



REPUBLIC OF GHANA

BUDGET HIGHLIGHTS

BUDGET STATEMENT AND ECONOMIC POLICY

of the

GOVERNMENT OF GHANA

for the

2014 Financial Year

presented to

PARLIAMENT

on

Tuesday, 19th November, 2013

by

SETH E. TERKPER
MINISTER OF FINANCE

on the authority of

H. E. JOHN DRAMANI MAHAMA
PRESIDENT OF THE REPUBLIC OF GHANA

THEME OF THE BUDGET: "Rising to the Challenge: Re-aligning the Budget to meet Key National Priorities"

Summary of Key Highlights of the 2014 Budget

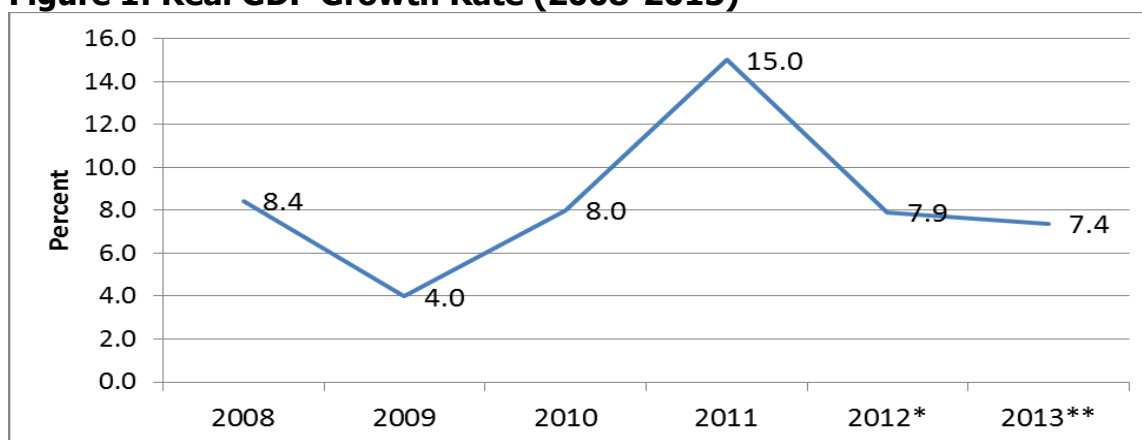
1. President, Vice President and the Executive takes a 10% salary cut
2. Establishment of Infrastructure Fund
<ul style="list-style-type: none"> ○ Will change fundamentally the funding and delivery of infrastructure in the country; ○ Will reduced cost, enhance timely payments, and promote more efficient delivery of capital projects.
<ul style="list-style-type: none"> ○ Considering that lack of infrastructure remains a major hindrance to the transformation of the country in terms of the road, rail and energy to facilitate trade and expansion of businesses.
3. Support to local industries
<ul style="list-style-type: none"> ○ Removal of taxes on HIV imported products ○ Removal of taxes on printing material – providing business, making Ghanaian printers more competitive ○ Provision of credit support for SME development
4. Setting up of contingency fund for the first time since constitutional rule
5. Agriculture modernization
<ul style="list-style-type: none"> ○ Setting up of a two modern farmers market to transform the way agriculture produce especially how grain is marketed in Ghana through the use of modern facilities and ICT
6. Use of oil resources for targeted infrastructure development
7. Focus on ongoing and pipeline projects to enhance speedy achievement of related development outcomes
8. Innovative debt management strategy
<ul style="list-style-type: none"> ○ Refinancing strategies ○ Use of long term funds to fund capital projects ○ Adopting escrowing and other innovative methods of debt financing ○ Undertaking rating of major funds ○ SOE borrowing on own balance sheet
9. Realignment of major expenditure items towards national priority programmes
<ul style="list-style-type: none"> ○ Removal of subsidies (Petroleum and Utility Subsidies) ○ Strategies to sustain the payroll
10. PFM Reforms
<ul style="list-style-type: none"> ○ Budget Reforms – efficiency value for money, better results ○ Introduction of Programme Based Budget ○ More transparent and accountable budget ○ Introduction of performance Management Information ○ Focus on results and not just activities

MACROECONOMIC PERFORMANCE FOR 2013

Real Sector

1. The provisional real GDP growth in 2013 is 7.4 per cent, down from the 2012 growth of 7.9 per cent.
2. The provisional 2013 real GDP amounts to GH¢32,332 million is slightly higher than the 2013 projected real GDP of GH¢32,109 million. The 2012 real GDP outturn was GH¢30,099 million.
3. The 2013 provisional growth shows that all subs-sectors recorded positive growth rates.

Figure 1: Real GDP Growth Rate (2008-2013)



Source: Ghana Statistical Service (*Revised, **Provisional)

Sectoral Performance

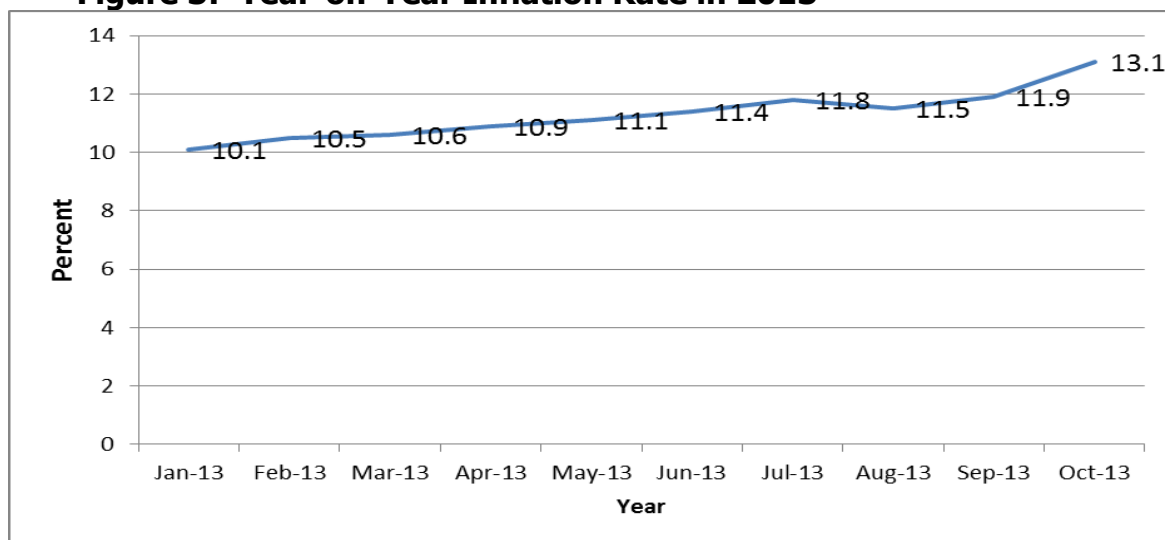
4. Agriculture Sector has continued its increasing trend, growing at 3.4 percent in 2013 compared with 1.3 per cent in 2012 and 0.8 percent in 2011.
5. Industry Sector recorded a high growth of 9.1 per cent in 2013, up from 7.0 per cent in 2012.
6. Services Sector maintained its high growth and posted a 9.2 per cent growth in 2013. This growth was slightly lower than the 10.2 per cent recorded in 2012.

Inflation

7. Inflation rose persistently from 10.1 per cent in January 2013 to 11.8 per cent in July, dropped slightly to 11.5 percent in August and then rose to 13.1 percent in October 2013, as shown in Figure 2.

8. The increase in inflation in 2013 is influenced primarily by the pass through effect of fuel and utility price increases and demand pressures.

Figure 3: Year-on-Year Inflation Rate in 2013



Source: Ghana Statistical Service

Monetary Sector Developments

9. **Broad Money Supply (M2+)** grew at 17.7 percent year-on-year in September 2013 compared with 28.8 percent in September 2012.
10. **Credit to the private sector** grew by 13.1 percent (in real terms) in September 2013 compared with 31.4 percent in September 2012.
11. **Interest rates:** In September 2013, the Monetary Policy Committee maintained the Policy rate at 16.0 percent. Developments in interest rates from January to September are as follows:
- The 91-day Treasury bill rate stood at 23.1 percent at end-September 2013, same level at the December 2012 level.
 - The 182-day bill was at 22.9 percent as end-September, 2013.
12. **Foreign exchange market:** The Ghana Cedi depreciated by 4.12 percent, against the US dollar, 9.97 percent against the pound sterling, and 14.1 percent against the euro between January to September, 2013.

External Sector Developments

13. The provisional trade balance for the period January to September 2013

recorded a deficit of US\$2,744.2 million, compared with US\$2,970.2 million recorded at end-September 2012, as shown in Table 1.

Table 1: Trade Balance

	2013 Projected values	Jan - Sept (Actuals)	Q4 Proj	2013 Proj.	Variance
Exports	13,051.30	10,329.37	2,688.45	13,017.82	33.48
Imports	18,008.82	13,073.57	3,990.53	17,064.09	-944.73
Trade balance	4,957.52	2,744.20	1,302.08	4,046.28	

Source: Bank of Ghana

14. Gross international reserves amounted to US\$5,212.1 million as at end-September 2013, sufficient to provide 2.9 months of imports cover. This falls short of the reserve of US\$5,349.0 million at end-December, 2012.

Fiscal Sector Developments for 2013

15. Fiscal deficit (on cash basis), was GH¢7,334.5 million (8.4 percent of GDP) at end-September 2013, against a target of GH¢6,368.3 million (7.2 percent of GDP).

- Net Domestic Financing of the deficit amounted to GH¢4,419.5 million (60.3 percent), against a target of GH¢4,532.7 million (71.2 percent).
- Foreign Financing of the deficit was GH¢2,915.0 million (39.7 percent), against a target of GH¢1,835.6 million (28.8 percent), as shown in Table 3.

Table 3: Summary of Central Government Financing

Description	2013 Budget Estimate (Million GH¢)	Target for Jan - Sept 2013 (Million GH¢)	Provisional Outturn for Jan-Sept 2013 (Million GH¢)	Percent Deviation	Projected Outturn for 2013 (Million GH¢)	Percentage Change over Budget Estimate
	a	b	c	(c/b-1)*100	d	(d/a-1)*100
Total Financing	8,010.8	6,368.3	7,334.5	15.2	8,905.4	11.2
Foreign	2,536.0	1,835.6	2,915.0	58.8	3,373.9	33.0
Domestic	5,474.8	4,532.7	4,419.5	-2.5	5,531.4	1.0

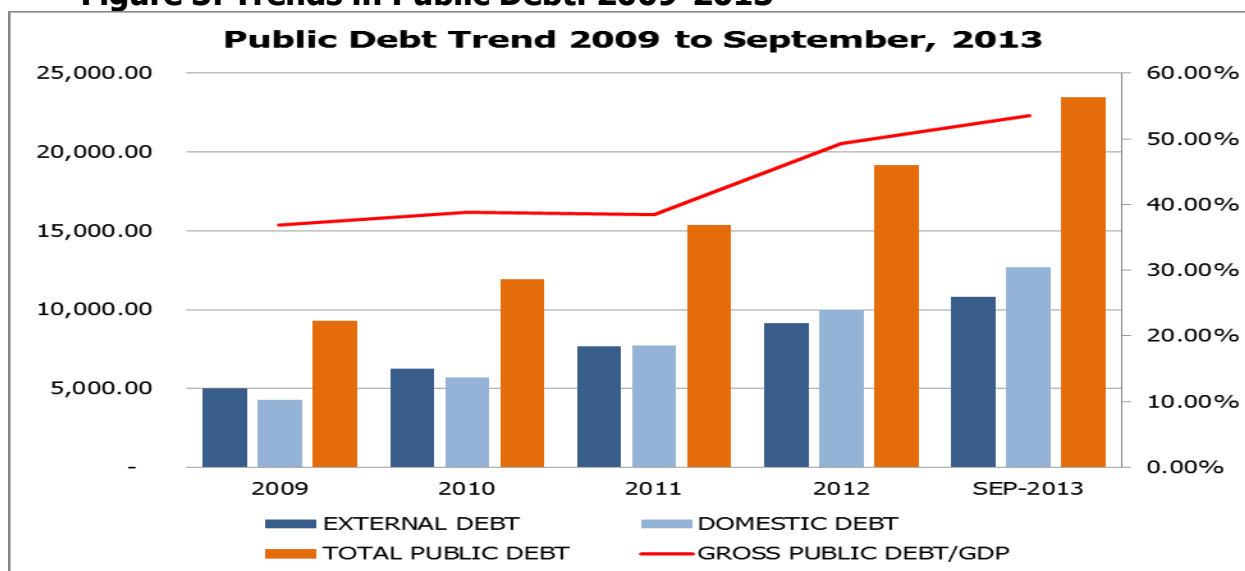
Source: Ministry of Finance

Public debt

16. The stock of public debt (including Government guaranteed debt) stood at US\$23,498.76 million (53.5 percent of GDP) at the end of September 2013 compared with US\$19,150.78 million at the end of December, 2012 (49.3 percent of GDP).

- External debt amounted to US\$10,794.54 million (24.6 percent of GDP) at end-September 2013.
- Domestic debt totaled US\$12,704.22 million (28.9 percent of GDP) at end-September 2013.

Figure 3: Trends in Public Debt: 2009-2013



Petroleum Receipts

- Crude oil production from the Jubilee fields averaged 102,503 barrels of oil per day (bopd) at the third quarter.
- Volume of lift by GNPC totaled 4,977,922 barrels at the end of the third quarter of 2013.
- Total petroleum receipts as at the end of the third quarter of 2013 was US\$707.28 million (GH¢1,358.18 million) of which corporate income tax was US\$171.2 million.

Distribution of 2013 Petroleum Receipts

- An amount of US\$186.09 million was transferred to GNPC as its Equity Financing Cost (US\$53.50 million) and its share of the Net

Carried and Participating Interest (US\$132.69 million).

Utilization of the 2013 Annual Budget Funding Amount

- Total ABFA amounted to GH¢392.94 million at the end of the third quarter of 2013.
- GH¢299.41 million (76.2 percent) of the ABFA was disbursed to the four priority areas as follows:
 - i. GH¢142.34 million (47.5 percent), was spent on Road and Other Infrastructure;
 - ii. GH¢32.58 million (10.9 percent), was spent on Capacity Building;
 - iii. GH¢119.88 million (40.0 percent) was spent on Amortization of Loans for Oil and Gas Infrastructure; and
 - iv. GH¢4.60 million (1.5 percent) went to Agriculture Modernization.

MACROECONOMIC FRAMEWORK FOR THE MEDIUM TERM AND 2014

17. The specific macroeconomic targets for the medium term (2014-2016) include the following:

- An average real GDP (including oil) growth rate of at least 8 percent;
- An average non-oil real GDP growth rate of at least 8;
- An inflation target of 9 percent with a band of ± 2 percent;
- An overall Budget Deficit of 6 percent by 2016
- Gross International Reserves which will cover not less than 4 months of imports of goods and services by 2016.

18. The specific macroeconomic targets for 2014 are as follows:

- non-oil real GDP growth of 7.4 percent;
- overall real GDP (including oil) growth of 8.0 percent;
- end year inflation target of 9.5 percent within ± 2 percent;
- Overall budget deficit equivalent to 8.5 percent of GDP; and

- Gross international reserves of not less than 3 months of import cover of goods and services.

19. Fiscal policy will focus on:

- improving revenue mobilization (an effort being led by the Ghana Revenue Authority (GRA) under its on-going Revenue Modernization Program);
- realigning the key budget items and enhancing the efficiency of public expenditures (e.g. through the ongoing Public Financial Management [PFM] reforms, including GIFMIS);
- reviewing capital expenditures and the strategy for financing them (in collaboration with Bank of Ghana);
- focusing on the completion of pipeline projects to reduce medium term fiscal risks; and
- Refinancing and extension of tenor of debt

20. Below is a summary of projected revenue and expenditures for 2014

Table 4: Summary of Revenue and Grants Estimates for 2014

Description	Including oil			Excluding oil		
	Amount (GHc million)	Percent of GDP	Percent of Total Revenue and Grants	Amount (GHc million)	Percent of GDP	Percent of Total Revenue and Grants
Total Revenue and Grants	26,001.9	24.6	100.0	24,292.5	25.0	100.0
Domestic Revenue	24,871.2	23.6	95.7	23,161.8	23.8	95.3
Tax Revenue	20,351.1	19.3	78.3	19,589.8	20.1	80.6
Taxes on Income and Property	9,238.3	8.8	35.5	8,477.0	8.7	34.9
Taxes on Domestic Goods and Services	7,061.7	6.7	27.2	7,061.7	7.3	29.1
International Trade Taxes	4,051.1	3.8	15.6	4,051.1	4.2	16.7
Non-Tax Revenue	4,358.7	4.1	16.8	3,410.6	3.5	14.0
Others	161.4	0.2	0.6	161.4	0.2	0.7
Grants	1,130.7	1.1	4.3	1,130.7	1.2	4.7

Summary of Expenditure Estimates for 2014

Description	Including oil			Excluding oil		
	Amount (Ghc million)	Percent of GDP	Percent of Total Expenditure and Arrears Clearance	Amount (Ghc million)	Percent of GDP	Percent of Total Revenue and Grants
Total Expenditure and Arrears Clearance	34,972.7	33.1	100.0	33,649.0	34.6	100.0
Total Expenditure	31,749.5	30.1	90.8	30,425.8	31.3	90.4
Compensation of Employees	10,597.3	10.0	30.3	10,597.3	10.9	31.5
Use of Goods and Services	1,529.5	1.4	4.4	1,529.5	1.6	4.5
Interest Payments	6,178.6	5.9	17.7	6,178.6	6.4	18.4
Subsidies	50.0	0.0	0.1	50.0	0.1	0.1
Grants to Other Government Units	6,513.9	6.2	18.6	6,090.2	6.3	18.1
Capital Expenditure	5,967.3	5.7	17.1	5,067.4	5.2	15.1
Others	912.8	0.9	2.6	912.8	0.9	2.7
Arrears Clearance and Tax Refunds	3,223.2	3.1	9.2	3,223.2	3.3	9.6

SECTORAL PERFORMANCE AND OUTLOOK FOR 2014

MINISTRY OF FOOD AND AGRICULTURE

21. Construction and rehabilitation works on the Dawa, Ave Afiedenyigba, Tono Phase II, Akomadan, Dawenya, Zuedam/Tankase and Koori irrigation projects were carried out.
22. In 2014, the Ministry will increase irrigated area to 20,605 hectares to increase the production of cereals and vegetables to 120,153 metric tons, etc.

MINISTRY OF ENERGY AND PETROLEUM

23. Completed the 132MW combined cycle Takoradi T3 Plant.
24. Commissioned 2 out of 4 generating units of the Bui Hydro Project to generate 266MW into the national grid at peak periods.
25. Commenced construction works for the expansion of the 110MW T2 Aboadze plant.
26. The targets for 2014 included:
 - i. Add an additional 342MW to installed capacity by completing the first phase of 220MW Kpone Thermal Power Plant (KTPP), 110MW T2 (Tico Expansion) and VRA 12MW Solar PV project.

- ii. Complete the 161kV Tumu-Wa-Han Transmission Project.
- iii. Increase access to electricity from the current level of 75 to 80 per cent in 2014 by scaling up the implementation of rural electrification project in the 3 Northern regions to bring them up to the national average, etc.

MINISTRY OF WATER RESOURCES, WORKS AND HOUSING

27. The following water projects were completed in 2013:

- Rehabilitation and expansion of the Barekese water treatment plant to add 6 Million Gallons a Day (MGD) to current production of 24 MGD,
- Rehabilitation and expansion of the South Kpong ATMA Rural treatment plant to add 9 MGD to the existing 6.16 MGD,
- Works on the 3.16 MGD Essakyir water supply project,
- Rehabilitation and expansion of the water treatment plant at Mampong in Ashanti to add 1.05 MGD to the existing production of 0.55MGD,
- Construction of 5 water treatment plants to produce a total of 1.5MGD to serve the following towns: Osenase, Kibi, Anyinam, Apedwa and Kwabeng
- Increased rural communities access to portable water from 63.41 per cent in 2012 to 70 per cent in 2013.
- Potable water to reach 8 additional small towns in 2014.

MINISTRY OF ROADS AND HIGHWAYS

28. A total of 103km of development works including reconstruction, construction and upgrading were undertaken whilst 13 bridges were completed.

29. Routine and periodic maintenance activities on 5,819km of trunk; 3,400km of feeder, and 1,193km of urban road networks.

30. In 2014, construction of the following roads will continue: Tetteh Quarshie-Madina; Asankragwa-Enchi; Kwafokrom-Apedwa; Buipe-Tamale and Fufulso-Sawla as well as the Dodi-Pepesu Nkwanta; Tarkwa-Bogoso-Ayamfuri; Agona Junction-Elubo; Anyaa-Pokuase; Burma Camp Roads; Giffard Road; and the Sunyani road in Kumasi.

MINISTRY OF EDUCATION

31. A total of 983 classroom blocks out of 2,269, representing 43.3 percent, have been completed and handed over. A number of girls have also benefited from scholarships.
32. Subsidy was provided for 736,919 SHS students and 55,147 TVET students.
33. The Ministry will commence the construction of 200 community day SHS in 2014 and complete the remaining 10, 2-storey Dormitory Blocks and 60 6-Unit Classroom Blocks under the Quick Fix Project.

POLICY INITIATIVES

34. The broad policy initiatives in this Budget are presented in five thematic areas as follows:

Infrastructural Development

35. The establishment of the Ghana Infrastructure Fund (GIF) as a quasi-fiscal body to deal with the huge infrastructure deficit and to focus on strategic infrastructure that will lead to job creation and growth of the economy.

Tax Measures

36. Improving revenue mobilization through tax effectiveness and efficiency. A number of measures to be rolled out includes:
 - i. Personal Income Tax (PIT);
 - ii. Rental Income Tax;
 - iii. Tax Stamps;
 - iv. Transfer Pricing;
 - v. Windfall Profit Tax;
 - vi. Tax Expenditures;
 - vii. Management and Technical Fees;
 - viii. Free Income Tax Assessment Bureau (FITAB);
 - ix. Electronic Point of Sales Device Scheme;
 - x. Construction Industry Scheme (CIS);
 - xi. Valuation Assurance Programme;
 - xii. Reward to Informants;
 - xiii. Petroleum Excise and Road Fund Levy;
 - xiv. Taxation of Capital Gains for Petroleum Operations and Reviewing

the tax rate for free zones enterprises.

37. A number of strategies to consolidate sustainability and efficiency in debt management are proposed:

- i. Liquidity management
- ii. Revenues for self-finance projects
- iii. On-lending and escrow arrangements
- iv. Financing capital expenditures
- v. Loans-priority projects programme
- vi. Tapping external capital (bond) markets

Sustainability of the New Pay Policy

38. Initiatives for sustainability of the new pay policy include:

- i. 12 Subvented Agencies which have the capacity to be on their own with regards to payment of their personal emoluments have been identified be weaned off government subvention;
- ii. Government will bring the judicious allocation of taxpayer funds (to elements in the Budget) to bear on the negotiation process to ensure that sustainability.
- iii. To ensure efficient, effective, and lawful use of IGF, the IGF of MDAs will be administered using the warrant system through the GIFMIS as required by Section 1651 of the FAR.

Private Sector/SME Development

39. To address limited access to financing and reducing the cost of borrowing by SMEs, Government will set up a new SME fund to boost support for SMEs. A pilot scheme will soon be rolled out to mobilize and deploy about GH¢50 million from sources such as EDAIF as well as pipeline and new loans and grants (including financing from development partners). The Fund will have formal links with institutions such as EXIMGUARANTY and the Venture Capital Trust Fund as well as rural banks and micro-finance companies.

Developing Modern Farmers Market

40. In 2014 government would construct two modern farmers market in Brong Ahafo and Northern regions. The Brong Ahafo market will focus on grains whilst the market in the Northern Region will focus on tubers. However, there will be facilities for other agriculture produce.

Social Intervention Policies

41. In 2014 the Livelihood Empowerment Against Poverty (LEAP) programme will be supported with an amount of GH¢38.0 million to cover 150,000 households and improve the targeting of LEAP using more efficient data collection, as well as expansion in the coverage of the programme. This is to ensure that the impacts already achieved are not only deepened but also have a lasting effect on lives of a greater number of beneficiaries, their families and wider communities.
42. Government in this budget has provided GH¢5 million to take care of the Osu, Kumasi and Tamale and the two subvented orphanages at Mampong and Jirapa. Part of these funds will be used among others, rehabilitate the very rundown and overcrowded facilities.
43. The SADA programme in collaboration with the Ministry of Gender, Children and Social Protection will undertake specific interventions to address growing migration of older women to urban, market locations.

Transparency and Anti-Corruption

44. To fight corruption in all its forms and, following H.E's directives, additional budget provisions have been made to strengthen anti-corruption agencies, notably CHRAJ. A percentage of proceeds of corruption when recovered, will be paid to anti-corruption agencies instrumental in exposing such acts, and this will further strengthen their resource base.