



# PBBS 206: Economy of Ghana

## Lecture 7

### Fiscal Sector

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# Preamble

- Fiscal policy is the use of government (the public sector) spending and revenue and borrowing to achieve some desired economic goals.
- Fiscal policy is concerned with how government through its spending and revenue influences economic growth and development in the economy.
- Fiscal policy is traditionally seen as an instrument to manage demand.
- Fiscal policy influences the patterns of economic activity and also the level and growth of aggregate demand.

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# Preamble cont.....

- The public sector in Ghana consists of the Central Government, Local Government or the District Assemblies and State Owned Enterprises (SOEs).

## How Fiscal Policy Works

- The basis of fiscal policy is demand management, an attempt by government to influence the economy by changing aggregate demand.
- This was mooted by John Maynard Keynes that the level of output and by extension level of employment within an economy was primarily determined by the level of aggregate demand.

# Preamble cont.....

- Aggregate Demand (AD) is the summation of individual consumption (C), investment (I), government demand for goods and services (G) and net export ( $X - M$ ).
- The principle underlying demand management and therefore fiscal policy is that if the authorities can vary the level of any of the components of aggregate demand, then they can change the level of output and employment.
- The instruments of fiscal policy includes; government spending, taxation, borrowing and running budget deficit or surplus

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# Preamble cont.....

- Example of expansionary fiscal policy is cut in income tax which leads to increase in disposable income and therefore adds to consumer demand
- Another example is increase in government spending on goods and services which leads increase in people's income which increases their purchasing power and results in increase in consumer demand
- An example of contractionary fiscal policy is an increase in income tax, it leads to reduction in disposable income and by extension reduction in purchasing power resulting in a reduction in consumer demand

# Learning Objectives

*After completing this lecture, you will:*

- Understand the nitty-gritty of fiscal policies with respect to the Ghanaian economy
- Understand at first hand what the budget mean and other issues relating to it
- Be introduced to Government's Revenue and Expenditure composition
- Examine fiscal policy interventions the government of Ghana has implemented since 2007

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# The Annual Budget

## Meaning of Budget

- Fiscal policy refers to the taxation, expenditure and borrowing by the government
- Fiscal policy is implemented through the budget
- The budget is a financial statement of the government which forecasts government income and expenditure for the ensuing year (i.e. the year ahead) and reports on the actual receipts and expenditure for the year which had just ended
- The modern budget is presented to show current expenditure and capital expenditure

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# The Annual Budget Cont.....

- The budget has two main sections showing the revenue of the government from taxes and other sources and all items of expenditure
- In the budgeting, central government expenditure falls into two main groups, namely, narrow and broad
- The narrow budget of the Government consist of operations financed from the consolidated Fund which is fed from tax revenue receipts, non-tax revenue (income and fees, Non-Performing Asset Recovery Trust Transfers – NPART) and programme grant.
- Since 1993, divestiture receipts from the sale of SOEs



# The Annual Budget Cont.....

have been added to the list.

- It is this budget which is approved by Parliament and covers expenditure to be met from the consolidated Fund
- The broad budget consists of the narrow budget, capital projects jointly financed by Government with donor aid and projects financed entirely by donors and NGOs.
- The broad budget should include the budget of SOEs such as GNPC, GNPA, the Universities and the District Assemblies

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# Trends in Budget Deficit

- The budget has been in deficit since 1957 and the size of the deficit mostly increases year after year
- Budget deficit occurs when government's expenditure exceeds its revenue in a given year
- In 1957, the budget deficit was ₵7.2 million but stood at ₵76.8 million at the end of the sixties, ₵2,242.5 at the end of the seventies and ₵1.4 million in 1985, it stood at ₵182.5 million at the end of nineties
- The only periods when Ghana experienced budget surplus (i.e. revenue exceeding expenditure) was between 1986 and 1991 when the country implemented the Structural Adjustment Program (SAP)

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# The Sources of financing Budget Deficit

Generally budget deficit is financed by

- Increasing taxes
- Borrowing from the general public and/or commercial banks
- Borrowing from Central Bank and/or printing of currency
- Sales of government assets
- Borrowing from external sources

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# Impact of Budget Deficit financing on the Economy

- The impact of budget deficit financing depends on the source of extra funds. Some of the sources are inflationary since they lead to increase in money supply
- Example includes borrowing from the Central Bank and/or printing of currency, sales of government assets to foreigners and borrowing from external sources
- These bring in additional money into circulation which increase purchasing power and hence price level
- On the other hand financing like; increasing taxes, borrowing from general public and/or commercial banks, and sales of government assets to local investors

# Impact of Budget Deficit financing on the Economy cont....

are non-inflationary.

- Such monies are taken from the public and the government spends them back into the economy
- The only effect is that, they may lead to crowding out of the private sector
- That is the funds that would have been available to the private sector for investment are taken by the government

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# Budget Deficit, Good or Bad?

- The answer to the question “whether budget deficit is bad” depends generally on what the deficit was used for
- That is it depends on the composition of the deficit.
- If the government borrows to finance budget deficit on public investment in the form of infrastructure, education, health etc., then the deficit financing may be said to be desirable and good
- These expenditures may increase capital investment and economic growth and development
- On the other hand, if the deficit is on non-developmental activities or on current consumption

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# Budget Deficit, Good or Bad? Cont....

which do not increase capital investment and economic growth and development, they may be said to be bad.

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# Matters Arising, 2013 Budget

- For the 2012 fiscal year, the total revenue and grants was below the targeted amount
- The targeted amount for 2012 was GH¢ 16,927.6 million but GH¢ 16,668.4 million was realized
- For the same period, the government exceeded its budget for expenditure
- The targeted amount was GH¢ 21,596.6 million but an amount of GH¢ 25,317.1 million was spent
- A fiscal deficit of GH¢ 8,648.7 million was recorded in 2012 which represented 12% of GDP vis-à-vis a target for the year of 6.7% of GDP

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# Summary of Central Government Operations and Financing 2012

Description	2012 Budget (GH ¢ million)	2012 Outturn (GH ¢ million)
Total Revenue and Grants	16,927.6	16,668.4
Total Expenditure and Arrears Clearance	21,596.6	25,317.1
Overall Fiscal Balance	-4,669.0	-8,648.7
Total Financing	4,669.0	8,648.7
o/w Domestic Financing	2,760.6	7,018.0

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# Matters Arising, 2014 Budget

- For the 2013 fiscal year, the total revenue and grants was below the targeted amount
- The targeted amount for 2013 was GH¢ 22,533.4 million but GH¢ 20,801.0 million was projected to be realized
- For the same period, the government was projected to spend less than its budget for expenditure
- The targeted amount was GH¢ 30,544.3 million but an amount of GH¢ 29,706.4 million was projected to be spent
- A fiscal deficit of GH¢ 8,905.4 million was projected in 2012 which represented 8.4% of GDP vis-à-vis a target for the year of 7.2% of GDP

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# Summary of Central Government Operations and Financing 2013

Description	2013 Budget (GH ¢ million)	2013 Projected Outturn (GH ¢ million)
Total Revenue and Grants	22,533.4	20,801.0
Total Expenditure and Arrears Clearance	30,544.3	29,706.4
Overall Fiscal Balance	-8,010.9	-8,905.4
Total Financing	8,010.9	8,905.4
o/w Domestic Financing	5,700.8	5,818.4

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# Summary of Central Government Revenues and Grants - 2013

Description	2013 Budget Estimate (Million GH ₵)	Projected Outrun for 2013 (Million GH ₵)
Total Revenue & Grants	22,533.4	20,801.0
Domestic Revenue	21,275.0	19,542.5
o/w Oil Revenue	1,122.7	1,576.0
Tax Revenue	17,090.8	15,129.6
o/w Oil Revenue	385.2	678.8
Non-Tax Revenue	4,019.9	4,242.1
o/w Oil Revenue	737.5	897.2
Others	164.2	170.8
Grants	1,258.5	1,258.5

# Summary of Central Government Expenditures - 2013

Description	2013 Budget Estimate (Million GH ₵)	Projected Outrun for 2013 (Million GH ₵)
Total Exp. & Arrears Clearance	30,544.3	29,706.4
Total Expenditure	28,163.4	26,931.3
Compensation of Employees	9,004.0	9,720.6
o/w Wages & Salaries	7,465.4	8,538.7
Use of Goods & Services	1,742.4	1,045.4
Interest Payment	3,194.4	4,443.5
o/w Domestic Interest	2,574.2	3,791.1
Subsidies	1,022.2	1,267.1
Grants to other Gov't Units	6,208.8	4,296.7
Social Benefits	38.8	38.8
Others	1,797.7	1,575.0
Capital Expenditures	5,155.1	4,544.1

# Fiscal Policy Interventions in 2007

The policies pursued in 2007 was in line with the overall objective of improving the debt situation of the country, the policies included:

- Guidelines for the preparation of composite budgets were issued to Metropolitan, Municipal and District Assemblies (MMDAs), the budget committees of the Regional Coordinating Council (RCC) and the District Assemblies
- Two additional modules (Cash Management and Accounts Receivable) were deployed, as part of the implementation of the Budget and Public Expenditure

# Fiscal Policy Interventions in 2007 cont...

## System (BPEMS)

- Workshops on National Accounting were organized for MMDAs across the country
- The MDAs Retention of Funds Act, (Act 735) was passed by Parliament in May 2007. The law grants 12 MDAs legislative approval to retain portions of their internally generated funds (IGF) and 20 MDAs approval to generate IGF;
- The last and final installments for the arrears on the (District Assemblies Common Fund (DACF) and the Ghana Education Trust Fund (GETFund) amounting to

# Fiscal Policy Interventions in 2007 cont...

GH¢5.4 million and GH¢4.3 million respectively were paid off

- The government purchased thermal plants to try and make up for the shortfall in electricity supply as a result of the low water level in the Akosombo dam. The government also imported a quantity of compact fluorescent lamps (CFLs) and distributed them free of charge to help reduce the consumption of electricity

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# Fiscal Policy Interventions in 2008

Major fiscal policy measures undertaken in 2008 included the following:

- A preliminary draft Aid Policy document was developed in consultation with key stakeholders. This also coincided with the Aid Effectiveness Conference held in Accra during the year
- Training programmes for metropolitan, municipal and district budget analysts were organised to enable them prepare Composite Budgets for 2009
- A GCNet Unit was established at the Internal Revenue Service (IRS) to aid tax audit and follow-up action as the

# Fiscal Policy Interventions in 2008 cont...

IRS head office is now more readily able to provide information to its district offices.

- The VAT Flat Rate Scheme (VFRS) was initiated in the year and about 14,800 VFRS traders were registered. The VAT Service (VATS) also organised seminars on the VFRS for members of the Ghana National Chamber of Commerce and traders.
- The Communication Service Tax (CST) 2008 (Act 754) was passed by Parliament effective 1 June 2008. Special CST Units were set up by VATS to collect the tax

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# Fiscal Policy Interventions in 2008 cont...

- An on-site banking programme involving 15 ministries, departments and agencies (MDAs) and seven banks started in March 2008. Guidelines on accounting and reporting under the On-Site Banking and Daily Cash Collection Arrangements were issued to the MDAs. The programme is to help improve revenue lodgements and management and reduce leakages
- The Ministry of Finance in collaboration with the Office of the President and the National Development Planning Commission (NDPC) developed a harmonized budget implementation and monitoring template. Training was

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# Fiscal Policy Interventions in 2008 cont...

organised for MDAs in monitoring and cash management planning to improve efficiency and effectiveness.

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# Fiscal Policy Interventions in 2009

Some of the major fiscal policy measures implemented in the course of 2009 include the following:

- A reduction in taxes on petroleum products
- Government provision of an amount of GH¢17.2 million for the implementation of the free school uniforms and free exercise books for pupils in basic schools
- A rise in the capitation grant provided to basic schools by 50 percent from GH¢3.00 per pupil to GH¢4.50 per pupil
- Improvement of the cash management system for Ministries, Departments and Agencies (MDAs) led to

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# Fiscal Policy Interventions in 2009 cont...

more frequent monitoring of revenues and expenditures of MDAs. In line with this policy, releases to MDAs were authorised depending on the level of their revenue inflows

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# Fiscal Policy Interventions in 2010

Some of the major fiscal policy measures implemented and/or initiated in 2010 include the following

- Migration of a number of institutions onto the Single Spine Salary Structure (SSSS). The rest of the institutions were to be migrated as soon as their mapping exercises and other related tasks were completed
- To help alleviate the burden on parents, the government subsidised the conduct of the Basic Education Certificate (BECE) in 2010 to the tune of GH¢4,911,494
- The provision of free school uniforms and exercise books to enhance participation and quality of teaching

# Fiscal Policy Interventions in 2010 cont...

and learning continued. About 23 million exercise books were distributed to school pupils while uniforms were provided for 526,263 needy children

- The government through the Public Servants Home Scheme provided 225 houses for various categories of public servants; in government effort to motivate teachers towards quality education, teachers were given 15 percent of their basic salary as a professional allowance
- The government through the Ghana Revenue Authority (GRA) set up the National Enforcement Team to check



# Fiscal Policy Interventions in 2010 cont...

smuggling generally, and to look into the amendment of the Minerals and Mining Act to fix the rate of royalty at 5 percent of minerals mined (GoG, 2011: p-176)

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# Fiscal Policy Interventions in 2011

The key fiscal policy measures for the year centered on continuing reforms in public financial management, improvements in tax collection and a rationalization of public expenditure. Major policies in 2011 included:

- As part of the implementation of the Single Spine Pay Policy (SSPP), the Fair Wages and Salaries Commission (FWSC) successfully negotiated a 20 percent increase in the base pay for the Single Spine Salary Structure (SSSS) in 2011. The FWSC migrated a total of 460,853 public sector workforce onto the SSSS
- The total oil revenue received at the end of 2011 of Courtesy: www.carlprosper4nugs.yolasite.com GH¢666.2 million, which was far lower than the forecast

# Fiscal Policy Interventions in 2011 cont...

of GH¢1,250 million, was allocated to the various allowable sources in accordance with the Petroleum Revenue Management Act, Act 805, 2011 (PRMA)

- As part of its fiscal consolidated policy, government started the biometric registration of all pensioners and active employees on government payroll. The resulting database is to be used to rationalize future payments of wages, salaries and pensions in the public sector
- Government subsidised the ex-pump price of petroleum products to the tune of GH¢267.61 million as at September 30, 2011. The entire under-recovery of petroleum pricing for the year was estimated to be

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# Fiscal Policy Interventions in 2011 cont...

GH¢364.94 million based on the assumption of a crude oil price of US\$110.23 per barrel.

- A simple hedging mechanism to mitigate the impact of the crude oil price fluctuations on crude oil receipts was put in place by the government.

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# Fiscal Policy Interventions in 2012

- Government offered a tax amnesty from January 2012 to the end of September 2012 to all companies and individuals who had evaded taxes or operated outside the tax net
- Government continued with the implementation of the Single Spine Pay Policy (SSPP), with an emphasis on addressing and eventually removing the remaining distortions and inequalities in public service remuneration
- Government introduced an environmental tax of 15% on plastics, but with exemptions for pharmaceutical and agricultural sectors

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