2015 Budget Highlights

“Transformational Agenda: Securing the Bright Medium Term Prospects of the Economy”

November 2014
“Transformational Agenda: Securing the Bright Medium Term Prospects of the Economy” – The theme for Government’s 2015 Budget Statement and Economic Policy mirrors the persisting global and economic challenges and the effort required to weather the shocks while growing the economy. The Budget is a quiet admission by Government that decades of economic development in Ghana has failed to sufficiently transform and diversify the Ghanaian economy. Amidst weaker global and national economic environments, Government seeks to continue with the transformation agenda despite existing vulnerabilities.

The Minister of Finance indicates that Ghana’s on-going fiscal consolidation and stabilisation measures and policies, and a prospective IMF Program, will combine to enable a promising environment for inclusive growth, value addition and economic diversification. The Minister further indicates that challenges prevail, despite a bright future in the services, agriculture and industrial (notably energy) sectors.

However, will the perceived transformation, with the looming scrutiny from the IMF, result in inclusive growth, value addition and economic diversification?

This year, we seek to contrast the proposed policy interventions with the initiatives outlined in the Budget Statement 2015 for key segments of the economy; with an emphasis on whether the interventions can unlock transformational tendencies.

Transformation that leads to inclusive growth, which in turn adds value and helps diversify the economy, needs to be supported by effective structural policies that are informed by a good understanding of how they impact on the multi-dimensional stratification of the economy.

A successful economic transformation that fosters inclusive growth requires policies that favour both raising income and lowering poverty. The April 2014 IMF Regional Economic Outlook for Africa suggests that to promote structural transformation and inclusive growth, emphasis should be placed maintaining a stable macro-economic environment, including low and stable inflation; upgrading infrastructure; investment in physical and human capital, promoting financial inclusion, and raising productivity in agriculture, where most Ghanaians are employed.

Existing economic challenges further compounded by a weakened currency, increasing budget deficit and vulnerability to external shocks are key issues that need to be addressed to sustain economic growth in the medium to long term.

Despite the prevailing economic challenges, Government realised a 3rd Quarter budget deficit reduction to 5.9% when compared to same time of last year (6.9% in September 2013). Government plans to further reduce the budget deficit to 6.5% in 2015 from a projected outturn of 9.5% in 2014. In the medium term, Government aims to reduce the budget deficit to 3.5% by 2017. Significant reduction in the budget deficit is commensurate to significant growth and increased revenue mobilisation. With contracting economic growth, it will be ambitious to reduce the deficit to meet the target of 3.5% in the medium term without radical revenue maximization interventions.

The Minister mentioned some key policy interventions aimed at maximizing revenue while controlling expenditure:

- Increase excise duty on tobacco from 150% to 175%;
- Reversal of excise tax on petroleum from ad valorem to specific with the intention of maximizing tax revenue from
Commentary

petroleum products regardless of shocks from the global environment;
- Introduction of special petroleum tax of 17.5%;
- VAT for fee-based financial services;
- 5% VAT on commercial real estate;
- Extension of the special import levy of 1-2% to 2017.

For Ghana, economic transformation will entail firm and consistent policy interventions across agriculture, services and industry (with emphasis on energy), considered priority growth areas.

**Will the economy be transformed?**

As noted by the IMF, economic transformation in sub-Saharan Africa requires sustained investment in key sectors including agriculture, manufacturing and infrastructure. In Ghana, for the current Budget to be transformational, it would need to accelerate growth in the agricultural sector by increased mechanisation. The level of mechanisation as proposed for new AMSECS is not sufficient to spur meaningful growth within the sector for a transformation in the economy. The proposed mechanisation is not likely to lead to meaningful diversification that could reduce the over-reliance on agriculture as a GDP contributor.

Inclusive growth that unlocks value addition and promotes diversification will need more radical structural policy interventions that increase mechanisation in Agriculture as recommended by the Senchi Report, paving the way for more local processing of natural resources into exportable commodities. This will increase local employment and also contribute towards a reduction in the export deficit, further improving on the budget deficit.

We welcome Government’s initiative to reviewing the Free Zones Act for relevance of activities with a focus on manufacturing and value addition.

Sustained capital infrastructural investments in key development areas including a well-functioning infrastructure that meets the needs of the various economic agents, can accelerate growth and contribute to both healthier lives and improved job opportunities, according to the Organisation for Economic Co-operation and Development (OECD).

Decreased funding for water supply and the shortfall in housing is likely to impact adversely on growth and reduce inclusivity. No medium term initiatives to the problem of road congestion within high economic activity areas of Ghana are likely to stifle economic growth and reduce inclusiveness.

We welcome the 100% increase in funding to the Health Sector. However, a significant proportion of this allocation will be deployed largely towards strengthening of the health systems, including employee compensation and not necessarily improving health care access and quality, a key aspect of economic transformation.

We are happy to observe that some attributes of the Senchi Report, with the emphasis on local manufacturing to increase exportation have been incorporated in the Budget. With the right policy interventions this could lead to diversification of the economy from over-reliance on gold and cocoa. The creation of an EXIM Bank, if properly set up and funded, is likely to promote such diversification. However, policy initiatives as set out in the Budget do not propose significant measures in the medium term that could radically diversify the Ghanaian economy, although emphasis on boosting poultry farming, production of rice and fisheries and aquaculture in the Budget Statement is likely to lead to some diversification.

Value addition to the economy, would most likely be a product of a significant increase in local production, which means increasing the local manufacturing of goods for exportation. Across the high export commodities for Ghana, agriculture represents the only sector where a sustained increase in local processing is likely to add significant value to the economy.

However, there are no bold policy statements geared towards increasing the mechanisation of agriculture to include local processing of key agricultural export commodities prior to exportation, especially for cocoa.
The Budget Statement overall, reflects the constraints of balancing the national budget, reducing the deficit while sustaining growth amidst a sluggish global economy. Typically, further ambitious deficit reduction, if not properly balanced with sustained revenue maximization endeavours is likely to further stifle economic growth.

Long term planning beyond the 3-4 years medium term plans of the National Development Planning Commission (NDPC) coupled with stable macro-economic policies are instrumental to restoring economic direction and to revive private sector confidence in the economy. For growth to be inclusive and to unlock value addition, the macro-economic aspects including the stabilisation of the Cedi, lowering of interest rates and reduction of the budget deficit will have to be tackled with a long term perspective.

Government is planning pro-poor initiatives to absorb the shocks from immediate fiscal interventions, but it is questionable if the right sectors of the population have been identified. The sustainability of the safety nets is also in question including, the level to which these social protection programs can engender transitions to productive employment.

In conclusion, the Budget Statement lays out the framework for a transformational agenda. There are some attributes of specific interventions to spark transformational growth in line with the recommendations of the Senchi Report and the 2014 Article IV Consultation-Staff Report with the IMF. We however are of the opinion that the policy interventions although well intended and timely, are not aggressive enough to sustain the economy and promote inclusive growth, unlock the potential for value addition and accelerate the diversification of the economy; key pillars of the transformational agenda.
THE ECONOMY

The 2014 Budget sought to re-align objectives to meet key national priorities in order to further enhance the resilience of the economy against risks, and promote accelerated growth and development with job creation. However, it would prove to be a tough year, as the economy was plagued by severe macroeconomic imbalances such as consistently high inflation rates, current account and fiscal deficits, and massive foreign exchange swings which led to a highly depreciated domestic currency. The struggle of the nation to meet its 2014 targets in key areas led to their downward revision for 2015, as is shown below:

### Economic Objectives and Policies for the Medium Term

The main policy objective for the medium term is to lower inflationary expectations. Since the last quarter of 2013, the effects of fuel prices increasing steadily pushed up inflation from the medium term target of 9% to 16.5% at the end of September 2014. The Central Bank will continue to use its monetary policy rate to signal and gradually ease inflation towards its medium term target. Government also plans to create a promising environment for inclusive growth, value addition, and diversification.

#### Medium term targets for 2015-2017:

- An average real GDP (including oil) growth rate of at least 6.8%;
- An average non-oil real GDP growth rate of at least 4.4%;
- An inflation target of 8% with a band of ±2 percent;
- An overall budget deficit of 3.5% by 2017; and
- Gross International Reserves which will cover not less than 4 months of imports of goods and services by 2017.

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### 2015 Budget Highlights

**Overall Summary**

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Source: Budget Statement 2015 and Mid-year review of 2014 Budget

*Actual estimate included in the 2015 Budget
**As at September 2014

2014 was a good year for the Agriculture Sector as it recorded the highest output growth, above all the other sectors.

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</tr>
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*Outturn (9 months to September 2013) included in the 2015 budget

Ghana has experienced little change in the structure of its economy from 2012 to 2014. The Services sector continues to drive the economy, accounting for approximately 50% of total GDP from 2012 to 2014.
Deficit

- Based on the projected revenue and expenditure for end-2014 fiscal year, the fiscal deficit is projected at 9.5% of GDP, higher than the projected 8.8%.
- Government’s goal for the medium term is to progressively reduce the fiscal deficit to 3.5% of GDP by 2017. Government therefore aims to reduce the overall budget deficit to 6.5% of GDP in 2015, equivalent to GH¢8,815.9 million.

Deficit changes since 2012

Public debt

- The provisional public debt stock as at September 2014 stood at GH¢69,685.90 million. This was made up of external debt of about GH¢40,644.15 million and domestic debt of about GH¢29,041.75 million.
- Ghana’s public debt as a percent of GDP stood at about 60.80% as at the end of September 2014 compared to 55.83% as at the end of December 2013.
- Going forward, Government intends to continue to adopt strategies aimed at ensuring debt sustainability.
- Government also aims at maintaining a well-functioning domestic debt market by, among other things, reducing the growth of domestic debt.

Petroleum and Gas Revenues Outlook for 2015

Total petroleum receipts for the first three quarters of 2014 were US$780.1 million. The total projected petroleum receipts for 2015 are US$1,236.3 million, compared with a projection of US$777.0 million for full year 2014.

Government expects that the first gas from Jubilee field will be realized in 2015. Upstream gas production is projected at 77.18 mmmscf with the Ghana National Gas Company’s (GNGC) processing facility operating at 50% capacity.
TAX SUMMARY

The 2014 Budget introduced a number of revenue measures to compliment the 2013 fiscal measures. Some of the revenue measures introduced in 2014 include an increase in the standard VAT rate by 2.5%, an increase in tax on rent on commercial properties from 8% to 15%, an increase in the general withholding tax on management and technical services to 20%, amongst others.

The 2014 outturn for domestic revenue was 4.0% lower than the budget target and 25.8% higher than the outturn for the same 9 months period in 2013. The shortfall in domestic revenue was mainly due to weak tax revenue performance in almost all the tax types the exception being taxes from oil and mineral royalties. Domestic revenue for the year 2014 is projected at 3.6 % lower than the budget estimate of GHS24,839.4 million. However for 2014, total oil revenue is estimated at 10.2% higher than the budget estimate.

Tax policy measures and revenue administration reforms continue to be key fiscal policy drivers for 2015. Tax for 2015 is estimated at GHS25,406.0 million and will account for 78.4% of total revenue and grants. To finance Government expenditure, a number of policy initiatives will be pursued to broadly address the prospects for the near term to enable Government deliver on its transformational agenda. These initiatives include:

Direct Taxes

- Increase in the maximum income tax rate for Free Zones Entities from 8% to 15%;
- Extension of the 5% National Fiscal Stabilisation Levy beyond December 2014;
- Reduction of tax exemptions granted under Government loan agreements; and
- Increase in the withholding tax rate on directors’ remuneration from 10% to 20%.

Indirect Taxes

- Introduction of a 5% flat VAT rate on real estate;
- Amendment of the National Health Insurance Act, 2012 (Act 852) to fully align its schedules to the VAT Act, 2013 (Act 870);
- Abolishment of VAT Relief Purchase Order in granting of tax reliefs;
- Removal of VAT on specified locally produced pharmaceuticals and some of the essential raw materials used for the production of those products.
- Replacement of the VAT Refund Account with a General Refund Account;
- Imposition of Special Petroleum Tax of 17.5% (enacted);
- Removal of import duty and VAT on inputs for the production of machetes;
- Removal of import duty and VAT on the production of exercise books and text-books;
- Removal of import duties on smartphones;
- Abolishment of upfront VAT exemptions and replaced with a Tax Credit System;
- Continue the enforcement of the 1-2% special import levy to 2017;
- Reversal of the excise tax on specified petroleum products from ad valorem to specific basis;
- Increase in excise duty rate for tobacco from 150% to 175%; and
- Consideration of the Customs Bill before Parliament.

Tax Administration

- Adoption of self-assessment scheme for all tax payers;
- Enforcement of VAT on financial services;
- Making TIN a requirement for all port transactions;
- Review use of special permits for imports;
- Creation of Post Clearance Unit in the Customs Division;
- Review of sliding scale of excise duty for the brewery companies; and
- Focus special attention on extractive (mining, oil and gas) and informal sectors by the GRA.
Highlights of the key sectorial programmes and initiatives outlined are noted below under five main sectors:

**ECONOMIC SECTOR**

**Food and Agriculture**

Programs to be implemented include:

- Establishment of more cassava and yam planting materials to increase yield and enhance farm level productivity;
- Establishment of more Agricultural Mechanisation Services Enterprise Centres;
- Embarking on training programmes to improve technical skills and competence of managers and machine operators to improve upon efficiency and productivity;
- Enhanced collaboration between Government and private sector to support cotton farmers to produce for export;
- Setting up of a Cotton Development Authority as Regulator to explore the full potential of the cotton crop.

**Ministry of Trade and Industry**

The 2015 Budget Statement focuses on making Ghana a major manufacturing, value added, competitive and export-oriented economy and this will be achieved mainly by:

- Continuation of the Web-Based Product Gallery programme which enables SMEs exhibit their products on the world wide web;
- Ghana Export Promotion Authority (GEPA) to design and implement tailor-made training programmes to address specific challenges of exporters; GEPA to pursue other trade promotion programmes to ensure that Ghana remains the preferred supplier of non-traditional export products;
- Export Development and Agricultural Investment Fund (EDAIF) to be established in all 10 regions to ensure that it supports businesses;
- Roll out of implementation schedules for the 30 Pilot projects put in place to deal with severe poverty and under-development under the Small Scale District Industrialisation programme;
- Preparatory works for the construction of an ICT Park at the Cape Coast University to commence, as part of Government’s plans to develop industrial parks at strategic locations across the country;
- Government to continue to support the cashew industry to promote value addition for export.

**Ministry of Energy and Petroleum**

The following initiatives have been highlighted in the 2015 Budget:

**Petroleum Sub sector**

- Commercial operations of the Gas Infrastructure project to commence in 2015;
- Work on Kpone Thermal power plant is progressing and one unit is expected to be commissioned by end of 2014;
- An additional power generation of 770MW from thermal sources and 33.5MW from renewable energy sources will be installed;
- Work on the Tumu-Han-Wa line is 80% complete and expected to be commissioned by end of 2014;
- Increase electricity access from 76% in 2014 to 80% in 2015. A total of 1,5000 communities to be connected to the national grid.
SOCIAL SECTOR

Ministry of Education

Projects highlighted in the Budget include:

- Increase access to quality education and boost enrolment and retention through the provision of capitation grant and Global Partnership for Education Grant (GPEG) for pupils in all public basic schools;
- Continue with construction work on the University of Health and Allied Sciences at Ho, University of Energy and Natural Resources at Sunyani and commence construction of a new university in the Eastern region.

Ministry of Health

To consolidate healthcare service delivery in the country, Government will continue to make significant investment in the infrastructure, equipment and personnel needs of the health sector. Government plans to:

- Expand and construct Community-based Health Planning and Services (CHPS) zones and compounds nationwide to bring basic healthcare to the doorsteps of the people;
- Scale up capitation to Eastern, Central, Western and Brong Ahafo regions;
- Strengthen preparedness and response for the Ebola Virus Disease, as well as strengthen the regulatory environment to enforce compliance and maintenance of agreed standards of health professionals, facilities and medicinal and non-medicinal products.

Ministry of Gender, Children and Social Protection

Government intends to implement social protection interventions to ensure gender equality, promote the welfare and protection of children and empower the vulnerable, excluded, the aged and persons with disabilities. In 2015, Government will engage in programs such as:

- Co-sponsoring the intestate succession and property rights of spouse’s bills with the Ministry of Justice and Attorney-General;
- Expanding the implementation of the LEAP to cover over 150,000 household beneficiaries.

INFRASTRUCTURE

Water

Government plans to carry out the following projects aimed at addressing the water coverage deficit currently plaguing the nation:

- Development of buffer zones in degraded river basins and enforcing measures to ensure its implementation;
- Initiation of works on Water Supply and Expansion Projects in various regions;
- Rehabilitation and Expansion of 10 Water Systems in various regions;
- Completion of work on the 8.47 MGD (Million Gallons per Day) Kumawu Water Supply Project and the 1.63 MGD Nsawam Water Supply Expansion Project.

Housing

In line with Government’s focus on reducing the housing deficit across the country, the following projects will be implemented:

- The construction of 5,000 housing units at Saglemi-Ningo Prampram and the completion of 4,720 affordable housing units in a number of Regions which are on-going and will continue in 2015;
- The rehabilitation and refurbishment of 218 housing units under the Keta Sea Defence Resettlement Programme will continue in 2015.

Roads and Highways

The main policy initiatives presented in the 2015 Budget are:

- The adoption of the PPP framework for the financing, construction and management of the Accra-Kumasi, Accra-Takoradi and Accra-Tema Motorway;
Overall Summary

- Routine and periodic maintenance on 111,99km and 6,675km of trunk roads, 22,500km and 1,000km of feeder roads and 8,200km and 940km of urban roads respectively;
- Construction of designated trunk, rural and urban roads;
- Co-operation with ECOWAS for the development of the ECOWAS and the Trans-African Highways of which Ghana’s coastal and central corridors form a part.

Transport

Some of the development programmes presented by the budget include:

- Commencement of the Tamale Airport upgrade to serve as an alternate international airport to KIA;
- Completion of Ghana Aviation Training Academy to boost human capital requirement for the aviation sector;
- Rehabilitation of Kumasi Airport runway;
- Completion of the reconstruction of Sekondi-Takoradi via Kojokrom section of the Western Railway Line;
- Construction of Eastern Corridor Multi-Modal Transport and better port management to improve services on Volta Lake;
- Procurement of 200 new buses to increase bus schedule and to realign operations in Intra-City and Rural-Urban services.

Communications

The fast-tracked development of ICT infrastructure is vital for Ghana’s modernisation and rapid growth. The objective of this sector is to facilitate the development of a reliable and cost-effective world-class communications infrastructure and services, driven by appropriate technological innovations and a two-way free flow of timely information. This will be achieved through initiatives outlined, which include:

- Acquiring a radar for Ghana Meteorological Agency in order meet World Meteorological Organisation (WMO) standards;
- Development of strategic projects and application, including the establishment of the national Public Key Infrastructure (PKI);
- Awareness creation and seeking Parliamentary approval for the Digital Terrestrial Television (DTT) loan agreement;
- Construction of an offshore fibre optic network in the Western corridor to provide telecommunication and oil gas content to the oil industry.
Overall Summary

ADMINISTRATIVE SECTOR

Controller and Accountant Generals Department

The focus areas for improvement in 2015 include:

- Adoption and application of International Public Sector Accounting Standards (IPSAS) as a basis of financial reporting for Government;
- Continuation of the policy of net freeze on employment into all sectors of the public services (excluding education and health) and non-replacement of departing public sector employees in overstaffed areas;
- Continuation of the set up and piloting of a complementary electronic Human Resources Management Information System (HRMIS) under the Public Services Commission (PSC);
- Completion of the migration of public sector workers on the central payroll to the Single Spine Salary Structure (SSSS).

Ministry of Finance and Economic Planning

For 2015, the Ministry plans the following:

- Implementation of Phase II of GIFMIS with new modules such as fixed assets, contract management, inventory, accounts payable and accounts receivable being installed and operationalized;
- Completion of a standard On-lending agreement for use by all MDAs and MMDAs;
- Introduce amendments to the Petroleum Revenue Management Act (PRMA) 2011, (Act 215), to harness our oil resources for savings, stabilisation and development;
- Implementation of the over US$400 million US MCC Compact II under the Power Africa Program.

PUBLIC SAFETY SECTOR

Ministry of Justice and Attorney-General’s Department

- In 2015, Economic and Organised Crime Office (EOCO) will seek to recover proceeds from economic crime from 30% of the cases they will investigate and facilitate the prosecution of 20% of those cases.

Commission on Human Rights and Administrative Justice (CHRAJ)

- The Commission will make efforts to further decrease the incidence of corruption, public perception of corruption and increase the integrity of public office. CHRAJ will also coordinate the implementation of the National Anti-corruption Action Plan (NACAP).
Government projects a slowdown in economic growth (oil inclusive) to about 3.9% in 2015, down from an estimated actual growth of 6.9% by December 2014.

Inflation is targeted to decline to 11.5% in 2015, down from 16.5% as at end of September 2014.

The IMF World Economic Outlook (WEO) projects a global GDP growth of 3.30% and 3.80% for 2014 and 2015 respectively following weaker performances in USA, China and Latin America as well as stagnant Euro zone growth.

Sub-Saharan Africa is expected to continue growing at a fast rate driven by infrastructure investment, strong agricultural production and a growing services sector.

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Overall, economic performance in Ghana in 2014 has been lacklustre. Sustained and equitable growth is necessary for making substantial progress in reducing poverty.

The projected growth for 2015 does not compare favourably with the IMF outlook for global economy (3.8%) and Sub-Saharan Africa (5.8%).

Factors weighing on the economic performance in Ghana include electricity and other infrastructure constraints.

The International Monetary Fund’s (IMF’s) World Economic Outlook Report (WEO, October 2014) projects sluggish global economic growth in 2014 and 2015, estimated at 3.30% and 3.80% respectively – down from the 3.70% and 4.00% that were projected in the April 2014 WEO Report.
The current economic outlook presents doubts of recovery in the short-term and this requires action from officials and governments in both advanced and developing economies to prevent a prolonged sluggish growth. Growth in emerging markets and the advanced economies should remain a top priority if the global GDP target of 3.80% is to be met. Particularly for the emerging markets, infrastructural developments and investment in innovative technology to boost agriculture, medicine and alternative energy should be encouraged.

It is worth noting that the current global GDP growth projections are based on the assumption that key drivers supporting the recovery in advanced economies, including moderating fiscal consolidation and highly accommodative monetary policy – remain in place.

The projections also assume a decline in geopolitical tensions in the Ukraine and Russia area, supporting some recovery in stressed economies. This decline seems unlikely in the short-term and hence the potential adverse effects should there be no decline ought to be an issue for concern to all policy makers and global leaders.

Continuous investment in technology to boost agriculture is key to developing Sub-Saharan Africa.

INFLATION

- Inflation generally remained below central bank targets in advanced economies, an indication that many of these economies still have substantial gaps—between actual GDP and potential GDP.

- In the Euro area, average inflation has declined further to 0.31% in September 2014 while inflation has remained higher but broadly stable in emerging market economies.

- Inflation rates are being targeted at the lowest in the Euro zone area. There is the likelihood of a possible deflation as stipulated by a number of economists around the globe.

- Inflation in emerging market and developing economies is projected to decline to 5.50% in 2014, a downward trend from 5.90% in 2013. This is expected to remain broadly unchanged in 2015 driven mainly by the downturn in commodity prices, particularly food commodities.

- Inflation in Ghana rose to 16.90% in October 2014 from 16.50% in September 2014 and 13.50% at year-end December 2013. The rise in inflation pressures in 2014 reflected the sharp depreciation of the local currency as well as the pass through effects of fuel and utility price adjustments.
Commodity prices on the global front have declined in the past months and are expected to fall further in line with the futures market following the improved supply prospects and decreased global demand.

ECOWAS leaders have approved a revised roadmap for the second single monetary zone and continue to work towards the WAMZ Convergence Criteria.

The weak global demand for commodities has resulted in the decline in global commodity prices across markets. The decline in commodity prices of gold especially, has led to a fall in stock prices of major mining companies.

Government of Ghana aims to re-anchor inflation expectations as part of its 2015 monetary policy objective. Considering the effects of the exchange rate depreciation and the pass on effects of fuel adjustments which has currently contributed to the 16.90% inflation rate in Ghana, the medium term target of approx. (8±2)% seems rather ambitious.

COMMODITY PRICES

- Global Commodity prices have declined since the beginning of the year and are expected to fall further, in line with the futures markets – as a direct consequence of improved supply prospects and weak global demand.
- In the international commodity markets, crude oil is projected to average US$98 per barrel in the fourth quarter of 2014 and US$99.4 per barrel in 2015 – this is expected to fall further to US$97.3 per barrel in 2016.
- Gold prices which are currently just above US$1,170 per fine ounce are projected to average $1,286 per ounce in 2015. Cocoa is trading around US$2,915 per tonne and projected to move above US$3,000 per tonne in 2015.
- Food prices are also expected to decline by 4.10% in 2014 and by 7.90% in 2015. IMF projects that this remains broadly unchanged in 2016 – as a result of an expected favourable harvest.

A boost in agricultural produce for export should be encouraged by Government. Support and training should be given to local producers to help create some level of comfort in working in the agricultural sector.

- Ghana continues to support the Economic Trade Liberalisation Scheme (ELTS). Major challenges including forged approval certificates, poor infrastructure and the presence of non-tariff barriers continue to affect the success of the scheme. Government plans to create awareness of the scheme by organising an Exporters Forum to target areas where more export companies are located.

ECOWAS ACTIVITIES AND PROTOCOLS

- ECOWAS leaders have resolved to work at abolishing the residence permit and introduce a Biometric Identity card for the community’s citizens, rationalise the ECOWAS Convergence Criteria and approve a revised roadmap for the second single monetary zone.
- In July 2014, the ECOWAS community also endorsed the Economic Partnership Agreement (EPA) between member states in the region. Government is strategically positioning the economy via expansion in exports to support this strategy.
IMPLICATIONS OF THE GLOBAL DEVELOPMENTS FOR GHANA’S ECONOMY

- The global decline in price of gold has had a negative impact on employment and revenues in the mining sector of Ghana.

- The estimated decline in global oil prices is likely to result in lower oil revenues and consequently result in foreign exchange pressures.

- The Ebola outbreak which has claimed over 5,000 lives already across West Africa stands strong as a threat to growth in the sub-region. Tourism and the hospitality sector have been affected with the reduction in travels since April 2014.

The decline in the price of gold and oil has lowered the country’s revenue and adversely impacted the mining sector of Ghana. AngloGold Ashanti plans to embark on a massive downsizing exercise starting November 2014 with further estimated dismissals by the same company by the end of the year. This will negatively affect the unemployment situation in the country.

Although global oil prices are likely to result in lower oil revenues, it is important to note that Ghana is a net oil importer so ordinarily should benefit from a slump in global oil prices.
The Services sector has accounted for approximately 50% of total GDP from 2012 to 2014.

The Agriculture sector was the only sector that maintained its increasing growth trend in 2014.

The Industry sector, declined from a growth rate of 9.6% in 2013 to 4.6% in 2014.

The Crops sub-sector accounted for approximately 75% of the total Agricultural sector output.

Summary of Sectoral Performance

Ghana has experienced little change in the structure of its economy from 2012 to 2014. The Services sector continues to drive the economy, accounting for approximately 50% of total GDP from 2012 to 2014.

Agriculture Sector

The Agriculture sector recorded the highest output growth of 5.3% in 2014 (2013 - 5.2%) as against a target growth of 5.2%.

The Crops sub-sector which includes cocoa, was the largest contributor (74%) to the Agriculture sector output in 2014, and grew by 3.6% in 2014 against a target output of 5.8%.

Government initiatives in 2014 included the operation of 89 Agricultural Mechanisation Services Enterprise Centres (AMSECs) to facilitate access to mechanised services by smallholder farmers.

Agriculture can and should be a sector of opportunity for Ghana's youth. The growing demand for food globally means that there is scope for supply to take advantage of a growing market. However, low agricultural productivity is the primary impediment to overcome. Government needs to make the right investments in rural infrastructure.

There is also the need to increase productivity of smallholder farmers and move to value-addition. This is good for sustained incomes and stable returns from exports.

Despite Government’s plans to stimulate private sector growth over the past years, the high cost of doing business has severely hampered the growth of the Industry sector over the last two years.

Source: Budget Statement 2015

Source: Budget Statement 2015

Source: Budget Statement 2015

Source: Budget Statement 2015

Source: Budget Statement 2015
Agriculture Sector (Cont’d)

Modernisation of the agriculture sector has been a perennial concern since 2011. According to Government, in 2014, US$5 million was provided to 31 investors under the Ghana Commercial Agriculture Project to support infrastructure improvements for agribusiness investments. It is key that the Agriculture sector is well developed in order to feed the Industry sector if we are to transform the current structure of our economy.

In the State of the Nation Address (February 2014) HE The President demonstrated his commitment to enhancing agricultural production through agro-processing (eg. rice processing companies in Nkwanta in the Northern Region and Sogakope in the Volta Region). Additional efforts must be channelled into the primary and secondary processing of our key export products such as cocoa and gold.

Industry Sector

The Industry sector growth outturn for the 9 month period to September 2014 was 4.6% against a target of 6.8% (2013 – 7.3%). The Industry Sector in Ghana is driven by the Mining, Manufacturing and the Construction subsectors.

The Industry sector growth outturn for 2014 is 4.6% against a target of 6.8%.

Key subsectors of the Industry sector such as manufacturing, shrunk considerably by as much as 8%.

The failure of the Industry sector to meet its targeted growth resulted from the unfavourable business environment characterised by high costs of doing business – increased utility costs despite the unreliability of utility services. Other key industry challenges include inadequate access to credit and the effects of the depreciation of the local currency.

The private sector needs in order to restore its confidence in the economy in the medium-to long-term is macroeconomic stability and predictability of the business environment.

As identified by the Association of Ghana Industries in the Senchi Report (May 2014), there must be a renewed focus on the sectors that spurs structural transformation with job creation potential in order to fully enjoy the benefits of the multiplier effect.

The poor performance of this sector was driven by the 8% decline in the Manufacturing sub-sector which was targeted to grow by 1.6%.

According to the Economist Intelligence Unit (EIU) growth rates in the manufacturing sub-sector need to be sustained at well over 15% a year for a decade or more for African countries to make a transition to an industrialised economy (EIU Report, August 2014). Import-substitution driven manufacturing may be the key to returning to the era of high economic growth rates. HE The President indicated in the State of the Nation Address (February 2014) that he is committed to developing the manufacturing sub-sector via various initiatives including the revamping of the Volta Aluminium Company (VALCO). The sustainability of these initiatives must be assessed considering the significant power demand for production in light of the country’s current power supply challenges. This re-emphasises the importance of implementing deliberate strategies to fix the electricity generation deficit permanently.
The Economy

Services Sector

Despite the inability of the Services sector to meet its targeted growth of 7.2%, it contributed 50% to GDP, still making it the largest contributor to GDP.

The Health sub sector shrunk significantly (-7.0%) compared to budgeted growth of 7.5%; business and real estate also performed poorly (-2.7%) relative to its target (5.1%). The financial intermediation sub-sector appears to be the best performer with an outturn of 20.7% (target 11.7%).

The Services sector accounted for approximately 50% of total GDP.

The inability of the Services sector to meet its target growth for 2014 can be attributed to the decline in the output of the Business, Trade and Health sub-sectors. High cost of operations, rising fuel costs and the poor performance of the Cedi are some of the factors hampering the growth of these sub-sectors. Government should step up efforts to create a more enabling environment in order to ensure that the Services sector returns to its upward growth trajectory.
Total revenue for the nine month period ended September 2014 was 4.0% below target and increased by 26.4% compared to the same period 2013.

Total expenditure for January to September 2014 was also 5.2% below target. It however increased by 13.6% compared to 2013.

The combined result was an overall budget deficit of 5.9% of GDP, against a targeted deficit of 6.4% of GDP. This is expected to increase to 9.5% for total year 2014, against an estimate of 8.8%.

The continued high budget deficit remains major constraint to fiscal and debt sustainability. Government should intensify its efforts to bring its public finance back to a sustainable level and also boost domestic revenue mobilisation to address investment and social needs.

### Fiscal Performance

<table>
<thead>
<tr>
<th></th>
<th>2014 (Jan-Sep)</th>
<th>2014 Full Year</th>
<th>2015 Full Year</th>
<th>2014 Jan-Sep</th>
<th>2015 Yearto year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Revenue</strong></td>
<td>GHc18,412.10</td>
<td>GHc24,729.20</td>
<td>GHc24,006.20</td>
<td>4.0%</td>
<td>30.99%</td>
</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
<td>GHc25,777.88</td>
<td>GHc35,569.20</td>
<td>GHc41,321.70</td>
<td>5.2%</td>
<td>15.57%</td>
</tr>
<tr>
<td><strong>Overall Fiscal Balance</strong></td>
<td>GHc-7,365.78</td>
<td>GHc-8,840.41</td>
<td>GHc-7,315.50</td>
<td>5.0%</td>
<td>16.35%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Domestic Revenue</strong></th>
<th>2014 Budget GHc17,622.54</th>
<th>2014 Outturn GHc19,921.36</th>
<th>2015 Projected Outturn GHc21,837.10</th>
<th>2014 % Variance</th>
<th>2015 % Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Revenue</td>
<td>13,605.64</td>
<td>15,327.61</td>
<td>16,999.90</td>
<td>13.7%</td>
<td>30.96%</td>
</tr>
<tr>
<td>Non-Tax Revenue</td>
<td>3,070.61</td>
<td>4,593.76</td>
<td>4,837.20</td>
<td>5.6%</td>
<td>22.78%</td>
</tr>
<tr>
<td>Others</td>
<td>144.30</td>
<td>184.14</td>
<td>158.60</td>
<td>3.7%</td>
<td>26.37%</td>
</tr>
<tr>
<td>Grants</td>
<td>778.25</td>
<td>742.62</td>
<td>892.10</td>
<td>4.4%</td>
<td>29.34%</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>18,412.10</td>
<td>20,927.36</td>
<td>22,837.40</td>
<td>4.0%</td>
<td>30.99%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Total Expenditure</strong></th>
<th>2014 Budget GHc23,774.18</th>
<th>2014 Outturn GHc26,856.80</th>
<th>2015 Projected Outturn GHc32,152.20</th>
<th>2014 % Variance</th>
<th>2015 % Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recurrent</td>
<td>19,811.18</td>
<td>22,689.67</td>
<td>25,369.40</td>
<td>(11.7%)</td>
<td>19.70%</td>
</tr>
<tr>
<td>Capital</td>
<td>3,963.00</td>
<td>4,167.50</td>
<td>6,690.80</td>
<td>(24.6%)</td>
<td>27.14%</td>
</tr>
<tr>
<td>Arrears Clearance</td>
<td>2,003.70</td>
<td>2,857.90</td>
<td>3,300.70</td>
<td>(42.63%)</td>
<td>(57.30%)</td>
</tr>
<tr>
<td>Discrepancy</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
<td>25,777.88</td>
<td>34,866.70</td>
<td>41,321.70</td>
<td>5.2%</td>
<td>15.57%</td>
</tr>
</tbody>
</table>

Source: Budget Statement 2015
The Economy

Total revenue and grants for the first three quarters of 2014 amounted to GH¢17,670.2 million, equivalent to 15.4% of GDP. This fell short of the estimated total of GH¢ 18,414.1 million.

The shortfall in total revenue and grants was mainly due to lower than anticipated domestic revenue collections.

### Revenue

- The shortfall in total revenue and grants was partly as a result of slow disbursement of project grants from Development Partners and, mainly due to lower than anticipated domestic revenue collections.
- The shortfall in domestic revenue was mainly due to weak tax revenue performance in almost all tax types except taxes from oil and mineral royalties.
- The revenue was 26.4% higher than the outturn for the same period in 2013 but for the year as a whole, total revenue and grants is projected to come in at 5.7% lower than the target for the year.

Shortfall in all tax types was heavily supplemented by higher than estimated receipts from corporate taxes on companies in the petroleum sector, driven primarily by higher than forecasted crude oil prices for the first three quarters of the year. Government should strengthen efforts to bring tax collection in all areas closer to estimated levels as crude oil prices have been falling since the beginning of the 4th quarter 2014.

### Expenditure

- Total expenditure, including payments for the clearance of arrears and outstanding commitments for the first three quarters of the year, was 13.6% higher than for the same period last year but 5.2% lower than the target.
- The increased expenditure is financed by both foreign and domestic borrowing. Domestic interest rates have been increasing, with 91-day Treasury bill rising to 25.5% in September 2014, from 21.59% in September 2013.

While Government is striving to keep expenditure within budget, it has to do even more to reel in high interest costs, especially related to domestic borrowing. Also, the increasing domestic borrowing has the impact of crowding out the private sector of the economy.

Government may be able to reduce the increasing expenditure by controlling the public sector wage bill and borrowing costs. Slower wage rises however has the potential to increase labour agitations and Government has to be careful about balancing economic discipline with social order.

- Interest payment for the period totalled GH¢4,868.2 million, 9.8% lower than the target and 48.2% higher than the actual for the corresponding period in 2013. Of this amount, domestic interest payment was GH¢4,139.6 million, 9.3% lower than the target. On a year-on-year basis however, domestic interest cost grew by 45.6%, reflecting still high domestic borrowing.

The high interest payments should be a matter of great concern to Government. In 2015, over a quarter of Government Expenditure is earmarked for interest payments alone.

- Total capital expenditure for the first nine months of 2014 was GH¢3,865.5 million, 2.5% lower than the target for the period. On account of expected low disbursement of project loans for the rest of the year, total capital expenditure for the year is projected to come in at 8.7% lower than the revised budget estimate. To narrow the infrastructure deficit in the country however, the allocated amount for capital expenditure in 2015 represents a 27.1% increase over the projected outturn for 2014.
The fiscal deficit is projected at 9.5% of GDP for 2014, higher than the projected 8.8%.

**Deficit**

- Based on the projected revenue and expenditure for end-2014 fiscal year, the fiscal deficit is projected at 9.5% of GDP, higher than the projected 8.8%.

- The projected higher fiscal deficit is mainly as a result of the projected shortfall in revenue and grants arising from the slowdown in economic activity driven mainly by electricity shortages, lower import volumes and the non-disbursement of programme grants from Development Partners.

- Government’s objective to reduce the budget deficit to 6.5% in 2015, from the expected 9.5% in 2014, seems ambitious given the lower than expected revenue generation. Unless revenue generation significantly increases in 2015, coupled with reduction in expenditure, Government is unlikely to achieve this objective.

- Government’s goal for the medium term is to progressively reduce the fiscal deficit to 3.5% of GDP by 2017. Government therefore aims to reduce the overall budget deficit to 6.5% of GDP in 2015.

- Government expects this reduction to be driven mainly by improvements in tax policy, revenue administration reforms, improved management of public funds, expenditure rationalisation, and the implementation of new debt management strategies.

**Deficit changes since 2012**

The overall deficit has been declining since the peak of 12.1% in 2012, but there is still a lot to be done to achieve the target of 6.5% in 2015.

New revenue sources will have to be identified and collections intensified to achieve the deficit reduction objective.

RestRAINT in growth of the public sector wage bill is needed to ensure fiscal rebalancing.

The new tax proposals must take into account implications for inclusive growth and job creation.
The Economy

Total petroleum receipts for the first three quarters of 2014 were US$780.1m. The total projected petroleum receipts for 2015 are US$1,236.3m, compared with a projection of US$777.0 million for full year 2014.

<table>
<thead>
<tr>
<th>Composition of Petroleum Receipts</th>
<th>Jan-Dec 2014 (Budget) US$m</th>
<th>Jan-Sep 2014 (Actual) US$m</th>
<th>2015 Budget US$m</th>
<th>Jan-Sep 2014 variance to total 2014 budget (%)</th>
<th>Total year 2015 variance to 2014 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Royalties</td>
<td>158.82</td>
<td>143.50</td>
<td>185.23</td>
<td>(9.65)</td>
<td>(16.63)</td>
</tr>
<tr>
<td>Carried and Participating Interest</td>
<td>410.71</td>
<td>371.53</td>
<td>479.60</td>
<td>(9.54)</td>
<td>(16.77)</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>187.24</td>
<td>263.89</td>
<td>485.94</td>
<td>40.94%</td>
<td>159.53%</td>
</tr>
<tr>
<td>Surface Rentals</td>
<td>0.80</td>
<td>0.73</td>
<td>1.45</td>
<td>8.75%</td>
<td>81.25%</td>
</tr>
<tr>
<td>PHF Interest</td>
<td>-</td>
<td>0.11</td>
<td>-</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Price Differential</td>
<td>-</td>
<td>0.30</td>
<td>-</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Gas Receipt</td>
<td>19.44</td>
<td>-</td>
<td>84.15</td>
<td>N/A</td>
<td>332.87%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>777.01</td>
<td>780.06</td>
<td>1236.37</td>
<td>0.39%</td>
<td>59.12%</td>
</tr>
</tbody>
</table>

Sources: Budget Statement 2015 and Economic Policy for fiscal year 2015

The plan to increase receipts from corporate income tax in the petroleum sector by 159.53% is ambitious. We note that between 2013 and the first three quarters of 2014, corporate income tax receipts increased by 53.30%. So while more corporate income tax receipts may be collected, they are not likely to be in the amount expected by Government.
Government expects that the first gas from Jubilee field will be realised in 2015.

- A total 28.02 million barrels was produced from the Jubilee Field for first three quarters of 2014, compared with 27.06 million barrels for the same period 2013.

- The total projected petroleum receipts for 2015 are US$1,236.37 million.

It is not clear how much planned and unscheduled maintenance would affect the expected output. Labour agitation on the oil and gas fields and falling prices also pose challenges to output levels.

- Government expects that the first gas from Jubilee field will be realised in 2015. Upstream gas production is projected at 77.18 mmscf with the Ghana National Gas Company’s (GNGC) processing facility operating at 50% capacity.

- The total projected petroleum receipts for 2015 are US$1,236.37 million.

Sources: Budget Statement 2015 and Economic Policy for fiscal year 2014

- Total production from the Saltpond Field for the first three quarters of 2014 was 60.73 thousand barrels, compared with 78.38 thousand barrels during the same period in 2013.

- For the period January to September 2014, GNPC made five liftings on behalf of the State. This totalled 4.82 million barrels, dropping from 4.975 million in the same period of 2013. These liftings resulted in total revenue of US$514.88 million.

- Total petroleum receipts for the first three quarters of 2014 was US$780.07 million. This compares favourably with the total 2014 budget estimate of US$777.0 million.

- With current production levels of 102,855 bopd, 2014 total oil output can reach 37.5 million barrels. This suggests that the 39.06 million for 2015 is achievable given current production levels.
96% of ABFA was allocated to infrastructure compared to 47.5% in 2013.

Utilisation of the 2014 Annual Budget Funding Amount

The ABFA is part of the national budget and is treated as part of the consolidated fund. The allocation of ABFA in the first three quarters of 2014 shows a total amount of US$306.80 million (GH¢888.60 million) which was in accordance with the Petroleum Revenue Management Act 2011 (Act 815) (PRMA). Actual spend for the three quarters of 2014 was GH¢ 270.51million (2013: GH¢ 299.40million) which is as follows:

Amounts in GH¢ millions

| Source: Budget Statement 2015 and Economic Policy for fiscal year 2014 |
|-------------------|-------------------|-------------------|
|                   | 2013          | 2014          |
| Agriculture and Modernisation | 4.60       | 9.85       |
| Road and other infrastructure | 142.34     | 260.65     |
| Expenditure and Amortisation of Loans for Oil and Gas Infrastructure | 119.88     | -           |
| Capacity Building | 32.58        | -           |
| **Total**         | **299.40**    | **270.51**    |

An amount of US$305.68 million was withdrawn from the GSF from the first to third quarters as excess for contingency fund and debt repayment.

Of the amount deposited into the Debt Service Account, approximately US$64.82 million and US$150 million was used to retire a number of domestic marketable instruments and earmarked for the liquidation of part of the 2017 Eurobond, respectively.

Government allocated 1.7% (2013: 1.5%) of ABFA to Agricultural modernisation in 2014, lower than the proposed 15% target in the 2014 budget. Government’s plan to boost the agricultural sector requires extra support compared to the other sectors.

Although the Agricultural sector is growing faster than all other sectors, the allocation to that sector is the lowest. Also, Government promised in its 2014 budget to allocate 15% to the Agricultural sector but the allocation has fallen well short of that target. Government should therefore consider aligning the allocation of oil revenues with the right growth sectors, especially Agriculture.

Out of the US$305.68 million, US$17.43 million and US$288.25 million was allocated to the contingency fund and debt service account, respectively.

Placement of a cap on the Ghana Stabilisation Fund (“GSF”)  

The 2014 National Budget proposed a cap of US$250million on the GSF, in line with PRMA and the excess balance transferred for contingency purposes or debt payment.
Monetary Sector

Money supply

Broad Money ($M2+)$ grew by 33.60% from about GH¢23,998 million at the end of September 2013 to about GH¢32,061 million at the end of September 2014. This compares higher with the growth rate of 17.60% recorded at the end of September 2013.

The growth in $M2+$ was driven mainly by a 33.90% and 32.10% increases in Net Domestic Assets (NDA) and Net Foreign Assets (NFA), respectively over the same period.

Credit to the private sector

Total credit to both the public and private sectors amounted to about GH¢23,808.5 million at the end of September 2014, indicating a year-on-year nominal growth of 50.60%, compared with a growth of 25.10% a year earlier.

The private sector accounted for about 87.50% of total outstanding credit at the end of September 2014 compared with 89.30% in September 2013.

The decline in credit to the private sector could be attributable to higher returns on Government securities which makes it more attractive to banks and other lending institutions.

Interest rates

Generally, interest rates followed an upward trend over the 12-month period to September 2014. While the average base rate of banks went up by 345 bps year-on-year to 25.05% as at the end of September 2014, Treasury Bill rates also increased to 19.00%, 25.05% and 26.37% for the 91-day, 182-day, and 1 year note respectively in September 2014, compared to 16.00%, 21.59% and 21.70% in September 2013.

The increase in interest rates is attributable to the BoG’s tight monetary policy stance over the period reviewed. In addition, the average lending rates increased in response to the increase in the MPR.

Interest rates in Ghana are amongst the highest in the world which stifles private sector growth. Government should take stringent measures, such as significantly cutting back on its domestic borrowings in order to decrease the pressure on interest rates.
The Economy

The Ghana Cedi recorded significant depreciation against its major trading currencies over the 9-month period to September 2014.

**Exchange rates**

Over the nine month period to September 2014, the Ghana Cedi, depreciated by 31.19% against the US dollar, compared to a depreciation of 4.12% recorded during the corresponding period in 2013. The Cedi also depreciated by 29.32% and 23.63% against the pound Sterling and the Euro, respectively, over the same period.

![Graph showing year-on-year exchange rates](image)

*Source: Bank of Ghana*

The depreciation of the Ghana Cedi during the first 8 months of 2014 is attributable largely to demand for foreign exchange for oil imports coupled with inadequate forex supply on the market.

Inflows from the Eurobond, the Cocobod loan, and the IMF programme are expected to ease the pressure on forex and stabilise the Cedi going forward. However, servicing of the forex loans could also increase demand pressure on forex with its consequent depreciation effect on the Cedi.

In February 2014 BoG introduced new forex rules in order to stabilise the declining value of the Cedi against the major currencies.

**In February 2014, BoG introduced new forex rules in order to stabilise the declining value of the Cedi against the major currencies.**

In August 2014 BoG issued directives to revise portions of the forex rules it introduced in February 2014.

**In August 2014 BoG issued directives to revise portions of the forex rules it introduced in February 2014.**

- Over-the-counter cash withdrawals from FEA and FCA not to exceed US$10,000 and would only be permitted for travel purposes outside Ghana per person per travel.
- Forex Bureau operators are not to sell or buy more than US$10,000 or its equivalent per transaction.
- Exporters to collect and repatriate all the proceeds of their exports to their local banks within 60 days of shipment, and their local banks, in turn, were to convert the proceeds into the local currency at the prevailing rate within 5 days of receiving the proceeds.

The new rules introduced by BoG in February 2014 is also thought to have caused panic reactions from businesses and individuals in respect of demand for forex, leading to further increases in the depreciation of the Cedi.

In February 2014 BoG introduced new forex rules in order to stabilise the Cedi against its major trading currencies. Key amongst were:

- Ban on commercial banks and other financial houses from issuing cheques and cheque books on Foreign Exchange Accounts (FEA) and Foreign Currency Accounts (FCA)
- The limit of $1,000.00 on over-the-counter foreign exchange cash withdrawal was removed.

**Monthly trend in exchange rates- 2014 YTD**

*Source: Bank of Ghana*
Inflation increased from about 11.90% in September 2013 to 16.50% in September 2014, owing mainly to effects of fuel price adjustments, exchange rate depreciation and the 2.5% increase in VAT.

The plan to establish an Export-Import (EXIM) Bank could not have come at a better time as Government aims to tackle Ghana’s fiscal deficit by encouraging export of non-traditional products.

Exporters are now to continue to repatriate in full, export proceeds in accordance with the terms agreed between the trading parties. Such proceeds shall be credited to their FEAs and converted on need basis.

Cheques and cheque books may be issued by banks to holders of FEAs and FCAs.

The Cedi recovered about 19% of its value in September 2014 following the revision of the BoG forex rules in August 2014, and increased expectation of forex inflows from the planned Eurobond issues announced by Government.

Inflation

Year-on-year inflation increased from about 8.80% in January 2013 to about 13.50% in December 2014, and then further up to about 16.50% in September 2014 (11.90% in Sep. 2013).

The increase in inflation is attributable to the pass through effects of fuel price adjustments, exchange rate depreciation and fiscal pressures (mainly increase in VAT). These factors have steadily pushed inflation further away from the medium term target band of (8±2)%.

Government should take appropriate steps to incentivise the production of export commodities and where possible, the local production of substitutes for imported commodities. This would have the effect of increasing exports whilst decreasing imports, thereby reducing imported inflationary pressures.

Outlook

Going forward, the main objective for monetary policy would be to re-anchor inflation expectations. Government expects the Central Bank to use its monetary policy rate to gradually steer inflation towards the medium term target of (8±2)%.

As the Bank of Ghana maintains a tight policy stance to achieve the inflation target, these efforts will be fully complemented by the strong and effective fiscal consolidation in the outlook.

External Sector

Trade Balance

The provisional trade balance for the period January to September 2014 showed a deficit of US$681.3 million, compared with a deficit of US$3,848.3 million at the end of 2013. The improvement in trade balance was on account of 18% reduction in imports.

Trade balance is estimated to improve further to a deficit of US$1,312.87 million compared with the projection of US$2,670.7 million due to an increase in exports on the back of higher cocoa prices.

IMF’s WEO (October, 2014) revised the growth prospect for 2014 downwards from 3.7% reported in April 2014 to 3.3% in October 2014 stating a myriad of factors such as worsening geopolitical tensions resulting from the crisis in Ukraine, low potential growth in advanced economies and a decline in potential growth in emerging markets. These worsened prospects will in turn affect confidence, demand, and growth in both advance and emerging economies. In view of this, Government’s projected improvement in deficit may not be attained as prices of traditional exports decline in the wake of falling demand.
Commodity prices are expected to remain weak for the remainder of 2014 and perhaps through much of 2015. Crude oil has seen one of the sharpest declines, down more than 20% to $83/barrel (bbl) in October from this year’s high of $108/bbl in mid-June. As commodity prices remain weak for the remainder of 2014 and perhaps 2015, government projected oil revenue of about US$1.2 million (GHS4.2 billion) in 2015 could be rather ambitious.

Exports

The value of merchandise exports for the period was provisionally estimated at US$10,067.8 million, indicating a decline of 2.8%, compared to the level at the end of the same period in 2013. The decline in the price of gold on the international market accounted for the shortfall in export earnings.

Crude oil exports declined by 1.7% to settle at an estimated amount of US$2,925.7 million, compared with the level recorded in the corresponding period in 2013. The marginal decrease in value was due to a decrease in volume exported from 27.6 million barrels in 2013 to 27.3 million barrels in 2014. Also, the average realised price of crude oil decreased by 0.6% to settle at US$107.3 per barrel.

Nominal oil prices are expected to end 2014 below $100/bbl according to the World Bank. This forecast reflects ample supplies, moderating demand, and the strengthening of the US dollar on the macro side. Despite geopolitical tensions in Ukraine and on-going supply outages, notably in Libya and Iraq, oil prices are expected to ease to $96/bbl in 2015 declining further to $88.8/bbl by 2018. In the longer term, real prices are expected to fall due to growing supplies of unconventional oil, efficiency gains, and (less so) substitution away from oil.

The recent weakness in gold prices has prompted a number of restructuring in the mining industry in Ghana and parts of Africa as companies seek to reduce operating costs and insulate investors from labour strike risks. While there have been some mergers and acquisitions in South Africa’s gold mining industry, the story in Ghana has been reports of mine closures and layoffs as mining companies plan to cut operating cost in the face of falling gold prices and erratic power supply. The overall weakness in precious metal prices is likely to persist and the index is expected to average 11% lower in 2014 as institutional investors consider these commodities as less “safe haven” asset holdings. Gold prices are expected to fall further from $1,275/tonne in 2014 to $1,196/tonne by end of 2018.

Cocoa prices gained almost 5% (over 30% higher than a year ago) due to production problems in West Africa, especially Cote d’Ivoire. The risks to cocoa markets could be exacerbated if the Ebola outbreak spreads to cocoa producers in West Africa—the region accounts for almost half of world’s cocoa supplies. (World Bank, October 2014).

Falling prices of precious metals and unreliable power supply could cause the closure of some mining businesses in Ghana


Gold exports amounted to US$3,369.3 million, compared to US$3,708.9 million during the same period in 2013. This change was largely influenced by the fall in gold price. The average realised price declined by 12.1% to US$1,286.5 per fine ounce, while the volume of gold exported increased by 3.4% to 2.6 million fine ounces.
Total public debt as a percentage of GDP has increased to about 60.80% as at September 2014, up from about 55.53% as at December 2013 and 37.81% in 2010.

In terms of value, public debt stood at about GHS69.7 billion at the end of September 2014, with external debt constituting about 58% of the total stock as at September 2014.

Imports

Total value of merchandise imports amounted to US$10,749.1 million, down by 17.8%, compared with the level recorded as at the end of September 2013. The decline in imports was attributed to decline in non-oil imports which was affected by the depreciation of the Cedi against the major trading currencies.

Total value of oil imports (including gas) amounted to US$2,668.4 million, compared with US$2,610.3 million for the same period last year. The total non-oil merchandised imports was provisionally estimated at US$8,080.7 million, a decline of 22.8% compared with the outturn of US$10,461.3 million the same period in 2013. The decrease was on account of a slowdown in all the broad economic categories of imports.

Even though Ghana has been an import driven economy, Government intends to facilitate the expansion of non-traditional exports as part of the strategies to boost foreign exchange earning, in 2015 and in the medium term. The establishment of the EXIM Bank will also enable Ghana to take advantage of international trade initiatives such as African Growth and Opportunity Act (AGOA) and Economic Partnership Agreement (EPA).

Gross International Reserves & Balance of Payments (BOP)

The country’s gross international reserves increased from a stock position of US$5,632.2 million at the end of December 2013 to US$5,679.1 million in September 2014, indicating a build-up of US$46.9 million. This was sufficient to provide 3.3 months of imports cover, compared to 2.9 and 3.1 months of imports cover as at end-September and end-December 2013, respectively. The BOP is projected to record a deficit of US$699.7 million at end-December 2013, compared to a deficit of US$1,165.9 million in 2013. The expected improvement in the BOP is attributed to improvements in the current account, driven by a better trade balance, net service inflows and upsurge in remittances.

As Government plans to maintain an import cover of not less than 3 months for 2015 and at least 4 months in the medium-term, increased efforts should be made to boost local production in order to increase the volume of exports—as there is little control over commodity price movements. Moreover, Government should pursue measures to enable it reduce over reliance on imported goods and services.

Public debt

- The provisional public debt stock as at September 2014 stood at GHS69,705.90 million. This was made up of external debt of about GHS40,644.15 million and domestic debt of about GHS29,041.75 million
- Ghana’s public debt as a percentage of GDP stood at about 60.80% as at the end of September 2014 which is in excess of the outturn 55.83% as at the end of December 2013.
- The ratio of gross public debt to GDP has been on a consistent rise since 2010.

The debt trajectory is approaching alarming and unsustainable levels. Fiscal consolidation can no longer be postponed. Government needs to safeguard the public finances by spending within fiscal limits that can be sustained over the medium to long term so as not to expose the country to a debt trap. We observe that debt service payments consume a huge and growing share of the national budget, limiting the space to expand public services and investment in key infrastructure needed for the transformation agenda. The high debt service payments are partly responsible for the high fiscal and current account deficits, high interest rates and inflation and the competitiveness of the local currency.
Real GDP (including oil) growth in 2015 is projected at about 3.9%.

In the medium term (2015-2017), average real GDP (including oil) growth is projected at 6.8%, with a target inflation of 8% with a band of ±2%.

A review of the summary of central government operations for 2015 to 2017 (Appendix3A attached to the budget) suggests that Government expects to add about GH₵12.8 billion (gross) to the debt stock in 2015. It is quite worrying to note that about 68% of this amount is expected to come from the domestic debt market.

It is important to note that excessive increase in domestic borrowings has the effect of crowding out the private sector in accessing credit, with the consequent effect of an upsurge in interest rates and cost of doing business. This could potentially thwart Government’s efforts at maintaining a well functioning domestic debt market with competitive lending rates, and could as well lead to inflationary pressures.

As competing demands for improved public service delivery, investment in education, health and infrastructure continues to be placed upon Government, there is need for a serious public spending reform that looks at other innovative and equitable ways of mobilising revenue and a careful prioritisation of public spending. Efforts also have to be stepped up to improve the efficiency of public spending.

Macroeconomic targets for 2015:

- Overall real GDP (including oil) growth of 3.9%;
- Non-oil real GDP growth of 2.7%;
- End year inflation target of 11.5%;
- Budget deficit equivalent to 6.5% of GDP; and
- Gross international reserves of not less than 3 months of import cover of goods and services.

Overall GDP growth is expected to be driven mainly by growth in the Industry sector which is expected to be fuelled largely by the petroleum industry.

It is important for Government to pursue an aggressive industry-led growth given the job creation potential presented by such an approach to economic growth.

<table>
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<tr>
<th>Item</th>
<th>2015</th>
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<tr>
<td>Overall GDP (excl. oil)</td>
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<tr>
<td>Overall GDP (incl. oil)</td>
<td>1.8</td>
<td>6.9</td>
<td>8.6</td>
<td>6.8</td>
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</tbody>
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Medium term real GDP growth projections:

- An average real GDP (including oil) growth rate of at least 6.8%;
- An average non-oil real GDP growth rate of at least 4.4%;
- An inflation target of 8% with a band of ±2%;
- An overall Budget Deficit of 3.5% by 2017; and
- Gross International Reserves which will cover not less than 4 months of imports of goods and services by 2017.

Government’s goal for the medium term is to reduce the fiscal deficit to 3.5% of GDP by 2017. This may not seem realistic given our recent history with fiscal slippages given election years-2016 is an election year.
Extension of NFSL of 5% to 2017.

Introduction of special tax audits of companies.

Enhancement in the operations of the rent task force.

Set-up of a Geographic Information System.

Implementation of change management training and sensitization programmes

Extension of National Fiscal Stabilization Levy

As part of measures to progressively reduce the fiscal deficit to 3.5% of GDP by 2017, Government intends to extend the NFSL of 5% to 2017.

In July 2009, NFSL was introduced in Ghana in line with Government’s intention to raise funds for stabilisation of the economy. The NFSL was expected to be operational for 2009 and 2010 for 8 specified industries, but was extended for an additional year to 2011.

The proposal in the 2014 Budget was for the levy to end in June 2014 instead of the initially scheduled end date of December 2014. This additional unexpected two year extension will therefore come as an unwelcome surprise to the affected sectors.

The extension will nevertheless contribute to an increase in Government revenue and help the current fiscal deficit.

Companies which fall under the 8 targeted sectors may experience a significant reduction in their disposable income which may otherwise have been reinvested in their operations. This especially affects the mining service companies which are already experiencing a downturn in business due to the poor global gold price, and have scaled down their operations significantly due to cancellation and renegotiation of mining contracts.

These additional taxes may result in a reduction in the overall competitiveness of the mining industry in Ghana.

Administrative issues and increasing tax base

The GRA intends to intensify efforts to shore up revenue through the following means:

- Introduction of special tax audits of companies;
- Enhancement of the operations of the Rent Tax task force throughout the country; and
- Initiation of a project that will identify and locate potential taxpayers using a Geographic Information System technology.

As part of the revenue mobilization and management program, the GRA will continue to implement change management training and sensitization programmes.

Introduction of special tax audits is an administrative measure to increase compliance and generate additional tax revenue for Government.

Enhancement of the rent task force is also another measure aimed at increasing tax revenue through compliance. This measure would be enhanced if linked with the GIS application proposed for property tax by the local government authorities.

Given that the GRA is currently facing challenges in relation to its workforce capacity, the introduction of these additional measures could further stretch these resources and impact their effectiveness.
The GRA is currently unable to undertake yearly tax audits of most taxpayers resulting in delayed issuance of audit reports required to confirm tax positions and make refund payments.

**Total Revenue Integrated Processing Systems (TRIPS)**

The automation system for Domestic Tax processes (TRIPS) is operational in two offices (the Large Taxpayer Office and Spintex Road Office) and expected to be rolled out to 4 other offices in Greater Accra by December 2014. The project has also launched online registration for taxpayers and a portal on the internet which gives access to e-filing, e-payment and other services such as appointments scheduling.

The launching of the online registration for taxpayers and a portal on the internet which gives access to e-filing, e-payment and other services is a step in the right direction that will reduce the administrative time spent on tax compliance. This step should improve Ghana’s performance in future World Bank Doing Business surveys.

Government should consider rolling-out these measures in GRA offices in all the regions of Ghana.

**Proposal to set off taxes**

In 2015, we expect to see an increase in the applications for VAT refunds given the proposal to abolish the use of the VAT Relief Purchase Orders in the granting of VAT relief.

**Review of tax and financial management laws**

Government has been reviewing all the tax and financial laws and regulations currently in operation in the country to ensure that they boost revenue, enhance fiscal performance, and enforce sanctions for non-compliance.

Government reiterated in the 2014 Budget, its objective of harmonising the tax administration laws into a single Tax Administration Bill.

The Revenue Administration Bill is expected to harmonize tax administration within the various divisions of the GRA and also enable taxpayers to offset VAT credits against corporate tax payments.

Should the Bill be passed, it is our expectation that it will enhance the work of GRA as a one-stop shop for all tax issues and also improve efficiencies in the general tax administration processes.

**Proposal to increase the corporate income tax cap rate for Free Zones Entities**

The Free Zones Act will be reviewed in 2015 to enhance the relevance of activities in the sector so that greater emphasis is placed on manufacturing and value addition. Additionally, the corporate tax rate of companies after the ten year tax holiday period will be increased from a cap of 8% to 15%.

Currently, the Free Zone Act provides that Free Zone Enterprises benefit from a 10 year Corporate Income Tax (CIT) holiday as an incentive for registering under the Free Zones Scheme. After the expiration of the tax holiday, Free Zone Enterprises are entitled to pay CIT at a rate of not more than 8% of chargeable income in line with the rate applicable for income from non-traditional exports of companies in the domestic territory of Ghana. The proposed amendment seeks to increase this cap rate to 15%.
Direct Taxation

The proposed increase seems to be aimed at broadening the tax base and reducing recourse to the introduction of new taxes by reducing the granting of discretionary “excessive” exemptions.

The increase of the rate by 7% (although still lower than the general CIT rate of 25%) may discourage the already existing free zone entities from expanding their operations beyond the tax holiday period.

Questions arise in relation to the effective date of these changes and also whether they apply to existing Free Zone entities or prospective ones.

Government also proposes the review of the Free Zones Act, 1995 (Act 504) as amended so that emphasis is placed on manufacturing and value addition. This is part of Government efforts to streamline the Free Zone incentives regime and enhance its monitoring to avoid abuse.

Currently, any entity (as long as it exports at least 70% of its operations) should be able to obtain the Free Zone status. With the proposal to review the Free Zones Act, it is possible that qualifications for obtaining the Free Zones status may be restricted to entities operating under specific industries providing certain levels of value addition to their operations.

Withholding tax on Directors remuneration has increased from 10% to 20%.

Apart from the ports, TINs will now be required when transacting business in other sectors.

Withholding tax on Directors remuneration

Increase in withholding tax on Directors’ remuneration from 10% to 20%.

Government has proposed to increase tax on directors’ remuneration to 20% as part of measures to increase Government tax revenue.

Currently, the WHT on directors’ remuneration is not a final tax. The budget proposal did not confirm whether the increased rate would be a final tax.

Government will be expected to clearly state the position with respect to the nature of the withholding tax on directors remuneration.

TIN Application made mandatory

The GRA made it mandatory for all taxpayers to acquire TINs before transacting business at the various ports. In conjunction with the National Identification Authority (NIA), the requirement of the TIN will be extended to cover other sectors to facilitate the identification of eligible taxpayers.

The proposal in the budget for TIN to be applicable when transacting business with other ‘sectors’ is welcomed. This measure by Government should ensure that persons who are required to pay taxes will comply and also increase the tax base.

Currently, Government through the GRA and the Registrar General’s Department, has issued a directive for all businesses and individuals operating/working in Ghana to obtain TINs for their directors, secretaries, shareholders and authorised representatives prior to the company being registered in Ghana.

In order for this to be successful, Government has introduced an IT platform for registering and capturing individual and company information.

Government should also implement a centralised system and possibly make the registrations biometric to ensure that individuals / companies do not register more than once and hence compromise the integrity of the system.

Under the TIN Act, 2002 (Act 632) individuals require TINs to undertake transactions such as clearing goods from the port, registering land and obtaining business permits.
**Direct Taxation**

**Clarification on the New Pensions Act.**

Our expectation is that this will be strictly applied by Government.

The Budget however did not specify the sectors that would require a TIN in order to transact business and if the private sector would also be mandated to transact business only with persons with TIN. This measure could yield more significant results in relation to increasing the tax base.

**Clarification on the New Pensions Act**

Clarifications are required from Government regarding the application of the National Pensions Act, 2008 (Act 766) that came in force in 2010 in relation to expatriate contributions to the pension’s scheme as well as regarding some items under Tier 3.

We are of the view that Government should revise the Pensions Act to incorporate the provisions relating to expatriate contributions.

Alternatively the National Pensions Regulatory Authority should liaise with SSNIT to provide guidelines on these contributions.

The tax free personal income band has remained at GH¢ 132 and the highest income threshold remains at GH¢ 2,640 per month.

**Review of tax exemptions**

Ghana still requires investments in critical areas of the economy. However it is necessary to reduce abuses and the granting of excessive exemptions.

Tax exemptions are becoming increasingly important especially for the new power generating sector through Independent Power Producers and the impending Public Private Partnership Law and related projects. Granting of tax exemptions and the processes to gain these exemptions are crucial in determining viability of such projects. As only the Parliament of Ghana can grant tax waivers or variations, it remains to be seen what this review would involve. It is also important that any review of the process is transparent.

**Reducing Tax exemptions on Government loan Agreements**

Tax exemptions granted in loan agreements will also be reviewed to reduce the scope of exemption granted and the use of special permit will be drastically reduced. The terms of draft Agreements must refer to the application of tax treaties, where necessary.

This year’s Budget does not have any direct tax amendment affecting the mining sector. There were suggestions that IMF recommendations to increase Government’s revenue mobilization included an introduction of a mining windfall profit tax. Going by this Budget statement, Government has not given any indication of passing this law yet; a reason for this could be the current crisis facing the mining sector.

**Withholding tax threshold**

Withholding tax threshold was raised to GH¢ 500 effective 2012. This has not changed despite inflationary pressures over the 3 years since the last amendment. The low threshold translates to an increase in time and administrative costs for taxpayers as the cost of doing business in Ghana rises.
Direct Taxation

Government Projects funded with loan agreements usually have the benefit of various tax exemptions ranging from corporate taxes, and VAT to customs and import duties.

What is not certain is whether both current and future Government loan agreements would be affected by this review.

Also, the impact of this change on the cost of loans granted to Government would need to be assessed, and whether this would affect Government’s quest to source external loans.

Property Tax Administration

Stakeholders are being trained in Geographic Information Systems applications related to street addressing. This is a preparatory stage for property tax administration, street addressing and development planning by Government.

The on-going street addressing programme could lead to a better administration and implementation of property tax by the various district and municipal authorities.

GIS applications to property rate administration by the local authorities should assist Government’s effort at strengthening the revenue generation capacities of the various local government levels.

GRA is also using GIS technology to increase the tax base through identification of taxpayers and issuance of TINs. It is our hope that the systems being used for the property rates and for identifying taxpayers would be consolidated so as not to lead to duplication of efforts.

Currently self-assessment applies to only gazetted large tax payers and medium taxpayers. By this measure all tax payers (mostly small tax payers and some medium taxpayers) not currently included under the self-assessment scheme should be able to self-assess their taxes.

Senchi Report

- Implementation of proposed tax revenue measures (such as excise duty on petroleum products) and others with delayed implementation (for example, VAT on fee-based financial services).
- Reviewing and reducing discretionary tax exemptions to improve the efficiency of tax collection as well as broaden the tax base.
- Plug leakages in both revenue and expenditures and to streamline the GIPC and Free Zone incentives regime.
- Provide non-tax incentives (such as shortening the period to register businesses) rather than tax incentives to attract foreign direct investors to the country.

The Budget proposal has implemented some of the tax recommendations from the Senchi Report. These include special petroleum tax of 17.5%, increase the tax rate for Free Zones to 15%, review of the Free Zones Act, increase in excise duty on tobacco.
Introduction

In May 2014 the IMF issued a report detailing recommendations to the Government of Ghana regarding fiscal stability and deficit reduction. We refer to this report where the Budget proposals are consistent with these recommendations. In line with the Government’s over-arching goal of revenue generation, we note that there have been significant changes in the areas of indirect taxes and administrative enhancements.

Review of excise sliding scale policy

In November 2012, Government introduced a sliding scale excise duty on beer and malt. This was to provide an incentive for brewery companies which use local raw materials as substitutes for imported raw materials. This incentive also supports increased employment opportunities, reduction of the import bill, as well as increased capital investment and acquisition of new technology for production.

In 2015, Government will review the policy to ensure greater efficiency and compliance by the beneficiaries. In the process, GRA will introduce appropriate guidelines and make recommendations for improvement.

The sliding scale excise duty incentive is commendable. However the proposed introduction of guidelines to support its implementation suggests that it may not have had the intended effect or that there is room for improvement.

Effective implementation of this incentive should clearly yield the intended benefits as stated by Government without the need for further clarifications or reviews.

Increased excise duty on tobacco

The excise duty rate on tobacco is to be increased from 150% to 175%. The overriding objective is to reduce the consumption of tobacco and improve the welfare of citizens.

In 2010, an ad valorem excise duty rate of 140% was introduced on tobacco. This was subsequently revised upwards to 150% in 2011 with a proposal for a further increase to 175% in the 2015 budget.

Although the primary purpose of Government is to discourage the consumption of tobacco, revenue generation will be a welcome by-product as demand for tobacco products is inelastic and this increase is unlikely to materially deter continued consumption from purchasers.

Reversal of excise tax on petroleum

Government proposes to move away from imposing excise tax on petroleum under an ad valorem tax regime to a specific tax regime.

In 2013, Government changed its policy of imposing excise duties on some petroleum products from a specific to an ad valorem tax basis. This occurred during a time of increasing world oil prices and led to increased tax revenue for Government as the tax was applied as a percentage of the value of the products.

The proposal to switch back from an ad valorem tax to a specific tax during times of decreasing world oil prices, signals Government’s intention to maximize tax revenue from petroleum products regardless of shocks from the global environment. This move is consistent with the short-term recommendations provided by the IMF.
**Introduction of special petroleum tax**

As part of the rationalization of the VAT regime, the budget indicated the imposition of special petroleum tax of 17.5%. This policy comes with a mitigation account to manage extremely low and high prices that result in price increases or decreases under the automatic adjustment formula.

*Shortly after the proposal of this new tax in the Budget, the Bill was passed by Parliament. This initiative is consistent with the IMF’s recommendations of introducing selective tax rates on fuel.*

The memorandum to the Special Petroleum Tax Bill, 2014, explained that this tax will be collected by the GRA and the provisions of the VAT Act will apply to the Tax with necessary modifications. There was no sunset clause in the Bill and therefore this tax may not be temporary.

The 17.5% tax which is an ad valorem tax will be imposed on the ex-depot price of specified petroleum products and charged by a person licensed to operate as an oil marketing company. The ex-depot price includes the ex-refinery price, and other taxes and levies at which a given quantity of the petroleum product is sold.

An impact of this tax is an increase in cost of doing business especially by persons not registered for VAT as prices are expected to increase by up to 17.5%.

**Removal of import duty and VAT on inputs for production of machetes, exercise books and textbooks.**

In order to benefit both farmers and the printing industry, Government will remove import duties and VAT on inputs for the production of machetes and also the production of exercise books and textbooks.

The removal of import duties and VAT should reduce the cost of doing business and hence prices of these items. All else equal the literacy rate and food production should increase in Ghana.

**Abolishment of VAT Relief Purchase Orders**

The Budget proposals indicate an abolishment of the use of the VRPOs in granting VAT relief. This system will now be replaced by a Tax Credit System for entities entitled to exemptions.

Under the Tax Credit System, exempted entities will pay all import duties and taxes in full and apply for a Tax Credit Note which will be used to offset future tax liabilities. In line with this, Government intends to improve on the refund system to enable it pay refunds upon being vetted and certified. The use of special permits will also be drastically reduced.

Prior to the proposed amendment, the VRPOs were issued to relieved persons/taxpayers in certain industries in order to reduce the amount of cash tax refunds paid out. The VRPO system was also used as an administrative measure to implement VAT exemptions provided in various Agreements such as the Petroleum Agreements entered into by upstream oil and gas companies with the Government of Ghana.
Replacement of the VAT Refund Account with a General Refund Account

The abolishment of the VRPOs suggests that affected taxpayers will incur VAT and claim a credit on their VAT returns or apply for a VAT refund where required.

Further questions arise as to whether the proposed General Refund Account will be adequately funded to support refund claims especially in relation to the mining and upstream petroleum sectors given the quantum of refunds due them.

Aligning NHIL to VAT

VAT on financial services

Government proposes to implement the remaining VAT measures for financial services.

Currently, the VAT Act, 2013 (Act 870) imposes VAT on some financial services. Due to pressures from the public, this was put on hold to allow additional time for consultation and as a result, the law was not enforced. This delay was considered in the National Economic Forum held in Senchi in May this year and partly accounts for the non-achievement of domestic VAT targets.

VAT on commercial real estate

Government intends to implement the remaining VAT measures for commercial real estate with a change in the VAT on real estate to a flat 5% which Parliament has already passed.

In 2013, VAT at the rate of 17.5% (including NHIL at 2.5%) was introduced on real estate. Government faced resistance from the real estate industry on this introduction and hence this aspect of the law could not be enforced.

Budget is proposing a flat rate VAT of 5% which will be charged by real estate developers. It is likely that the real estate developers will be unable to deduct VAT incurred if this lower rate is introduced. Hence cost of buildings should generally rise by at least 5% as a result of this tax.

Alignment of NHIL to VAT

The Budget has proposed to amend the National Health Insurance Act, 2012 (Act 852) which came into force in 2012 to conform to the new provisions of the VAT Act, 2013 (Act 870).

Since NHIL is administered together with VAT, the amendment aims to realign the taxes imposed and exemptions granted under the NHI Act to the VAT Act which came into force this year. This will reduce the likelihood of a disagreement on whether some items attracting VAT will not attract NHIL and vice versa.

Removal of import duties on smartphones

In order to increase their usage Government is proposing to remove import duties on smartphones.

In July 2013, a 20% import duty was reintroduced on mobile handsets. The proposed abolishment of this tax should lead to reduction in the cost of acquiring smartphones thereby leading to more usage.

This is likely to lead to higher data usage (a key feature for smart phones) and should increase the revenue of telecommunication companies and their contribution to Government taxes through CST, VAT and income tax.
ECOWAS Common Tariffs

As a prerequisite for establishing a Customs Union and the deepening of the integration agenda of the sub-region ECOWAS members States agreed to adopt and apply the ECOWAS Customs External Tariff CET rates, effective January 1, 2015.

Effective 1 January 2015, ECOWAS is expected to be considered as one zone for customs duties if the necessary procedures are carried out. All items from outside ECOWAS are expected to be subject to same import duties across the sub-region.

This introduction may have an impact on bilateral agreements entered into by individual countries and also the EPA under consideration by several West African countries.

New Customs Bill

A proposed Customs Bill is currently with Parliament for review.

This has been mentioned in prior Budgets and we look forward to its introduction in order to address changes in current international trade transactions.

The introduction of the revised Customs Act should create room for consideration of the Tax Administration Act which has also been mentioned in prior Budgets.

Extension of special import levy

The current Budget proposes to extend the special import levy of 1%-2% to 2017.

Government introduced the Special Import Levy in July 2013, imposing a special import levy on the importation of specific goods at the point of importation. This was amended in December 2013 to cover the calendar year 2013 and 2014.

Post Clearance Unit created

A Post Clearance Unit has been created in the Customs Division to promote compliance in the areas of valuation, origin tariff classification, drawback and exemption regimes.

Taxpayers with a history of excellent tax compliance may be allowed to clear their goods with minimum procedures followed by checks subsequently carried out by the GRA. With this introduction, it is expected that opportunities for tax evasion will be minimized.
ECONOMIC SECTOR

Food and Agriculture 2015 Outlook

Government plans to continue with its drive to modernise farming technology and sustain Cocoa’s contribution to GDP and foreign exchange earnings through disease and pest control.

In the 2015 Budget Statement, programmes to be implemented by the Ministry of Food and Agriculture include the following:

- Increased number of spacious warehouses to be constructed to store rice, maize and soya beans and other cereals as strategic stocks;
- Increased number of Agricultural Mechanisation Services Enterprise Centres to be established;
- Embarking on training programmes to improve the technical skills and competence of managers and machine operators to improve upon efficiency and productivity;
- Enhanced collaboration between Government and private sector to support cotton farmers to produce for export;
- Setting up of a Cotton Development Authority as Regulator to explore the full potential of the cotton crop;
- Boosting and sustaining cocoa production by the continuation of the free fertilizer application (Hi-tech) programme for cocoa farmers as well as the continuation of the mass cocoa spraying exercise under the Cocoa Diseases and Pests Control Programme (CODAPEC);
- The Cocoa Research Institute of Ghana to continue to develop new products from by-products of cocoa, coffee and shea.

The steady growth of the Agricultural sector from a modest position of 2.3% in 2012 to 5.3% in 2014 is commendable as is Government’s plan to increase yields in critical Ghanaian staples such as rice, maize and soya.

Cocoa continues to be a top export earner in spite of recent efforts to diversify the economy. However, the Budget projects a production of 850,000 tonnes in 2015, down from approximately 890,000 tonnes in 2014. This is unpleasant news for the hardworking cocoa farmers. Given this short fall, Government will be required to plug the hole with increases in other sources of external revenue in order not to jeopardize the efforts to reduce the current account deficit.

Ministry of Fisheries and Aquaculture

The Fishing sub-sector registered strong growth of 7.1% in 2014, from a 5.8% growth in the previous year. Broad policy measures to consolidate these gains include the following:

- Implementation of the pilot phase of the Fishermen Life Insurance Scheme in 20 coastal and 10 inland fishing communities, to protect fishers.
- Education and sensitisation of fisheries on climate change mitigation measures.
- Continuation of construction works of the Fisheries College at Anomabo and the Turnkey Fish processing factory at Elmina.
- Construction of 2 new fishing harbours in Accra and Elmina and 25 fish landing sites at various fishing communities.
- A review of the Fisheries Act 2002, Act 625 and training of 20 judges and prosecutors on adjudication of fisheries law infractions; monthly patrols to be conducted and fisheries enforcement units to be established in the Volta Region.
- Completion and operation of the Laboratory for Fish Health Inspection.

In addition to a favourable regulatory environment and infrastructural development which the above initiatives seek to promote, the implementation of the Fishermen Life Insurance Scheme will provide greater job security for the fishermen.

The administrative cost of execution as well as the paucity of relevant data on these fishermen are likely to be challenges in the implementation of this scheme. Government may encourage the participation of the private sector, through the micro insurance companies by introducing incentive schemes for participating insurance companies.
Sectoral Outlook

**Ministry of Lands and Natural Resources**

Government is committed to ensuring the sustainable management and utilisation of the nation’s natural resources for socio-economic growth and development. The key initiatives to be undertaken during the year include:

- Reducing the impact of climate change through forest adaptation and mitigation activities;
- Facilitating the implementation of Corporate Social Responsibility guidelines by Minerals Commission to reduce social conflicts in mining areas;
- Reviewing the country’s mining and environmental guidelines by Minerals Commission;
- Intensifying monitoring visits to illegal small scale mining sites to educate miners, with the aim of mainstreaming their activities and facilitating the formation of more District Mining Committees;
- Implementation of the framework developed to ensure standardised decentralised procedure for acquisition of land titles and land registration in selected regional and district offices in the country;
- Continue to support map production for land administration; strengthen public land management and improve land titling in Accra, Tema and Kumasi.

Given the extent of mining disasters recorded in Ghana in 2013 and 2014, efforts to educate and to intensify monitoring visits to illegal small scale mining sites are likely to have positive health and safety implications for this class of miners in the conduct of their operations, and will also help in the streamlining of their operations.

On the other hand, mainstreaming the activities of illegal miners may be a quiet admission of Government’s inability to curb their illegal activities.

Government’s plans to generate base maps of the country to facilitate street naming and house address system throughout the country is a step in the right direction, as it seeks to address challenges associated with access to credit facilities and profiling. It is proposed that Government collaborates with the National Identification Authority (NIA) to avoid a duplication of efforts and to ensure efficiency in the execution of this programme.

**Ministry of Trade and Industry**

The 2015 Budget Statement focuses on making Ghana a major manufacturing, value added, competitive and export-oriented economy, to be achieved by pursuing the following initiatives:

- Continuation of the Web-Based Product Gallery programme which enables SMEs exhibit their products on the world wide web;
- Ghana Export Promotion Authority (GEPA) to design and implement tailor-made training programmes to address specific challenges of exporters; GEPA to pursue other trade promotion programmes to ensure that Ghana remains the preferred supplier of non-traditional export products;
- Export Development and Agricultural Investment Fund (EDAIF) to be established in all 10 regions to ensure that it supports businesses;
- Roll out of implementation schedules for the 30 Pilot projects put in place to deal with severe poverty and under-development under the Small scale District Industrialisation programme;
- Preparatory works for the construction of an ICT Park at the Cape Coast University to commence, as part of Government’s plans to develop industrial parks at strategic locations across the country;
- Government to continue to support the cashew industry to promote value addition for export.

The application of the Small Scale District industrialisation programme to vulnerable people in rural communities is a pro-poor intervention which reflects Government’s inclusive growth aspiration.

The decentralisation of EDAIF’s operations in all ten regions of the country is commendable in the sense that it seeks to address the issue of SME access to credit facilities. It is however important that support and facilities are made available based on business rather than political considerations to the business communities in these regions.

Manufacturing is key to the successful implementation of any transformational agenda. However, with the exception of the Komenda factory, the 2015 Budget Statement was silent on new initiatives for state-owned manufacturing concerns which are experiencing liquidity and operational challenges.
Ministry of Tourism, Culture and Creative Arts

This sector continues to maintain its position as the 4th highest foreign exchange earner after gold, cocoa and foreign remittances. The proposed initiatives in the 2015 Budget are supportive of Government’s intention to develop the tourism potential to create employment opportunities. In order to achieve these objectives, the following key initiatives have been identified:

- Completion of the Accra Visitor Information Centre (AVIC) (currently 95% complete) to provide one-stop shop information to tourists;
- Upgrading the software for the collection of national tourism levy and make it operational in all 10 regions of the country.

The AVIC should be actively promoted to both locals and foreign tourists as locals can serve as a great promotion base if they are conversant with the information centre.

Ministry of Environment, Science, Technology and Innovation

The emphasis of the 2015 Budget for the ministry includes the following:

- Council for Scientific and Industrial Research (CSIR) to continue the production and supply of improved breeds of tilapia and catfish fingerlings;
- The Ghana Atomic Energy Commission to ensure the passage of the Nuclear Regulatory Authority Bill;
- Environmental Protection Authority to develop a register of pesticides, industrial and consumer chemicals to enhance monitoring and prevention of imports of unregistered and banned chemicals into the country;
- Finalisation of the National Spatial Development Framework which is about 70% complete;
- Government to implement programmes and projects that promote clean environment, job creation and poverty reduction in line with the recently launched National Climate Change Policy and National Environmental Policy.

Given the extent of difficulties witnessed by Japan in the area of nuclear energy which has caused several developed nations across the globe to close down nuclear plants or to develop programs to reduce and eliminate their use, it is critical for Government to study the safety and reliability of nuclear energy extensively before any further developments in this sector. We advise that Government engages stakeholders extensively in this area to develop consensus and support before the commencement of any major program in nuclear energy in the country.

Ministry of Energy and Petroleum

The following initiatives have been highlighted in the 2015 Budget:

Petroleum Sub sector

- Oil production from the Jubilee Field was stepped up in 2014 with a total production of 28 million barrels with an average production of 105,000 barrels per day;
- Commercial operations of the Gas Infrastructure project to commence in 2015;
- Intensification of the rural LPG promotion project to cover more districts.

Power sub sector

- Work on Kpone Thermal power plant is progressing and one unit is expected to be commissioned by end of 2014;
- Additional power generation of 770MW from thermal sources and 33.5MW from renewable energy sources will be installed;
- Work on the Tumu-Han-Wa line is 80% complete and expected to be commissioned by end of 2014;
- Increase electricity access from 76% in 2014 to 80% in 2015. A total of 1,5000 communities to be connected to the national grid.

Government figures indicate a projected growth in international arrivals in Ghana.

The Ghana Atomic Energy Commission to ensure the passage of the Nuclear Regulatory Authority Bill which aims to promote the generation of nuclear energy in Ghana.

Government has projected to increase universal access to electricity from 76% in 2014 to 80% in 2015.
Government’s ambition to achieve 100% universal access to electricity by 2016 is at risk as Government only managed to increase this rate from 72% in 2013 to a projected 76% in 2014. While Government has achieved a high rate of universal access to electricity of about 76% in 2014, it is important to emphasise that access does not necessarily translate to availability. There should be significant efforts aimed to improve on the efficient generation and distribution of power in Ghana.

At a time when the economy is struggling to sustain growth, there is a risk that the power sector is becoming a drag on the economy. It is estimated that the power crisis in 2006–7 cost the country nearly 1% in lost growth of GDP during those years.

SOCIAL SECTOR

Government intends to continue with policy actions to improve access and quality of education, health care delivery, sports infrastructure and social security and protection.

Ministry of Education

Government will continue with its policy direction to ensure quality, access and equity in the country’s educational system. Projects highlighted in the Budget include:

- Increase access to quality education through training and deployment of more teachers, construction of more schools and open and distance learning;
- Increase affordability by subsidising basic education for JHS and SHS;
- Boost enrolment and retention through the provision of capitation grant and Global Partnership for Education Grant (GPEG) for pupils in all public basic schools;
- Facilitate the passage of a Bill for the conversion of polytechnics into technical universities;
- Continue with construction work on the University of Health and Allied Sciences at Ho and University of Energy and Natural Resources at Sunyani and commence construction of a new university in the Eastern region.

The budget allocation of GH¢6.740 million to the education sector represents a 34% increase over the previous year and reflects the priority attention Government is giving to this sector. As witnessed in the 2012 National elections, education is likely to be a major battle ground to capture the hearts and minds of voting Ghanaians, as we approach the 2016 general elections.

Ministry of Health

To consolidate healthcare service delivery in the country, Government will continue to make significant investment in the infrastructure, equipment and personnel needs of the health sector. To respond to these objective, Government plans to:

- Expand and construct Community Health Planning Services (CHPS) zones and compounds nationwide to bring basic healthcare to the doorsteps of the people;
- Scale up capitation to Eastern, Central, Western and Brong Ahafo regions;
- Strengthen preparedness and response to the Ebola Virus Disease;
- Improve access to radiotherapy and nuclear medicines services;
- Intensify enforcement of approved standards and practices for traditional medicine practitioners in the regions;
- Strengthen the regulatory environment to enforce compliance and maintenance of agreed standards of health professionals, facilities and medicinal and non-medicinal products.

Government has allocated GH¢6,740 million to the health sector which represents a 100% increase from 2014. This allocation will be deployed largely towards health systems strengthening including employee compensation which absorbs on an average, 60% of allocated resource (Holistic Assessment Report June 2014).

The effects of the Ebola outbreak in the sub region underline the importance of a robust public health care system to national development efforts. Health care access and quality remain significant challenges within the health sector. These challenges will need to improve to attain the objective of the transformational agenda.

Government to commence a policy of making secondary education progressively free in the 2015/2016 academic year.

Allocation to the Health Ministry increases by over 100% from previous year to GH¢ 6,740 million.
Government to mainstream issues affecting People With Disabilities (PWDs) into national planning.

Ministry of Gender, Children and Social Protection

Government intends to implement social protection interventions to ensure gender equality, promote the welfare and protection of children and empower the vulnerable, excluded, the aged and persons with disabilities. Government in 2015 will:

- Co-sponsor the intestate succession and property rights of spouse’s bills with the Ministry of Justice and Attorney-General;
- Finalise and disseminate the National Child and Family Welfare Policy and Justice for Children Policy;
- Promote and advocate the rights of children by creating public awareness in communities and among stakeholders;
- Expand the implementation of the LEAP to cover over 150,000 household beneficiaries;
- Mainstream issues affecting Persons with Disabilities (PWDs) into national planning by providing timely, reliable and disaggregated data on them;
- Facilitate the enactment of the legislative instrument on persons with disability Act.

Although the 2015 Budget Statement sets out progressive measures to address the challenges likely to be affected by the particularly vulnerable in the country, it should be noted that overall, Government’s renewed commitment to an accelerated fiscal consolidation may affect the poorest households because of their low capacity to respond to shocks associated with stringent economic measures.

Laudable as they are, the social intervention programmes are likely to face challenges such as funding. Government should consider programmes which would ensure sustainability of these programmes and transition mechanisms to make beneficiaries self-reliant.

INFRASTRUCTURE

The 2015 Budget allocates approximately GHe 2,000 million to Infrastructure representing a 37% increase from the 2014 Budget. With the exception of Water Resources, Works and Housing, there has been a general upward trend in the budgetary allocation for infrastructure. The upward trend notwithstanding, Government faces significant infrastructure challenges. The Africa Infrastructure Country Diagnostic (AICD) 2010 Report disclosed that Ghana faced a US$1.1 billion efficiency gap per year.


Out of the 2015 budgetary allocation, GHe832 million, representing 40% of the total Infrastructure budget is to be funded by Government, 4% from Internally Generated Funds with the majority (56%) expected to be sourced from external donors. This could lead to implementation challenges as external funding from donor partners has not been consistent in recent past. To address the funding challenges, Government has adopted the public-private partnerships (PPP) concept to fund infrastructure projects.
Rehabilitation and expansion of water systems in various regions to be implemented.

Water

In a bid to achieve the Ministry’s target of total potable water coverage by 2025, Government plans to carry out the following projects aimed at addressing the water coverage deficit currently plaguing the nation:

- Development of buffer zones in degraded river basins and enforcing measures to ensure its implementation.
- Initiation of works on Water Supply and Expansion Projects in various regions.
- Rehabilitation and Expansion of 10 Water Systems in various regions.
- Completion of work on the 8.47 MGD Kumawu Water Supply Project and the 1.63 MGD Nsawam Water Supply Expansion Project.
- The 40 MGD Kpong Water Supply Expansion is 98% complete and is set to start production in 2015.

The Ghana Water Company Limited (GWCL) recognises that water supply and sanitation infrastructure is insufficient. It is estimated that US$717 million (approximately GH¢ 2,294 million) will be required as investment for water production to attain 100% urban coverage country-wide by 2025. (Source: Ghana Water Company Limited’s website). The 13% decrease in budget allocation in 2015 (GH¢463m) as against 2014 (GH¢531m) will definitely impair the GWCL’s attempts at bridging the infrastructure gap.

Housing

Government continues to focus on reducing the housing deficit across the country with the implementation of the following projects:

- The construction of 5,000 housing units at Saglemi- Ningo Prampram and the completion of 4,720 affordable housing units in a number of Regions which are on-going and will continue in 2015;
- The rehabilitation and refurbishment of 218 housing units under the Keta Sea Defence Resettlement Programme will continue in 2015.

According to the Ministry’s website, the nation’s housing deficit currently stands at 1.7 million housing units. Also, the 2013 State of Housing Microfinance in Africa Report by Housing Finance Africa, places Ghana’s annual housing demand at 120,000 housing units while supply is at 42,000 units annually resulting in a shortage of 65% in housing supply.

However, budgetary allocation over the years has not been sufficient to address the identified housing challenges, leading to the widening of the housing deficit. Government recognises this challenge and as with other infrastructure project expects to attract private sector participation within this sector. The introduction of a 5% VAT on Real Estate in the 2015 budget is likely to increase the cost of home acquisition.

Roads and Highways

Road infrastructure directly impacts socio-economic growth and consequently the development of the country as a whole. To facilitate the movement of passengers and freight across the country and beyond, Ghana seeks to accelerate the development of its road infrastructure to meet the benchmarks associated with a middle income country. These are the policy initiatives presented in the 2015 budget:

- Adoption of the PPP framework for the financing, construction and management of the Accra-Kumasi, Accra-Takoradi and Accra-Tema Motorway;
- Routine and periodic maintenance on 111,99km and 6,675km of trunk roads, 22,500hm and 1000km of feeder roads and 8200km and 940km of urban roads respectively. Minor rehabilitation and improvement works also to be undertaken on 900km of trunk, 350km of feeder and 150km of urban roads;
- Construction of designated trunk, rural and urban roads;
- Co-operation with ECOWAS for the development of the ECOWAS and the Trans-African Highways of which Ghana’s coastal and central corridors form a part; and
Negotiation of funding for the completion and construction of some major road projects.

The Integrated Transport Plan for Ghana (June 2010) states that road transport represents more than 95% of all Ghana’s transport volumes showing an overreliance on the road network. In line with the diversification objective of the 2015 Budget, Government should seek to diversify and increase the use of other means of transport such as rail, marine and air.

Ghana is considered to have strong road transport indicators relative to its peers which are close to the standards expected of middle income countries (World Bank Policy Research paper 500, 2011). In spite of this, the Ghana Shared Growth and Development Agenda II (March 2014) mentions that Ghana continues to face a significant infrastructure gap with 58% of its road infrastructure in fair or bad condition. As the road network directly impacts the level of economic activity in the country, it is imperative that measures are put in place to bridge the infrastructural gap.

The Budgetary allocations towards the development of this sector over a period of time have seen increases with the most recent Budget recording a 20% increase from GH¢779 million to GH¢932 million. This is indicative of Government’s readiness to allocate funds for the development of the sector. Adequate funding however remains the most significant challenge to the ministry as collective funds from Development Partners, Government and internally generated funds fall short of the capital requirements for the development of the road transport industry.

Transport

The Transport Sector is committed to pursuing an integrated, cost-effective and seamless transport system responsive to the society’s needs. The 2015 Budget Statement presents the following development programmes:

- On-going expansion work of the Kotoka International Airport ("KIA") including a new bay to accommodate wide boarding aircrafts;
- Commencement of the Tamale Airport upgrade to serve as an alternate international airport to KIA;
- Rehabilitation of Kumasi Airport runway;
- Completion of Ghana Aviation Training Academy to boost human capital requirements for the aviation sector;
- Completion of the reconstruction of Sekondi-Takoradi via Kojokrom section of the Western Railway Line;
- Undertake reconstruction of Eastern Railway Line to link Boankra inland port;
- Acquisition of passenger and cargo vessels, the construction of Eastern Corridor Multi-Modal Transport and better port management to improve services on Volta Lake;
- Establishment of computer-aided receipt verification processing system to reduce revenue leakages and improve generation under the Road Transport Management Programme;
- Procurement of 200 new buses to increase bus schedule and to realign operations in Intra-City and Rural-Urban services.

The initiatives for the transport sector are laudable, however, there is much to be achieved in order to establish regional integration.

Road transport usage constitutes 95% of the transportation system in Ghana. The existing railway network handles less than 2% of freights and passenger traffic. As already emphasised, Government should make railway transport a priority to reduce the over reliance on road transport. In this regard, we urge Government to accelerate the development of the Western Railway and Eastern Railway Lines.

Further upgrade of inland water transport services with vessels on Volta Lake would reduce congestion and delays at the Tema port. In the case of Takoradi port, operational constraints should be addressed for the safer transport of mineral exports.
ADMINISTRATIVE SECTOR

Controller and Accountant Generals Department

CAGD exists to provide public financial management services to Government and the general public through efficient, skilled, well-motivated and dedicated staff, using the most appropriate technology. The focus areas for improvement in 2015 include:

- Adoption and application of International Public Sector Accounting Standards (IPSAS) as a basis of financial reporting for Government;
- Reduction in the incidence of “Ghost” workers on Government payroll through measures such as payroll audits, electronic salary payment voucher (e-SPV) and e-Pay slips;
- Continuation of the policy of net freeze on employment into all sectors of the public services (excluding education and health) and non-replacement of departing public sector employees in overstaffed areas;
- Continuation of the set up and piloting of a complementary electronic Human Resources Management Information System (HRMIS) under the Public Services Commission (PSC);
- Completion of the migration of public sector workers on the central payroll to the Single Spine Salary Structure (SSSS).

The adoption of IPSAS will result in improvement in Government’s financial reporting, accountability, transparency and will also enhance the credibility and comparability of financial statements from one Government to the other.

IPSAS implementation will require changes in IT infrastructure. The proposed improvements to the GIFMIS system in 2015 including modules such as HRMIS, Inventory, Fixed Asset, Contract Management, Receivables and Payables will be essential to support the implementation of IPSAS.

Government has successfully migrated a larger proportion of all public sector workers on the central payroll to the Single Spine Salary Structure (SSSS); however, there are some concerns on the sustainability of the Single Spine Pay Policy.

At the recently held economic forum at Senchi, it was proposed that Government strives to reduce the wage bill from the current 57% (2013) to 35% of tax revenue by 2017.

Government’s resolve to streamline payroll management and to reduce incidents of “Ghost names” has led to the introduction of both preventive and detective controls including payroll audits, electronic salary payment voucher (e-SPV) and e-Pay slips. These are positive measures to reduce the wage bill and we therefore urge Government to ensure the sustainability of these measures.

Ministry of Finance and Economic Planning

As part of its mandate, Ministry of Finance focusses on the implementation of sound financial, fiscal and monetary policies. One of the key tools to be used to mobilise, allocate and manage financial resources is GIFMIS. GIFMIS Phase 1 is expected to end by December 2014. For 2015, the Ministry plans the following:

- Implementation of Phase II of GIFMIS with new modules such as Fixed assets, Contract management, Inventory, Accounts payable and Accounts receivable being installed and operationalised;
- Completion of a standard On-lending agreement for use by all MDAs and MMDAs;
- Introduce amendments to the Petroleum Revenue Management Act (PRMA) 2011, Act 215 to harness our oil resources for savings, stabilisation and development;
- Implementation of the over US$400 million US MCC Compact II under the Power Africa Programme.

It is expected that the roll out of the modules under GIFMIS will contribute significantly towards the efficiency of operations in the public sector. It should however be noted that GIFMIS is a technology enabling to facilitate information processing and the production of timely financial information. To obtain the full benefits of this system, there is the need to streamline processes, controls, monitoring and evaluation to enhance financial management and good governance.
The focus of the 2015 Budget Statement with regard to the Ghana Revenue Authority is to strengthen and improve initiatives started in the previous periods. The launch of the e-Tax portal which is being progressively rolled out will contribute significantly to an increase in tax revenue. The portal is set to assist individuals, corporate clients and other entities to file their tax returns online.

Also, the GRA’s plan to interface its systems directly with the GIFMIS infrastructure will provide real time information on revenue collections to facilitate timely and informed decision making.

**PUBLIC SAFETY SECTOR**

The Public Safety Sector is responsible for the development of a legal and policy framework, maintaining law and order in Ghana and protecting the territorial integrity of the Country. The 2015 budgetary allocation of GHS 2.4 million for the sector is 20% above the 2014 allocation of GHS1.9 million. On average, 6% of total budget of the Country has been allocated to the Public Safety Sector in the past three years (2013-2015).

**Ghana Revenue Authority**

Integration of all revenue agencies was the key objective of creating the GRA. The key tasks since its creation have been to modernise Domestic Tax and Customs operations through the review of processes and procedures with ICT as the backbone. For the 2015 Budget period, the main priorities are:

- To continue its tax modernisation programme through the launching of the e-Tax portal (online tax portal);
- To continue the use of the Geographic Information system (GIS) technology to identify potential taxpayers and to register and re-issue Tax Identification Numbers (TIN) to existing taxpayers;
- Complete the tender process to procure and install the Ghana Aid Information Management System (GAIMS) to support the management of donor funded interventions;
- Finalise the new strategic plan for 2015-2017 which includes special tax audits of companies and the operations of the Rent task force.

**Ministry of Justice and Attorney General’s Department**

- The Ministry will continue to pursue the full recovery of various sums owed to the state by institutions and individuals, in pursuit of various Supreme Court decisions on wrongful payments;
- In 2015, EOCO will seek to recover proceeds from economic crime from 30% of the cases they will investigate and facilitate the prosecution of 20% of those cases;
- The Attorney General’s Department will continue to scrutinise Government contracts and agreements to ensure value for money;
- Legal Aid Scheme will provide aid for 2,000 cases and use ADR to handle 13,000 cases in 2015;
- The Law Reform Commission will conduct research on the Law of Torts and Contract Law while the General Legal Council plans to train and call to the Bar 300 lawyers in 2015;
- The Copyright Office plans to register 1,700 copyright works, conduct 35 anti-piracy exercises and mediate 56 copyright cases.

The Ministry is allocated a budget of GHS 74.4 million in 2015 which is 15% above the 2014 allocation of GHS64.5 million. The initiatives highlighted in the 2015 Budget Statement are expected to expedite investigation and prosecution of cases, but there is the need to recruit and retain competent Public Prosecutors which require attractive compensation packages.

It is laudable that the ministry will pursue full recovery of wrongful payments of Judgement debts. It is however important that preventive measures be put in place to avoid these wrongful payments.

**Judicial Service**

- It is estimated that approximately 96,000 cases will be disposed-of to help reduce the backlog of cases by 5% to 7%;
- A total of 10 Courts will be connected to ADR to enhance the settlement of cases outside the traditional court system. The Service plans to increase referred ADR cases to 7,611 to facilitate the speedy delivery of cases in 2015;
The Service’s budgetary allocation of GH¢ 199.6 million for 2015 is a 4% increase over the 2014 allocation of GH¢189.5 million.

The 2014 budget for the Judicial Service was focused on infrastructural upgrades including the e-Justice System. The 2015 Budget Statement is however silent on the status of this project. It is therefore not clear whether those initiatives will be continued in 2015. Infrastructural upgrades of the lower courts need to be carried out to ensure speedy trials.

The expansion of the ADR programme is in the right direction as it will facilitate speedy disposal of cases and reduction in congestion in our courts.

Adequate and intensive ADR advocacy and public sensitisation programmes must be undertaken to further establish the practice of ADR in Ghana. Even though some advocacy continues to be done, a lot more is needed to fully achieve the level of acceptance and popularity of the ADR concept of Dispute Resolution.

CHRAJ will coordinate the implementation of the National Anti-Corruption Action Plan (NACAP) to facilitate effective investigations and prosecution of corrupt conducts.

According to the Corruption Perceptions Index Report by Transparency International, Ghana was ranked 63rd out of 177 countries in 2013 (2012: 64th out of 176 countries). The increasing perception of corruption has a negative impact on the country both economically and politically. The introduction of NACAP is therefore timely. We urge Government to equip the relevant agencies with the appropriate logistics, funding and authority to execute this plan.

CHRAJ will install central electronic monitoring systems in betting facilities in Ghana, to facilitate better assessment of taxes to be paid by operators.

Commission on Human Rights and Administrative Justice (CHRAJ)

- The Commission will continue to develop and implement the National Human Rights Action Plan and redress human rights violations;
- CHRAJ will continue to investigate complaints of administrative injustice in the regions, conduct public education on principles of good administrative justice and strengthen international cooperation with other ombudsman institutions and bodies;
- The Commission will make efforts to further decrease the incidence of corruption, public perception of corruption and increase the integrity of public office. CHRAJ will also coordinate the implementation of the National Anti-corruption Action Plan (NACAP).

The Commission is allocated a budget of GH¢ 24.4 million in the 2015 Budget Statement (7% below the 2014 allocation of GH¢ 26.4 million), which is on the lower side, considering the operational challenges it experienced in 2014.

Ministry of Interior

- The National Peace Council (NPC) will organise training programmes for regional and district Peace Councils to ensure the successful implementation of the National Peace Council Act. NPC will continue to create awareness on non-violent conflict resolution and mediate actual or potential conflicts;
- Ghana Immigration Service will rigorously enforce immigration laws through on-the-spot checks and investigations;
- The Gaming Commission will install a central electronic monitoring system in betting facilities in Ghana to facilitate better assessment of taxes to be paid by operators.

The Ministry’s 2015 budgetary allocation of GH¢1.2 million is 18% above previous year’s allocation of GH¢1.0 million. The initiatives adopted by the Ministry of Interior should lead to an increased awareness of the citizenry to law and order in Ghana.
## Appendix 1 – Government revenue projections, outturns and variances for 2014 and 2015

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<td>Personal</td>
<td>9,160</td>
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<td>6,094</td>
<td>8,734</td>
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<td>Self employed</td>
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<td>Companies</td>
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<td>2,033</td>
<td>3,172</td>
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<td>Company taxes on oil</td>
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<td>394</td>
<td>737</td>
<td>885</td>
<td>1,652</td>
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<td>Others</td>
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<td>1,039</td>
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<td>1,903</td>
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<td>Excises</td>
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<td>Excise duty</td>
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<td>Petroleum Tax</td>
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<td>117</td>
<td>102</td>
<td>144</td>
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<td>VAT</td>
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<td>National Health Insurance Levy (NHIL)</td>
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<td>225</td>
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<td>783</td>
<td>897</td>
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<td>SSNIT Contribution to NHIL</td>
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<td>17</td>
</tr>
<tr>
<td><strong>NON-TAX REVENUE</strong></td>
<td>4,885</td>
<td>3,607</td>
<td>3,368</td>
<td>4,289</td>
<td>5,267</td>
<td>582</td>
</tr>
<tr>
<td>Retention</td>
<td>2,806</td>
<td>2,210</td>
<td>1,883</td>
<td>2,535</td>
<td>2,833</td>
<td>27</td>
</tr>
<tr>
<td>Lodgement</td>
<td>2,079</td>
<td>1,397</td>
<td>1,485</td>
<td>1,754</td>
<td>2,434</td>
<td>355</td>
</tr>
<tr>
<td><strong>DOMESTIC REVENUE</strong></td>
<td>24,839</td>
<td>17,635</td>
<td>16,928</td>
<td>23,937</td>
<td>30,855</td>
<td>6,016</td>
</tr>
<tr>
<td><strong>GRANTS</strong></td>
<td>1,391</td>
<td>780</td>
<td>743</td>
<td>802</td>
<td>1,551</td>
<td>160</td>
</tr>
<tr>
<td>Project grants</td>
<td>911</td>
<td>754</td>
<td>716</td>
<td>775</td>
<td>1,018</td>
<td>107</td>
</tr>
<tr>
<td>Programme grants</td>
<td>480</td>
<td>26</td>
<td>27</td>
<td>27</td>
<td>533</td>
<td>53</td>
</tr>
<tr>
<td><strong>TOTAL REVENUE &amp; GRANTS</strong></td>
<td>26,230</td>
<td>18,414</td>
<td>17,670</td>
<td>24,739</td>
<td>32,406</td>
<td>6,176</td>
</tr>
</tbody>
</table>
Appendix 2 – Government expenditure projections, outturns and variances for 2014 and 2015

<table>
<thead>
<tr>
<th>Millions of Ghana Cedis</th>
<th>2014 Budget (A)</th>
<th>2014 Q1-Q3 Prog (B)</th>
<th>2014 Q1-Q3 Prov (C)</th>
<th>2014 Proj. Outturn (D)</th>
<th>2015 Budget (E)</th>
<th>Var (F=E-A)</th>
<th>Var (G=D-A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation of Employees</td>
<td>10,793</td>
<td>8,094</td>
<td>7,593</td>
<td>11,160</td>
<td>12,313</td>
<td>1,319</td>
<td>366</td>
</tr>
<tr>
<td>Wages &amp; Salaries</td>
<td>9,219</td>
<td>6,946</td>
<td>6,668</td>
<td>9,331</td>
<td>10,286</td>
<td>1,068</td>
<td>132</td>
</tr>
<tr>
<td>Social Contributions</td>
<td>1,575</td>
<td>1,178</td>
<td>626</td>
<td>1,808</td>
<td>2,026</td>
<td>452</td>
<td>234</td>
</tr>
</tbody>
</table>

| Use of Goods and Services | 1,085 | 795 | 798 | 1,085 | 1,970 | 885 | - |
| o/w ABEA from Oil (20% of ABEA) | - | - | - | - | 736 | 736 | - |

| Interest Payments | 7,885 | 3,938 | 4,868 | 7,843 | 9,537 | 1,672 | - |
| Domestic | 6,829 | 4,505 | 4,140 | 6,829 | 8,014 | 1,194 | - |
| External (Due) | 1,056 | 832 | 729 | 1,025 | 1,543 | 479 | - |

| Subsidies | 610 | 50 | 25 | 610 | 50 | -560 | - |
| Subsidies to Utility Companies | 291 | - | - | 291 | - | -291 | - |
| Subsidies on Petroleum products | 328 | 50 | 25 | 328 | 50 | -278 | - |

| Grants to Other Governmental Units | 6,370 | 4,873 | 3,032 | 5,443 | 7,409 | 839 | 1,327 |
| National Health Fund (NHF) | 903 | 665 | 617 | 1,034 | 1,186 | 281 | 129 |
| Education Trust Fund | 712 | 541 | - | 334 | 844 | 132 | 378 |
| Road Fund | 227 | 164 | 165 | 227 | 257 | 30 | - |
| Petroleum Related Funds | 6 | 4 | 4 | 6 | 5 | 0 | - |
| Dist. Ass. Common Fund | 1,316 | 924 | - | 529 | 1,586 | 270 | 786 |
| Retention of Internally-generated funds | 2,866 | 2,211 | 1,885 | 2,355 | 2,833 | 27 | 271 |
| Transfer to GNPC from Oil Revenue | 599 | 399 | 384 | 378 | 698 | 99 | 21 |

| Social Benefits | 49 | 37 | - | 49 | 61 | 12 | - |
| Lifeline Consumers of electricity | 49 | 37 | - | 49 | 61 | 12 | - |

| Other Expenditure | 792 | 561 | 783 | 897 | 816 | 24 | 105 |
| Tax Expenditure (Exemptions) | 792 | 561 | 783 | 897 | 816 | 24 | 105 |

| Capital Expenditure | 5,990 | 3,963 | 3,865 | 5,472 | 6,927 | 967 | 539 |
| Domestic financed | 1,242 | 795 | 699 | 1,242 | 2,557 | 1,316 | - |
| o/w GIF | - | - | - | - | 967 | 967 | - |
| o/w ABEA | - | - | - | - | 1,273 | 1,273 | - |
| Foreign financed | 4,749 | 3,168 | 3,167 | 4,290 | 4,399 | 349 | 519 |

| TOTAL EXPENDITURE | 33,783 | 23,774 | 20,986 | 32,368 | 39,433 | 5,350 | 1,415 |

| APPROPRIATION | 39,033 | 28,429 | 24,701 | 37,093 | 44,001 | 4,969 | 1,939 |
| Total Expenditure | 33,783 | 23,774 | 20,986 | 32,368 | 39,133 | 5,350 | 1,415 |
| Road Arrears | 232 | 215 | 153 | 232 | 322 | - | - |
| Non-Road Arrears | 2,019 | 1,527 | 2,570 | 2,752 | 1,239 | -780 | 733 |
| Tax Refunds | 324 | 261 | 128 | 317 | 508 | 184 | -8 |
| Amortisation | 2,674 | 2,471 | 857 | 1,424 | 2,799 | 125 | 1,250 |
## ACRONYMS AND ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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</thead>
<tbody>
<tr>
<td>ABFA</td>
<td>Annual Budget Funding Amount</td>
</tr>
<tr>
<td>ADR</td>
<td>Alternative Dispute Resolution</td>
</tr>
<tr>
<td>AGOA</td>
<td>African Growth and Opportunity Act</td>
</tr>
<tr>
<td>AICD</td>
<td>Africa Infrastructure Country Diagnostic</td>
</tr>
<tr>
<td>AIDS</td>
<td>Acquired Immune Deficiency Syndrome</td>
</tr>
<tr>
<td>AMSECs</td>
<td>Agricultural Mechanization Services Enterprise Centres</td>
</tr>
<tr>
<td>AVIC</td>
<td>Accra Visitor Information Centre</td>
</tr>
<tr>
<td>bbl</td>
<td>Barrel</td>
</tr>
<tr>
<td>BoG</td>
<td>Bank of Ghana</td>
</tr>
<tr>
<td>BOP</td>
<td>Balance of Payments</td>
</tr>
<tr>
<td>CAGD</td>
<td>Controller &amp; Accountant General’s Department</td>
</tr>
<tr>
<td>CHPS</td>
<td>Community Health Planning and Services</td>
</tr>
<tr>
<td>CHRAJ</td>
<td>Commission on Human Rights and Administrative Justice</td>
</tr>
<tr>
<td>CODAPEC</td>
<td>Cocoa Disease and Pests Control</td>
</tr>
<tr>
<td>CSIR</td>
<td>Council for Scientific and Industrial Research</td>
</tr>
<tr>
<td>CSR</td>
<td>Corporate Social Responsibility</td>
</tr>
<tr>
<td>DTT</td>
<td>Digital Terrestrial Television</td>
</tr>
<tr>
<td>ECOWAS</td>
<td>Economic Community of West African States</td>
</tr>
<tr>
<td>EDAIF</td>
<td>Export Development and Agricultural Investment Fund</td>
</tr>
<tr>
<td>ECOO</td>
<td>Economic and Organised Crime Office</td>
</tr>
<tr>
<td>EPA</td>
<td>Economic Partnership Agreement</td>
</tr>
<tr>
<td>E-SPV</td>
<td>Electronic Salary Payment Voucher</td>
</tr>
<tr>
<td>ETLS</td>
<td>ECOWAS Trade Liberalization Scheme</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>EXIM</td>
<td>Export-Import</td>
</tr>
<tr>
<td>FCA</td>
<td>Foreign Currency Accounts</td>
</tr>
<tr>
<td>FEA</td>
<td>Foreign Exchange Accounts</td>
</tr>
<tr>
<td>GAAIMS</td>
<td>Ghana Aid Information Management System</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GEPA</td>
<td>Ghana Export Promotion Authority</td>
</tr>
<tr>
<td>GIFMIS</td>
<td>Ghana Integrated Financial Management and Information System</td>
</tr>
<tr>
<td>GIS</td>
<td>Geographic Information System</td>
</tr>
<tr>
<td>GNDC</td>
<td>Ghana National Gas Company</td>
</tr>
<tr>
<td>GNPC</td>
<td>Ghana National Petroleum Corporation</td>
</tr>
<tr>
<td>GoG</td>
<td>Government of Ghana</td>
</tr>
<tr>
<td>GPEG</td>
<td>Global Partnership for Education Grant</td>
</tr>
<tr>
<td>GPEG</td>
<td>Global Partnership for Education Grant</td>
</tr>
<tr>
<td>GRA</td>
<td>Ghana Revenue Authority</td>
</tr>
<tr>
<td>GSF</td>
<td>Ghana Stabilisation Fund</td>
</tr>
<tr>
<td>H.E.</td>
<td>His Excellency</td>
</tr>
<tr>
<td>HIV</td>
<td>Human Immunodeficiency Virus</td>
</tr>
<tr>
<td>HRMIS</td>
<td>Human Resource Management Information System</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communication Technology</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IPSAS</td>
<td>International Public Sector Accounting Standards</td>
</tr>
<tr>
<td>KIA</td>
<td>Kotoka International Airport</td>
</tr>
<tr>
<td>Km</td>
<td>kilometre</td>
</tr>
<tr>
<td>LEAP</td>
<td>Livelihood Empowerment Against Poverty</td>
</tr>
<tr>
<td>LPG</td>
<td>Liquefied Petroleum Gas</td>
</tr>
<tr>
<td>MCC</td>
<td>Millennium Challenge Corporation</td>
</tr>
<tr>
<td>MDAs</td>
<td>Ministries, Departments and Agencies</td>
</tr>
<tr>
<td>MMDAs</td>
<td>Metropolitan, Municipal and District Assemblies</td>
</tr>
<tr>
<td>MoFEP</td>
<td>Ministry of Finance and Economic Planning</td>
</tr>
<tr>
<td>MOFA</td>
<td>Ministry of Food and Agriculture</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
</tr>
<tr>
<td>--------------</td>
<td>-------------</td>
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<tr>
<td>MW</td>
<td>Megawatts</td>
</tr>
<tr>
<td>NACAP</td>
<td>National Anti-Corruption Action Plan</td>
</tr>
<tr>
<td>NDA</td>
<td>Net Domestic Asset</td>
</tr>
<tr>
<td>NDPC</td>
<td>National Development Planning Commission</td>
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<tr>
<td>NFA</td>
<td>Net Foreign Asset</td>
</tr>
<tr>
<td>NHI</td>
<td>National Health Insurance Act</td>
</tr>
<tr>
<td>NHIL</td>
<td>National Health Insurance Levy</td>
</tr>
<tr>
<td>NIA</td>
<td>National Identification Authority</td>
</tr>
<tr>
<td>NPC</td>
<td>National Peace Council</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>PKI</td>
<td>Public Key Infrastructure</td>
</tr>
<tr>
<td>PLC</td>
<td>Public Liability Company</td>
</tr>
<tr>
<td>PPP</td>
<td>Public Private Partnership</td>
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<tr>
<td>PRG</td>
<td>Partial Risk Guarantee</td>
</tr>
<tr>
<td>PRMA</td>
<td>Petroleum Revenue Management Act</td>
</tr>
<tr>
<td>PSC</td>
<td>Project Steering Committee</td>
</tr>
<tr>
<td>PRMA</td>
<td>Petroleum Revenue Management Act</td>
</tr>
<tr>
<td>PSC</td>
<td>Public Services Commission</td>
</tr>
<tr>
<td>PWDs</td>
<td>Persons With Disabilities</td>
</tr>
<tr>
<td>SME</td>
<td>Small &amp; medium Size Enterprise</td>
</tr>
<tr>
<td>SSSS</td>
<td>Single Spine Salary Structure</td>
</tr>
<tr>
<td>TIN</td>
<td>Tax Identification Number</td>
</tr>
<tr>
<td>US</td>
<td>United States</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
</tr>
<tr>
<td>VALCO</td>
<td>Volta Aluminium Company</td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax</td>
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<tr>
<td>VRPO</td>
<td>VAT Relief Purchase Order</td>
</tr>
<tr>
<td>WEO</td>
<td>World Economic Outlook</td>
</tr>
<tr>
<td>WMO</td>
<td>World Meteorological Organisation</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
</tr>
<tr>
<td>YLSTIs</td>
<td>Youth Leadership and Skills Training Institutes</td>
</tr>
</tbody>
</table>
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