URGENT STATEMENT

A POLICY STATEMENT ON THE GHANAIAN ECONOMY

(PRESENTED TO PARLIAMENT ON TUESDAY, 1ST APRIL, 2014)

INTRODUCTION

1. Mr. Speaker, I appear before you today to provide you with a consolidated set of measures that we have been using to manage our economy—to correct the imbalances that have occurred in recent years and to lay the foundation for transforming the structure of the economy.

2. Since my appearance before this august House in November 2013, several developments in the economy-particularly the sharp depreciation of the cedi in the first quarter of 2014, rising interest rates, and the adverse global environment on commodity prices, have posed challenges to the achievement of the 2014 economic programme. However, it is the resolve of Government to strengthen the measures outlined in the 2014 Budget to enable our country confront these essentially short-term challenges and meet our development goals.

3. Following the President's State of the Nation Address, the nation listened attentively to the spirited debates and issues raised by Honorable members of Parliament around the challenges and prospects of our country. Honorable members maintained a nationalistic and informed posture in addressing the major themes of His Excellency’s address to the House. Similarly, business leaders, civil society, social and development partners have raised pertinent issues regarding economic management and implementation of various policies. Mr. Speaker, in managing the economy, we shall be guided by several of these inputs.

4. Mr. Speaker, this particular Statement is dedicated to the consolidation efforts of government and demonstrates cumulative policy consistency of all the measures since 2013 to bring our fiscal situation under control. Several of the measures are structural and address the medium-term prospects of the country. As will be shown, the measures are far-reaching and it is our expectation that they

will clarify the commitment of Government and the people of Ghana in bringing the imbalances that have occurred in recent years under control.

RECENT ECONOMIC DEVELOPMENTS AND MEASURES

5. Mr. Speaker, in 2012 we achieved real GDP growth of 7.9 percent and an inflation rate of 8.8 percent. However, the economy had come under severe stress particularly on the fiscal front, on account of exceptional factors including:

i. implementation challenges associated with the single-spine wage policy initiated in 2007 to correct distortions and inequities in the public sector wage structure;

ii. significant shortfall in grants from Development Partners;

iii. non-realisation of projected revenue from the oil companies, due mainly to shortfall in projected output in 2011 and 2012;

iv. larger-than expected petroleum and utility subsidies;

v. higher interest costs arising from the steep rise in short term domestic interest rates—

vi. the continued disruption in gas supply to the country from the West African Gas Pipeline (WAGP) that led to a substantial increase in subsidies.

6. Therefore, rather than a 6.7 percent budget deficit originally targeted, we realized an actual deficit of 11.8 percent.

7. Mr. Speaker, the 2013 Budget ushered in bold decisions to improve the fiscal situation. To improve revenue performance and support the fiscal consolidation effort, in July 2013, Government introduced the following revenue measures:

i. National Fiscal Stabilization Levy - levy of 5% of profit before tax of banking, insurance, other financial services, communication, and brewery sectors with a sunset clause to end at the end of 2014;

ii. Special Import Levy of 1 and 2 percent on some imported goods;

iii. Environmental tax of 10% on plastic to broaden the base; and

iv. Import duty of 20 percent and VAT on imported mobile handsets.

8. Mr. Speaker, these revenue measures yielded revenue equivalent to about GH¢168 million or 0.2 percent of GDP in 2013 and are expected to yield GH¢630 million or 0.6 percent of GDP in 2014.

9. Mr. Speaker, in addition to the revenue measures, expenditure rationalization measures were introduced for purposes of achieving the fiscal target for the year, namely:

i. Regular adjustment of fuel and utility prices to achieve better targeting and thereby reduce related subsidies to the barest minimum;

ii. Minimizing waste in expenditure on goods and services and capital;

iii. Moratorium on the award of new contracts and contracting new loans with a change in focus to pipeline items;

iv. Refinancing of short term expensive debt with a view to extending the maturity dates and reducing interest costs;

v. Provision of matching funds to fast-track disbursement of existing loans; and

vi. Processing of all GoG expenditures on the Ghana Integrated Financial Management and Information System (GIFMIS) and classifying them under a revised Chart of Accounts for all government transactions.

10. Further, the expenditure rationalization measures helped to contain most expenditures within the 2013 total Appropriation.

11. Mr. Speaker, whiles these measures helped us to substantially address the challenges, the year ended with a provisional fiscal deficit of 10.8 percent of GDP against a target of 9 percent. This was due mainly to the following factors:

i. shortfall in tax revenue resulting from lower domestic output and import levels as well as a decline in commodity prices on the world market, notably gold and cocoa;

ii. continuous shortfall in grants from Development Partners relative to the budget target;

iii. overrun in the compensation or personal emoluments comprising wages, gratuities and allowance (and including arrears to all these categories);

iv. overrun in subsidies due mainly to the payment of arrears; and

v. overrun in interest costs, due mainly to financing of the deficit and past issues of bonds to complete capital projects that were placed on the Budget.

12. Mr. Speaker, we also experienced an energy shortfall due to the breakdown of the West African Gas Pipeline (WAGP) due to the action of pirates. The power disruptions affected industry and industrial output declined. This therefore, affected GDP growth in 2013. We have also highlighted the fall in gold and cocoa prices as major causes of the decline in output.

13. Based on growth data for the first three quarters of 2013 as well as developments in the fourth quarter of the year, growth for the year is expected to decelerate.

14. The actions we took to reduce the fiscal deficit had consequences on inflation. Inflation surged in 2013 mainly on account of the adjustment of prices on petroleum and utilities as well as pass-through effects of exchange rate depreciation, the latter reflecting a general weakness of external sector developments in 2013. After beginning the year at 10.1 percent, inflation ended 2013 at 13.5 percent against the target band of 9±2 percent.

15. Mr. Speaker, on the external front, Ghana’s key commodity prices generally softened during the first half of 2013 while a recovery in cocoa prices in the second half was not sufficient to prevent an overall deterioration of the terms of trade. This alongside a large net service and income outflows as well as slowdown in official and private transfer inflows, resulted in a deterioration of the current account balance to 12.8 percent. This was financed mainly by direct investments and short-term capital flows as well as drawdown of reserves.

16. Mr. Speaker, the economy has been through several external shocks that were often beyond our control. Their management, however, was done through the use of well-considered fiscal and monetary tools, some of which are innovative and also designed to help manage future volatilities

MACROECONOMIC PROGRAMME FOR 2014

17. Mr. Speaker, in addition to the 2013 measures, the 2014 Budget introduced a number of policy initiatives to strengthen the revenue and expenditure regimes.

18. The revenue measures sought to broaden the tax base and thus spread the burden of national development on all of our citizens rather than the few who meet their tax obligations. We also attempted to make the system fairer and efficient. In this regard, the following revenue measures are being implemented:

i. increase of the VAT rate by 2.5 percentage points and a broadening of the VAT base to cover fee-based financial services and real estate – to reflect its essence as a tax on all consumption expenditures;

ii. a change in petroleum excise tax from specific to ad valorem – in line with other excise regimes;

iii. an increase in withholding tax on rent on commercial properties from 8 to 15 percent – to encourage the provision of residential accommodation;

iv. an increase in the withholding tax on management and technical services fees from 15 to 20 percent – to make the overall tax regime fairer to all taxpayers;

v. an increase in corporate income tax rate of free zones companies selling on the local market from 8 to 25 percent – to prevent discrimination against firms marketing all their output on the domestic market; and

vi. more effective application of the communication service tax.

19. Mr. Speaker, clearly, the tax measures go beyond the sole objective of raising revenue or even addressing the current challenges exclusively. As noted they broaden the tax base, remove inefficiencies and make the regime fairer to all tax payers. Together with ongoing improvements in revenue administration, these tax measures are estimated to yield additional revenue of not less thanGH¢700 million or 0.7 percent of GDP in 2014.

20. In 2014, the Ministry of Finance has initiated a process to change the upfront exemptions regime to a credit and refund system to minimize abuse, tax evasion and tax avoidance. In addition the Ghana Investment Promotion Centre

(GIPC) Act will be reviewed to ensure that exemptions granted by the GIPC are consistent with the government exemption policy.

21. The main theme of the 2014 Budget is to realign the expenditures. In this regards, the Budget includes expenditure rationalisation measures such as:

i. continuation of the policy on bringing utility and petroleum subsidies within budget estimates and making them more targeted towards our social intervention goals;

ii. a framework within the Ho Forum on public sector pay sustainability to reduce the wage bill as a share of tax revenue, from 57 percent in 2013 to 35 percent by 2017. This would put us in compliance with the ECOWAS criterion of wage-to-revenue ratio;

iii. the development of a multi-year framework in the immediate term as part of wage sustainability measures which is emerging from a growing consensus between government and labour;

iv. a proposal of a moratorium on public sector wage increase in 2014 through the public sector wage negotiation process;

v. continuation of the policy of net freeze on employment into some sectors of the public service.

vi. payroll management measures such as payroll audits and Electronic System Payment Voucher (E-SPV) to reduce the incidence of 'ghost' workers on government payroll; and

vii. continuation of the moratorium on the award of new contracts and new loans with continuing emphasis on pipeline items.

22. Mr. Speaker in addition to the above measures, the following PFM reforms that are structural in nature are also being implemented:

i. the shift of all government transactions to a new Chart of Accounts (COA) – to facilitate more transparency;

ii. the shift of budget and financial accounting from cash to semi-accrual basis to help government better track its financial commitments;

iii. deployment of all transactions to a GIFMIS electronic platform comprising ten (10) budget and accounting systems; and

iv. improvement in revenue and fiscal performance under GRAs revenue modernization programme

23. Mr. Speaker, these expenditure measures are in line with the theme for the 2014 Budget which emphasizes the realignment with respect to compensation, interest payment, other recurrent expenditure and capital or development expenditure. We wish to reiterate that the realignment remains the theme for addressing our current fiscal challenges.

24. The government is confident that the fiscal measures outlined above will lead to the achievement of the fiscal deficit target for 2014.

25. Mr. Speaker, in 2014, the key monetary policy concern is re-anchoring inflation expectations and exchange rate stability. The Bank of Ghana (BOG) has taken the following measures to re-anchor inflation expectations and prevent the second round impact of the deregulation of petroleum and utility prices from getting entrenched in the economy:

i. a 2 percent rate increase by the MPC from16 percent to 18 percent; and

ii. issuance of a set of foreign exchange regulations and code of conduct to guide operations in the foreign exchange market.

26. The BOG measures are designed to ensure transparency, streamline activity and reduce leakages in the foreign exchange markets, address anti-money laundering issues and promote the use of the Cedi as the legal tender.

27. Mr. Speaker, permit me to restate that Ghana remains a favourable investment destination and these measures seek to regulate business affairs efficiently. It was never the intention of Government to revert to a control regime.

MEDIUM-TERM FISCAL MEASURES

28. The main goal of the medium term macroeconomic programme is to achieve and sustain macroeconomic stability for the promotion of growth and development. In this regard, fiscal policy will aim at consolidation to achieve sustainable fiscal deficit and public debt. The reduction in fiscal deficit will be driven mainly by expenditure rationalization and revenue enhancing measures. The strategy for achieving macroeconomic stability includes:

i. ensuring fiscal discipline that hinges on prudent public expenditure management;

ii. enhanced domestic revenue mobilization – mainly through the ongoing GRA reforms that include the revision of all our direct and indirect tax laws;

iii. public sector reforms, with particular emphasis on right-sizing the public service;

iv. reclassification of, and improvement in, public debt management; and

v. encouraging the private sector to participate in the accelerated growth agenda through Public Private Partnerships (PPPs) including improvements in downstream energy and power distribution projects.

29. Mr. Speaker, expenditure rationalization measures will include:

i. shifting the focus of expenditure from low-priority public spending for all MDAs;

ii. rationalization of the wage bill, pensions, gratuities, and social security payments as part of measures to reduce the wage bill to tax revenue ratio to ECOWAS threshold. This will be done in the context of GIFMIS, HRMS and payroll reforms that are being implemented already;

iii. restructuring of the District Assemblies Common Fund (DACF) and other Statutory Funds to reduce rigidities in the budget and aligning them to priority programmes;

iv. rationalization of public sector staff in MDAs – which elements include the ongoing payroll upgrade and installation of new HRMS programme for Office of Head of Civil Service (OHCS) and Public Services Commission (PSC). The enhancement of these measures will include a broad public sector reform such as an option for voluntary retirement plan as well as a review of MDAs organizational structure;

v. negotiate public sector wage adjustments subject to budgetary constraints and within a medium term framework aimed at reducing the wage bill-to-tax revenue ratio progressively;

vi. continuation of the policy of regular adjustment of fuel and utility prices to keep expenditure on subsidy within budget constraints;

vii. deepen the implementation of GIFMIS through completion of the budget modules and roll-out to all MDAs and MMDAs to improve efficiency in public expenditure management and provide a more effective way of controlling commitment;

viii. undertaking a more thorough privatization of the downstream of the electricity distribution systems at ECG and NEDCO, by using private sector in the collection of revenues, under performance-based contracts; and

ix. Debt management measures such as:

a. managing the debt sustainability limits; refinancing and extending the tenure of loans and bonds for financing the capital budget;

b. adopting recovery schemes such as escrows and on-lending for commercially viable projects;

c. financing of capital budget from specific long-term domestic and foreign loans and bonds and not relying on short-term instruments. The afore mentioned goal will complement the lengthening of the maturity profile of domestic debt and financing the capital component of the budget through the issuance of longer dated bonds; and

d. channel grants and concessional borrowing with heavy grant elements to social investments while using the proposed GIF to leverage funding from the financial markets and working with the private sector to boost infrastructure through the issuance of guarantees, and on-lending to self-financing SOEs.

30. Mr. Speaker, the Government will pursue enhanced revenue mobilization mainly through tax reforms and improved revenue administration and efficiency. We aim to increase revenues in relation to GDP over the medium-term to levels consistent with peers in the Lower Middle Income Country category. In addition, the GRA's medium-to-long term strategic plan is being revised at the moment to include a goal of placing the nation's revenue mobilization effort within the bands for lower Middle Income countries.

31. Mr. Speaker, the review of our debt strategy as discussed above is particularly important. It is in this context that the House approved two critical measures as part of the 2014 Budget:

i. Sovereign Bond issue: we have obtained approval from Public Procurement Authority (PPA) to appoint the advisors and we will be embarking on a non-deal road show this month. Mr. Speaker, emerging and peripheral markets remain volatile, but keeping an eye on these developments is also not tantamount to withdrawal from the bond issues as has been widely reported in recent days.

ii. Ghana Infrastructure Fund (GIF): Mr. Speaker, the House also debated its resolution on the establishment of the GIF in the 2014 Budget covered. Mr. Speaker, I am happy to inform the House that the Advisory Committee has summited its report which includes a proposed bill, which Cabinet has approved for the consideration of this August House. We shall consult with leadership on the next steps. As we noted in the 2014 Budget, the GIF is key for the success of our loan recovery effort from commercial projects; the mobilization of domestic and international resources for investment; partnership with the private sector through Public Private Partnerships (PPPs), Joint Ventures (JVs), and other Special Purpose Vehicles (SPVs) structures; and reclassification of our public debt with emphasis on contingent liability for public debt element that can be recovered through on lending and escrow mechanisms.

32. In the medium term, the objective of monetary policy will remain price stability. In this regard, monetary policy will aim at delivering an inflation target of 9.5 percent within a band of ±2 percent and gross international reserves which will cover not less than 4 months of imports of goods and services by 2016. It is expected that improved non-traditional exports and oil production as well as possible decline in the oil import bill with the onset of gas production should

create conditions for gradual recovery of output and foreign exchange reserves. Moreover the expected ramped-up Jubilee crude oil production in 2014 and 2015, the coming on stream of the Twenenboa-Enyenra-Ntomme (TEN), as well as the Sankofa-Gye Nyame fields in the second half of 2016 should boost the medium-term prospects of increasing output and shoring up the foreign exchange reserves.

CONCLUSION

33. Mr. Speaker, the economy is beginning to adjust to the fiscal and monetary measures with net positive change in nominal budget numbers as well as a reduced pace of depreciation of the cedi, although risks relating to continuing commodity price volatility and tightening global financial conditions still remain.

34. Mr. Speaker, given that these consolidation measures are promulgated within a multi-year framework, as is the experience of all countries undergoing major adjustment, their full effect will materialize over more than a single year. It is important to emphasize some of the measures that are currently being implemented are structural and they will take time to fully materialise.

35. Mr. Speaker we wish to re-iterate the comprehensiveness of our home-grown fiscal consolidation measures. It is in this regard that we believe that these measures are credible enough to meet the short-to-medium term objectives. Mr. Speaker, we will keep in view the need to safeguard the positive medium term prospects.

36. Mr. Speaker, we shall continue to assess the full impact of the measures and possible positive turns in the global and domestic economy which could be positive. As required by law and following tradition, we shall appear before the House with the mid-year review and if necessary a Supplementary Budget.

Thank you.