THE MACROECONOMIC FRAMEWORK AND THE 2009 BUDGET

AT THE WORKSHOP FOR THE PARLIAMENTARY PRESS CORPS AND FINANCIAL REPORTERS

Presentation by
Director of PARD
Ministry of Finance
OUTLINE

- Part 1: Understanding the Macroeconomic Framework
  - Definition and Concepts
  - Macroeconomic Framework
  - Structure of the Macroeconomic Framework
  - Interrelationship between the Macroeconomic Sectors
  - Understanding a Budget

- Part 2: 2009 Macroeconomic Framework
  - Global Environment and the 2009 budget
  - Performance for 2008
  - Medium Term Macroeconomic Framework
  - Macroeconomic Targets for 2009
PART 1
UNDERSTANDING THE MACROECONOMIC FRAMEWORK
Definition and Concepts

- The **Macroeconomic Framework** consists of a set of comprehensive coordinated policy measures aimed at achieving a set of economic objectives.

- These **Policy measures** include expenditure and tax measures, trade measures, exchange rate measures financial sector issues of a country.

- The **Economic objectives** also include:
  - Sustainable balance of payments;
  - Economic growth; and
  - Low or stable inflation rate.
There are 4 macroeconomic sectors of the economy:

- Real Sector
- Fiscal
- Monetary; and
- Balance of Payments / External Sector

These sectors are linked as follows:
Figure 2.2. Interrelationships Among Macroeconomic Accounts

REAL SECTOR

**National Accounts**
- Private consumption
- General government consumption
- Private investment
- General government investment

- Exports of goods and nonfactor services
- Imports of goods and nonfactor services

EXTERNAL SECTOR

**Balance of Payments**

**CURRENT ACCOUNT**
- Exports of goods and nonfactor services
- Imports of goods and nonfactor services
- Factor services (net)
- Transfers (net)
- Official
  - Private

**CAPITAL ACCOUNT**
- Direct investment
- Medium/long-term capital (net)
- Short-term capital (net)
- Overall balance
- Change in net foreign assets

MONETARY SECTOR

**Monetary Authorities**
- Net foreign assets
- Net domestic assets:
  - Net credit to central govt.
  - Credit to banks
  - Other items (net)
- Reserve money

**Deposit Money Banks**
- Net foreign assets
- Banks' reserve
- Net domestic assets:
  - Net credit to central govt.
  - Credit to private sector
  - Other items (net)
- Liabilities to monetary authorities
  - Private sector deposits

**Central Government**
- Revenues
- Grants
- Expenditures
  - Current
  - Capital
- Overall balance
- Financing
  - Domestic financing (net)
  - Banking system
  - Nonbanking sector
  - External financing (net)

---

Accounting identities

Strong accounting relationships
Understanding a budget

- The national Budget is the government’s financial statement which reviews past performance and sets out the government’s fiscal objectives for the ensuing year (on an annual basis).
- Budget is a:
  - tool of accountability and management;
  - an instrument of economic policy.
  - a standard with which to measure the actual achievements of the Government and its Departments during the period.
Overall Budget Balances

- The Budget balances refer to the fiscal position of Government in a particular year.
- It is made up of 2 important indicators:- the primary balance and overall balance.
- **The Primary Balance** measures the effects of current budgetary policy by excluding interest payments. It indicates how the current fiscal actions of the Government affect the Government's net debt and therefore is an important measure in assessing the sustainability of Government balance. It is written as follows:
  - Primary balance = Current domestic revenue – Current expenditure (excluding interest payment)
  - Domestic primary balance
- The **Overall Budget balance** is revenue – expenditure (excluding financing)
PART 2

2009

MACROECONOMIC FRAMEWORK
GLOBAL ENVIRONMENT OF THE 2009 BUDGET

- An environment of a plummeting global growth and trade
- Lowest Global GDP since the 2\textsuperscript{nd} World War
- Post Election Budget
- High levels of Unemployment
MACRO-PERFORMANCE FOR 2008

Provisional results indicates the following for 2008:

- a real GDP growth of 6.2% against a target of 7.0%;
- an end period inflation rate of 18.1% against target of 6.0 - 8.0 %;
- an average inflation of 16.5 against target of 7.0 %;
- Gross international reserves of 1.8 months; and
- an overall budget deficit including divestiture of 11.5 % against target of 4.0 % of GDP and
- an overall budget deficit excluding divestiture of 14.9% against 5.7 % of GDP.
Medium-term Macroeconomic Targets

In line with the medium term policies, the following are the main macroeconomic targets:

- average real GDP growth of about 8 per cent;
- average consumer price inflation of a single digit;
- gross international reserves of not less than three months of import cover;
- overall budget deficit equivalent to 3.0 per cent of GDP;
- Stabilization of the total public debt at no more than 60 per cent of GDP.
## Macroeconomic Targets for 2009

### Leading Macroeconomic Indicators

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP Growth</td>
<td>6.2%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Inflation - Annual Average</td>
<td>16.5%</td>
<td>13.5%</td>
</tr>
<tr>
<td>Inflation - End of Period</td>
<td>18.1%</td>
<td>12.5%</td>
</tr>
<tr>
<td>Total revenue &amp; grants</td>
<td>5,623,176,945</td>
<td>7,237,057,462</td>
</tr>
<tr>
<td>Tax revenue</td>
<td>4,299,451,807</td>
<td>5,117,108,436</td>
</tr>
<tr>
<td>Non-tax revenue</td>
<td>433,931,100</td>
<td>590,851,280</td>
</tr>
<tr>
<td>Grants</td>
<td>820,770,625</td>
<td>1,301,940,000</td>
</tr>
<tr>
<td>Statutory Payments</td>
<td>2,356,473,747.7</td>
<td>3,012,736,794.9</td>
</tr>
<tr>
<td>Discretionary Payments</td>
<td>7,181,770,460.9</td>
<td>6,780,394,611.4</td>
</tr>
<tr>
<td>Overall Cash Balance (inc. Divestiture)</td>
<td>-1,982,855,564.0</td>
<td>-2,018,144,679.7</td>
</tr>
<tr>
<td>percent of GDP</td>
<td>-11.5</td>
<td>-9.4</td>
</tr>
<tr>
<td>Overall balance (cash - exc. divestiture)</td>
<td>-2,557,570,259.2</td>
<td>-2,018,144,679.7</td>
</tr>
<tr>
<td>percent of GDP</td>
<td>-14.9</td>
<td>-9.4</td>
</tr>
<tr>
<td>Domestic Primary Balance</td>
<td>-1,773,181,762.4</td>
<td>-486,173,504.2</td>
</tr>
<tr>
<td>percent of GDP</td>
<td>-10.3</td>
<td>-2.3</td>
</tr>
</tbody>
</table>
GENERAL ECONOMIC POLICY DIRECTION

- Fiscal Policy
  - Correcting the large fiscal imbalance experienced since 2006
  - Enhance domestic revenue mobilisation;
  - Rationalizing subsidies to State-Owned Enterprises (SOEs), particularly, in the energy sector; and
  - Rationalizing public sector wages and other expenditures.
- Correcting the imbalance in the external sector by reducing the current account deficit.
- Ensuring adequate international reserves.
GENERAL ECONOMIC POLICY DIRECTION

- Price and Monetary Outlook
- The Bank of Ghana will use its inflation targeting framework to fight inflation to 12.5 per cent in 2009 to 8 per cent in 2011
Role of Financial Reporters

- A critical medium in deepening economic governance;
- Disseminating the Budget to the People;
- Providing key feedback to policy makers