REPUBLIC OF GHANA

HIGHLIGHTS

OF THE 2015 MID-YEAR REVIEW OF THE BUDGET STATEMENT AND ECONOMIC POLICY AND SUPPLEMENTARY ESTIMATES

INTRODUCTION

1. the Mid-Year Review and revised macroeconomic targets as well as a Supplementary Estimates for the 2015 fiscal year is necessitated by domestic and longstanding global developments.

2. The aim of this year's Mid-Year Review and Supplementary Estimates is to:
   - update Honourable Members on the performance of the economy in 2014 and for the first five months of 2015;
   - revise the macroeconomic targets and fiscal framework set in the 2015 budget estimates based on current information;
   - request for approval for Supplementary Estimates for 2015; and
   - provide an update on major new Government initiatives

3. Our fiscal consolidation programme, as at the end of May 2015, remained on course. These are the result of relatively good tax and non-tax revenue performance, as well as containment of the overruns on subsidies, the wage bill and other spending.

4. The bold measures we have taken since 2013 have restored confidence in the economy resulting in the gradual and envisaged improvements in revenue performance and foreign exchange inflows.

MACROECONOMIC PERFORMANCE

5. Macroeconomic performance for the period 2014 to the first five months of 2015 is presented as follows.

Macroeconomic Targets

6. Developments from January to May 2015, particularly fiscal performance, indicate that the Government policies and reform measures are yielding results. Fiscal performance has improved significantly but, until recently, the economy witnessed a sharp depreciation of the Cedi which partly contributed to the rising inflation.

7. The seasonal depreciation of the Cedi has begun to reverse in response to expected significant inflows. Short term as well as Structural Measures introduced by Government will focus on:
   - intensifying reporting and monitoring of foreign exchange inflows, retention and use under our laws and agreements to ensure compliance and provide better information to the markets;

- enhancing monitoring of foreign exchange transactions, including speculative activities;
- continuing with Bank of Ghana SWAP and futures arrangements as well as more even utilization of its reserves; and
- rationalizing MDA/MMDA imports.

8. Some further details of macroeconomic performance for the period under review are highlighted below.

GDP Growth

9. Provisional growth of GDP in 2014 was 4 percent after the Ghana Statistical Service revised the GDP methodology. Provisional GDP numbers indicates that the economy grew by 4.7 percent, instead of negative growth rate of 3.8 percent in the first quarter in 2014

10. The Agriculture Sector grew by 7.4 percent, compared with a decline of 8.0 percent; Industry Sector grew by 0.9 percent, compared with negative 1.8 percent; and Services Sector grew by 4.7 percent, compared with negative 5.5 percent. It is gratifying to note that all these growth numbers are pointing to an upward trend.

Inflation

11. Inflation pressures remained high in 2014 ending the year at 17.0 percent. This was mainly driven by exchange rate pressures and increases in utility tariffs and transport costs.

12. Inflation, however, declined to 16.4 percent in January 2015. It increased persistently to 16.6 percent in March and to 17.1 percent in June 2015. The rise in inflation was fuelled by further currency depreciation and fuel price adjustment. Inflation is expected to ease with the stabilization of the currency.

Interest Rate Developments

13. Interest rates on the money market in the first five months of the year generally showed mixed performance. The Bank of Ghana Monetary Policy Rate rose from 21.00 percent in February to 22.00 percent in May 2015. The rate was maintained in July. The interest rates on the 91-day Treasury bills increased to 25.1 percent while 182-day Treasury bill remained unchanged at 25.90 percent during the review period.

Exchange Rate Developments

14. During the period January-May, 2015, the Cedi was weak against major trading currencies as demand continued to outweigh supply. In the inter-bank market, the Cedi cumulatively depreciated by 19.95 percent, 18.44 percent, and 10.66 percent against the US dollar, the pound sterling and the euro, respectively.

External Sector Developments

15. The overall balance of payments improved significantly from a deficit of US$874.2 million in 2013 to a deficit of US$85.2 million. The current account balance recorded a deficit of US$3.7 billion (9.2 percent of GDP) in 2014 compared with a deficit of US$5.7 billion in 2013 (11.9 percent of GDP).

16. For the first five months of 2015, the value of merchandise exports was provisionally estimated at US$4.8 billion whilst that of merchandise imports was US$5.5 billion.

Fiscal Performance

17. Fiscal data for the 2014 fiscal year indicates that, both revenue and expenditure were below their respective targets for the period. However, with the shortfall in revenue exceeding that of expenditure, the resulting cash fiscal deficit was equivalent to 10.2 percent of GDP against the revised target of 8.8 percent.

18. Preliminary fiscal data for January to May 2015 indicate an over performance in revenue and grants whiles expenditures were below target for the period. This resulted in a cash fiscal deficit equivalent to 1.9 percent of GDP, against a target of 3.4 percent. This compares to a deficit of 3.7 percent of GDP for the same period in 2014.

19. Total expenditure, including payments for the clearance of arrears and outstanding commitments for January to May, 2015 amounted to GH¢14.6 billion (10.8 percent of GDP), against a target of GH¢16.1 billion (11.9 percent of GDP). The outturn was 9.1 percent lower than the budget target and 7.4 percent higher than the outturn for the same period in 2014. The lower than estimated expenditures for the period was mainly as a result of the containment of spending.

Overall Budget Financing

20. The deficit was financed mainly from domestic sources, resulting in a Net Domestic Financing (NDF) of the budget of GH¢1.8 billion (1.3 percent of GDP).

21. Foreign Financing of the budget was GH¢762.7 million, against a target of GH¢654.1 million. In addition, there was a drawdown of GH¢205.7 million from the Ghana Stabilization Fund to finance the budget due to shortfalls in oil revenue resulting from lower oil prices.

Developments in Public Debt

22. Ghana's total public debt stock, which stood at GH¢53.1 billion (US$24.5 billion) as at end-December 2013, increased to GH¢79.6 billion (US$24.8 billion) at the end of December 2014. Of the total public debt stock, external debt was GH¢44.5 billion (US$13.9 billion) while domestic debt amounted to GH¢35.0 billion (US$10.9 billion), representing 55.96 percent and 44.04 percent of total debt stock, respectively.

23. The provisional debt stock as at end May, 2015 stood at GH¢90.0 billion representing 67.53 percent of GDP. This was made up of GH¢53.8 billion and GH¢36.2 billion for external and domestic debt, respectively.

24. It must however, be noted that, the growth in public debt as at the end of May 2015 is largely on account of the significant risk of exchange volatility which affected more than 50 percent of the entire public debt stock.

REVISED 2015 MACROECONOMIC TARGETS, FISCAL FRAMEWORK AND SUPPLEMENTARY BUDGET

25. Developments in both the domestic and global economic environment have necessitated a revision of the macroeconomic framework and targets in the 2015 Budget. While the situation has started to improve, the recent exchange rate depreciation due to high outflows of foreign exchange, and the rising inflation posed downside risks to the achievement of the growth target for the year. This situation is certain to improve.

Revisions to the Fiscal Framework

26. Based on the revisions to the macro-economic framework, the 2015 macroeconomic targets have been revised as follows:
    - overall real GDP growth revised from 3.9 percent to 3.5 percent;
    - non-oil real GDP growth revised from 2.7 percent to 2.3 percent;
    - end-year inflation revised from 11.5 percent to 13.7 percent;
    - overall budget deficit target revised from 6.5 percent of GDP to 7.3 percent; and

- Gross International Reserves is projected to remain at not less than 3 months of import cover of goods and services.

27. The Petroleum Benchmark Revenue (PBR) price in the 2015 Budget, based on the formula stipulated in the Petroleum Revenue Management Act (PRMA), 2011 (Act 815), was estimated at US$99.38 per barrel. The volume of 102,033 barrels per day was also estimated in pursuant to the Act.

28. Based on these assumptions, the estimated total petroleum receipts for the 2015 Budget amounted to GH¢4.2 billion. Of this amount, GH¢2.5 billion was allocated as Annual Budget Funding Amount (ABFA) to finance specific programmes in the Budget; GH¢1.1 billion was estimated to be transferred into the Ghana Petroleum Funds; and GH¢697.7 million to the National Oil Company.

29. In summary, total revenue and grants for the 2015 fiscal year have been revised downwards by GH¢1.9 billion, from GH¢32.4 billion (24.0 percent of GDP) to GH¢30.5 billion (22.8 percent of GDP). The downward revision is mainly on account of the lower oil revenue projections. The revised total revenue and grants for the year represents an increase of 23.4 percent over the outturn for 2014.

30. The estimate for total expenditure and arrears clearance have been revised downwards from GH¢41.2 billion to GH¢40.3 billion (30.0 percent of GDP). This is mainly on account of lower spending from oil revenues and lower domestic interest payments.

31. Foreign debt repayment has been revised upwards by GH¢1.8 billion, from GH¢2.8 billion to GH¢4.6 billion.

32. On the basis of the revised revenue and expenditure estimates, the 2015 revised budget will result in an overall budget deficit of GH¢9.7 billion, equivalent to 7.3 percent of GDP, against the earlier estimate of GH¢8.8 billion, equivalent to 6.5 percent of GDP.

33. The deficit will be financed from foreign and domestic sources. Foreign financing is estimated at GH¢4.7 billion. Domestic financing of the Budget is estimated at GH¢4.97 billion, indicating a downward revision by GH¢2.6 billion.

34. It is important to state that this Revision and Supplementary Estimates will not result in automatic increases in expenditure across board.

STATUS OF IMPLEMENTATION OF KEY POLICY INITIATIVES

35. Significant progress has been made on a number of policy and structural initiatives which covers the strategic areas of Power, Debt Management, Export-led Development and Infrastructure, including Education. Details of progress made under some of these initiatives include:

POWER SECTOR INITIATIVES

36. The following power projects have either been commissioned or completed:

   a. First, emergency power projects at various stages of preparation, approval or commissioning, include the 225MW Powership-IPP project; 250MW Ameri in Takoradi (under Build Own Operate and Transfer arrangement); the 370MW AKSA; 110MW TEI; and 300 GE Early. In addition, the 220MW Kpone Thermal Power Project (KTPP); 110MW Tico Expansion Project; 180MW Asogli Phase 2(1); and the VRA TT2PP (38 MW) expansion project will be completed before the end of the year.

   b. Work on the Western Corridor Gas Infrastructure project is completed. However, some ancillary works are still ongoing. This will improve power output and the prospect for power exports. Currently, the Atuabo Gas Processing plant is delivering 80mmscf of gas/day for Thermal plants at Aboadze as well as 400 metric tons of LPG a day to the domestic market

STRUCTURAL FISCAL MEASURES

Public Financial Management (PFM) Laws

37. The Ministry of Finance is leading the development of an overarching Public Financial Management law, which will underpin Ghana's on-going PFM reforms. It is designed to address persistent weaknesses in the budget processes and promote fiscal discipline, transparency and accountability. The existing financial legislations will be revised to reflect the new PFM law.

Sustaining the New Pay Policy

38. Government is continuing to implement a number of measures to contain the wage bill. They include: Payroll Clean-up Measures such as Suspension of Salaries of public service workers without up-to-date personnel records and bank accounts; Implementation of Electronic Salary Payment Voucher (eSPV);

Continuation of Head Count; Validation of SSNIT Numbers; and Migration of all subvented Agencies onto the mechanised payroll.

Expenditure Controls

39. As part of compliance measures on financial management and control of expenditure, CAGD will implement the B-Tracking (Bank Tracking), e-Travel Card, and e-Fuel Card systems. In addition, the MOF in collaboration with the Ministry of Trade and Industry, and Ministry of Roads and Highways is; (a) introduce electronic forms of payments on the next generation of public buses; and (b) complete the on-going RFP process for installing electronic road tolls plazas. The aim of these electronic forms of payment is to ensure effective utilization of budgetary resources.

Debt Management Initiatives

40. Government has developed a Medium Term Debt Strategy to ensure that financing requirements are met promptly at the lowest possible cost consistent with prudent degree of risk. In line with the strategy, Government intends to diversify funding sources and lengthen the maturity profile of the debt portfolio. The strategy includes the use of innovative financing instruments as well as plans to issue a Eurobond of US$1,500.00 billion in the second half of the year.

EXPORT PROMOTION AND IMPORT SUBSTITUTION MEASURES

41. Export-led measures will include:

- provision of credit and guarantee to exporters through the EXIM Bank;
- provision of export incentives through GIPC; and
- facilitation of the development and promotion of Ghanaian exports by the private sector through Ghana Export Promotion Authority.

Revamping of the Broiler Programme

42. To further reduce the import bill, the broiler revitalization project, which is expected to lead to the production of 20 million broilers and result in 60,000mt of poultry meat, has taken off. Measures such as these and the earlier boost to pharmaceutical and rice sectors, are designed to reduce our import dependency. However, the success of the broiler programme is threatened by the recent outbreak of avian influenza, also known as bird flu, in the Greater Accra Region and other parts of the country.

COMMUNITY DAY AND PROGRESSIVELY FREE SHS

43. In fulfilment of government's promise, the first phase of the 50 community day SHS programme involving the Construction of 4-storey 24 unit Classroom Blocks

(E-Block) in 50 districts are at various stages of completion. Five of the projects listed below are scheduled to be completed by end of August 2015:

- Derma in the Tano South District of the Brong Ahafo Region;
- Nyanoa in the Upper West Akim District in the Eastern Region;
- Bunkpurugu Namong in the Bunkpurugu Yunyoo of the Northern Region;
- Chinderi in the Kratsi Ntsumuru District of the Volta Region; and
- Bamiankor in the Nzema East District of the Western Region.

44. The remaining 45 projects which were started in September 2014 are scheduled for completion in February 2016.

CONCLUSION

45. In line with the Better Ghana Agenda, we are focused on making the transformation a reality:

a) We remain focused on a fiscal consolidation effort with significant structural measures to stabilise the macro economy; enhance domestic revenue mobilisation; and change public financial management practices;

b) We are focused on boosting power supply as the main element of establishing an industrial base, be it in agro-processing; downstream petrochemical; and other forms of light and heavy industry;

c) We are focused on utilising our petroleum and other resources to set up funds for infrastructure development stabilizing volatilities that are often beyond our control; and managing our debt and contingencies;

d) We are focused on transforming our IGF and statutory fund programmes by setting up improved social intervention programmes in support of inclusive growth; and

e) We are focused on leading the private sector to participate in an export-led strategy, through initiatives such as the Ghana EXIM Bank and to gradually reduce our import dependency.

46. This is a request for Supplementary Estimates of **GH¢865,789,380.00** in accordance with Article 179 (8) of the 1992 Constitution and Standing Order 143 of Parliament.