable macroeconomic outcomes of 2012 and six months thereafter be consistent with such an unusually high fiscal deficit in 2012?*

This paper reviews the performance of the Ghanaian economy with a view to providing an answer to this question, and to help correct what could be an erroneous record in the country's fiscal accounts. The paper is structured as follows. Following this introductory section, Section 2 discusses the economic strategy and agenda of the government in 2012. Section 3 reviews in detail the macroeconomic outcomes, including the reported fiscal outcomes in 2012. Section 4 carries out a critical examination of the reported fiscal outcomes to ascertain their accuracy. Section 5 provides concluding remarks.

2.0 The 2012 Economic Policy Agenda and Strategy

Global events in 2011, including the devastating earthquake and tsunami in Japan, unrest in some oil-producing countries and the financial crisis in the Euro zone, were expected to pose significant risks to Ghana's economy in 2012 and over the medium term. In particular, a further deterioration of the global economic environment was to have a negative spillover effect on Ghana's economy by undermining the prospects for export growth, remittance flows, overseas development assistance and foreign direct investment. The government's main task in 2012 therefore was to maintain the hard-won stabilization gains in 2011, in the face of resurgent global risks and domestic spending pressures. The 2012 policy agenda was also designed to minimize the adverse effects of the global financial crisis (Government of Ghana, 2011).

2.1 Macroeconomic Policy

The macroeconomic policy agenda for 2012 and the medium term therefore focused on four complementary objectives, namely:

- Preserving the gains of macroeconomic stabilization and fiscal consolidation achieved in 2011;
- Creating fiscal space for high-priority infrastructure investment to spur long-run growth and development;
- Maintaining inflation in single digits; and
- Ensuring effective management of the exchange rate regime.

Finding a lasting solution to the country's infrastructure deficit that had constrained accelerated growth in the past decade was a major priority of the government in 2012 and over the medium term. The focus was on the provision of key infrastructure in various sectors of the economy to further stimulate growth, support the private sector to create more jobs, and improve incomes of Ghanaians. Accordingly, the 2012 Budget was crafted around the theme "Infrastructure Development for Accelerated Growth and Job Creation" (Government of Ghana, 2011). Consistent with the Ghana Shared Growth and Development Agenda (GSGDA), the key infrastructural projects to be implemented in 2012 included the following:

- Electricity, oil and gas;
- Water and sanitation;
- Railways, roads, and ports; and
- Health, education, and agriculture.

To achieve these objectives, the fiscal deficit was to be kept at a level that could prudently be financed, while strengthening efforts to close the infrastructure gaps, consistent with the GSGDA. In light of the country's middle-income status and prospects of declining access to concessional financing, the government negotiated and signed a non-concessional but very competitive US$3 billion loan agreement with the China Development Bank in December 2011. The funds were to be used to finance critical infrastructure, including a gas pipeline that was urgently needed to avoid significant risks to the country's existing oil wells.

Details of the macroeconomic targets for 2012 were as follows:

- Real non-oil GDP growth of 7.6%;
- Real overall GDP growth of 9.4%;
- Average inflation of 8.7%;
- End-period inflation of 8.5%;
- Overall budget deficit equivalent to 4.8% of GDP; and
- Gross international reserves of not less than three months of import cover for goods and services.

2.2 Economic Growth and Sectoral Policies

Real GDP was projected to grow at an average rate of 9.7% in real terms between 2010 and 2012, with the non-oil economy growing at an average rate of 6.9%. Assuming a constant population growth rate of 2.4%, real per capita GDP was expected to grow at an average of 5.2% over the period. The projected GDP growth rate was to be driven partly by the global economic recovery and partly by the government's commitment to modernize agriculture and significantly narrow the infrastructure gap.

Agricultural modernization was expected to be an important driver of growth in 2012 and over the medium-term. This was to be achieved through improved productivity and increased acreage under cultivation, driven by factors such as improved irrigation, subsidized inputs, mechanization services along the value chain as well as improved marketing, extension services and institutional coordination for agricultural development. The sector was expected to grow at 4.9% in 2012 (Table 1) and an annual average growth rate of 6.1% over the medium-term, led by the crops and livestock sub-sector with a growth rate of 5.0% in 2012 and the fisheries sub-sector with also a growth of 5.0%. Cocoa production and marketing was expected to grow at the rate of 4.3% in 2012. In the medium term, cocoa production was expected to grow at an annual average of 3.9%. This was to be achieved through a replanting of over-age and destroyed cocoa farms with about 20 million hybrid seedlings to be distributed free of charge to famers in the affected areas. Forestry and logging was expected to grow at 4.8% in 2012 and over the medium term by an annual average rate of growth of 3.5% (Government of Ghana, 2010).

To achieve the economic transformation envisaged under the government's medium-term agenda, the industrial sector was expected to play a pivotal role, growing at 10.9% in 2012 (Table 1) and an annual average rate of 14.5% over the period 2010-2013. The main drivers of the expected industrial growth included the expected enhanced growth in construction, infrastructure development, oil, energy and water (mainly from the Bui Dam's operations); production of gas to generate thermal energy; and an increase in output from the mining sector, especially in salt production to meet industrial demand.

Mining and quarrying, including oil and gas, was expected to lead the industrial growth with a growth rate of 15% in 2012 and an annual average growth rate of 22.7% over the medium term. The electricity and water sub-sector was expected to grow at 15% in 2012, while the construction sub-sector was expected to grow by 12%. The manufacturing sub-sector was expected to register the least growth in the industrial sector, at the rate of 6.0% in 2012 and 8.5% per annum over the medium term.

Growth of the services sector depended on agriculture and industrial growth. The expected recovery from the global financial crisis in the medium term and the development of the oil and gas industry were expected to impact positively on growth of the services sector, through growth in the hotel and restaurants, transportation, international travel and tourism, and banking and insurance activities. The services sector was expected to grow at 8.6% in 2012 (Table 1) and an annual average rate of 9.3% over the medium term. Finance, insurance, real estate and business services were expected to lead the growth in the services sector with an average annual growth rate of about 13.5% over the medium term, followed by the wholesale and retail trade, restaurants and hotels sub-sector with an annual average growth rate of 9%. Transport, storage and communication sub-sector was projected to grow at an average rate of 8.5% per annum. Government services were projected to grow at an annual rate of 5.6% over the medium term, while community, social and personal services were also projected to grow at an annual average rate of 5.0% (Government of Ghana, 2010)

Table 1 - Ghana: Gross Domestic Product Growth Projections, 2009–2012 (Percentage)

Sector	2009	2010	2011	2012
Agriculture	7.6	4.8	5.3	4.9
Industry	4.5	6.0	37.2	10.9
Services	6.8	8.2	9.9	8.6
GDP in Purchaser's Value	4.7	6.6	14.4	8.2

Source: Source: Government of Ghana (2010)

2.3 Addressing Infrastructure Backlogs

To achieve the growth objectives of the government in 2012 and over the medium term, special focus was placed on the provision of critical infrastructure during the year. Indeed, the projected high growth of the economy could not be sustained without addressing the infrastructure bottlenecks in transportation, energy, water and sanitation, and telecommunication. Good roads and a railway system, adequate and reliable power supply, adequate water supply and good sanitation systems were all required to support domestic production and movement of goods and services to their required destinations.

It was estimated that meeting Ghana's infrastructure needs in the next decade would require US$1.6 billion investment per year. To sustain the medium-term growth targets set for the country would require a significant scaling up of investment spending, the greater part of which was foreign-financed capital investment. Although the country's fledgling oil and gas industry presented new opportunities for mobilizing additional resources to finance critical infrastructure, the oil revenues were nowhere near the financing requirements needed to remove the existing bottlenecks in economic and social infrastructure. In 2012 and over the medium term, therefore, external resources (loans and grants) were to be an important complement to the country's own resources for infrastructure investment. In this regard, adequate government counterpart funding provision was made in the 2012 Budget to leverage external support in infrastructure development.

The focus of government in the provision of key infrastructure in 2012 was three-fold. First, as a matter of priority, government was to prepare a Public Investment Program (PIP) that would set out in a systematic, coordinated and comprehensive manner planned public infrastructure investment over the next five years. The PIP was also to assist the government to establish synergy and complementarity between the various infrastructure types, introduce prioritization into infrastructure provision, and provide the basis for a comprehensive five-year funding plan (Government of Ghana, 2011).

Second, a US$3.0 billion loan secured from the China Development Bank (CDB) in December 2011 was to be utilized to reduce the infrastructural deficit of the country by undertaking a number of infrastructure projects consistent with the GSGDA priorities. It was believed that the projects had the potential to significantly transform the country's economy. The government was required to ensure that the projects were supported by robust feasibility and financial viability studies, as required by the CDB Master Facility Agreement. A US$225 million World Bank Transport Sector Project approved in June 2009 was also to continue in 2012. The project sought to improve mobility of goods and passengers through rehabilitation of trunk, urban and feeder roads to reduce travel time, vehicle operating cost, and ensure transport safety standards. The government was also to ensure that the phasing of disbursement for these and other projects was consistent with the agreed IMF-supported program targets and the medium-term fiscal plans to preserve debt sustainability. Total disbursement under the CDB Master Facility Agreement was not to exceed US$750 million in 2012 (IMF, June 2012).

Third, in line with the government's policy to remove infrastructure backlogs, a national policy on public-private partnerships launched in June 2011 was to be supported by three key initiatives beginning in 2012. The three key initiatives included the following:

- A Project Development Facility to finance upstream investment appraisal, value-for-money assessment and other feasibility and safeguard studies;
- Gap Schemes to provide financial support for economically essential PPP projects; and
- Infrastructure Finance Facility to raise the requisite long-term local currency financing for on-lending at commercial rates to private sector partners for PPP projects.

2.4 Private Sector Support

The competitiveness of the private sector was being impeded by factors such as the import tax regime and the cost of domestic inputs including high and unpredictable cost of utilities. During the 2012 fiscal year, government was to review the import tax regime in consultation with the Tariff Advisory Board (TAB) and also intensify infrastructure development in the energy and water sectors. The 2012 Budget outlined a number of measures that were to be implemented to strengthen SMEs to support economic growth and generate employment. As part of the Financial Sector Strategic Plan (FINSSP II), government was to support the Ghana Stock Exchange to create an alternative market where simplified rules of entry would allow small and medium enterprises to list. It was hoped that with less stringent rules, many small and medium enterprises would improve their access to finance.

2.5 Fiscal Policy

The key priority in the 2012 budget was to continue pursuing prudent fiscal policies, including the scaling up public investment in infrastructure. This was to be achieved through enhanced tax revenue mobilization, managing the wage bill implications of the migration of the remaining public institutions onto the Single Spine Salary Structure (SSSS), and controlling other recurrent expenditures (Government of Ghana, 2011). The overall fiscal deficit was expected to be higher than envisaged in the revised 2011 Budget, reflecting higher foreign-financed capital expenditure and larger-than-envisaged costs of the Single Spine Salary Policy. However, prudent wage management and various revenue measures were to ensure that the fiscal position in 2012 and beyond remained consistent with medium- and long-term debt sustainability.

2.5.1 Enhancing Revenue Mobilization

As part of the fiscal consolidation process of the IMF-supported program commenced in mid-2009, the government formulated and implemented in 2012 a comprehensive program to enhance domestic revenue mobilization. As a result, total revenue and grants for 2012 was estimated at GH¢16.9 billion, which was equivalent to 24.2% of GDP and represented an increase of 32% over the 2011 provisional outturn. Domestic revenue was budgeted to increase by 31.6% to GH¢15.4 billion in 2012, while grants were to increase by 25% to GH¢1.5 billion. Tax revenue was expected to increase by 28.6% to GH¢12.6 billion in 2012 and non-tax revenue by 50% to GH¢2.7 billion (Table 2).

Table 2 - Ghana: Revised Estimates of Revenue and Grants, 2012

Item	Amount (GH₵' million)	% of Total	% of GDP
Total Revenue	15,377.9	90.8	22.0
Tax Revenue	12,559.6	74.2	18.0
Of which Direct taxes	5,874.4	34.7	8.4
Indirect taxes	3,496.5	20.7	5.0
International trade taxes	2,506.6	14.8	3.0
Other tax revenue	1,064.8	6.3	1.5
Non-Tax Revenue	2,672.6	15.8	3.8
Other revenue measures	145.7	0.9	0.2
Grants	1,549.7	9.2	2.2
Total Revenue and Grants	**16,927.6**	**100.0**	**24.2**

Source: Government of Ghana (2012)

As part of the revenue mobilization effort, the threshold for VAT reporting was increased to GH¢120,000 in 2012 from GH¢90,000 in 2011. At the same time, the arrangement whereby smaller taxpayers who were excluded from the main VAT regime were required to pay 3% VAT in addition to 2% income tax rate was replaced by a new regime of 5% tax on turnover. All domestic VAT zero-rating was also eliminated and replaced by exemptions. An amended VAT bill submitted to Parliament in May 2011 was revised again and resubmitted in June 2012 after incorporation of comments from the IMF.

The government also made several changes to the mining fiscal regime, with the view to generating more revenue from the sector. First, following established practice, corporate income tax for mining companies was increased from 25 to 35% and a uniform regime for capital allowances was established, including an annual allowance of 20% for five years. This was expected to yield a revenue of about GH¢488 million, which was included in the 2012 budget. Second, a windfall profit tax of 10% which had been developed with assistance from the IMF was submitted to Parliament in June 2012 for consideration and approval. Revenue from this measure was expected to come on stream in 2013. Third, new regulations to govern ring-fencing of projects in the mining sector to prevent transfer pricing practices among different projects were prepared and also submitted to Parliament in June 2012. Fourth, a revision of the Internal Revenue Act was undertaken to include provisions concerning the transfer of interest between non-resident business entities, with a view to enhancing the government's ability to collect more capital gains tax revenue from these transactions. Fifth, the government planned to review the existing law on mergers and acquisitions, with a view to enhancing its ability to collect capital gains taxes from transfers of interest between non-resident business entities. Amendments to the existing legislation were to be submitted to Parliament for consideration and approval during the year. Pay-as-you-earn tax-free thresholds were also adjusted upwards and the income tax bands extended in the 2012 Budget. Finally, the government initiated a process towards re-negotiations with the mining companies on the issue of stability agreements, with the view to ensuring that the country obtained its fair share of the gains from the mining sector. The key issues in the re-negotiation process included the following:

- Review and re-negotiate any part of any Stability Agreement signed between the Republic of Ghana and any mining company that was not in the best interest of the country;
- Prepare procedures and conditions that would govern the granting of new stability agreements in the mining sector in a manner that maximizes the flow of economic and social value to the country on a sustainable basis
- Redesign existing mining agreements and/or draft new agreements, where necessary, to ensure that it significantly supported the country's economic growth and development, in terms of providing better financial returns, more social investment, critical infrastructure and greater transparency in mining operations.

The integration of VAT and income taxation under a single management proceeded very well, and by end-March 2012 the three integrated offices of the Domestic Tax Revenue Division were operational. Six additional integrated offices were scheduled to become operational by end-June 2012, with full integration by the end of the year for a total of 64 offices. The rollout of the information technology (IT) system under the e-Government Project in pilot offices also commenced in parallel, while efforts were directed towards closing the various leakages in the tax system.

The government also expected additional non-tax revenue from changes to the tax regime for mining. For those mining companies that had stability agreements, the government proceeded to negotiate compensation for maintaining the existing favorable terms. In addition, a number of mining companies had approached the government to negotiate new stability agreements. Fees as compensation for the stability agreements were expected to yield non-tax revenue of about GH¢525 million in 2012.

2.5.2 Managing Expenditure

Total expenditure (revised), including arrears and tax refunds, was estimated at GH¢21.6 billion, equivalent to 31.0% of GDP and reflecting an increase of 40.3% over the provisional outturn of GH¢15.4 billion for 2011. The bulk of the total expenditure, amounting to GH¢12.0 billion and representing 55.4%, was estimated to cover spending on recurrent items for the year, including wages and salaries, goods and services, interest payments, transfers and subsidies to government units and statutory funds. An amount of GH¢6.0 billion, reflecting 27.6% of the total expenditure, was allocated to fund capital spending, while the remaining GH¢3.6 billion was allocated for tax exemptions, tax refunds, arrears payment, and the reserve expenditure vote. The planned capital spending represented the biggest allocation for a single expenditure item and was to support the closing of the infrastructure gaps in the country, in line with the government's objective. This was followed by wages and salaries with an estimate of GH¢5.6 billion, equivalent to 26.1% of the total expenditure or 8.1% of GDP (see Table 3).

Table 3 - Ghana: Revised Estimates of Expenditure, 2012

Item	Amount (GH₵' million)	% of Total	% of GDP
Wages and salaries	5,637.5	26.1	8.1
Goods and Services	967.2	4.5	1.4
Interest Payments	2,191.2	10.1	3.1
Subsidies and Transfers	3,177.3	14.7	4.5
Capital Expenditure	5,972.3	27.6	8.6
Tax Expenditure (Exemptions)	382.7	1.8	0.5
Reserve Expenditure Vote	707.5	3.3	1.0
Arrears	2,483.8	11.5	3.5
Tax Refunds	77.1	0.4	0.1
Discrepancy	-	-	
Total Expenditure and Net Lending	**21,596.6**	**100.0**	**31.0**

Source: Government of Ghana (2012)

The 2012 budget for wages and salaries was meant primarily to support the final implementation of the Single Spine Salary Policy for public sector workers. Migration to the Single Spine Salary Structure was virtually completed in 2011, with 99% of public servants placed on the new structure. As at end-March 2012, a total of 478,120 public servants from 91 public institutions, representing 99.3% of the total public sector workforce, had been migrated onto the new salary structure, leaving 7,230 from 27 institutions to be migrated. Since all public institutions were not migrated onto the new structure at the same time, huge salary arrears accrued. The Single Spine salary arrears for 2011, amounting to GH¢991 million, were to be paid in monthly installments between January and July 2012. In addition to this figure was the payment of salary arrears for the first four months of 2012, in respect of an 18% salary increase granted to public sector employees. Instead of an increase in pay relativity, as originally planned, the government had negotiated a base pay increase of 18% in late-February, which was effective from January 2012. Public servants started receiving the new, higher base pay in May 2012, and payments for January to April 2012 were scheduled to be completed in September 2012. The cost of the pay increase, totaling GH¢1.1 billion, was expected to be partially met by savings from a payroll audit, which was to be undertaken in the second half of the year and which promised to lower the overall wage bill by an estimated 15–20% (IMF, June 2012).

A total of GH¢3.2 billion, representing 14.7% of the total budget estimate, was allocated to cover subsidies and transfers in 2012, some of which were statutory obligations such as pensions, gratuities, social security and national health insurance contributions. Others were subsidies to support public consumption of petroleum products and utilities such as electricity and water. An amount of GH¢2.5 billion, representing 11.5% of the estimated total expenditure, was also allocated for the payment of arrears, in line with the government's arrears clearance policy (Table 3).

In late December 2011, the government raised pump prices of petroleum products by 15.0% to restore cost recovery, but was compelled to claw back 3.0 percentage points of the increase in February 2012 to avoid public unrest. After that, prices were kept constant, as domestic fuel price increases on top of the large cedi depreciation were thought to be too much for consumers, particularly for lower-income households. The implied subsidies between January and May 2012 of some GH¢228 million or 0.3% of non-oil GDP were partly covered from the petroleum hedging account, which at end-August 2011 had accumulated a surplus of US$98.4 million (net of premium costs of US$63.7 million). At end-May 2012, domestic pump prices were about 15% below their cost-recovery level (implying monthly subsidies of about GH¢60 million), but the subsequent drop in international oil prices reduced the gap to about 10% (implying monthly subsidies of about GH¢45 million). Although the National Petroleum Authority (NPA) reviewed petroleum prices based on world market conditions every two weeks, these prices were not fully passed on to consumers, resulting in a significant increase in under-recoveries.

Electricity tariffs, which were last adjusted in December 2011, also fell below cost-recovery levels in 2012. Throughout 2012, therefore, electricity tariffs remained unadjusted, making consumers to continue to pay 8.45 pesewas/kwh in spite of the rise in the cost of power generation, resulting in an increase in government subsidy for electricity consumption. With the tariffs remaining unadjusted irrespective of the high cost of production, government had to subsidize consumers by purchasing crude oil for the Volta River Authority (VRA) to enable it run its thermal plants to generate electricity. From the beginning of 2012, promissory notes totaling GH¢662.8 million were issued to banks by the government for the purchase of crude oil for the VRA. This was because the VRA could not raise letters of credit on its own to purchase crude oil due to financial difficulties it was facing. The issue of promissory notes by the government enabled banks to issue letters of credit to lift crude oil for the Authority. Of the total promissory notes issued, GH¢177.1 million was paid in 2012, with the remaining rolled-over for payment in 2013.

The 2012 Budget also sought to expand the scope of implementation of a number of pro-poor programs which provide equal opportunities and improvement in the well-being of the poor. To accelerate the achievement of universal health coverage, the government announced the implementation of the one-time premium payment policy under the National Health Insurance Scheme (NHIS). In total, the target for government spending on pro-poor programs in 2012 was GH¢3.4 billion, or 15.9% of total expenditure. This amount was intended to support, among others, the removal of schools under trees, provision of free school uniforms and exercise books, the capitation grant scheme, basic education certificate examination, senior high school subsidies, and scholarships to support further education. Others included support for the National Youth Employment Program (NYEP), the Livelihood Empowerment against Poverty (LEAP), and the National Youth Authority (NYA).

An amount of GH¢707.5 million was also provided in the 2012 Budget as a reserve expenditure vote to be used as matching funds for project loans, payment of judgment debt, oil lifting for the security agencies and election-related expenditures (Table 3). To offset additional spending commitments, the government planned to reduce discretionary current and domestic-financed capital expenditure by GH¢228 million. The savings were to be achieved by a GH¢69 million reduction in current spending and by delaying a number of identified new projects. A number of contingency measures (equivalent to 0.2% of non-oil GDP) were also identified to be taken in the event of revenue shortfalls or additional spending pressures.

Management of arrears continued to pose serious challenges to fiscal management in 2012. The stock of arrears increased to GH¢4.6 billion in 2012 from GH¢3.2 billion in 2011, with the bulk of these arrears related to projects (roads and non-roads) and wages. The implementation of the government's arrears clearance strategy in 2011 gave priority to the payment of road contractors to relieve pressures on their companies as well as on their lending banks. This led to a reduction of the outstanding obligations through cash payments and issuance of promissory notes and bonds. The requirement that commencement certificates be secured by line ministries before committing the government to any contractual obligations was expected to help reduce the occurrence of new arrears. The latter, however, still amounted to some 1.3% of non-oil GDP in 2011 as a result of the tight cash flow position at the end of the year and delays in the reconciliation of liabilities between the central government and utility companies (IMF, June 2012). The government also committed to remain up-to-date on transfers to the statutory funds, with their arrears scheduled to be settled by end-2012. In addition, the government sought to explore concessional financing options to bring forward the payment of arrears.

During the last four months of 2012, the government's Economic Management Team was directed to take immediate steps to consolidate and sustain the country's achievements in maintaining macroeconomic stability by continuing to hold down inflation, halt the depreciation of the cedi against the major currencies, and maintain discipline in government expenditure so that no unplanned expenditure was incurred, especially in an election year. Specifically, the directives called for a cooperative mechanism to be established between the Ministry of Finance and the Bank of Ghana in a manner that harmonized the implementation of fiscal and monetary policy and readily addressed any bottlenecks (Office of the President, September 2012).

On fiscal management, the Ministry of Finance was requested to undertake the following actions:

- Present an outlook for government expenditures for the remaining period of the year;
- Complete biometric records of public servants throughout the country
- Present details of arrears owed to contractors and steps being taken to effect payments;
- Release money to pay arrears of youth engaged in the National Youth Employment Program (NYEP);
- Review all outstanding payments to educational institutions and make payments;
- Complete the compilation of a contract database for all MDAs;
- Restore balance among government expenditures following the completion of migration and payment of arrears under the SSSS;
- Support the GRA in the implementation of tax reforms;
- Enhance measures to prevent and defend government against losses, including judgment debts;
- Institute stringent procurement, pre-audit and financial due processes to complement the efforts of the Ministry of Justice to stem the tide of mounting judgment debts against government; and
- Engage development partners to re-prioritize the execution of foreign-financed projects and release counterpart funds needed for the projects (Office of the President, September 2012).

Given that the financial year had only four months to end and the budget was not going to be revised the second time, some of the directives issued by the President, such as the payment of arrears to contractors for work done, payment of arrears to youth engaged in the NYEP, and honoring all outstanding payments to educational institutions, had the potential to generate huge unbudgeted expenditures, thus putting serious stress on the fiscal deficit target.

2.5.3 Fiscal Deficit

In the past, Ghana's fiscal deficits have been particularly high in election years, followed by painful adjustments thereafter. To forestall this development, the revised 2012 Budget sought to achieve an overall deficit (including divestiture proceeds and discrepancy) of GH¢4,669 million, equivalent to 6.7% of GDP. This reflected a carry-over of payments from 2011 as well as higher interest payments from the tightened monetary policy. To achieve the deficit target, higher-than-programmed wage increases awarded in early 2012 and the re-emergence of domestic energy subsidies were to be partly covered by the expected savings from the pension and payroll audits, some reduction in discretionary current and domestic-financed capital expenditure, and expected higher revenue from adjusting the mining fiscal regime. No provision was made to meet the financial implications of the directives given in September to the Cabinet Economic Management Team to implement critical policy actions, because the Budget had already been revised in July.

2.5.4 Public Debt and Management

The government's Debt Management Strategy for 2012-2014, published in December 2011, was guided by a strict adherence to the maintenance of fiscal sustainability and deepening of the domestic debt market. The key issues of the strategy were the following:

- Achieve a target of at least 35.0% grant element in any external loan portfolio, including loans under the mixed credit facilities of the export credit agencies;
- Ensure that floating interest rate loans do not exceed 10.0% of the total loan portfolio; and
- Extend the maturity profile of domestic debt.

In addition, the debt management strategy was to be driven by two principal fiscal objectives, viz. to keep the total public debt ratio below a ceiling of 50.0% of GDP, and only undertake additional borrowing if the debt did not compromise long-term sustainability (Government of Ghana, 2011).

To address the problems of the rising public debt stock, plans were formulated to rationalize the domestic debt auction calendar and build higher benchmark bonds. Seven-year and 10-year fixed-rate bonds were to be introduced in 2012 to extend the yield curve and reduce liquidity in the short-dated instruments. The rising floating rate for external debt was expected to lead to significant risks to debt servicing if the London Inter-Bank Offer Rate (LIBOR) increased in the medium-term. To mitigate the risks, government planned to hedge the interest rates through swap arrangements to allow for enhanced predictability of the country's debt servicing (Government of Ghana, 2011).

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2.5.5 Fiscal Decentralization

The government sought to implement fiscal decentralization to deepen participatory democracy, bring public services closer to the people, and improve public financial management at the local level. The process required the establishment of new relationships between the central government, which is politically accountable for government performance, and MMDAs, where services are provided and most resources spent. This relationship was to enable government to safeguard its interest in public expenditure and program priorities. It was also to promote efficiency in public resource management and improve quality in service delivery. In fulfillment of this promise, the government set up a Fiscal Decentralization Unit within the Ministry of Finance and Economic Planning to implement the fiscal decentralization program, which had been on the drawing board for decades.

In 2012, the government sought to conclude the review and realignment of functions and responsibilities of various levels of government. Other activities planned to be undertaken in 2012 included the following:

- Reviewing and implementing the intergovernmental fiscal framework drafted in 2008;
- Introducing social accountability systems into the public financial management system at the local level to strengthen citizen demand for effective local governance and service delivery. This was to be rolled out on a pilot basis in the Metropolitan and Municipal Assemblies;
- Undertaking direct releases of funds in respect of the 10 decentralized departments to MMDAs' treasuries to minimize delays in transfer of funds to MMDAs;
- Reviewing all funds transfer systems, including the District Assemblies Common Fund, with a view to ensuring that indicative budget allocations from the Centre were timeously communicated to the sub-national or local authorities, and actual transfer of grant allocations was in accordance with the transfer schedules; and
- Developing a formula for sharing budget ceilings between the MDAs and the MMDAs.

The 2012 Budget also sought to initiate the transfer of resources in conformity with the principle of "funds follow functions". This process required the MMDAs to determine their expenditure estimates to be consistent and in harmony with the overall development objectives of government, based on which resources would be transferred from the Centre to the sub-national or local authorities. The government was also to implement a composite budget system to support the fiscal decentralization process. To improve fiscal discipline, all MMDAs were required to use warrants in budget releases from all their revenue sources, in accordance with provisions in the Financial Administration Regulations (FAR). This was to be done by using appropriate codes and the chart of accounts and providing quarterly returns.

2.6 Development Cooperation

In June 2012, the government and its development partners reached an agreement on a 10-year Compact, aimed at leveraging partnerships for the country's shared growth and development. The Compact sought to help address the challenges that Ghana faced as it became a lower middle-income country as well as its transition to an oil-producing country. Specifically, the Compact sought to achieve the following objectives:

- Contribute to accelerated and inclusive economic growth and sustained poverty reduction by assisting Ghana to consolidate its middle-income status;
- Reduce dependence on official development assistance (ODA) and increase the level of domestic resource mobilization and reliance on alternative development financing;
- Ensure predictability and minimize the risk of abrupt reductions in inflows of grants and other forms of development finance;

- Focus development assistance on issues and sectors of national strategic importance; and
- Increase accountability, transparency and effectiveness of ODA to achieve better results and value.

The country's development partners also agreed to align their support to the priorities and strategic interventions identified by the government under the Compact.

2.7 Monetary Policy, Inflation and Exchange Rate

The conduct of monetary policy in 2012 was aimed at keeping inflation at a single digit level, with a target of 8.7% by end-December. The Bank of Ghana was therefore to continue to maintain a flexible exchange rate regime to support the inflation targeting framework. This was also expected to help preserve the gains of macroeconomic stability achieved in the previous year.

In the last quarter of 2011, pressures on the foreign exchange market emerged, and these spilled over into the first half of 2012, threatening macroeconomic stability. A delayed response to mop up liquidity created considerable pressures for monetary policy in early 2012. Having been successful in meeting its end-year inflation target and replenishing its stock of foreign reserves in 2011, the Bank of Ghana had to shift gear in the first five months of 2012 to stabilize a rapidly depreciating currency. Its attempt to stem the depreciation in January through sizeable forex interventions reduced international reserves by US$1.0 billion, but this had only a temporary effect on the cedi. As a result, the (adjusted) end-March net international reserves target was missed by about US$1.1 billion. The Bank of Ghana began tightening its policy rate in January by 100 basis points. However, the interbank rates remained low as sizeable excess reserves continued to accumulate in the banking system and further liquidity was injected, as a result of a partial rollover of maturing Bank of Ghana sterilization paper (IMF, July 2012).

The exchange rate depreciation created upside risks for inflation. To rein in inflationary expectations and slow the cedi depreciation, a joint effort between the Ministry of Finance and Bank of Ghana led to the implementation of a number of measures in April 2012. First, the Bank raised its policy rate twice in April and June, by 100 and 50 basis points, respectively, to 14.5 and 15% and reviewed banks' reserve requirements to stem the pressures. Interest rates on the money market responded swiftly to the monetary tightening. The 91-day Treasury bill rate rose from 10.8% in January to 22.4% in June, continued to 23% in September, and remained at this level until end-December. The 182-day Treasury bill similarly rose from 11.2% in January to 23.1% in July and remained at this level until end-December. The Bank of Ghana cited elevated upside risks to inflation, arising mainly from the pass-through effect of the continued upward volatility in the foreign exchange market, as the main reason for the policy rate hike.

Second, the Bank of Ghana introduced new requirements on credit pricing with the objective of addressing the high cost of credit in the country. It defined how commercial banks should calculate their own base rate (cost of funding, operational cost, cost of risk and profit margin) and required that commercial banks do not offer credit below such base rates (IMF, May 2013).

Third, the Bank of Ghana reduced the deposit banks' maximum net open forex position (from 15% to 10% on single currency and from 30% to 20% on aggregate exposures). The Bank of Ghana also required the deposit banks to hold mandatory reserves on foreign currency deposits in domestic currency, rather than in foreign currency, to raise the supply of foreign exchange in the market. In addition, the Bank of Ghana reintroduced its own bills at different tenors to facilitate the mopping up of excess liquidity. It also required the provision of a 100% cover by commercial banks for all Vostro accounts, to be held with the Bank of Ghana in line with the operational guidelines that precluded foreign investors from participating in the short end of the money market (IMF, June 2012).

Fourth, the Bank of Ghana took the following actions to ensure convergence of exchange rates in the market:

- Enforcing the foreign exchange repatriation requirements and establishing sunset clauses for concessions to increase supply of foreign exchange;
- Strengthening monitoring and intervention practices in the foreign exchange market. The Bank of Ghana became an active participant in the foreign exchange interbank market by offering two-way quotes for the U.S. dollar to all banks for intra-day trading in the currency; and
- Enhancing transparency and providing regular information on reserve levels and management policies.

The Bank of Ghana was also expected to ensure effective management of the exchange rate regime, with the view to maintaining adequate and sufficient foreign exchange reserves and export competitiveness as well as smoothening any excessive volatility in the foreign exchange market (Government of Ghana, 2011).

2.8 The Financial Sector

The priority of the Bank of Ghana regarding the financial sector was to continue to strengthen commercial banks' risk management capacity, with the view to ensuring a safe, sound and stable banking system to support broad-based economic growth. The Bank of Ghana's re-capitalization policy entered its second phase in 2012 for domestically-controlled banks and was to imbue these banks with higher capital for intermediation. During the year, the Bank had prepared two guidelines on risk management and intervention in troubled financial institutions. The first was aimed at improving risk management in all banks, while the second set out clear criteria for intervention to deal with weak banks. The Bank was also to put in place structures and implement infrastructure projects essential for facilitating credit delivery and creating an electronic payments system. The process of gathering credit data and registering of charges and collaterals by both the Credit Reference Bureau and Collateral Registry was to continue. The electronic credit transfer facility was to be extended to financial institutions across the country, while the e-zwich smartcard usage was to increase, as transactions such as the use of the facility for cash deposits, money loading and payments of salaries were on the increase (Government of Ghana, 2011).

A notable weakness in the country's fledgling financial sector was the depth of the domestic market for debt instruments. The bond market was dominated by government bonds, with a visible lack of corporate bonds. The scaling up of both public and private investment in support of accelerated growth depended critically on the availability of long-term debt in the domestic capital market. The government identified the need to deepen the bond market to facilitate mobilization of long-term sources of funding for both the public and the private sectors. In this regard, the government planned to set up a National Bond Market Committee in 2012 to undertake the following assignment:

- Identify the constraints in the development of a corporate bond market;

- Recommend legal, institutional and process changes needed to accelerate the development of a corporate bond market;
- Monitor the performance of the government bond market and to improve its effectiveness as an anchor for the corporate bond market; and
- Assist parastatals and the private sector to access the bond market by proposing appropriate financial/technical assistance mechanisms.

Discussions also took place on the opening of the short-term domestic bond market to non-residents to help shift government borrowing from the domestic banking system, especially from the Bank of Ghana, to the non-bank sector. The extension of exemptions from capital gains tax to companies that listed on the Ghana Stock Exchange (GSE) was also designed to encourage investors to increase their participation in securities traded on the GSE, and also make trading in the securities market more vibrant.

2.9 Foreign Trade and Payments

The composition of the country's external trade was to continue to be dominated by gold and cocoa, although the advent of oil production in late 2010 changed the pattern. The combination of cocoa, gold and oil production and exports increasingly made Ghana become a commodity powerhouse in sub-Saharan Africa, although the reliance on such a narrow range of commodities as well as a narrow range of export markets made the country's export earnings extremely vulnerable to volatility in these markets. There was therefore an urgent need to diversify exports in terms of products by prioritizing non-traditional exports as well as markets. Increases in oil and gold production were expected to maintain export growth in 2012, although the pace was expected to slow if prices of the two commodities fell. Cocoa production in 2012 was expected to be, at least, the same as in 2011, when output was boosted by favorable weather, high producer price and programs to rehabilitate cocoa farms. Exports were projected to increase from 27.5% of GDP in 2011 to 28.1% in 2012, with a significant proportion of the increase expected to come from oil exports as well as high volume and value of gold and cocoa exports.

Imports were to continue to grow strongly in 2012 on account of strong domestic demand underpinned by increases in capital imports for the development of infrastructure and the oil and gas sector. Imports reached 37.4% of GDP in 2011, driven by strong growth, oil imports and rising investment activity, especially in the oil sector. Although the expected lower international commodity prices were to partly offset the import bill, the trade deficit was expected to increase in 2012, but not too big to cause a significant increase in the current account deficit.

Despite the impressive export growth from oil, cocoa, and gold, the current account deficit for 2012 was projected to remain broadly unchanged at 8.3% of GDP, reflecting a strong rebound in imports. Over the medium term, the balance of payments was projected to remain in surplus, reflecting high commodity export prices, oil production and exports, and continuing portfolio capital inflows. Under these circumstances, the Bank of Ghana was expected to build further reserve cover to provide a larger cushion to manage potential external volatility. The official foreign reserves was projected at US$4.4 billion, covering above 3 months of projected imports (Government of Ghana, 2011).

3.0 Economic Performance in 2012

Economic performance in 2012 was very satisfactory. The economy was stable, buttressed by strong fiscal consolidation and a tight monetary policy. Economic growth was strong and broad-based, aided by sizable foreign direct investment inflows and imports of capital and intermediate goods.

3.1 Economic Growth

Ghana benefited from a favorable economic environment in 2011 and the growth prospects remained very strong in 2012. The economy grew by 14.0% in 2011 with the coming on stream of oil production in commercial quantities and buoyant private sector activities. The economy continued its robust expansionary pace in 2012 with oil-inclusive real GDP growth of 9.3% for the year, which was all but equal to the budget target of 9.4%. The non-oil real GDP growth of 8.6% in 2012 was higher than the 8.2% growth recorded in 2011 (Table 4). The strong aggregate real GDP growth in 2011 and 2012 reflected largely strong growth in the industry and services sectors, while agricultural growth was relatively moderate.

Table 4 - Ghana: Gross Domestic Product, 2011–2012 (Growth Rate in Percentage)

Sector	Including Oil		Excluding Oil	
	2011	2012	2011	2012
Agriculture	0.8	2.3	0.8	2.3
Industry	41.6	11.0	16.0	8.5
Services	9.4	12.1	9.4	12.1
GDP in Purchaser's Value	14.0	9.3	8.2	8.6

Source: GSS (June 2015)

The agricultural sector grew by 2.3% in 2012, which was higher than the 0.8% recorded in 2011, although it was lower than the target of 4.9% (see Tables 1 and 4). In terms of contribution to GDP, the share of the agricultural sector fell from 25.3% in 2011 to 22.9% in 2012. Agriculture continued to be dominated by cocoa and food crop production, which together accounted, on average, for 75.1% of the value of the sector's output in 2012 (GSS, June 2015).

The industrial sector grew by 41.6% in 2011, benefiting from the initial oil push, and then further by 11.0% in 2012. Industry's contribution to GDP increased from 25.6% in 2011 to 28% in 2012, overtaking agriculture as the second largest GDP contributor. The sector was dominated by construction, manufacturing, and mining and quarrying activities. The contribution of the construction sub-sector to GDP rose from 8.9% in 2011 to 11.5% in 2012, while that of the manufacturing sub-sector declined from 6.9% to 5.8%. The contribution of mining and quarrying, which includes oil, rose from 8.4% to 9.5% over the period. The contribution of oil to GDP rose from a mere 0.4% in 2010 to 7.7% in 2012, overtaking manufacturing as the second major industrial sector contributor to GDP.

The services sector grew strongly by 9.4% in 2011 and further by 12.1% in 2012. The sector became the leading sector of the economy in 2006 (after the rebasing of GDP figures in 2010), in terms of its contribution to GDP. The share of the sector in GDP stood at about 49% in both 2011 and 2012. The sector includes financial and insurance services, real estate and related support services, communications, transport, and storage and trading.

3.2 Fiscal Performance

The fiscal outcome that was reported for 2012 raises several questions. The reported total revenue and grants were just below budget estimates, whereas expenditure was significantly higher than the estimates for the year. As a result, the reported fiscal deficit was substantially above the estimate. The large excess reflected a big overrun in expenditure attributed to “arrears payment” and “discrepancy.”

3.2.1 Government Revenue and Grants

The reported total revenue and grants in 2012 amounted to GH¢16.7 billion, which was 1.5% below the target of GH¢16.9 billion but 29.7% higher than the figure in the previous year. During the year, the reported revenue from all sources showed significant increases relative to their targets, except for direct taxes and revenue from “other sources,” including Social Security and National Insurance (SSNIT) contributions. Compared to the corresponding levels in 2011, however, the reported revenue from all sources recorded significant increases. Total domestic revenue was equal to GH¢15.5 billion, indicating an increase of 0.8% above the target for the year but 32.8% higher than the amount recorded in 2011. The huge increase in total domestic revenue was driven by increases in international trade taxes and non-tax revenues. Tax revenue (including import exemptions) amounted to GH¢12.4 billion in 2012, which was only 0.4% below the target for the year but higher than the corresponding amount in 2011 by 28.0%. The shortfall in tax revenue relative to the target for the year was attributed to the significant drop in direct tax revenue. Revenue from direct taxes fell short of the target for the year by GH¢338.2 million or 5.8%, but this was 37.1% higher than the figure for 2011. Revenue from international trade taxes was higher than the target for the year by GH¢262.4 million or 10.5%, and 28.8% higher than the amount collected in 2011. Revenue from indirect taxes exceeded the target for the year by only GH¢11.1 million or 0.3%, but this was 35.1% higher than the corresponding revenue collected in 2011. The increases in revenue from international trade taxes, indirect taxes and other taxes in 2012 were not enough to offset the drop in the direct tax revenue, resulting in the total tax revenue missing the target for the year by GH¢49.5 million (Table 5).

Non-tax revenue was GH¢2.8 billion in 2012, which was 6.7% higher than the target for the year and 56.6% higher than the corresponding figure for 2011. Indeed, non-tax revenue in 2012 would have been much higher than the GH¢2.8 billion mobilized had the expected GH¢525 million from some mining companies in respect of payments for securing stability agreements materialized.

The reported sharp increase in non-tax revenue in 2012, together with the increases in international trade taxes, were the major drivers behind the increase in the total domestic revenue during the year.

Total grants from development partners in 2012 amounted to GH¢1.2 billion, which was less than the target for the year by GH¢389.4 million or over 25%, and again lower than the amount received in 2011 by 1.3%. In terms of GDP, actual grants received in 2012 amounted to 1.5% against a target of 2.2% (Table 5). The huge shortfall in grants in 2012 was attributed to the slow disbursement of project funds by the development partners.

Table 5 - Ghana: Actual Revenue and Grants, 2012)

Item	Amount (GH₵' m)	% of Total	% of GDP	Changes		
				From Estimate (GH₵' m)	From Estimate (%)	From 2011 (%)
Total Domestic Revenue	15,508.1	93.0	20.7	130.2	0.8	32.8
Tax Revenue	12,388.9	74.3	16.5	-49.5	-0.4	28.0
of which Direct taxes	5,536.2	33.2	7.3	-338.2	-5.8	37.1
Indirect taxes	3,507.6	21.0	4.7	11.1	0.3	35.1
International trade taxes	2,769.0	16.6	3.7	262.4	10.5	28.8
Others	576.1	3.5	0.8	15.2	2.7	22.2
Non-Tax Revenue	2,852.9	17.1	3.8	180.3	6.7	56.6
Others (incl. SSNIT contribution)	266.3	1.6	0.2	-0.6	-0.2	24.7
Grants	1,160.3	7.0	1.5	-389.4	-25.1	-1.3
Total Revenue and Grants	**16,668.4**	**100.0**	**22.2**	**-259.2**	**-1.5**	**29.7**

Source: Government of Ghana (March 2013)

Table 6 - Ghana: Actual Revenue and Grants, 2012 (Per Quarter in GH₵' million)

Item	Q1	Q2	Q3	Q4	Q1-Q4
Total Revenue	3,355.37	3,813.93	3,579.49	4,759.30	15,508.09
Tax Revenue	2,788.87	3,199.39	2,871.37	3,657.62	12,517.25
of which Direct taxes	1,118.92	1,462.13	1,181.29	1,773.87	5,536.2
Indirect taxes	1,008.36	1,064.91	1,011.50	1,127.27	4,212.04
International trade taxes	661.59	672.36	678.57	756.48	2,769.00
Non-Tax Revenue	517.66	591.18	672.50	1,071.61	2,852.95
Other revenue measures	48.84	23.35	35.62	30.07	137.89
Grants	569.41	332.63	142.78	115.49	1,160.32
Total Revenue and Grants	**3,924.78**	**4,146.56**	**3,722.27**	**4,874.79**	**16,668.41**

Source: Government of Ghana (March 2013)

Table 6 shows that, on quarterly basis the growth in total revenue and grants in 2012 was not uniform. Total revenue and grants exhibited large swings, rising from GH¢3.9 billion in the first quarter to GH¢4.1 billion in the second quarter. Thereafter, total revenue and grants dropped sharply to GH¢3.7 billion in the third quarter but jumped to GH¢4.9 billion in the fourth quarter. The trend exhibited by total revenue and grants during the year was driven to a large extent by the swings in total domestic revenue, which also rose from GH¢3.4 billion in the first quarter to GH¢3.8 billion in the second quarter, and then dropped to GH¢3.6 billion in the third quarter before rising sharply to GH¢4.8 billion in the fourth quarter. On the other hand, grants declined sharply from GH¢569.4 million in the first quarter of the year to GH¢115.5 million in the fourth quarter, indicating a drop of nearly 80%. Thus, while about 29.2% of the total domestic revenue was realized in the last quarter of the year, just 10% of grants was disbursed in the same period. Revenues from direct taxes and international trade taxes exhibited similar swings as total tax revenue during the year, while indirect taxes recorded a steady but small increase throughout the year. For each of these three taxes, however, the highest revenue was realized in the fourth quarter of the year (Table 6).

3.2.2 Government Expenditure

The reported expenditure for 2012 shows overruns in all the expenditure items. Total expenditure (including net lending, arrears, tax refunds, and discrepancy) was reported to be GH¢25.4 billion, which was equivalent to 33.7% of GDP. This figure was also 17.5% higher than the target for the year and over 63% higher than the corresponding figure in 2011 (Table 7).

Total recurrent spending was reported to be GH¢16.0 billion in 2012, which was 22.3% higher than the target for the year and 64.6% higher than the corresponding figure in 2011. The recurrent spending in 2012 was higher than total domestic revenue for the year by GH¢465.3 million or 3.0%. This means that domestic revenue was not enough to cover recurrent spending during the year, implying that government had to borrow to finance capital expenditure, arrears payment, tax refunds and part of the recurrent spending. The reported huge increase in recurrent spending was said to have arisen from spending on wages and salaries, subsidies and transfers, which together exceeded the estimates for the year by GH¢1.9 billion.

Wages and salaries in 2012 were reported to be almost GH¢6.7 billion, which was GH¢1.0 billion or 18.2% more than the target for the year and 47% more than the corresponding figure in 2011. Wages and salaries accounted for 41.7% of total recurrent spending in 2012 and 26.2% of total expenditure and net lending (Table 7). The huge jump in the wages and salaries bill in 2012 was attributed to the full roll-out of the Single Spine Salary Structure and related arrears, as well as the 18% salary adjustment for public servants that was effected during the year. The migration of government employees to the Single Spine Salary Structure, which had originally been planned to be completed by end-2011, was virtually completed in 2012, with 99% of public servants placed on the new structure. As a result, the public sector wages and salaries bill increased substantially in 2012, absorbing 43% of total revenue for the year.

Table 7 - Ghana: Actual Government Expenditure*, 2012

Item	Amount (GH₵' m)	% of Total	% of GDP	Changes		
				From Estimate (GH₵' m)	From Estimate (%)	From 2011 (%)
Recurrent Expenditure	15,973.4	62.9	21.2	2,910.1	22.3	64.6
Wages and salaries	6,665.5	26.2	8.8	1,028.0	18.2	47.0
Goods and Services	1,321.8	5.2	1.8	353.8	36.7	82.6
Interest Payments	2,436.1	9.6	3.2	244.9	11.2	51.2
Subsidies and Transfers	4,477.8	17.6	5.9	917.8	25.8	78.8
Reserve Expenditure Vote	1,072.1	4.2	1.4	364.6	51.5	224.4
Capital Expenditure	4,616.3	18.2	6.1	-1,356.0	-22.7	25.6
Arrears	3,666.1	14.4	4.9	1,182.3	47.6	98.3
Tax Refunds	163.7	0.6	0.2	86.6	112.3	283.7
Discrepancy	964.3	3.8	1.3	964.3	-	›1,200.0
Total Expenditure*	**25,383.8**	**100.0**	**33.7**	**3,787.2**	**17.5**	**63.6**

*including net lending, arrears, tax refunds, tax exemptions and reserve expenditure vote
Source: Government of Ghana (March 2013)

Reported spending on goods and services in 2012 exceeded the target by GH¢353.8 million or 36.7%; it also exceeded the 2011 figure by almost 83%. Spending on goods and services accounted for 8.3% of total recurrent expenditure and 5.2% of total expenditure in the year.

Reported interest payments increased from GH¢1.6 billion in 2011 to GH¢2.4 billion in 2012, reflecting an increase of 51.2%. Interest payments in 2012 also exceeded the budget estimate by GH¢245 million or 11.2%. The bulk of the payments, amounting to GH¢879.8 million or 36.1% of the total, was paid in the last quarter of the year. As a share of total recurrent expenditure, interest costs dropped to 15.2% in 2012 from 16.6% in 2011. There was also a drop from 10.4% in the share of interest payments in total expenditure in 2011 to 9.6% in 2012. Interest costs accounted for 15.7% of total domestic revenue during the year, from 13.8% in 2011. As a percentage of GDP, interest payments increased from 2.7% in 2011 to 3.2% in 2012 (Table 7). It is explained that the overrun in interest payments in 2012 was due mainly to the depreciation of the domestic currency in the first half of the year and the rise in interest rates on the domestic money market, which together caused interest payments to exceed the target for the first seven months of the year by GH¢132 million. Increased borrowing and the associated higher interest rates also contributed to the rise in domestic interest payments (see IFS, December 2015).

Reported subsidies and transfers to government units and statutory funds increased from GH¢2.5 billion in 2011 to GH¢4.5 billion in 2012, reflecting an increase of 78.8%. Subsidies and transfers were also 25.8% higher than the budget estimate for the year and accounted for 28% of total recurrent expenditure, 17.6% of total expenditure, and 28.9% of total domestic revenue. In relation to GDP, subsidies and transfers increased to 5.9% in 2012 from 4.2% in 2011 (Table 7).

On quarterly basis, total government expenditure in 2012 was reported to have increased from GH¢5.0

billion in the first quarter to GH¢7.0 billion in the second quarter, dropped to GH¢5.4 billion in the third quarter, and thereafter jumped to GH¢8.6 billion in the last quarter (Table 8). The rise in expenditure in the second quarter was due to the large discrepancy item of GH¢1.4 billion that was recorded for the period. The rise in the last quarter was said to have been caused mainly by higher spending, including spending "related to the December elections."

Table 8 - Ghana: Central Government Expenditure, 2012 (Per Quarter)

Item	Q1	Q2	Q3	Q4	Q1-Q4
Compensation of Employees	1,617.27	1,750.21	1,935.65	1,874.49	7,177.63
of which wages and salaries	1,457.57	1,633.88	1,836.93	1,737.15	6,665.52
Goods and Services	80.57	177.38	153.11	910.78	1,321.83
Interest Payments	335.85	672.05	548.46	879.79	2,436.15
Subsidies and Transfers	1,086.70	981.10	1,045.43	1,364.61	4,477.83
Capital Expenditure	1,079.19	901.43	1,199.50	1,436.18	4,616.30
Tax Expenditure (Exemptions)	180.39	186.63	207.68	204.23	778.92
Reserve Expenditure Vote	281.54	297.30	127.06	366.19	1,072.09
Total Expenditure	**4,321.42**	**4,663.14**	**4,190.49**	**6,694.7**	**20,589.75**
Arrears	1,461.24	877.29	536.15	791.40	3,666.08
Tax Refunds	40.93	39.51	40.57	42.72	163.73
Discrepancy	-842.25	1,438.72	-85.70	453.53	964.30
Total Expenditure and Net Lending	**4,981.34**	**7,018.66**	**5,401.51**	**7,982.35**	**25,383.85**
% of Total	**19.6**	**27.7**	**21.3**	**31.4**	**100.00**

Source: Government of Ghana (March 2013)

A quarter-to-quarter analysis of reported expenditure in 2012 reveals interesting but doubtful outcomes, especially in the final quarter, which raises questions regarding the authenticity of particular items. For example, the wages and salaries bill rose steadily from GH¢1.5 billion in the first quarter of the year to GH¢1.8 billion in the third quarter, before dropping to GH¢1.7 billion in the last quarter (see Table 8). The increase in the wage bill after the first quarter was caused by the payment of (i) Single Spine Salary Structure arears carried over from 2011 and (ii) arrears in the first four months of 2012 related to the 18% salary adjustment. Subsidies and transfers dropped from GH¢1.1 billion in the first quarter to GH¢981 million in the second quarter and thereafter rose steadily, reaching GH¢1.4 billion in the fourth quarter. This implies, unusually and doubtfully, that over 30% of the total subsidies and transfers in 2012 took place in the last quarter (Table 8). Further confounding is the fact that the bulk of expenditure on goods and services, totaling GH¢910.8 million or 68.9% of the total for the year, was also allegedly made in the last quarter (see Tables 7 and 8).

Notably, while total and recurrent expenditure exceeded budget estimates by far, capital expenditure, which totaled GH¢4.6 billion in 2012, was GH¢1.4 billion or 22.7% lower than the budget estimate for the year. What capital expenditure had in common with other lines of expenditure was that, the bulk, equal to 31.1%, reportedly occurred in the last quarter (Table 8). The under-spent capital budget in 2012 was, however, 25.6% higher than the corresponding figure in 2011. As a share of total expenditure and net lending, capital spending dropped to 18.2% in 2012 from 24% in 2011 (Table 7). However, it has to be recognized that, to the extent that some of the transfers to the statutory funds, such as the Road Fund, Ghana Education Trust Fund (GETFund) and District Assemblies Common Fund (DACF), go into financing capital projects, the reported capital expenditure figures may have been understated.

Reported arrears payments in 2012, both on an annual basis as well as quarterly basis, are even more puzzling. The total arrears payment reported for 2012 was GH¢3.7 billion. This was nearly double the amount paid in 2011 and also GH¢1.2 billion or 47.6% higher than the target for the year (see Table 9). Of the reported total arears payment of GH¢3.7 billion, GH¢3.3 billion was in respect of non-project-related arrears and GH¢360 million in respect of project-related arrears. The Government also issued bonds worth GH¢991.1 million to cover outstanding debts to Ghana Commercial Bank and SSNIT, as part of the arrears liquidation plan.

Table 9 - Arrears Payments, 2012 (GH₵' million)

Type	Revised Budget	Q1	Q2	Q3	Q4	Q1-Q4	
						Total	Slippage
Roads	250.0	-	-	-	359.8	359.8	109.8
Non-Roads	2,233.8	1,461.2	877.3	536.2	431.6	3,306.3	1,072.5
Deferred payments	1,204.0	942.4	15.0	202.4	235.7	1,395.5	191.5
Wage	991.0	480.0	862.3	333.8	195.9	1,872.0	881.0
DACF							
GETF	38.8	38.8	-	-	-	38.8	-
Total	**2,483.8**	**1,461.2**	**877.3**	**536.2**	**791.4**	**3,666.1**	**1,182.3**

Source: Government of Ghana (March 2013).

On quarterly basis, arrears paid dropped steadily from GH¢1.5 billion in the first quarter to GH¢536 million in the third quarter, before rising to GH¢791 million in the fourth quarter (Table 9). While the arrears clearance strategy of the government provided room for a carry-over of new arrears of GH¢270 million, the actual amount (carried-over floats and residual petroleum subsidies) exceeded the target. The carried-over wage arrears from 2011 to 2012 were fully repaid in the second and third quarters of 2012, making the net arrears payment at end-September 2012 to reach GH¢2,874.4 million. Of this amount, GH¢1,676.1 million, representing 58.3%, was payment in respect of deferred wages resulting from the implementation of the SSSS and the January-April portion of the 18.0% salary adjustment for public workers implemented in early 2012.

Although the reported arrears payment in 2012 exceeded the program target by GH¢1.2 billion, new arrears totaling GH¢5,360.4 million were accumulated by end-December 2012, made up of GH¢250 million for road arrears, GH¢3,762.6 million for non-road arrears, GH¢42.0 million for Single Spine wage arrears, and GH¢1,305.8 million carried-over arrears from 2008-2011 (see Table 10).

Table 10 - Ghana: Outstanding Arrears at end-December 2012

Description	Amount (GH₵' million)	
Road Arrears		250.00
Non-Road Arrears		3,762.6
• Outstanding bills at CAGD	510.00	
• Outstanding bills at MOFEP	474.60	
• Indebtedness to utility companies	249.20	
• Fuel subsidies	363.40	
• Social security	360.00	
• DACF, GetFund, National Health Insurance	454.00	
• COCOBOD	857.60	
• Domestic interest	223.40	
• Promissory notes issued for waste management	270.40	
Single Spine Wage Arrears		42.00
Stock of Arrears from 2008-2011		1,305.80
Total		**5,360.4**

Source: Ministry of Finance and Economic Planning, 2013 Budget Framework Paper (January 2013).

Tax exemptions and tax refunds were reported to be GH¢942.6 million in 2012, indicating GH¢482.8 million or 51.2% more than the budget estimate for the year and significantly higher than what was paid in 2011. An amount of GH¢1.1 billion, which was 51.5% higher than the estimate for the year, was also reported to have been spent from the reserve expenditure vote. In addition, as much as GH¢964.3 million was reported to have been incurred during the year as a discrepancy item for which no budget provision was made. Together, an amount of GH¢2.0 billion was reportedly spent as reserve expenditure vote and discrepancy in 2012 (Table 7).

3.2.3 The Fiscal Deficit

With the reported total revenue and grants amounting to 22.1% of GDP and total expenditure amounting to the equivalent of 33.7% of GDP, the year ended with a reported fiscal deficit equal to 11.6% of GDP. The deficit was nearly twice the level estimated in the revised budget (6.7%) and, according to the reported fiscal figures, was caused mainly by "arrears over-payment and spending discrepancy" that took place during the year. As demonstrated in Table 11, above-budget-target arrears paid was GH¢1,182.3 million, while excess (spending) discrepancy was GH¢964.3 million. The two together amounted to GH¢2,146.6 million, equivalent to 2.8% of GDP. This figure is not supported by the facts, and it is therefore doubtful.

Table 11 - Ghana: Fiscal Deficit, 2012

Item	Target		Outturn			
	Amount (GH₵' million)	% of GDP	Amount		Changes from Target	
			GH₵' m	% of GDP	GH₵' m	% of GDP
Total Revenue and Grants	16,927.6	22.5	16,668.4	22.1	-259.2	-0.4
Domestic Revenue	15,377.9	20.4	15,508.1	20.6	130.2	0.2
Total Expenditure*	21,596.6	28.7	25,383.8	33.7	3,787.2	5.0
Overall Deficit (incl. divestiture & discrepancy)	4,669.0	6.2	8,715.4	11.6	4,046.4	5.4
of which arrears payment	2,483.8	3.3	3,666.1	4.8	1,182.3	1.5
discrepancy	-	-	964.3	1.3	964.3	1.3

*including net lending, arrears, tax refunds and exemptions, reserve vote and discrepancy.
Source: Computed from Tables 6 and 7

The fiscal consolidation efforts made under the IMF-supported program, which ended in July 2012, yielded an overall fiscal deficit (including discrepancy) of 5.2% of GDP as at June 2012. The outgoing administration reported a deficit of 7.4% of GDP at the end of September. The new administration, however, reported the year's deficit as 11.6% of GDP, implying that the October-December deficit alone was an unbelievable 4.2% of GDP. Further, it was reported that most of the alleged overruns in expenditure and the deficit occurred in November. Since November was the month immediately preceding the 2012 elections, it was alleged that the overruns were election-related. This story seems to have gained credence in the country, with the deficit being often cited as one of the unprecedented figures in Ghana's history.

Table 12 - Ghana: Profile of Central Government Fiscal Deficit, 2012 (Percent of GDP)

Indicator	Q1	Q2	Q3	Q4	Q1-Q4
Target					
Overall Deficit (commitment)	0.3	1.8	1.0	0.0	3.0
Overall Deficit (cash)	2.2	2.7	1.5	0.3	6.7
Overall Deficit (including discrepancy)	1.4	3.6	1.2	0.5	6.7
Outcome					
Overall Deficit (commitment)	0.5	0.7	1.6	2.9	5.7
Overall Deficit (cash)	2.5	1.9	2.3	3.5	10.2
Overall Deficit (incl. discrepancy)	1.4	3.8	2.2	4.1	11.6

Source: Government of Ghana (2012; March 2013)

Table 13 - Ghana: Central Government Fiscal Overruns, 2012 (GH₵' million)

Item	Q1	Q2	Q3	Q4	Q1-Q4	As % of Target	As % of Total
Total Domestic Revenue	86.0	509.6	-397.2	-68.1	130.2	0.8	-50.2
Tax Revenue	14.0	431.5	-393.5	-48.3	3.6	0.0	-1.4
Non-Tax Revenue	72.0	78.1	-3.7	-19.8	126.6	4.7	-48.8
Grants	106.8	-39.3	-185.8	-271.2	-389.4	-25.1	150.2
Total Rev. & Grants Overrun	192.8	470.3	-583.0	-339.3	-259.2	-1.6	100.0
% of Total	-74.4	-181.5	224.9	130.9	100.0		
Wages and salaries	0.7	131.6	219.8	675.9	1,028.0	18.2	27.1
Goods and Services	0.0	-57.1	-132.3	544.0	354.6	36.7	9.4
Interest Payments	0.0	101.9	53.0	90.1	245.0	11.2	6.5
Subsidies and Transfers	262.8	128.7	223.2	285.5	900.2	25.3	23.8
Capital Expenditure	142.0	-610.2	-469.2	-387.6	-1,325.0	-22.2	-35.0
Reserve Expenditure Vote	-	32.0	38.7	294.0	364.7	51.5	9.6
Arrears	150.8	258.2	195.8	577.6	1,182.4	47.7	31.2
Discrepancy	-285.8	849.5	85.9	314.7	964.3	-	25.5
Total Expenditure Overrun	**270.3**	**854.4**	**244.8**	**2,417.6**	**3,787.1**	**19.0**	**100.0**
% of Total	**20.5**	**20.3**	**1.0**	**58.2**	**100.0**		

Source: Computed from Government of Ghana (2012; March 2013)

It is important to mention that, notwithstanding the unusually-high reported fiscal deficit for the last quarter of the year, domestic revenue exceeded the target at least in December, while total expenditure was lower than the target, indicating resumption of fiscal consolidation towards the end of the year.

3.2.4. Financing the Fiscal Deficit

During the year, the strategy of shifting the financing of the fiscal deficit from the central bank to the banks and the non-banking public, with the view to stemming injection of high-powered money into the economy and thus curbing inflation was successful. As at the end of 2012, it had become evident that the bulk of the financing of the deficit had come from domestic sources. Net domestic financing accounted for 80.3% of the total deficit, against the target of 59.1%, while net foreign financing accounted for only 18.2% of the total deficit, against a planned target of 38.1%. This confirms the increased reliance on domestic sources for financing the deficit.

Borrowing from foreign sources (concessional and non-concessional loans) also financed 25.4% of the fiscal deficit as compared to 59.1% planned for the year. Even exceptional financing from HIPIC Relief funds and others was just 0.5% of the total deficit, against the planned target of 2.8%, again pointing to the decreasing importance of foreign sources of financing fiscal deficits.

Furthermore, the central bank's financing of the deficit, which was planned to stay at 26.4% for 2012, rather reduced to 25.2%. The banking sectors' financing of the deficit accounted for 28.3% as compared to the planned target of 21%, while the non-banking public financing of the deficit accounted for 50.9% of the total deficit compared with the planned target of 30.1% (Table 14).

The successful shifting of the fiscal deficit financing from central bank to the banks and the non-banking public might have contributed to maintain inflation at single digits, in spite of the huge depreciation of the cedi during the first half of the year.

Table 14 - Ghana: Financing the Fiscal Deficit, 2012

Item	Target		Outturn		
	Amount (GH₵' million)	% of Total	Amount (GH₵' mil.)	% of Total	% Change
Overall Deficit (incl. divestiture & discrepancy)	4,668.99	100.00	8,715.44	100.00	86.7
Financing					
Foreign (net)	1,777.81	38.08	1,586.40	18.20	-10.77
Borrowing (concessional and non-concessional)	2,760.39	59.12	2,210.00	25.36	-19.9
Amortization due	-982.58	-21.04	-623.60	-7.16	36.53
Exceptional Financing (HIPC Relief)	130.60	2.80	44.24	0.51	-66.12
Domestic (net)	2,760.58	59.13	7,084.80	81.29	156.64
Banking	980.27	21.00	2,463.50	28.27	151.31
of which Bank of Ghana (Central Bank)	1,234.16	26.43	2,196.79	25.20	78.00
Non-banks	1,780.31	38.13	4,434.30	50.88	149.07
Other domestic financing	-	-	187.00	2.14	

Source: Government of Ghana (2012; March 2013)

3.2.5 Public Debt

The reported total public debt increased from GH¢23.7 billion in 2011 to GH¢35.1 billion in 2012, causing the public debt-GDP ratio to rise to 48.4% from 41.6%. During the year, the composition of the public debt stock shifted in favor of domestic debt. Total domestic debt increased from GH¢11.8 billion (20.8% of GDP) in 2011 to GH¢18.4 billion (25.3% of GDP), reflecting an increase of 35.9% over the period. The share of domestic debt in total public debt stock increased from 49.9% in 2011 to 52.5% in 2012, while the share of the external debt dropped from 50.1% to 47.5% over the period (Table 16). The sharp rise in the domestic debt stock in 2012 reflected mainly increases in the medium-term instruments, driven by the issuance of 3-year and 5-year Government of Ghana bonds. Total external debt similarly increased from GH¢11.9 billion (US$7.6 billion) in 2011 (equivalent to 20.8% of GDP) to GH¢16.7 billion (US$9.1 billion) in 2012 (equivalent to 23.1% of GDP). The increase in external debt by 19.7% in dollar terms reflected largely borrowing from both bilateral and multilateral institutions, including from the IMF Extended Credit Facility arrangement, while the increase by 40.3% in cedi terms reflected both the nominal increase in external borrowing in dollar terms plus the depreciation of the cedi exchange rate, in particular during the first half of 2012 (Tables 15 and 16).

Total loans committed but not disbursed stood at US$8.6 billion at end-2012, of which US$8.1 billion was external loans. Of the external loans, US$3.0 billion was from the China Development Bank, which was signed in December 2011. Loans concluded but not signed amounted to US$2.8 billion as at December 2012. Of this amount, US$1.95 billion had received Parliamentary approval but was awaiting signature.

Table 15 - Ghana: Public Debt and Sustainability Profile, 2011-2012)

Item	2011	2012
Total Domestic Debt (GH¢' billion)	11.8	18.4
Total External Debt (GH¢' billion)	11.9	16.7
(US$' billion)	(7.6)	(9.1)
Total Public Debt (GH¢' billion)	23.7	35.1
As % of Total Public Debt		
External Debt	50.1	47.5
Domestic Debt	49.9	52.5
As % of GDP		
Domestic Debt	22.2	26.4
External Debt	19.4	22.0
Public Debt	41.6	48.4
As % of Total Domestic Revenue		
Domestic Debt	101.4	147.2
External Debt	101.6	133.0
Total Public Debt	203.0	280.2
As % of Exports		
Domestic Debt	60.2	74.0
External Debt	59.9	67.6
Total Public Debt	120.1	141.6

Source: IFS (June 2015)

Despite the continued build-up of the debt stock in 2012, the economy did not show any serious sign of debt distress. According to the World Bank and the IMF, the projected level and composition of the country's external debt (using 2011 as the base year) showed only a small deterioration in the various debt burden indicators. As Table 15 shows, the public debt-GDP ratio increased from 41.6% in 2011 to 48.4% in 2012, which was below the 50% target set by the government for the year. Total public debt-domestic revenue ratio, however, increased from 203% in 2011 to 280.2% in 2012, showing some deterioration in that particular debt-burden indicator. On the other hand, while the total public debt-to-exports ratio increased from 120.1% to 141.6%, this did not represent a serious sign of debt distress. The World Bank-IMF standard stress tests for the country showed only limited risk of debt distress in 2012. This was because the macroeconomic fundamentals in 2012 were strong, with interest rates and the cedi exchange rate moving in the right direction and the economy continuing to show strong growth prospects.

3.3 Monetary Performance

Monetary policy implementation in 2012 was subject to large swings, although the measures introduced were largely successful in absorbing excess liquidity in the system and helping to stabilize the cedi and controlling inflation. Developments in the monetary sector showed a general slowdown in all the monetary aggregates. The annual growth of broad money supply (M2+) increased from 29.1% in the first quarter to 34.2% in the second quarter, and thereafter dropped to 24.3% in the last quarter of 2012 (see Table 16). The growth in the M2+ was driven mainly by increases in the net domestic assets of the banking system, supported marginally by the net foreign assets.

During 2011, monetary policy became less tight and interest rates fell to low levels. In 2012, movements in interest rates were largely influenced by developments in the domestic foreign currency markets. Notwithstanding the heavy intervention by the Bank of Ghana in early 2012, considerable pressure was built up in the foreign exchange market and the cedi began to depreciate. The depreciation of the cedi during the first half of the year was reined in after the measures jointly implemented by the Ministry of Finance and Bank of Ghana led to a tightening of monetary policy, thereby causing the money market rates to rise to shift investor preference to money market instruments.

Table 16 - Ghana: Selected Monetary Indicators, 2012

Indicator	March	June	Sept	Dec	Average for 2012
Growth of Broad Money Supply (M2+) (%)	29.1	34.2	28.8	24.3	29.6
Growth of Credit to the Private Sector (%)	44.6	39.0	43.8	31.4	39.7
Bank of Ghana Policy Rate (%)	13.5	15.0	15.0	15.0	14.5
91-Day Treasury Bill Rate (%)	12.3	22.4	23.0	22.9	18.7
182-Day Treasury Bill Rate (%)	12.6	22.7	22.9	22.9	19.1
1-Year Treasury Bill Rate (%)	12.9	22.0	22.5	22.9	19.0
Deposit Banks' Lending Rate	25.9	24.6	25.7	25.7	25.5
Inflation Rate (%)	8.8	9.4	9.4	8.8	9.1
Exchange Rate (GH₵=US$1.00)	1.69	1.87	1.89	1.88	1.81

Source: Bank of Ghana, Quarterly Economic Bulletins (2012 issues)

During the year, the Bank of Ghana policy rate witnessed three consecutive increases, culminating in a 250-basis-point increase to 15% in June, prompting a general rising trend in the rates in both the money and interbank markets. The policy rate remained at the 15% level throughout the second half of the year. The Bank of Ghana cited elevated upside risks to inflation arising mainly from the pass-through effect of the continued upswings in the foreign exchange market, particularly during the first half of the year. Although the exchange rate began to stabilize in the second half of the year, interest rates continued to rise, driven by increased borrowing by the government. The 91-day, 182-day and 1-year Treasury bill rates all went up during the first three quarters of the year, ending in September at 23%, 22.9% and 22.5%, respectively. The average commercial bank lending rate remained above 25% throughout the year, except in June (Table 16).

Credit growth accelerated sharply by over 40% in 2012, a rate that was last observed in 2008. Despite this, the ratio of credit to GDP remained well below values observed in peer countries, in part due to the strong growth experienced in the country (IMF, May 2013). Although commercial banks' lending rates remained high in 2012, lending to the private sector remained strong. At the end of the fourth quarter of 2012, banks' outstanding credit to the public and private sectors stood at GH¢13.0 billion, from GH¢9.3 billion in the corresponding period of 2011, reflecting an increase of nearly 40%. The share of the private sector outstanding credit dropped marginally to 88.1% in the fourth quarter of 2012 from 88.3% in the corresponding period in 2011. The annual rate of growth of outstanding credit to the private sector increased from 26.3% at the end of December 2011 to 43.8% in the third quarter of 2012, before dropping to 34.1% in the fourth quarter. In real terms, the annual growth rate of private sector credit dropped year-on-year from 31.4% in the third quarter to 23.2% in the fourth quarter, compared with 16.3% in the fourth quarter of 2011 (Bank of Ghana, October-December, 2012). Banks' lucrative investments in government securities increased credit to the government and tended to reduce the incentives for seeking lending opportunities in respect of the private sector.

The government successfully issued a 5-year domestic bond in August to raise funds to finance a number of infrastructure projects in the country. This was the second 5-year bond issued in the year, with the first issued in June for GH¢267 million at a coupon rate of 26%. Although the government had planned to raise GH¢300 million from the August issue, the auction recorded subscriptions of more than GH¢1.0 billion, leading the government to accept GH¢898 million at a coupon rate of 23%. This reflected a drop of three percentage points compared with the coupon rate of the bond issued in June. Besides, about 80% of the August bids came from foreign investors, compared with 32% for the June issue. By August, the yield for the 3-year bond issued in May had dropped from 24% to under 20%, and that of the 5-year bond issued in June had also dropped to under 20%. In addition, the Eurobond which was issued at a coupon rate of 8.5% in 2007 was trading under 6.0% on the market in July 2012, dropping to 4.8% in December 2012. The huge drop in the yields in such a short period of time reflected the strong economic fundamentals that were in place and the huge appetite that both domestic and foreign investors had for the country's risks. The strong foreign investor participation in the bond auctions was also an indication of the confidence that non-resident investors had in the Ghanaian economy. Indeed, investors were more bullish about the Ghanaian economy as it continued to expand. What whipped up investors' confidence even more were the efforts of the government to push financial market development ahead of their appetite for long-term domestic assets.

The growth of the banking sector's assets continued in 2012, and the industry became stronger in terms of solvency, liquidity and profitability. The recapitalization of commercial banks ended in December, with all banks complying with the minimum requirement of GH¢60 million. Total assets of the banking sector grew to GH¢25.8 billion, driven mainly by credits and investments. Paid-up capital of banks also quadrupled to GH¢1.9 billion at end-October 2012 from GH¢445.8 million in December 2008, in response to the central bank's recapitalization policy. As a result, the capital adequacy ratio reached 18.6% at end-2012 from 17.4% at end-2011. Commercial banks' non-performing loans, which peaked at 16.1% in 2010, dropped to 13.4% at end-December 2012, as were net non-performing loans in relation to capital. By contrast, liquid asset ratios worsened slightly despite the banks' preference for high-yielding government securities, which remained at an elevated level (Bank of Ghana, October-December 2012). Improved audit and supervision appeared to have contributed positively to the soundness of the banking sector, as were improvements in banks' governance and risk management.

Controlling inflation was one of the outstanding successes of the government in 2012. Although inflation rose steadily from 8.6% in February 2012 to 9.5% in July 2012, before dropping to 9.4% in September 2012, it remained at single digit throughout the year (see Table 16). The behavior of headline inflation during the first half of the year pointed to a gradual build-up of inflationary pressures, reflecting mainly increases in both food and non-food prices and the pass-through effect of the depreciation in the value of the domestic currency. The increase in the central bank's policy rate by a cumulative 250 basis points to rein in the depreciation of the domestic currency prompted a general rise in both the money and interbank markets rates. Despite this, inflation continued to remain in single digit, ending the year with a rate of 8.8%. In total, inflation was kept in single digit continuously for 31 months, from June 2010 to December 2012. This was attributed to (i) the prudent fiscal management pursued by the government, (ii) shifting of the deficit financing away from the central bank to banks and the non-bank public, (iii) monetary tightening by the central bank, and (iv) declining food prices supported by good domestic food production. The stability of the domestic currency also contributed significantly to the lowering of inflation during the period.

Developments in the first half of 2012 showed a continued fall in the value of the cedi against the major international currencies. In the interbank market, the cedi exchange rate depreciated cumulatively by 17.2% against the US dollar, 17.4% against the pound sterling, and 12.6% against the euro. Similarly, in the forex bureaux market, the cedi depreciated cumulatively by 14.9%, 16.0% and 11.8% against the US dollar, the pound sterling and the euro respectively. The target for net international reserves for 2012 was missed by US$1.1 billion, reflecting interventions by the Bank of Ghana in January to stem pressures on the cedi. From June, monetary policy was tightened significantly to help stabilize the cedi without further depletion of net international reserves, leading the cedi exchange rate to rise to GH¢1.88=US$1.00 at end-2012, from GH¢1.55=US$1.00 in December 2011.

The rapid depreciation of the cedi in the first half of 2012 reflected a combination of seasonally strong demand for foreign exchange, a shift to cash-based transactions with new trading partners, and excess liquidity in the system, which itself was mainly a consequence of the high economic growth and sharp increases in the public sector wage bill. The pressure on the cedi was also caused by speculative investors who moved funds out of the country due to the global economic uncertainties and the impending local elections. The expected completion of the country's program with the IMF in July 2012 and the surge in demand for foreign exchange to finance imports in response to the expansion in economic activities were also important contributory factors to the cedi's depreciation.

3.4 External Sector Performance

The performance of the external sector in 2012 was mixed. Since Ghana does not produce most of its consumable goods, as soon as the economy expands and puts more liquidity into the system, it sucks in huge amounts of imports. This phenomenon continued to show in 2012 when the economy grew by 9.3%, causing imports to rise to US$17.8 billion, or by 12.2% during the year. With prices of most international commodities experiencing downswings, exports could only manage to increase to US$13.5 billion, or by 6.0%, causing the external trade deficit to widen from US$3.1 billion (7.7% of GDP) in 2011 to US$4.2 billion (10.0% of GDP) in 2012 (Table 17).

The surge in imports in 2012 was attributed to the huge increase in non-oil imports, which were required to support increased domestic economic activity. The growth in exports, on the other hand, was caused largely by increased receipts from gold, cocoa beans and oil exports, mainly on account of increased volumes. The current account deficit rose to US$4.9 billion in 2012 (11.7% of GDP) from US$3.5 billion in 2011 (8.6% of GDP). The capital and financial account balance dropped from US$4.5 billion in 2011 to US$3.6 billion in 2012, caused by a 67.5% drop in capital transfers and a 27% drop in the financial account. During the year, there were net outflows in short-term capital of US$1.4 billion. However, portfolio investments (net) increased from US$117 million in 2011 to US$1.1 billion in 2012. Foreign direct investment also increased by some US$71 million or 2.2% (Table 17).

Table 17 - Ghana: External Sector Performance, 2011–2012

Item	2011	2012		
		Total	Changes	% Changes
In US$ millions				
Exports (fob)	12,785.42	13,552.35	766.93	6.0
Imports (fob)	-15,837.72	-17,763.17	-1,925.45	12.2
Trade Balance	-3,052.30	-4,210.82	1,159.52	-38.0
Current Account Balance	-3,541.33	-4,910.64	1,369.31	-38.6
Balance on Services, Income and Transfers	-489.03	-699.82	210.79	-43.1
Capital and Financial Account Balance	4,479.31	3,651.26	-828.05	-18.5
of which Foreign Direct Investment	3,222.25	3,293.43	71.18	2.2
Overall Balance of Payments	546.53	-1,210.90	-1,757.43	-321.6
Gross International Reserves	5,382.82	5,348.96	-33.86	-0.6
As Percent of GDP				
Trade Balance	-7.7	-10.0	2.8	
Current Account Balance	-9.0	-11.7	3.3	
Capital and Financial Account Balance	11.3	8.7	-2.0	
Foreign Direct Investment	8.1	7.9	0.2	
Overall Balance of Payments	1.8	-2.9	-4.2	

Source: Bank of Ghana, Statistical Bulletin, Dec. 2014

The balance of payments recorded a deficit of US$1,210.9 million in 2012, equivalent to 2.9% of GDP, from a surplus of US$546.5 million, equivalent to 1.8% of GDP in 2011. As a result, the country's gross foreign reserves dropped from US$5.4 billion in December 2011 to US$4.1 billion in June 2012, before rising to US$5.3 billion in December 2012 (Table 17). The stock of gross foreign reserves in 2012 was sufficient to cover 3.0 months of imports of goods and services compared with 3.2 months cover as at end-December 2011. The net foreign reserves at end-December 2012 was estimated at US$3.2 billion, indicating a drawdown of US$1.2 billion during the year. Despite this, the Ghanaian economy continued to receive positive ratings from reputable international institutions. The country was ranked the fourth top investment destination in sub-Saharan Africa in the 2012/2013 edition of the World Economic Forum's Global Competitiveness Index. The index also ranked Ghana as the third among the top recipients of foreign direct investment in Africa (World Economic Forum, September 2013).

4.0 How Accurate was the Reported Fiscal Deficit for 2012?

As we have noted above, the reported 2012 fiscal deficit of GH¢8.7 billion, or 11.6% of GDP, is doubtful because the veracity of some of the expenditures, especially those classified under "arrears payment" and "discrepancy," which gave rise to such an inflated deficit cannot be established. This assertion is made for the following reasons. First, regarding arrears payment, in the handing-over notes submitted to the incoming Minister of Finance by the outgoing Minister of Finance in January 2013, it was stated that arrears paid as at end-June 2012 amounted to GH¢369.9 million, with an outstanding amount of GH¢1,356.7 million, comprising GH¢618.3 million project-related debts dating back to 2008 and GH¢738.4 million contingent liabilities of SOEs. The notes further stated that there were a number of outstanding arrears, totaling GH¢5,360.4 million, that were to be carried over to 2013 because the cash flow position could not support their payments. Of the GH₵5,360.4 million, GH¢4,012.6 million was in respect of road and non-road arrears created in 2012, GH¢42 million was for Single Spine salary arrears, and the remaining GH¢1,305.8 million was outstanding stock of arrears for the period 2008-2011. According to the Controller and Accountant General's Department (CAGD), the payment of the 2010-2011 Single Spine salary arrears was largely completed in July 2012. Furthermore, the payment of arrears resulting from the 18% salary increase for 2012 was also completed in September 2012. Thus, by the end of October 2012, arrears relating to the Single Spine (2010-2011) and the 18% salary increase in 2012 were no longer owed to public sector employees, as they had already been paid (CAGD, November 2012). Notwithstanding the foregoing, however, in the Summary of Central Government Fiscal Data (SCGFD) released by the Ministry of Finance in late January 2013, it is stated that arrears payment at end-June 2012 amounted to GH¢1,978.4 million, which was more than five times the GH¢369.9 million stated in the outgoing Minister's handing-over notes. In addition, the arrears payment figure stated in the SCGFD released by the Ministry of Finance in March 2013 totaled GH¢2,338.5 million for the first half of 2012. This figure was not only way above the GH¢369.9 million stated in the outgoing Minister's handing-over notes but was also much bigger than, and inconsistent with, the Ministry's own figure of GH¢1,978.4 million released in January 2013. What explains the huge variations in arrears payment between the Ministry's own reported figures and those of the outgoing Minister for the first half of 2012? Moreover, the 2012 fiscal accounts showed total arrears payment of GH¢3,666.1 million. Going by the true arrears payment figure of GH¢369.9 million through June, as released by the outgoing Minister, this implies that an incredibly-high figure of GH¢3,296.2 million was paid in the second half of 2012. Further, the reported total payments of GH¢3,666.1 million exceeds by far the arrears payment of GH¢2,483.8 million that was budgeted for 2012. These questions certainly cast serious doubts on the arrears reported to have been paid in 2012.

Second, as noted earlier under Section 3.2.2, reported spending on goods and services in 2012 exceeded the target by GH¢354 million, with as much as GH¢910 million spent in the last quarter alone compared with the target of GH¢366.8 million for the quarter and GH¢411.06 million spent in the first three quarters. By their magnitudes, these figures raise serious doubts. This is because goods and services is an item that could easily be controlled due to its discretionary nature, and every effort was made to do that, in line with directives to MDAs to avoid unbudgeted spending in this regard. Even if it is assumed that a decision was made to prioritize payments of services rendered and goods supplied by contractors to MDAs ahead of the elections, it is unlikely that the spending would be that high. This is because it is known that as at end of the second week of November, the total amount of unpaid goods and services of values between GH¢20,000 and GH¢100,000 supplied to the government and contained in a Contract Database prepared by the Ministry of Finance and Economic Planning, and validated by a Committee set up by the Government's Economic Management Team, amounted to GH¢8.0 million (Ministry of Finance, November 2012). And even if one acknowledges payments of contracts of GH¢18.2 million contained in the Ministry's Contract Database as at second week of November 2012, this cannot make the expenditure on goods and services in the last quarter of the year to swell to the reported figure of GH¢910 million.

Third, the reported over-expenditure from the reserve expenditure vote and the huge spending discrepancy (unclassified float transactions) figure, which together contributed as much as 2.7% of GDP to the overall fiscal deficit in 2012, are also doubtful. The reserve expenditure vote was reportedly overspent by GH¢365 million in the year, with an unbelievable amount of GH¢294 million spent in the last quarter alone. Further, discrepancy, representing unclassified spending, exceeded the target for the year by a whopping and doubtful amount of GH¢964.3 million. What is even more puzzling is the fact that such a huge discrepancy figure was posted at a time when the Ghana Integrated Financial Management Information System (GIFMIS) and the Treasury Single Account (TSA) were being implemented to deal, amongst others, with unclassified float transactions (See Table 18).

Table 18 - Ghana: Discrepancy Figures Recorded in the National Budget, 2006–2013

Year	Discrepancy (GH₵)	Fiscal Deficit (GH₵)	Discrepancy /Deficit (%)
2006	-17,113,983	-897,086,373	1.9
2007	45,870,532	-1,132,188,462	-4.1
2008	-132,678,605	1,982,855,564	6.7
2009	69,035,725	-2,118,626,686	-3.3
2010	408,600,926	-2,999,866,798	-13.6
2011	71,210,298	-2,388,248,961	-3.0
2012	-964,300,440	-8,715,440,002	11.1
2013	889,304,709	-9,454,648,302	-9.4

Source: Government of Ghana Budget Statements (Various issues)

Even when there were no GIFMIS and TSA in the past, discrepancies posted in the fiscal figures were not as large as in 2012. As the entries in Table 18 show, the discrepancy figure of GH¢964.3 million recorded in the 2012 fiscal year contributed 11.1% to the fiscal deficit of GH¢8.7 billion for the year. Curiously, between 2009 and 2011, the discrepancy items were all negative, indicating revenues that could not be accounted for but helped reduce the deficit. The discrepancy item in 2012, however, showed a huge, unaccounted-for expenditure, which contributed 11.1% to the fiscal deficit. Strangely, in 2013, the discrepancy reversed into a huge revenue item, which reduced the deficit by 9.4%. The puzzling aspect of this development is that, during 2012, significant progress was made on financial management reforms. First, the implementation of the GIFMIS showed good progress, and the completion of the system's roll-out was expected to facilitate the elimination of large unclassified float transactions (discrepancies) in the government accounts. Second, the transition to the Treasury Single Account (TSA) to address the challenges in cash management also proceeded well during the year. It is incomprehensible therefore to see that the year 2012 registered such an unusually-high discrepancy figure. Not only is the discrepancy figure doubtful, but so is its contribution to the reported deficit for 2012.

Fourth, a statement released on June 12, 2013 by the IMF Executive Director for Ghana throws some light on the reported high expenditure and deficit overruns for 2012. Among others, the statement said that "fiscal policy implementation in 2012 was expansionary and fell short of expectations in an election year." It further stated that the authorities "owned up to this slippage" and were "carefully reviewing all the factors that led to this outcome." "These include: (i) implementation problems associated with the single-spine wage policy initiated in 2009 to correct distortions in the public sector wage structure, notably the clearance of 2010-2011 arrears in 2012; (ii) shift from cash to accrual basis; (iii) significant shortfall in grants from donors; (iv) over-estimation of revenues from the oil companies; (v) larger-than expected petroleum and utility subsidies; and (vi) higher interest cost burden arising from the steep rise in short-term domestic interest rates" (IMF, June 2013).

Of particular interest and relevance to our discussion is the reported shift from cash to accrual basis of computing the fiscal accounts in 2012. This disclosure by the IMF Executive Director is curious because there was no official announcement for this shift in 2012. Neither the government nor the Ministry of Finance took the decision to shift the computation of the fiscal accounts from cash to accrual basis in 2012. This means that all the 2012 arrears and commitments that were to be carried over to 2013 were posted to 2012. thereby bloating the fiscal deficit for the year.

This supports the view that the fiscal deficit figure of 11.6% of GDP reported for 2012 is spurious, because not only can the veracity of many of the spending overruns that gave rise to the overall deficit not be established, but also they were computed using the accrual basis of accounting.

The conclusion that can be drawn from the foregoing discussion is that the overall fiscal deficit of GH¢8.7 billion, equivalent to 11.6% of GDP, reported for the 2012 fiscal year is doubtful. This is because the veracity of about GH¢2.5 billion, equivalent to 3.3% of GDP, comprising spending overruns of GH¢365 million on reserve expenditure vote, GH¢1.2 billion on arrears payment, and unclassified spending floats of GH¢964 million, cannot be established. In our view, the actual fiscal deficit for 2012 should have been 8.3% of GDP and not the reported 11.6% of GDP.

5.0 Conclusion

The Ghanaian economy performed well in 2012. Growth was high, reflecting the strong macroeconomic fundamentals, expanded agricultural production, especially food crops and cocoa, strong growth of the services sector, and increased oil production and exports. Prudent fiscal policy, unusual in an election year, supported by a tight monetary policy helped to curb inflation, which remained at single digit throughout the year, and to stabilize the domestic currency, especially in the second half of the year. The private sector was very responsive to the improved business environment, with foreign capital inflows increasing in response to the increased investor confidence in the economy. The Ghanaian economy was in its prime time of growth in 2012, and investor appetite in key areas such as the oil and gas sector, banking and finance, manufacturing, agriculture, infrastructure and utilities, among others, was on the rise.

On the fiscal front, total revenue and grants registered a shortfall of just 1.5% for the year, despite a significant drop in the disbursement of grants by development partners and the over-estimation of revenues from oil companies. On the expenditure side, however, there are some questions about some of the figures reported. Total expenditure was reported to be 17.5% more than the budget for the year, implying that the huge fiscal deficit posted in 2012 was due almost entirely to expenditure overruns, notwithstanding strong directives issued to all MDAs to maintain discipline in spending, recognizing that 2012 was an election year. The veracity of some of the huge spending overruns which contributed significantly to the overall deficit for the year cannot be established, leading to the conclusion that the reported fiscal deficit in 2012 is spurious. In our view, the actual fiscal deficit for 2012 should have been 8.3% of GDP and not the reported 11.6% of GDP.

Perhaps the unsubstantiated spending and deficit overruns misled the IMF Executive Director for Ghana to state in June 2013 that the authorities had "owned up" to the fiscal slippage and were reviewing the factors that led to this outcome. The Executive Director also revealed in his statement that, in 2012, the authorities decided "to shift from cash to accrual basis" of accounting. This change in accounting policy led to the payment of a significant portion of the end-2012 outstanding bills during the first quarter of 2013 and thereafter debited to the 2012 fiscal year, causing a bloated deficit for 2012. As the arguments and data presented above show, contrary to the statement by the Executive Director of the IMF, there were no fiscal slippages that the government "owned up" to. Furthermore, the suggestion by the IMF Executive Director that fiscal policy was overly expansionary in 2012 and that this might be due to election-driven expenditure overruns cannot be supported by the available evidence.

As clearly laid out in this paper, the reported fiscal deficit in 2012 is spurious and not supported by the facts. Moreover, the reported deficit is inconsistent with the overall favorable macroeconomic outcomes in 2012 and the first half of 2013. We therefore expect these erroneous figures in the fiscal accounts to be corrected by the government in order to set the records straight.

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