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2013 Budget Highlights

“Sustaining Confidence in the Future of the Ghanaian Economy”

March 2013

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National Budget

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Commentary

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"Sustaining Confidence in the Future of the Ghanaian Economy"

The 2013 Budget Statement and Economic Policy was delivered to Parliament on Tuesday 5 March 2013 by Hon. Seth Terkper Minister of Finance and Economic Planning

Outlined in this publication are some of the principal matters in the Budget Statement.

In this issue

Introduction

Unlike 2011 when Ghana recorded one of the highest GDP growth rates in the world (14.4%), the year 2012 was plagued with significant economic and political challenges.

The question now as reflected in the theme for the 2013 Budget is how to shore up the confidence of the investor community, private sector, donor community and the public at large. Are the success stories of 2011, that is – single digit inflation, relatively stable currency against major trading currencies, and improved budgetary position of 2011 a mirage? Is the economy ready for the reduction in grants and aid from donor countries, as is customary with countries attaining lower middle income status?

What will the donor community think of all the major planned subsidies listed in the 2013 Budget and do we have the capacity to generate the required revenues estimated at 35% of GDP for 2013?

For example, is the Public sector wage bill which is on a rising trajectory largely due to the implementation of the Single Spine Salary Structure, sustainable?

It may be argued that the GDP base will expand in 2013 and therefore the Public sector wage bill as a component of GDP will decline, serving as a balancing act. While that argument remains true, all things being equal, the first quarter of 2013 has been hit by a severe energy crisis, which if not addressed could have an adverse impact on GDP growth and rather worsen the situation.

We are at the crossroads of revenue mobilisation and infrastructure developments; how do we manage infrastructure developments without accumulating significant deficits? Over the last 16 years there has been a cyclical trend in election years whereby the State accumulates significant deficits which are then financed through additional debt in the following year. How well can the current Administration manage this extra pressure on the current resources in 2013?

Government is projecting a GDP growth of 8% (including oil) in 2013. Inflation is projected at an average of 8.9% for the year, with a period end figure of 9%, compared to 8.8% in 2012. Inflation has remained single digit over the last two years which is commendable.

The challenge remains whether Government will be able to maintain the positive trend in inflation, relatively stable currency and a much lower interest rate regime.

Government's average exchange rate projections for 2013 is GH¢1.93 to the USD1 (2013 Budget – Benchmark revenue) compared to an average of GH¢1.81 in 2012. Given the experience of 2012, how sustainable is the planned macroeconomic direction set by Government for 2013?

What machinery has Government put in place to control the currency volatility without limiting private sector growth including our fledgling Small and Medium Scale Enterprises?

Maintaining our lower middle income status is paramount in 2013. It is therefore imperative that Government prioritises the planned infrastructure development on key and critical projects including the completion of various on going projects. Priority must be placed on water availability and expansion to other communities within Ghana; plans for efficient energy consumption and systems to support production; a review of the current state of the agriculture landscape and value chain from planting to marketing and introduction of effective programmes to minimise wastage and production losses. There is the need to address current difficulties in education, which directly impact our human capital stock and productivity.

Sustaining confidence in the economy

The 2013 Budget statement touches on all these issues and more.

The 2013 Budget sets out to address critical issues such as expenditure management, revenue mobilisation, infrastructure development, capacity building within key sectors including Oil and Gas as well as agriculture modernisation.

Areas of focus for infrastructure expansion are roads, schools, energy generation, agriculture modernisation and health care. An analysis of the 2013 budget and its planned policy initiatives and infrastructure projects together with the aggressive revenue mobilisation drive, indicates that, Government has adopted a two pronged strategy for 2013 within a stable macroeconomic environment namely (i) to simultaneously generate revenue of GH¢22,533 billion, projected to be 25.4% of GDP and (ii) spend on critical infrastructure development projects estimated to be 34% of GDP.

The successful implementation of these key initiatives, will strengthen the credibility of Government and increase public, investor and donor confidence in the administration.

The 2013 budget statement argues that Government failed to meet 2012 targets due to shortfalls in revenues and grants, and higher spending among others. Shortfalls in revenue generation to meet 2012 infrastructure development plans were attributed to a shortage in collections of GH¢708.2million in corporate income taxes, failure to meet obligations of GH¢389.4 million in grants by our Development Partners and higher interest cost on Government borrowing in the region of GH¢245million.

It is the intention of Government to reduce borrowing and the higher borrowing cost in plans outlined in the Debt Management strategy of the Budget. Notable among these are broadening the range of instruments offered in the domestic markets, extending the yield curve by issuance of 7 and 10 year fixed rate bonds, restricting non concessional loans to economically viable and self financing projects on a competitive basis and exploring hedge options to improve predictability of debt servicing on variable rated loans amongst others. If Government is able to achieve the reduction in borrowing, it would bolster confidence in the economy as the private sector would not be ''crowded out''.

To be fair, growth in selected areas of the economy did engender confidence in 2012.

Key sectors such as Agriculture grew by 2.6% from an actual outturn of 0.8% in 2011, whilst the Services sector, the largest sector of the economy grew by 8.8%. The growth was attributed to the noteworthy performance of sub sectors like Hotels and Restaurants by 13.6 %, Transport and Storage by 11.4% and Financial Intermediation by 11.4%. The Industrial sector however, largely made up of Mining and Quarrying, Manufacturing, Construction and Electricity amongst others recorded a modest growth rate of 7.0% in 2012 against a target of 15.8% and an actual outturn of 41.1% in 2011. The challenge again is to sustain and enhance this level of growth in 2013.

Confidence building blocks

There are several confidence building "low hanging fruits" included in the 2013 budget. The degree to which these will contribute or mitigate against confidence in the Ghanaian Economy would be to a large extent contingent on Government's ability to deliver on them in 2013.

Government plans to close the current infrastructural gap, proposes a number of tax initiatives targeted at revenue mobilisation which includes expansion in the tax base and tax administration in 2013. These initiatives which began in 2011 and 2012 have been laudable and generated significant domestic revenues. Domestic tax collection improved by 21.5% of GDP (GH¢15,508 million) and is expected to rise to GH¢21,275million representing 24% of GDP in 2013.

Government will continue to stream line the tax refund process and leverage technology to simplify tax refunds under the current tax relief programme and the proposed reliefs outlined in the 2013 budget for Parliamentary approval.

Other notable tax initiatives that were pursued in 2012 by Government as part of generating revenues to support the nation's infrastructure growth and being continued in 2013 are; increase in Corporate tax rate of mining companies from 25% to 35%; A uniform regime for capital allowances of 20% for five years for the mining sector, as is the case for the Oil and Gas industry; and reduction in the Corporate tax rate for the hotels and hospitality industry from 22% to 20%.

Subsidies appear to be high on the agenda of the current Administration, and feature across major sectors of the economy from Agriculture through to Education. Notable is the Fertilizer Subsidy Programme, which has impacted 300,000 farmers since its inception and planned to continue in 2013. Agriculture mechanisation service centres have been established in 62 districts and 170 more districts earmarked for addition in 2013. Two fishing harbours at Elmina and James Town are currently under construction.

Energy generation and distribution is critical to the development of the nation. The availability of energy will contribute to the growth of the economy and remains high on the agenda of the Government. It remains to be seen what impact the proposals initiated by Government in the 2013 Budget to address the energy deficiency will have on the economy.

Government's overall objective under the road sector is to achieve a preferable road condition mix in line with the Ghana Shared Growth and Development Agenda (GSGDA). However it is imperative that Government prioritises at this stage road construction projects and speedy completion of existing ones as the uncompleted roads are becoming a safety and health hazard and a nuisance to the general public. as well as a massive loss of confidence in road management.

Conclusion

Government must strive to move the country from a lower middle income status to a fully fledged middle income country. It appears the 2013 Budget Statement seeks to set the stage to deliver on the four pillars which under pin the National Development Programme i.e. Putting the People First; Strong and Resilient Economy; Expanding Infrastructure; and Transparent and Accountable Governance framework.

Sustaining confidence in the future of the Ghanaian Economy is a daunting task given our current position. The 2013 budget cautiously attempts to tackle this challenge: Question is does the current Administration have the political will and fiscal discipline to deliver on this challenge in 2013?

Felix Addo
Country Senior Partner
PwC Ghana

2013 Budget Highlights

Overall Summary

pwc **"Sustaining Confidence in the Future of the Ghanaian Economy"**

The Economy

Following the impressive gains chalked by the economy in 2011, due mainly to the commencement of oil production in commercial quantities at the end of 2010, the pace of the Ghanaian economy moderated in 2012 largely on the back of relatively modest revenues and expenditures which appeared to spiral out of control in an election year.

The tables below depict the performance of the economy in 2012:

Description	Target 2012	Projected 2012 out-turn
Real GDP growth rate (excluding oil)	7.6%	*n/a
Real GDP growth rate (including oil)	9.4%	**7.1%
12 month CPI inflation (average)	8.7%	9.2%
End of period inflation	8.5%	8.8%
Gross international reserves	Reserves not less than three months of import cover of goods and services	Reserves not less than three months of import cover of goods and services
Overall budget deficit	6.7% of GDP	12% of GDP

*** not available**
**** 9 months to September 2012**

Sectoral performance for 2012			
Sector	**Target %**	**Outturn %**	**% of GDP**
Agriculture	4.8	2.6	23.1
Industry	15.8	7	27.6
Services	7.7	8.8	49.3

Economic objectives and policies for 2013 and the medium term

As Government strives to move the country from a lower middle –income status to a fully fledged middle-income country, it is the intention of Government intends to deliver on the following four pillars underpinning its National Development Programme:

- Putting the People first
- A Strong and Resilient Economy
- Expanding Infrastructure
- Transparent and Accountable Governance

To achieve the above objectives, Government plans to put in place systems and strategies to ensure fiscal and monetary discipline. It is also the intention of Government to support overall average GDP growth through strong infrastructural development, particularly in the Oil and Gas sector.

Medium Term Targets for 2012-2015

Government plans intends to pursue the following medium term (2013-2015) macroeconomic targets:

- An average GDP growth rate of at least 8% per annum
- A single digit rate of inflation
- An overall average budget deficit equivalent to 5% of GDP
- Gross International Reserves that will cover not less than four months of import of goods and services

The macroeconomic targets for 2013 are set out in the table below:

Description	Target 2013
Real GDP growth rate (excluding oil)	6.5%
Real GDP growth rate (including oil)	8.0%
12 month CPI inflation (average)	8.9%
End of period inflation	9.0%
Gross international reserves	Reserves not less than three months of import cover of goods and services
Overall budget deficit	9% of GDP

Debt Sustainability Analysis

The fiscal slippage experienced in 2012 resulted in a mounting debt burden which the 2013 Budget seeks to address. Total public debt at the end of 2012 increased by 23% from US$15.3 billion in 2011 to US$18.8 billion in 2012. The total public debt to GDP ratio as at the end of 2012 was 49.4%, compared to 40.8% at the end of 2011

Overall Summary

To manage the rising debt, Government plans to initiate the following measures:

- Increasing the grant element of concessional debt to not less than 35% of overall debt;
- Exploring hedge options to improve the predictability of debt servicing;
- Securing loan financing for only planned projects
- Broadening the range of instruments offered in the domestic market and extending the yield curve by issuing 7-year or 10 year fixed rate bonds aimed at reducing liquidity in shorter dated instruments, to curb domestic financing.

Petroleum Revenues-Outlook for 2013

Government has projected an amount of US$582 million as petroleum receipts in 2013, compared to receipts of US$541 million in 2012 representing an increase of approximately US$40 million (7%). Government intends to allocate 33% (US$191million) of these receipts to the Ghana National Petroleum Corporation (GNPC), with the balance of US$390 million (67%) constituting the 2013 Benchmark Revenue i.e. allocations to the Annual Budget Funding Amount (ABFA) and the Ghana Petroleum Funds (GPF).

Taxation

The tax proposals in the budget reflect Government's intention to improve internal revenue mobilisation by expanding the tax base and ensuring efficiency in tax administration.

Some of the key proposals and initiatives in this regard are as follows:

Direct taxes

- Finalising and passing into law the Windfall Tax Bill which imposes a windfall tax on mining companies;
- Encouraging business to take advantage of the tax amnesty which commenced in January 2013 and ends September 2013;
- Reviewing and rationalising the prevailing tax exemptions regime available to certain industries and enterprises;
- Proposal to set off tax credits against liabilities in order to cut back on tax refunds due to businesses
- Increasing vehicle income tax rates for public commercial transport owners (trotros and taxis) and improving collection of rent taxes by identifying and taxing defaulting landlords

Indirect taxes

- Increasing the VAT threshold from GH¢ 90,000 to GH¢120,000 and introducing 3% and 6% presumptive taxes on persons who are not required to register for VAT;
- Urging communication services providers to pay arrears of Communications Service Tax while Government revisits the implications of the tax on interconnect calls.

Other measures initiated by Government are as follows;:

- Expanding the personal income tax band and increasing tax reliefs to individuals;
- Increasing the deductible cost of non-commercial vehicles from GH¢25,000 to GH¢70,000;
- Destination inspection at ports to revert to Customs Division of the GRA;
- Airport tax proceeds to be retained by the Ghana Airport Company for infrastructure developments at the airports;
- Imposing environmental excise tax on water sachets and introduction of comprehensive tax system to deal with the environmental pollution;
- Revision of tax policy on over-aged vehicles.

Sectoral Outlook

Highlights of key sectoral programmes and activities outlined in the 2013 Budget to "Sustain Confidence in the Ghanaian Economy" are as follows:

Ministry of Food and Agriculture

Government plans to continue with its drive to modernise farming technology and improve yield for livestock and cash and food crops. Government also plans to sustain Cocoa's contribution to GDP and foreign exchange earnings through disease and pest control.

Consequently, an amount of GH¢44.9 million has been allocated under the Cocoa Disease and Pest Control Programme (CODAPEC) as well as GH¢ 50Million for fertilizer application and improved planting materials for cocoa farmers. There are also plans to develop other cash crops such as Coffee and Shea nut to add to the export basket.

Energy and Petroleum

Government plans to expand and improve the energy and petroleum sectors to serve as the hub of social and economic development demonstrated by the following initiatives it intends to complete in 2013:

- Expansion in generation capacity – The 132MW Takoradi T3 Power Project has been commissioned. The Bui Hydroelectric Power Project will come online with the full capacity of 400MW by December 2013;
- Attainment of 120,000 barrels per day of crude oil production in the Jubilee field – Government is expected to lift seven (7) parcels of crude oil of about 6.6Million barrels;
- Completion of the gas infrastructure project by September 2013.

Ministry of Education

To prosecute a key plank of its National Development Programme of "Putting the People First", Government intends to improve access to basic and secondary quality education by increasing infrastructure such as classrooms to eliminate schools under trees, teachers' accommodation and toilet facilities for public basic schools

50 community-based and 10 colleges of education will also be constructed by the end of 2013 to improve access to secondary education, whilst a Quality Assurance Committee will be set up to ensure tertiary education meets expected standards.

Ministry of Gender, Children and Social Protection

Government intends to address equity and equality, social protection and development of children, vulnerable and disabled persons by continuing the implementation of the Gender Responsive Skills and Community Development Project.

The Ministry will develop a capacity programme to support MDAs, MMDAs, CSOs and the Legislature to formulate and analyse Gender Responsive Budget (GRB), and will also finalise the National Gender Policy, Domestic Violence Legislative Instrument and the Child Protection Policy

Ministry of Health

To attain the Health related MDGs by 2015, Government intends to strengthen the governance and improve the efficiency and effectiveness of the health system by developing a new National Health Policy, a Health Sector Medium Term Strategic Plan and to review and amend the Ghana Health Service and Teaching Hospitals Act, 1996 (Act 525).

Under the National Health Insurance Scheme (NHIS), the Ministry proposes to implement the instant issuance of biometric ID cards and to undertake the upward adjustment in the National Health Insurance Levy (NHIL) to reduce the widening financing gap and extend those within the exemption category.

Ministry of Employment and Labour Relations

As part of its job creation programmes, the Ministry plans to train about 2,400 persons for the Oil and Gas sector out of which 76%-85% will be directly employed by companies operating in the Jubilee fields. Government also plans to implement a Labour Market Information System to provide readily available information for effective planning and deployment of human resources to appropriate sectors of the economy.

INFRASTRUCTURE

Infrastructure continues to remain at the core of economic growth and development as evidenced by the allocation of approximately US$829Million to the development of this sector of the economy. The key areas of infrastructure development in the 2013 Budget are Water Resources, Works and Housing, Transport, Roads and Highways and Communications. Key programmes to be implemented in the infrastructure sector include the following:

Water

- Projects targeted at improving access to water and sanitation in the Upper West, Upper East, Northern, Brong-Ahafo, Central and Western Regions;
- Water supply expansion and rehabilitation projects aimed at the construction of intake facilities, water treatment plants and transmission pipelines.

Housing

- Allocation of US$5 Million for the completion and purchase of residential houses for public sector workers ;
- Construction of storm water concrete drainage systems and widening of drains in selected areas to reduce perennial flooding to safeguard life and property.

Roads and Highways

- Routine and periodic maintenance on 11,199km and 300km of the trunk road network respectively;
- Rehabilitation and improvement of feeder roads to provide access to cocoa, coffee and shea-nut growing areas.

Transport

- Rehabilitation and modernisation of existing railway lines as well as the expansion of existing ports to free up space for commercial vehicles and to meet the demands of the emerging oil and gas industry;
- Restoration of The Kotoka International Airport (KIA) to Federal Aviation Administration (FAA) Category One (1) status and the development of the Tamale Airport;
- Establishment of a National Road Transport Authority to regulate the operations of road transport services.

Communication

- National Digital Broadcasting Migration to pursue the digital broadcasting migration programme;
- Fibre Optic Broadband Backbone infrastructure on the Eastern corridor to accelerate development and access to Information and Communication Technology (ICT);
- Distribution of laptops to Tertiary Institutions to promote an all-inclusive information and knowledge-based society to the benefit of the citizenry.

Ministry of Justice and Attorney-General

Government intends to enhance the operational capacity of the Economic and Organized Crime Office (EOCO), to mitigate economic and financial crimes. In addition, the Commission for Human Rights and Administrative Justice (CHRAJ) under the Anti-Corruption Action Plan (NACAP), will work with stakeholders to improve Ghana's performance on the corruption index while providing training for heads of MDAs, Ministers and MPs on the code of Conduct and Conflict of Interest Rules.

To expand access to justice, Government, through the Legal Aid Scheme plans to provide legal services to the poor and needy. Of particular importance to the speedy dispensation of justice is the plan of Government to fund the extensive use of ICT in all the courts.

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The Economy— "Sustaining Confidence in the Future of the Ghanaian Economy"

Emerging and developing economies made a significant contribution to global economic growth in 2012.

2012 performance within WAMZ economies was constrained by fiscal and financial sector problems in the Euro Zone and the USA, the impact of which was felt through weak demand for exports, and reduced remittances and FDIs.

Ghana achieved the single digit inflation target, but missed targets for external reserves in months of import cover, fiscal deficit excluding grants/ GDP ratio, and central bank's financing of fiscal deficit as a percentage of previous year's tax revenue.

Overview

In 2012, the following key targets were set for economic performance:

- Real GDP (including oil) growth of 9.4%;
- Average inflation of 8.7%;
- End of period inflation of 8.5%;
- Fiscal balance of a deficit equivalent to 6.7% of GDP;
- Gross international reserve equivalent of not less than 3 months of import cover of goods and services.

Provisional data in 2012 indicates the following results:

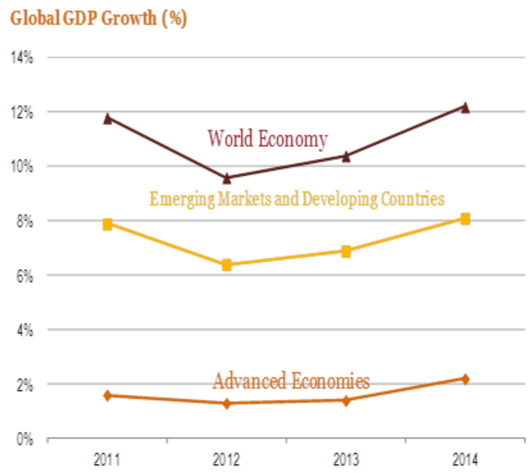
- Real GDP growth of 7.1% (September 2012);
- Average inflation of 8.8% ;
- Fiscal balance of a deficit equivalent to 12% of GDP;
- Gross international reserve equivalent to 3 months of import cover of goods and services.

An examination of 2012 economic results relative to targets indicate the need for Government to improve its economic indicators performance for 2013. To achieve this Government will have to actively pursue its fiscial policies and show more discipline to improve upon its overall fiscal deficit for 2012.

The World Economy

- The IMF's World Economic Outlook (WEO, Jan. 2013) reported 2012 global economic growth to be 3.2%. Comparative growth rate for 2011 was 3.9%. The decline is due to the global economic crisis.
- The global economic crisis is expected to improve in 2013, however, downside risks remain. This includes renewed setbacks in the Euro Zone and risks of excessive near-term fiscal consolidation in the United States following Budget Sequestration;
- Emerging economies led global growth at a moderate 5.1%, helped by relatively high commodity prices. Growth in Sub-Saharan Africa (SSA) was 4.8%;
- An average growth rate of 5.5% is projected for emerging and developing economies in 2013. This is stronger than the 1.4% projected for advanced economies;
- Key risks to emerging markets' growth projections in 2013 remain the weakness in the Euro Zone and concomitant uncertainties in BRIC economies, which are likely to be felt through weakened demand for emerging markets exports.

Source: IMF WEO, Jan. 2013



Without a doubt, the recent problems in Europe and the US have laid bare the need for increased trade within South America, Africa, Asia, and Middle East (SAAAME). It has also highlighted the importance of developing the country's manufacturing sub-sector to provide an assured market for our raw materials. Hopefully, these will be among the broader macroeconomic policy objectives, as Government implements the various initiatives it has identified as part of the 2013 budget execution.

The West African Monetary Zone (WAMZ)

- Preliminary data from the West African Monetary Institute (WAMI) predicted that 2012 average real GDP growth would be slower at 6.9% , compared to 8.7% in 2011
  - The Gambia, Guinea, and Sierra Leone are tipped to be the growth poles

Real GDP growth rates in Ghana and Nigeria declined in 2012 compared to 2011 growth rates.

Ghana and two other WAMZ members posted Balance of Payment Deficits

  - Real GDP growth rates in Nigeria and Ghana were expected to decelerate from 7.2% and 14.4% to 5.9% and 7.1% respectively.

- Average headline inflation in WAMZ increased from 11.6% (2011) to 12.6% in 2012. This was mainly driven by increases in non-food prices

- 2012 fiscal balances for Nigeria and Sierra Leone improved, but deteriorated for Ghana and Guinea. Liberia posted a fiscal surplus

- Ghana, Liberia and Sierra Leone posted Balance of Payment (BOP) deficits; Nigeria, the Gambia and Guinea recorded surpluses.

- Ghana achieved only one of the WAMZ Primary Convergence Criteria via the single digit inflation.

- No WAMZ country met all of either the primary and/or secondary convergence criteria. Overall, macroeconomic convergence criteria ratings of WAMZ countries fell from 79.2% (June 2011) to 62.5% in June 2012

WAMZ countries face real bottlenecks linked to the structure of their economies. There are valid questions about the practicality of the Jan. 2015 deadline for a monetary union.

There needs to be an increased effort by all countries to attain the convergence criteria if the January 2015 deadline is to be met.

The Economy

Government of Ghana to hold stakeholder consultations before concluding on the Economic Partnership agreement between ECOWAS and the EU countries. Negotiations on the terms of the agreement have been inconclusive.

ECOWAS Customs External Tariff (CET)

- Negotiations at the technical level have been completed with an expectation for the ECOWAS CET to be adopted by January 2014;
- The Government believes that implementation of the ECOWAS CET will have little adverse impact on domestic customs revenue;
- Details of changes in the customs regime resulting from adopting the ECOWAS CET will be effected in 2013 via a Bill to be submitted for approval by Parliament.

Economic Partnership Agreement (EPA)

- Negotiations on the EPA between ECOWAS and the EU stalled in 2012, as a result of various disagreements;
- A Ministerial Trade Meeting is scheduled for March 2013 in Praia, Cape Verde, to discuss the areas of divergence in order to move the process forward;
- Government plans to engage all stakeholders before concluding any agreement to protect Ghanaian imports to the EU

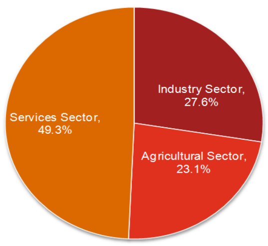
Mindful of the rapidly changing landscape of economic power around the world, Government should also assess the rapid rise of the economies of the BRICS, led by China, as well as those of the Colombia, Indonesia, Vietnam, Egypt, Turkey, and South Africa (CIVETS) region and seek to form valuable economic partnerships or enhance them, where potential the exists. Indeed, as has been established in a recent international survey, trade between the SAAAME markets is growing and bypassing the West. Government should take a cue from this in negotiating EPAs.

Real GDP Growth

- Provisional GDP growth rate amounted to 7.1% for the nine months to September 2012, compared to a full-year target of 9.4%. (2011 annual outturn was 14.4%).
- The economy is projected to grow at a rate of 8% in 2013.

The Economy

Provisional data available as at September 2012, put real GDP growth at 7.1%. Government estimates that for the year to December 2012 real GDP growth would be between 8.5% and 9%.



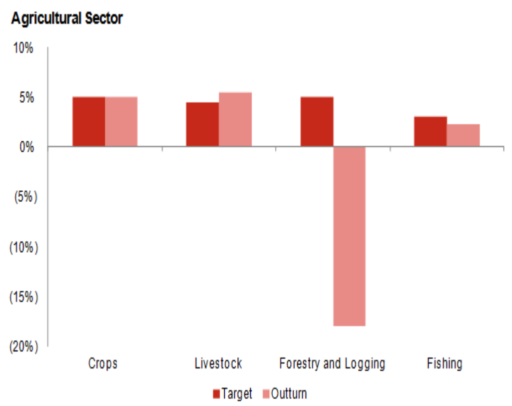
The fall in the year-on-year growth in the Industry sector in 2012 was due mainly to a material contraction in oil and gas production brought about by production difficulties in the Jubilee Field in the first half of the year.

Summary of sectoral performance

Agricultural Sector

- The Agricultural Sector grew at 2.6% in 2012. This was markedly higher than 2011's 0.8%, but still below the 2012 target of 4.8%;
- Agricultural growth was driven by Crops, which was on target at 5%, and Fishing, which reversed a prior year 8.7% decline to post 2.3% growth.

Considering the strategic importance that agriculture has for the socio-economic environment of Ghana, it is vital that Government manages its programmes in this economic segment well, in order to achieve the associated goals of poverty reduction, wealth creation and employment creation. It is heartwarming that the President noted in his State of the Nation Address that more coherence is being brought to fisheries and aquaculture development—this segment of the sub-sector faltered for a while—provisional outturn of 18% drop in the nine months to September 2012, and 14% contraction in 2011.



Unfortunately, no such policy initiatives or programmes were articulated in the President's Address for the Forestry and Logging sub-sector, which declined significantly over the past two years. Government has noted that it is aware of what the underlying problem for the decline is and has outlined initiatives being implemented to provide a solution. Our suggestion is for Government to ensure that effective Monitoring and Evaluation (M&E) and performance management systems are implemented along with these initiatives to optimise the resources being expended to revive growth in a sector with such high value potential.

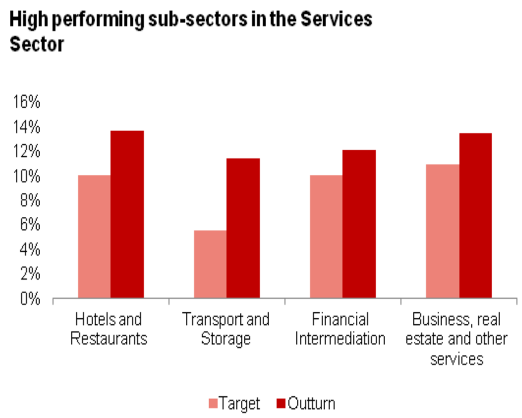
Industry Sector

- The Industry Sector recorded a growth rate of 7% in the nine months to September 2012 against a full year target of 15.8%. (2011 annual outturn was 41.1%).
- The Industry Sector was the second largest sector contributor to GDP in 2012, i.e. 27.6%.
- In 2012, output from the Oil & Gas segment output from the Oil &Gas segment of the Mining & Quarrying sub-sector contracted by 5% relative to the previous 12 months to December 2011. This was a significant deviation from the full year target of 32.6% growth. In 2013 however, O & G segment is projected to grow by 43%.
- The 2013 target growth rate for the industry sector is 8.7% (including oil).

Based on the data presented by Government, we would agree with the assertion made that the Industry sector has sound fundamentals, as the material contraction in O&G output failed to make a significant dent on the sector's overall growth rate. However, the rest of the data supporting industry growth is rather too ambitious particularly the Electricity sub-sector. Even though electricity is vital for powering manufacturing and fabrication industry, the sector has been faced with wide challenges since the third quarter of 2012. This re-emphasises the importance of implementing deliberate strategies to fix the electricity generation deficit permanently. It is a relief to note that all of MCA Compact 2 has been allocated towards power generation. We cannot stress enough the potential impact the multiplier effect is likely to have on the economy as a whole.

Services Sector

- Provisional data estimates growth of 8.8% at September 2012, compared to a target of 7.7% (2011 outturn—8.3%).
- Four sub-sectors drove the growth, as illustrated in the graph below:



Ghana's transition from an agric-dominated economy to a service oriented one has been sudden. A key concern about this transition has been that the Services Sector lacks the capacity to generate as many jobs as the agricultural sector would and might focus mainly on those meeting some minimum educational standards. Gainful and effective employment within the Services Sector would require a minimum level of education and training.

Government clearly recognises the essence of skilled labour to service the Oil & Gas sub sector and has accordingly provided support for several thousands of people, including the youth to be given appropriate training and vocational education to be able to ply their trade within the broad Services Sector. Our view is that it is very important that these programmes are designed to lead to the establishment of partnerships—even across multiple economic sectors/ industries—instead of single proprietor enterprises, many of which fail to create the impact in terms of generating employment and creating value added. Over time, such local small partnerships could be supported to become the nucleus of the SME community that is commonly described as the engine of broad-based growth.

Total revenue for 2012 was 1.5% below budget with expenditure 17.2% over budget, resulting in an overall budget deficit of 12% of GDP.

Domestic revenue accounted for 93% of total revenue in 2012.

Tax revenue was below budget as a result of non payment of taxes by some corporate institutions including oil companies.

The 6.7% improvement in non-tax revenue relative to budget was accounted for mainly by higher internally generated funds from MDAs

The 25% decline in disbursements from Development Partners has been due to the low growth rates of some large economies.

Fiscal Performance

	2012		
	Budget GH¢million	Outturn GH¢ million	% Change
Total Revenue	16,928	16,669	-1.5%
Total Expenditure and Arears Clearance	21,597	25,317	17.2%
Overall Fiscal Balance	-4,669	-8,649	85.2%
Domestic Revenue	15,378	15,508	0.8%
Tax Revenue	12,584	12,517	-0.5%
Non-Tax Revenue	2,673	2,853	6.7%
Others	121	138	13.8%
Grants	1,550	1,160	-25.1%
Total Revenue	16,928	16,669	-1.5%
Total Expenditure	19,036	20,945	10.0%
Recurrent	13,063	15,973	22.3%
Capital	5,972	4,971	-16.8%
Arrears Clearance	2,561	3,830	49.5%
Discrepancy	-	543	0.0%
Total Expenditure and Arrears Clearance	21,597	25,317	17.2%

Source: 2013 Budget

For the 2012 fiscal year, total revenue and grants was below budget by 1.5% with expenditure 17.2% higher than budget. This resulted in an overall fiscal deficit equivalent to 12% of GDP against a target deficit of 6.7% of GDP.

Revenue

- 93% of total revenue and grants in 2012 was generated from the domestic market with the remainder emanating from Grants.
- Tax revenue was below budget by 0.5% resulting mainly from lower company taxes due to non payment of taxes by some corporate institutions, including oil companies.
- Non-tax revenue for 2012 was higher than budgeted as a result of higher internally generated funds retained by MDAs.
- Disbursements from Development Partners was 25.1% below budget. The decline in grants received has been to low growth rates in the economies of Donor Partners, leading to a resultant cut in grants from these economies.

Government will have to improve domestic revenue mobilisation efforts in 2013 in order to reverse this trend and subsequently reduce/ eliminate the budget deficit.

Expenditure

Total expenditure was 17.2% higher than the budget and 64% higher than the outturn for 2011. The marked increase in expenditure was due mainly to higher recurrent expenditure and increased clearance of arrears.

- Recurrent expenditure for 2012 was 22.3% above budget. The higher expenditure resulted principally from higher levels of personal emoluments, higher payment of utility and fuel subsidies, higher interest costs and higher spending on goods and services.
- Total capital expenditure for 2012 was 16.8% lower than budget but 28.7% higher than the 2011 outturn. The lower than budgeted spending was mainly on account of lower foreign-financed capital spending. This resulted from the low disbursement of project loans and grants from development partners including low disbursements from the China Development Bank (CDB) facility.

With 2012 expenditure being 17.2% above budget, Government will have to employ short to medium term strategies aimed at instilling fiscal discipline and cash management to ensure that spending is kept within budgetary limits.

Fiscal Deficit

Government plans to reduce budget deficit from 12% of GDP in 2012 to 9% of GDP in 2013.

An overall budget deficit of GH¢8,648 million, equivalent to 12% of GDP was recorded in 2012 against a target deficit of GH¢4,669 million representing 6.7% of actual GDP.

In 2013, Government plans to reduce the budget deficit to 9.0% through improved revenue mobilisation and other initiatives as summoned. Specifically, its fiscal policy will focus on:

- Resourcing the GRA to improve efficiency in revenue collection;
- Ensuring transparent, effective and efficient natural resource revenue management, including oil and gas revenue management;
- Continuing with on-going reforms to strengthen public financial management.
- Management of fiscal risks; and
- Cash management to ensure that spending is kept within budgetary limits.

Given Government's revenue and expenditure estimates, the 2013 Budget indicates an overall deficit of GH¢8,010 million, equivalent to 9.0% of GDP.

We note that financing the deficit will be from both domestic (6.2% of GDP) and foreign (2.8% of GDP) sources. Financing the deficit from domestic sources (i.e. through borrowing) has the potential of a "crowding" out effect, leading to higher interest rates on the domestic market. It is therefore in the right direction that Government intends to finance the capital component of the budget preferably from the international capital market in order to ease the pressure on the short-end of the domestic treasury market. However, this will require a lot of discipline in ensuring that finance secured from the international capital market is used to finance the capital budget/ deficits.

If Government is to raise finance on the international capital market as indicated, it will need to work at improving its credit rating and assure the investor community that it will be able to keep the budget/ fiscal deficit at a reasonable level.

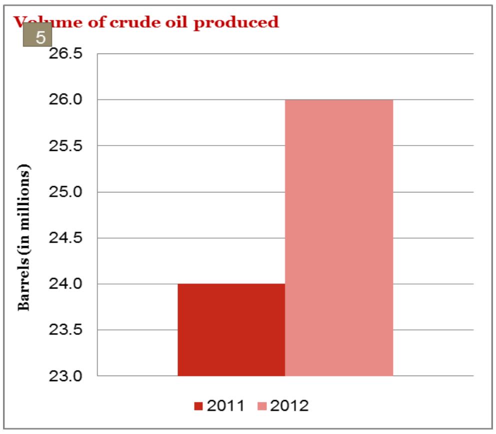
Total volume of crude produced in 2012 was 26.4 million barrels, representing approximately 8% increase over 2011 output

Petroleum receipts from GNPC increased by 23% in 2012 as compared to 2011.

Oil and Gas

Petroleum receipts:

- Total volume of crude produced in 2012 was 26.4 million barrels, representing approximately 8% increase over 2011 output
- GNPC lifted 4.9million barrels (five liftings) in 2012, compared to 3.9 million barrels (four liftings) in 2011
- GNPC generated US$541 million (GH¢ 978 million) from 2012 liftings (US$444 million: GH¢690 million in 2011), representing an increase of 23%



Source: 2013 Budget Statement and PwC Analysis

Petroleum receipts from GNPC increased by 23% in 2012 as compared to 2011.The resolution of initial production difficulties experienced in the Jubilee Field accounted for the increase in the production volumes.

Composition of petroleum receipts	2011	2012	% Change
	US$ million	US$ million	
Royalties	122.9	150.6	22.5%
Carried and participating interest	321.1	390.4	21.6%
Surface rentals	-	0.448	n/a
Royalties from Saltpond Offshore Producing Limited	-	0.104	n/a
Total	**444.0**	**541.6**	**22%**

Source: 2013 Budget Statement and PwC Analysis

Distribution of Petroleum Receipts	2011	2012	% Change
	US$ million	US$ million	
Transfer to GNPC	207.9	230.9	11%
BoG net receipts for distribution to Annual Budget Funding Amount (ABFA) & Ghana Petroleum Funds (GPFs)	236.1	310.6	32%
Total	**444.0**	**541.6**	**22%**

Source: 2013 Budget Statement and PwC Analysis

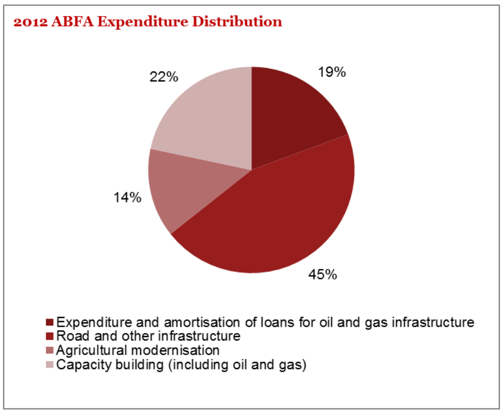
Priority expenditure areas for the ABFA in 2012 (amounted to GH¢ 516.8million). Under Section 21(5) of the Petroleum Revenue Management Act ("PRMA"), 2011 (Act 815) are as listed below:

- *Expenditure and amortisation of loans for oil and gas infrastructure*
- *Road and other infrastructure*
- *Agricultural modernisation*
- *Capacity building (including oil and gas)*
- *Allocation to the Ghana Petroleum Funds (CPF)*

Utilisation of the Annual Budget Funding Amount ("ABFA")

- The ABFA is part of the National Budget and is treated as part of the Consolidated Fund
- Priority expenditure areas for the ABFA for the period 2011 – 2013 per Section 21 (5) of the Petroleum Revenue Management Act ("PRMA"), 2011 (Act 815) are as listed below. Actual 2012 spend was as indicated:
  - ♦ Expenditure and amortisation of loans for oil and gas infrastructure (GH¢100 million)
  - ♦ Road and other infrastructure (GH¢232 million)
  - ♦ Agricultural modernisation (GH¢ 72 million)
  - ♦ Capacity building *(including oil and gas)* (GH¢112 million)

In 2012, 'road and other infrastructure' received the highest ABFA funding allocation.



Source: 2013 Budget Statement and PwC Analysis

- 76% of 2012 ABFA was spent on public investment expenditure, greater than the minimum 70% prescribed by Section 21 (4) of the PRMA
- 24% of 2012 ABFA was spent on goods and services

The four approved priority recipient areas of ABFA are due for review in 2013 for the 2014 fiscal year.

- 2012 allocations to ABFA were lower than expected; US$286.55 million (GH¢516.83 million) compared to a target of US$383.52 million (GH¢614.55 million), representing a 25% shortfall
- The deficit was a result of shortfalls in corporate tax receipts and oil production targets.

Utilisation of the Ghana Petroleum Funds ("GPFs")

- 70% of the GPFs were allocated to the Ghana Stabilisation Fund ("GSF"), amounting to US$16.88 million (GH¢ 31.92 million) in 2012;
- 30% of the GPFs were allocated to Ghana Heritage |Fund ("GHF"), amounting toUS$7.24 million (GH¢13.68 Million) in 2012.

Apart from GNPC, the Government has not been able to generate any revenue (corporate tax) from the four other companies with interests in the Jubilee Field – Tullow, Anardarko, Kosmos and Sabre Oil and Gas. This is because profits made by these companies are used to offset the investments made prior to the commencement of production. This coupled with a decline in production output from the field has adversely impacted Government's expected tax revenue from oil companies.

Initial difficulties experienced such as mechanical issues and complications relating to the design of the well completions have been advanced by analysts as some of the reasons for the non-achievement of production targets.

In light of the above, the Government should plan around being more conservative in its revenue expectations as it honours commitments to oil companies.

The Economy

There was a year-on-year drop in growth of broad money supply by about 9%

Inflationary pressures remained largely subdued by low food prices

Inflation has remained in single digit since May 2012

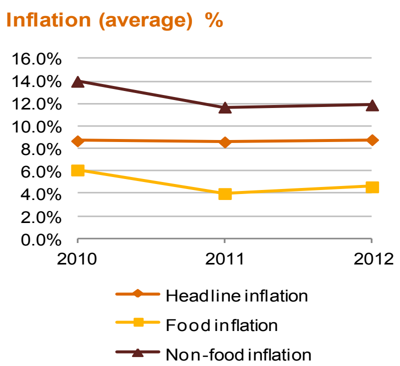
Monetary Sector

- Broad money supply including foreign currency deposits (M2+) grew by 24.3% in 2012, compared with 33.2% in 2011.
- By end December 2012, M2+ equalled GH¢ 22,620.5 million, compared with GH¢ 18,195.1 million at the end of 2011.
- 2012 Net Foreign Assets (NFA) of the banking system declined by 9.1%. NFA grew 37% in 2011 year-on-year
- Net Domestic Assets (NDA) of the banking system grew by 51.9%, compared with 30.4% in 2011.
- Credit extension by the banking sector to both the public and private sectors in 2012 went up by 39.3%. In 2011, the growth was 17%.
- 2012 private sector credit was GH¢11,478 million, amounting to 88% of total outstanding credit, and representing a 34.1% growth from 2011. 2011 growth was 26.3%
- In real terms, private sector credit grew at 23.2% in 2012, compared to 16.3% in 2011.

The slower growth in broad money may be attributed to the higher rates for Treasury Bills and Government notes and bills, which make them more attractive than demand deposits or savings. With Government having bid up lending rates through their activities in the Open Market Operations, credit to the private sector became more expensive. Our concern is that the private sector is currently challenged by unreliable supply of electricity as well as rising energy costs. A further hike in interest rates is likely to erode returns on private sector investments and their ability to service debts. To avoid NPLs increasing again, Government should reduce its reliance on domestic debt market.

Inflation rate

- Headline inflation inched up from 8.6% in 2011 to 8.8% in 2012.
- Although end of period inflation missed the target of 8.5%, it remained within the target band of 8.5±2%.
- In 2012, inflationary pressures remained largely subdued by low food price increases explained by seasonal factors. Food inflation peaked at 5.5% in July 2012, but declined to end the year at 4.6%.



Source: Ghana Statistical Service (GSS) & BoG

The Cedi was fairly stable against major trading currencies during the last quarter of 2012 as a result of the introduction of certain monetary policies by the Bank of Ghana

Relative to lending rate in 2011, average bank lending rates declined leading to significant increase in credit growth particularly to the private sector

- Partly reflecting the exchange rate pass-through, non-food inflation also increased to 11.9% in August 2012, but thereon declined to 11.6% in December 2012.

Government's efforts to keep inflation at single digit given the challenges such as high fiscal deficit and pressure on the local currency is worth noting.

Interest rates

- Interest rates on 91-day and 182-day bills went up from 10.7% and 11.3% to 22.9% and 22.88%, respectively, end of December 2011 and end of December 2012. Similarly, rates on 1-year and 2-year fixed notes increased from 11.3% and 12.4% at the end of December 2011 to 22.9% and 23% at the end of December 2012, respectively.

- The long-dated instruments such as 3-year and 5-year bonds also rose from 14% and 14.3% at the end of 2011 to 24% and 23%, respectively.

- The Interbank weighted average rates moved up from 6.6% (2011) to 17.1% in 2012. The average 3-month deposit rate of deposit mobilisation banks also went up from 7.8% in December 2011 to 12.5% in December 2012.

- The average bank lending rates, however, declined from 25.9% in December 2011 to 25.7% in December 2012, effectively narrowing the interest rate spread to 13.2% in December 2012, compared with 18.2% in the same period of 2011.

In a relatively low inflation environment as the country is experiencing now, "low cost" lending would help to provide business with the impetus for rapid growth. The concerns of banks with regard to default risks should however be taken into account when solutions are being considered.

Exchange rates

- Between January 2012 and May 2012, the value of the Ghana Cedi fell in the face of intense demand pressures for foreign exchange fuelled by strong import demand and premature redemption of portfolio investments by non-residents.

- The Ghana Cedi depreciated on the Interbank Market by 17.5% against the US dollar, compared to 4.97% in 2011.

- Introduction of policy measures by BOG led to a moderation of the volatility in the foreign exchange market. These interventions included:

  - Policy rate hikes
  - Introduction of new bills to mop up excess liquidity
  - Close monitoring of foreign exchange market activities.

The BOG interventions, worked swiftly and effectively to curtail the slide of the Cedi. However, the country needs a more fundamental and structural economic model solution to the currency volatility problem. Government should also implement initiatives to encourage the establishment of more value added export oriented businesses.

External Sector

- 2012 trade deficit was US$4,221.4 million, compared US$3,052.3 million in 2011.
- Earnings from merchandise exports was US$13,541.4 million, compared to US$12,785.4 million in 2011, driven by gold, crude oil, and cocoa beans and products.
- 2012 imports was US$17,762.8 million, compared to 2011's US$15,837.7 million.
- The balance of payment deficit more than doubled for 2012 at US$1,210.9 million (2011—deficit of US$546.5 million).
- 2012 Current account deficit was US$4,921.5 (12.3% of GDP), compared to 2011's US$3,541.4 (9% of GDP). In comparison, the capital and financial account fell to US$3,090.5 million in 2012, from US$4,479.3 million in 2011

Gross International Reserves

- Gross International Reserves was provisionally estimated at US$5,348.9 million as at end of 2012, equivalent to 3 months of import cover. (2011—US$5,474.6 million, equivalent to 3.2 months of import cover).
- Provisional results for 2012 indicates that the balance of payment deficit more than doubled at US$1,210.9 million (2011—deficit of US$546.5 million).

As Government plans to maintain an import cover of not less than 3 months for 2013 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.

Financial Stability

- The key external risk faced by the financial system was the weakness in the Euro area banking system, which materialised in the form of drying up of credit lines.
- Key domestic threats were posed by the weak cedi, high non-performing loans (NPLs) on banks' books, and extensive government domestic borrowing that pushed interest rates high and crowded out the private sector.
- Bank of Ghana implemented sound remedial measures to contain the situation in the financial services sector.
- Additionally, other banking industry-wide initiatives that had been executed well ahead of the instability in the currency market had helped to create a cushion that enabled the industry to withstand the shocks, e.g. higher minimum capital requirements.
- Other segments of the financial services sector—insurance, capital markets, and pensions experienced growths from different sources that made them stronger in 2012. For instance, the implementation of the three-tier pensions reform led to an expansion in the size of funds under management.

The continued threats to the stability of the financial services sector from local and global events should not be overlooked. Government in partnership with the private sector and the country's development partners (e.g. World Bank and IMF) should conceptualise and design programmes and projects to be executed in the financial services and banking sectors to deliberately and proactively manage potential risks or threats that the sector would constantly face.

Support should be given for the introduction of innovative products aimed at mobilising "new money" in the system.

Total public debt as at the end of 2012 amounted to US$18,832.8 million, compared to US$15,350.1 million at the end of 2011, representing a 23% increase.

As at the end of 2012 the total public debt to GDP ratio was 49.4%, compared to 40.8% at the end of 2011

New loans amounting to US$2,286.2 million, US$1,089.8million (47.7%) concessional and US$1,196.5million (52.3%) non-concessional were used to finance various infrastructural projects in the roads, energy and aviation sectors.

The debt service-to-revenue ratio is projected to average about 9.1% of GDP between 2013-2018 from 7.5% as at end of 2012.

Public debt

- Total public debt as at the end of 2012 amounted to US$18,832.77 million, compared to US$15,350.08 million at the end of 2011, representing 23% increase.
- As at the end of 2012 the total public debt to GDP ratio was 49.4%, compared to 40.8% at the end of 2011.
- The increase in public debt was largely due to the issuance of longer dated debt instruments (3 year and 5 year bonds) and increased non-concessional borrowing for infrastructure projects
- 2012 domestic debt was 30% higher than 2011.
- 2012 external debt formed 47% of total public debt; domestic debt accounted for 53% of total public debt.

New Loan Commitments

- New loans amounting to US$2,286.24 million, US$1,089.75 million (47.7%)concessional and US$1,196.49million (52.3%) non-concessional were used to finance various infrastructural projects in the roads, energy and aviation sectors.

Trends in Public debt 'US$ millions'						
	2010	**% of total**	**2011**	**% of total**	**2012**	**% of total**
External Debt	6,255	52	7,653	50	8,836	4%
Domestic Debt	5,683	48	7,697	50	9,997	53%
Total debt	**11,937**	**100**	**15,350**	**100**	**18,833**	**100%**

Source: 2013 Budget Statement

Sector	**%**
Water Resource Works and Housing	26
Energy	25
Health	13
Agricultural	12
Other	24
Total	**100**

Sectoral allocation of 2012 new loan

Source: 2013 Budget Statement

Debt sustainability Analysis

- Public external debt burden indicators remained below their respective thresholds as indicated in the Ministry of Finance and Economic Planning ("MoFEP") and World Bank debt assessment exercise for the year 2012.
- Per the assessment, Ghana remains within the category of moderate risk of debt distress.
- The debt service-to-revenue ratio is projected to average about 9.1% of GDP between 2013-2018 from 7.5% as at end of 2012.

Government should ensure that the Total Public Debt (TPD) percentage of the GDP is kept within expected limits.

Debt Management Strategy ("DMS")

- Government will drive fiscal consolidation and revenue mobilisation, with support of the stable economic growth.
- The strategies the Government intends to adopt in 2013 for managing external debt includes increasing the grant aspect of the concessional debt to not less than 35%, exploring hedge options to improve predictability of debt service and securing loan financing for only planned projects.
- Broadening the range of instruments offered in the domestic market and extending the yield curve by issuing 7-year or 10 year fixed rate bonds aimed at reducing liquidity in shorter dated instruments.

Government should strictly comply with the DMS outlined to ensure that TPD does not reach unsustainable levels. Since Ghana is a middle income country, Government should make the economy attractive enough to source for loans at competitive rates.

The Economy

End period inflation for 2013 is projected at 9% and Government expects to maintain single digit inflation over the next three years.

Government has targeted an overall budget deficit of 9% in 2013 with further decline to 5% by end of 2015

Macroeconomic Targets for 2013

- Real non-oil GDP growth of 6.5%
- Real overall GDP growth including oil of 8%
- Average inflation of 8.9%
- End period inflation of 9%
- Overall budget deficit equivalent to 9% of GDP; and
- Gross International Reserves of not less than three months of import cover for goods and services

Medium Term Real GDP Growth Projections

Item	Including Oil (%)		
	2013	2014	2015
GDP	**8.0**	**8.7**	**8.9**
Agriculture	4.9	5.8	5.8
Industry	8.7	9.6	9.2
Services	8.5	8.9	9.4

Source: Ministry of Finance

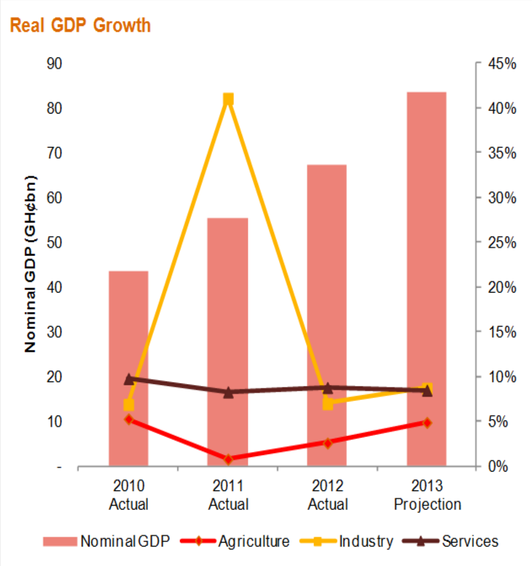
Based on the policies and strategies to be pursued by Government in the medium term, the economy is projected to grow at not less than 8% from 2013 to 2015. This according to Government is as a result of the envisaged investments in the non-oil sector.

On annual basis, it is projected that the non-oil GDP will grow by 6.5% in 2013 and increase further to 8.9% in 2014 and 9.4% in 2015.

Medium-Term Targets for 2013—2015

The specific macroeconomic targets to be pursued for the medium-term will include:

- An average GDP growth rate of at least 8% per annum;
- A single digit rate of inflation
- An overall average budget deficit equivalent to 5% of GDP; and
- Gross International Reserves covering not less than four months of import of goods and services



Source: MoFEP Budget Statement 2013

The projected 2013 growth of 8.7% in the industry sector takes account of a 15% growth in the Electricity sub-sector compared to 12% growth in 2012. Caution must be exercised in projecting the performance of the industry sector particularly as the country is going through an energy crisis which could potentially affect growth in the electricity and other productive sectors in 2013. This situation could be similar to that which was experienced in 2007 when the electricity sub-sector recorded growth of 17.2% leading to a relatively low GDP growth of 6.5%.

Internally generated tax and non-tax revenue to increase from 16% to 20%.

Government recognises the need to mobilise revenue internally through taxation. In the President's State of the Nation Address, the President charged the Ghana Revenue Authority and other agencies to assist in raising tax and non-tax revenues from the current level of 16% to GDP to above 20%. The budget seemed to reflect the same position.

The tax proposals in the budget cover two main areas: expansion of the tax base and ensuring efficiency in tax administration.

Proposal to reform and consolidate tax laws.

Aside specific tax proposals, Government plans to continue pursuing tax reform initiatives announced in the 2012 budget of consolidating and harmonising tax laws by proposing to the following new bills to amend existing tax laws:

- The Revenue Administration Bill,
- The Value Added Tax (VAT) Bill,
- The Income Tax Bill,
- The Customs Bill, and
- The Excise Bill

Currently most of these existing laws are over 10 years old and seen several amendments which are increasingly becoming difficult to monitor. There are also several provisions in these existing laws that need to be amended to reflect the modern and futuristic way of doing business in a technological innovative world. Further, the ultimate goal of consolidating revenue laws should be to have a revenue code which will combine all these separate bills into one law. Having a consolidated code can contribute towards building investor confidence in the tax systems of Ghana – which aligns with the main theme to the budget of sustaining confidence in the future of the Ghanaian economy.

Considerations to increase revenue mobilised internally – taxation of vehicle owners cited.

Personal income tax rates and reliefs

Expansion of personal income tax bands and increase in personal tax relief amounts.

Government has proposed to increase personal income tax bands to reflect increases in inflation rate, the impact of real increases in GDP on personal incomes and the loss in purchasing power.

Effectively, each band would increase by 10%. Government effort towards mitigating effects of the eroding real purchasing power of individual is commendable. However, there may be questions around whether the expansion of the band (as opposed to reduction in rate applicable to lower portions of income) best provides the desired effect.

In addition to the expansion of bands, the personal tax reliefs available to individuals have been increased**.** Government appears to be encouraging individuals to take advantage of available tax reliefs by filing their individual tax returns.

This proposal seems to suggest that reliefs are to be claimed through the return filing process. At present, existing practice on claiming reliefs allow for an individual to take advantage of these reliefs upfront through monthly payrolls. Further, individuals earning only employment income are not required to file tax returns. By the budget proposal, one is not sure whether Government is seeking to amend existing law to make employees, who solely earn employment income, to begin filing returns. Perhaps, Government is seeking to use registration and filing of returns as a step to widening the tax base.

Vehicle Income Tax

The budget also considers increasing vehicle income tax rates for commercial transportation (taxis and trotros).

The incidence of the tax is on the owner of the vehicle and not the driver.

Owners of vehicles may however opt to file income tax returns in which case they may benefit from capital allowances and any personal reliefs.

Again such registration brings the tax payer into the tax net.

No changes to existing corporate tax rates.

However, the budget does not mention on the taxation of drivers who are not owners of the vehicles they may be driving. GRA may wish to consider having guidelines around taxation of such drivers as Government embarks on revenue generation.

It does appear that Government or GRA acknowledges that owners and drivers, because of vehicle and driver documentation requirements, can be traced and hence could be easy targets for taxation. Government should be charging GRA to get other trade associations to encourage their members to register. Perhaps the formation of more trade associations and cooperatives could be a way to as to broaden the base of stamp tax. GRA may consider working together with the municipal and district assemblies such that the issuance of permits, right to trade, protection etc be linked with membership of a trade association.

Non-commercial vehicle cost (for capital allowance calculations) now set to a limit of GH¢ 70,000

Considerations to increase revenue mobilised internally – taxation of landlords cited.

Withholding tax on rents

Government intends to improve collections connected to the taxation of rent. In solidarity with Government's bid to reduce the housing deficit, the budget bemoaned the conversion of residential accommodation into commercial ones.

This may however have had a beneficial effect for Government's revenue collection as entities are able to withhold taxes on payments to the landlords; while individuals cannot withhold tax.

Windfall tax bill to become law in 2013.

There is the question of whether government will increase rent tax rates on commercial property as a means to encouraging provision of residential accommodation.

Further, the ongoing exercise of naming streets and numbering premises could help locating any defaulting landlords.

Corporate taxes

The budget has no indications of immediate increases in corporate tax rates.

However, the document appears to suggest that the proposed reviews of the tax laws could result in effective tax rate increases as a result of determining what inclusions of incomes and deductions will be allowed for tax purposes.

Aside of the rates, Government seems to have particular interest in curbing transfer pricing abuses and rationalising tax deductions claimed by tax payers.

Capital Allowances

There is a proposal to increase the deductible cost of non-commercial vehicles from GH¢ 25,000 to GH¢ 70,000. However this is limited to brand new vehicles with capacity not exceeding 1.8 cc.

It would be expected that the bill that amends the tax act for the new threshold to become effective will contain some guidance regarding whether the restriction will cover non-commercial motor vehicles that exceed the 1.8cc; whether there would be some pro-rata basis to dealing with this; or the currently existing threshold will only be applicable to vehicles that do not fall under the proposed category.

Windfall Profit Tax

As Parliament has not passed the windfall tax bill, there is an indication of further revisions to the bill following recommendations on the taxation of mining companies from civil society groups and a review of all stability agreements.

It appears that the Government is keen to pass this law given that this tax was mentioned in the previous (2012) budget statement. As was mentioned in the budget, the Chamber of Mines and mining companies continue to share concerns around the approach to calculating the tax but these concerns seem not to have been addressed in the latest bill.

Tax Amnesty

Taxpayers encouraged to take advantage of on-going Tax Amnesty.

The tax amnesty is on going and will continue until September 2013. The focus of Government seems to be persons in the informal sector especially persons in the real estate sector receiving rental income.

We applaud Government on the Tax Amnesty initiative. The short-term benefit is that Government can quickly raise tax revenue in 2013 to support its operations or at least reduce the existing deficit. In a medium to long-term (and with improvement in tax administration), this could be a way to identify, register and tax most small enterprises and individuals that have been outside of the tax net. To accomplish intended objectives, Government should be encouraged to extend the amnesty to cover other tax areas particularly indirect taxes. At present, the Tax Amnesty Act only guarantees waiver of penalties on direct taxes.

Entities are encouraged to take advantage of this opportunity to declare their outstanding taxes to avoid any punitive measures that may be taken by the Government after the Amnesty period.

Tax Refunds

Proposal to set off taxes due to taxpayers against tax liabilities from other taxes.

As part of the bid to cut back on the time taken to pay VAT and duty drawback refunds, there are proposals for 2% of all GRA's revenue to be set aside for the payment of these refunds.

No mention is made of the refund of other taxes and the question that arises is whether the funds to be set aside will also be used in paying back credits arising from other tax types aside those specifically mentioned.

The ultimate aim is for the GRA is to improve its systems to enable taxpayers to offset credit of various tax types with each other.

If implemented, this would help resolve cash flow challenges for many tax payers and should be prioritised.

There are questions around whether the 2% would be sufficient and how much of Government commitment will be seen in this area given it was indicated in the 2012 budget and was not implemented before the year ended.

Airport Tax

Ghana Airport Company to retain all proceeds of airport taxes

The budget has proposed that this tax should be retained by the Ghana Airport Company rather than shared with the GRA. We see this to be an initiative in mobilising revenue from sources within the country in developing airports in Ghana. Government initiative aligns with its aim to improve infrastructure at the country's airports which is struggling to cope with the growing local and international passenger volumes. The challenge for Government will now be to ensure that the Ghana Airport Company channels the additional funding into infrastructure development and maintenance as against funding recurrent expenditure including personal emoluments of staff and management.

Communications Service Tax (CST)

A review of CST Contemplated whicle Telecommunications companies are encouraged to settle outstanding taxes.

The budget made an indication that Government had come to appreciate the issues regarding CST on interconnect and that amendments may be made to the CST law in consultation with the industry.

In acknowledging this, the proposals seem to suggest that any amendments being considered should not result in loss of revenue to the State.

Chances are that a higher CST rate or a wider tax base for determining CST may rather be implemented. Until an amendment or revised act is passed, it is unlikely that the position of Government on this issue will change.

Government to reassess existing tax exemptions regimes

Revision of VAT threshold; possible increase in rate of NHIL.

Increase in VAT Threshold

There is a proposal to increase the VAT threshold from the current GH¢ 90,000 to GH¢ 120,000 over a 12 month period. Connected to this are two other proposals for persons making taxable supplies below the threshold of GH¢ 120,000 to pay a presumptive tax of 6% of revenue; while others who make non taxable supplies pay a presumptive tax of 3%.

There are a few questions (which we hope will be addressed when the amendment bill is passed):

- *Whether the presumptive tax at 6% will be treated as VAT or corporate income tax;*
- *Whether the companies that pay presumptive tax at 6% will be able to claim a credit for their deductible input VAT (from the budget, it does not seem this will be the case as the presumptive tax may not qualify as VAT);*
- *Whether all such entities that make non taxable supplies including those that pay stamp taxes, will be subject to presumptive tax at 3% and if so, will the stamp tax be creditable;*
- *Whether the presumptive tax will replace corporate income tax for the companies that are required to pay 6% presumptive tax;*
- *Whether companies that qualified under the previous threshold for VAT but not under the new threshold would be required to deregister.*

In the policy sections of the budget, a proposal is made to increase the National health Insurance Levy (NHIL) rate to meet the increased benefits demands under the national health insurance scheme.

This would effectively result in an increased VAT rate as the two are administered together.

Tax Exemption

Government proposes to review the prevailing tax exemptions regime in order to understand whether the benefits derived are worth the loss in tax revenue.

In the past, such exemption regimes have been used as a tool for attracting investors into particular sectors of the economy. These largely depend on Government focus at the time. These rules are usually embedded in investment and tax laws. It is worth noting that some of these exemptions continue to be relevant as the sectors they relate to still need support to develop, an example is farming. Therefore, Government needs to carefully monitor incentives to see if they are providing the intended economic benefits.

Customs Destination Inspection to revert to the Customs Division of GRA.

Increase in environmental tax to fight environmental menace.

Move to harmonise Customs regime with other ECOWAS member states by January 2014.

A relook at the overage vehicle importation regime; possible abolition of import on overaged vehicles.

Customs Assurance / Destination Inspection

The 2012 budget proposal discussed planned for GRA to broaden the coverage of the database of prices of goods imported into the country. This was intended to serve as a basis for comparison with the Final Clarification and Valuation Report (FCVR) issued by the Destination Inspection Company.

In line with new thinking of the World Trade Organisation (WTO), Government now proposes to discontinue the use of pre-shipment destination inspection as a basis for import valuations, and quantity and quality inspections once the existing contracts expire and to have Customs Division of GRA assume full responsibility for valuation, quality and quantity inspection of imports.

The main concern is whether Customs would be well equipped to carry out destination inspection. Further, with the introduction of Transfer Pricing Regulations in September 2012, there have been questions about whether customs valuations of goods should suffice as arm's length prices. The proposed arrangement of now having GRA directly involved in valuations may support the view that such valuation should suffice. Alternatively, it can be expected that there would be significant sharing of information within GRA in order to minimise differing views on arm's length prices of goods during GRA audits.

ECOWAS Common External Tariff

The budget also comments on the progress of the adoption of an ECOWAS Common External Tariff (CET). The expectation is for member states to adopt the ECOWAS CET by beginning of January 2014.

The possible positive effect may be that the cross border charges within the sub-region will be standardised. It will also be easier to apply the charges on imports outside the sub-region.

This proposal follows from the 2012 budget proposal (now implemented) to move from the HS Code 2007 to HS Code 2012.

Environmental tax

The budget appears to identify the water sachet menace and proposes to submit proposal to review the tax regime.

Beyond the proposals to address plastic waste problem, the government aims to introduce a comprehensive tax system to deal with environmental challenges. The Government aims to raise environmental tax to increase revenue that would be used to fund waste management projects. An environmental fiscal reform group has been formed to look at various ways to raise revenue.

We can therefore anticipate the following:

- *Introduction of environmental tax on goods and services that have considerable negative impact on the environment;*
- *Introduction of carbon trading schemes and tax incentives; and*
- *Possible increasing of the environmental tax on plastic from the current rate of 15%.*

With such environmental alertness, one can also expect the same considerations to be extended to the upstream petroleum sector where flaring of gas has been significantly reduced through environmental taxes, and trading green house gases for fiscal gains and tax incentives may be a worthwhile to industry players.

Government's thought around the environment, which considers more of the future effects of today's business actions, appears to align with the main theme of the 2013 budget "sustaining confidence in the future of the Ghanaian economy".

Penalty on over-aged vehicles

Another environmental intervention is in the area of over-aged vehicles imported in Ghana. Though a decision was made in the past to reverse an outright ban, it appears Government is inclined to re-impose this ban.

The Ministry will of Food and Agriculture focus on modernising farming technology and improving yield for livestock, cash and food crops.

Expansion of power generation capacity to 2,844MW by the end of 2013

Jubilee Fields to generate 120,000 barrels/day, a major boost to economic growth for 2013.

ECONOMIC SECTOR

Food and Agriculture
2013 Outlook

Government initiatives in the 2013 Budget with regards to Food and Agriculture focuses on modernising farming technology and improving yield for livestock, cash and food crops.

These initiatives are drawn from the Medium Term Agricultural Sector Investment Plan (METASIP). METASIP seeks to achieve a sector annual GDP growth of at least 6% within the plan period of 2011-2015. The key objective for government is to ensure these initiatives translate into long term job creation and overall economic growth. Specific initiatives highlighted in the 2013 Budget are:

- Agricultural Mechanization Service Centres (AMSECs) to cover at least 170 districts;
- Procurement and distribution of 80,000MT of subsidized fertilizer to farmers;
- Establish Demonstration Centres in 30 livestock dominant districts to benefit 50,000 livestock farmers annually;
- Block Farm Programme, which is a component of the Youth in Agriculture Programme (YIAP), with a target of 60,000 hectares for the production of maize, cassava, rice, yam, sorghum and cowpea by 60,000 farmers;
- Livestock programme and agribusiness sub programmes; and
- Development of other cash crops such as Coffee and Shea nut to add to the export basket

Cocoa, which continues to be a major cash crop in Ghana, received specific attention from Government.

The main focus in this area is to sustain Cocoa's contribution to GDP and foreign exchange earnings through disease and pest control. To this end, Government has allocated GH¢44.9 million under the Cocoa Disease and Pest Control Programme (CODAPEC) and GH¢50 million for fertilizer application and improved planting materials for farmers.

It is worth noting that Government is diversifying cash crop farming. This is reflected in Government's attempt to extend successes achieved in cocoa production to the wider agricultural sector, especially in Coffee and Shea. This is evidenced Government's allocation of GH¢1.25 million to fund Coffee production and the creation of a unit within COCOBOD to promote the development by Shea Farming.

Energy and Petroleum

The 2013 Budget reaffirms Government's commitment to expand and improve the energy and petroleum sectors to serve as the hub of social and economic development. The Ghana Shared Growth and Development Agenda (GSDA) is expected to provide the framework to continue the implementation of the Ministry's medium term strategy in 2013. Key initiatives highlighted in the budget include:

Power sub sector

- Expansion in Generation capacity – The 132MW Takoradi T3 Power Project has been commissioned. The Bui Hydroelectric Power Project will come online with the full capacity of 400MW by December 2013;
- The total national installed capacity of 2,312MW will increase by 532MW by the end of 2013; and
- Renewable Energy – Government will implement Phase II of the installation of Solar Photovoltaic for public institutions.

Sectoral Outlook

Government is expected to lift seven (7) parcels of crude oil of about 6.6Million barrels;

Petroleum sub sector

- Attainment of 120,000 barrels per day of crude oil production from the Jubilee field – Government is expected to lift seven (7) parcels of crude oil totalling about 6.6Million barrels;
- Explore the hydrocarbon potential of the Volta basin; and
- Completion of the gas infrastructure project by September 2013.

The power sector is experiencing significant difficulty in meeting the energy demands of the nation. This development has received significant attention from both the private and public sectors as it has the potential to undermine the achievement of the socio-economic objectives outlined by Government. As expected, the Budget has outlined specific measures to provide additional generation capacity by the end of 2013. With the ever increasing demand for power currently estimated by the Energy Ministry at about 10% per annum, Government will need to implement long term solutions to secure additional capacity to meet the projected demand. It is significant to note that both the 2013 Budget and the 2013 State of the Nation's address highlighted non-traditional sources of power generation such as solar energy as an area Government will explore to augment power supply to selected communities. Government should continue to explore options that will make investment in solar and other renewable sources of energy attractive to investors.

Mines

Government to increase opportunities in local content and also enforce ban on foreigners engaging in small scale mining

The mines sector remains one of the biggest contributors to Ghana's GDP and foreign exchange earnings. Government seeks to build capacity for local entrepreneurs and create jobs by seeking opportunities to increase local content. Government expects to enforce the ban on foreigners engaging in small scale mining and also improve information availability to attract more investors to the mines sector.

Government's proposed intervention in the mining sector confirms commitment to local content rules contained in the Minerals and Mining (General) Regulations, 2012 L.I 2175. The regulations seek to place restrictions on recruitment of foreigners and promote a local workforce. Particularly for mining lease licence holders, it is expected that expatriate workers would not exceed 10% of the total workforce in the first 3 years of operations and 6% subsequently. Unskilled labour and clerical positions are also to be generally reserved for Ghanaians.

Over the past few years, there have been instances of unrest between foreigners and local communities with concentration of small scale mining firms. These incidents raised several concerns on protecting Ghanaians in the small scale mining industry. It is encouraging that the 2013 Budget specifically highlights the protection and building of capacity for local entrepreneurs in the mining areas.

Ministry of Health

To attain the **Health related MDGs by 2015**, Government intends to carry out the following actions:

- Strengthen the governance and improve the efficiency and effectiveness of the health system by developing a new National Health Policy, a Health Sector Medium Term Strategic Plan and review and amend the Ghana Health Service and Teaching Hospitals Act, 1996. (Act 525)
- Bridge equity gaps in access to health care and ensure sustainable financing arrangements that protect the poor;
- Review the cost of care in the public and private sectors to inform appropriate tariff levels.

Under the **National Health Insurance Scheme (NHIS)**, the following initiatives are proposed:

- Implementation of the instant issuance of biometric ID cards.
- Upward adjustment in the National Health Insurance Levy (NHIL) to reduce the widening financing gap and extend those on exemption category.

There was no mention of the one-time premium payment under NHIS in the 2013 Budget. This is one promise for which many are awaiting implementation. With the proposed upward review of the premiums, many will be disappointed and feel the government has failed in alleviating the burden on care seekers under NHIS.

Ministry of Employment and Labour Relations

The key initiatives by the Ministry of Employment and Labour Relations include:

- Train about 2,400 persons for the Oil and Gas sector out of which 76%-85% will be directly employed by companies operating in the Jubilee field;
- Implement Labour Market Information System to provide readily available information for effective planning;
- Rehabilitate and provide adequate logistics to 25 existing public employment centres; and
- Sensitize the public on public service pay management especially with the implementation of the Single Spine Salary Structure (SSSS).

The rate of youth unemployment continues to grow with more young graduates finding it difficult to secure suitable employment on a sustainable basis. There must be bold Government policies to provide employment opportunities for the majority of our youth.

SOCIAL SECTOR

Ministry of Education

The Government intends to continue implementing various programmes to achieve the objectives of the Education Strategic Plan and the National Medium Term Development Framework. These programmes include;

- Improvement in access to basic quality education by increasing infrastructure such as classrooms to eliminate schools under trees, teachers' accommodation and toilet facilities for public basic schools;
- Improvement in access to secondary education by constructing 50 community-based and 10 colleges of education by the end of 2013 whilst providing subsidies to all students in the public Senior and Technical Schools;
- Establishment of a Quality Assurance Committee to ensure tertiary education meets expected standards; and

The establishment of Quality Assurance Committee is an innovation that should help improve the quality of teaching and learning, thus contribute directly to the development of quality human resources that are required to sustain confidence in the Ghanaian economy.

Ministry of Youth and Sports

As part of plans to develop capacity of the youth and integrate them into national development, Government has planned the following:

- Initiate the process to enact a Sports Law to replace the Sports Act, 1976 (SMCD 54) and also formulate a National Sports Policy. This is intended to ensure planned activities are implemented effectively;
- Improve sports infrastructure by collaborating with Corporate Institutions;
- The Youth Enterprise Development Project is expected to take off to create about 300,000 jobs in the entrepreneurial and self-employment modules.

Formulation of a National Sports Policy is indeed laudable to enable the ministry harness the sporting potential among the Youth of Ghana.

Ministry of Gender, Children and Social Protection

Government intends to address the equity and equality, social protection and development of children, excluded, vulnerable and disabled persons through the following initiatives:

- To continue to implement the Gender Responsive Skills and Community Development Project; and
- To develop a capacity programme to support MDAs, MMDAs, Civil Service Organisations (CSOs) and the Legislature to formulate and analyse Gender Responsive Budget (GRB).
- To finalise the National Gender Policy, Domestic Violence Legislative Instrument and the Child Protection Policy;

Gender and Social Protection are new areas for the Ministry. Promoting gender equity will effectively support initiatives to improve the quality of life and sustaining growth in the economy, given the crucial role played by women, especially in the small and medium enterprises. It is therefore crucial that Government expedites the processes to finalise the above policy documents.

The viability of businesses in the manufacturing and service sectors are constrained by infrastructure deficits in the energy, water, roads and transportation sectors.

The focus of the water sector will be to increase the provision of safe and potable water in communities through sinking boreholes and training water and sanitation committees, district water and sanitation teams.

INFRASTRUCTURE

In line with the theme of "Sustaining Confidence in the Future of the Ghanaian Economy", the 2013 Budget has introduced measures to drive the infrastructure sector, which continues to be the core of economic growth and development. According to the 2013 Budget statement there is currently an annual infrastructural requirement of US$1.5 billion. However the government has allocated approximately US$829 million to the development of the infrastructure sector.

Given this significant financing gap, the emphasis is on policy measures to secure funds (both domestic and foreign) for the development of the infrastructural sector as well as reducing bottlenecks in the implementation of infrastructure projects. The key areas of infrastructure development in the 2013 Budget are Water Resources, Works and Housing, Transport, Roads and Highways and Communications.

Policy Announcements/Initiatives

Water

The 2013 Budget focuses on improving potable water supply across the country. Programs to be implemented include the following:

- Projects targeted at improving access to water and sanitation in the Upper West, Upper East, Northern, Brong-Ahafo, Central and Western Regions .
- Development of a rain water harvesting strategy as a supplement to water service delivery; and
- Water supply expansion and rehabilitation projects aimed at the construction of intake facilities, water treatment plants and transmission pipelines.

Ghana continues to suffer a significant deficit in the supply of potable water to both the urban and rural communities. Ghana Urban Water Company Limited (GUWGL) currently produces 682,160 cubic meters of water per day against a demand of 1,076,526 cubic meters per day resulting in water deficit of nearly 40% (Per GUWCL Publication – 2 March 2013). It is worth noting that Government is supplementing water supply by developing non tradition sources such as rain harvesting. However there is still the bigger challenge of funding which is estimated at US$2billion over the next 13 years. (Per GUWCL Publication – 2 March 2013). Government in the 2013 Budget statement has acknowledged the important role of private sector participation in the development of infrastructure to bridge the current gap.

Housing

The budget emphasises the need to develop the housing sector. Initiatives supporting the development of the sector include the following:

- Construction of nine local building materials training centres to increase the use of local building materials in the construction industry to 60%;
- Allocation of US$5million for the completion and purchase of residential houses for public sector workers; and
- Construction of storm water concrete drainage systems and widening of drains in selected areas to reduce perennial flooding to safeguard life and property.

Government continues to ensure that every region and district benefit from the road intervention programmes under the District Capital Improvement Projects (DCRIP).

The housing deficit in Ghana is estimated to be in excess of one million houses. (Ministerial Review of the Housing Sector – February 2011). To address this deficit, there is the need to deliver approximately 150,000 units per annum over the next 20 years. (Ministerial Performance Review of the Housing Sector – February 2011). The proposed initiatives are necessary interventions; however with the current annual supply between 30,000 and 40,000, Government should consider a review of the incentive regime in the real estate sector to attract a lot more investment into housing delivery. It is therefore welcoming that the Budget highlights the participation of the private sector in public infrastructure and service delivery through PPP. Efforts should be made to avoid bottlenecks including land acquisition that hamper the smooth take off of Public Private Partnership in the real estate sector.

Roads and Highways

In addition to the emphasis on existing projects, the 2013 Budget introduced new measures to provide an integrated and efficient road infrastructure that would support the country's economic development and growth. Government identified the following key contributions to achieving the sector objectives:

- Preferable road condition mix in line with the GSGDA;
- Routine maintenance on 11,199km and periodic maintenance on 300km of the trunk road network; and
- Rehabilitation and improvement of feeder roads to provide access to cocoa, coffee and shea-nut growing areas.

Transport

Government continues to vigorously pursue its strategic vision of making Ghana the transportation hub of the West Africa sub-region. The focus of the 2013 Budget for the sector includes the following:

- Rehabilitation and modernisation of existing railway lines;
- Expansion of existing ports to free up space for commercial vehicles and to meet the demands of the emerging oil and gas industry;
- Restoration of Kotoka International Airport (KIA) to Federal Aviation Administration (FAA) Category One (1) status and the development of the Tamale Airport;
- Implementation of the Regulations and Road Safety Strategy III Action Plan with the aim of halting the rising trend of road accidents by 2015 and further reducing it by 50 per cent by the year 2020; and
- Establishment of a National Road Transport Authority to regulate the operations of road transport services.

The importance of the Transport, Roads and Highways sectors in promoting trade and facilitating socio-economic growth and development cannot be overemphasised. Budgetary allocation to these sectors increased by 134% between 2010 and 2013 (GH¢381million to GH¢ 893million). There still remain the key challenges of road infrastructure deficit (particularly with regards to the expansion of feeder roads), maintenance of existing roads and road congestion in urban areas. Funding continues to be the main impediment to resolve these challenges.

Ghana to be made the transportation hub of the West African Region by pursuing programmes and policies to ensure proper development of the rail, maritime, aviation and transport services.

There have been a number of initiatives including PPP's in the road sector. The constraint however has been delays in the process of reaching agreement with the private sector and a framework which clearly defines risk allocation. The National Policy on PPP and the impending PPP law should help this process.

It is estimated that in 2011, the number of air passengers and freight increased by 14.3% and 9.4% respectively (Per The Report, Ghana 2012) The current infrastructure at the Kotoka International Airport (KIA) is however not adequate to meet this growth. If Ghana is to achieve the objective of becoming the transportation hub of the sub-region, it is imperative that issues relating to demand, congestion, and infrastructure be resolved. The initiative to upgrade KIA to a category One (1) status is therefore welcome news.

Communication

Over the past years, the Communications Sector has developed policies to facilitate improvement in infrastructure to attract investment in a number of Information Communication Technology (ICT) ventures. The broad policy initiatives include: Internet service provision, software and IT hardware service development, and IT Enabled Services (ITES) ventures. Specific initiatives under the 2013 Budget are:

- The e-Ghana Project with the objective of generating growth and employment by leveraging ICT and public-private partnerships to develop the IT Enabled Services industry, and to improve efficiency and transparency of selected Government functions through e-Government applications.
- National Digital Broadcasting Migration to pursue the digital broadcasting migration programme.
- Fibre Optic Broadband Backbone infrastructure on the Eastern corridor to accelerate development and access to Information and Communication Technology (ICT)
- Child Online Protection (COP) to serve as a platform to raise awareness on child online safety issues.
- Distribution of laptops to Tertiary Institutions to promote an all-inclusive information and knowledge-based society to the benefit of the citizenry.

There has been a significant improvement in Ghana's ICT sector. However, it is important for government to speed up efforts to complete the national fibre backbone to make efficient high speed access available to the many ICT enterprises that are emerging in the country.

ADMINISTRATIVE SECTOR

Government will continue with a number of programmes and actions currently being implemented by various government agencies, such as the Ghana Audit Service, National Labour Commission, Public Services Commission and National Commission for Civic Education.

There is high expectation for an efficient Government machinery and it is hoped that, the implementation of the various programmes and actions will result in improved service delivery by government agencies. One observation is that many of the ongoing programmes and actions have been on the agenda for a number of years and have featured in many of the yearly budget statements.

The question to ask is whether these programmes and actions are indeed long term in nature. It would appear that, there has not been sufficient traction at executing programmes and actions which has resulted in many government programmes taking on a long term nature.

Government should strengthen its monitoring and evaluation unit to ensure that they monitor the progress of government programmes and recommend actions to remediate those that severely lag behind schedule. There may be other programmes that have to be terminated due to lack of resources to support their execution.

Government should introduce programmes in the annual budget only when there is high probability that the funding to execute such programmes can be secured within the time frame of the programme concerned.

MINISTRY OF FINANCE AND ECONOMIC PLANNING

Government has announced the establishment of Regional Training Institute in Ghana (AFRITAC WEST) by the IMF in 2013.

The Ghana Stock Exchange (GSE) is expected to launch and commence operations on the Ghana Alternate Market. Government intends to encourage many more companies to list on the Exchange to improve liquidity. The essence of the Ghana Alternate Market is to assist SMEs to raise capital through listing. The Market is expected to have less onerous rules for compliance by SMEs.

The Financial Intelligence Centre will facilitate the creation of the necessary legislative framework to support the fight against money laundering, terrorist financing, proliferation of weapons of mass destruction and other financial crimes.

The Ministry will continue to implement recommendations on reform of Non Tax Revenue (NTR) to further improve revenue mobilisation and management..

Every effort should be made to eliminate bureaucratic process with the aim of making it more simple to administer and collect non-tax revenue.

A draft Bill will be submitted to cabinet to compliment the national policy on Public Private Partnership (PPP). The Ministry will establish a Project Development Facility (PDF) in line with emerging PPP programmes.

With the infrastructure deficit that the country faces, immediate private participation in infrastructure development cannot be delayed. It is therefore a high priority item to set out the enabling legal framework to support PPPs.

PUBLIC SAFETY SECTOR

Ministry of Justice and Attorney-General

Through the Economic and Organized Crime Office (EOCO), Government intends to mitigate economic and financial crimes.

In addition, Government, though the Legal Aid Scheme plans to provide legal services to the poor and needy.

Commission for Human Rights and Administrative Justice (CHRAJ)

In 2012 the Commission led the development and adoption of the National Anti-Corruption Action Plan (NACAP). In 2013, the Commission, under the Anti-Corruption Action Plan (NACAP), will work with stakeholders to improve Ghana's performance on the corruption index while providing training for heads of MDAs, Ministers and MPs on the code of Conduct and Conflict of Interest Rules.

According to Transparency International, Ghana's ranking on the Corruption Perception Index (CPI) has improved from a ranking of 69 in 2011 to a ranking of 64 in 2012. As the 8th least corrupt Country in sub-Saharan Africa, the NACAP should aim, among other things, to improve Ghana's position on the CPI with a current score of 3.9, to among the best five in sub-Saharan Africa, whose current score are between 4.8 and 6.1.

Judicial Service

To enhance quick access to justice, the Judicial Service intends to extend the weekend programme to selected regions in subsequent years with continued extensive use of ICT in all the courts.

Every effort to speed up the process of obtaining justice is commendable. Other ways of improving the justice system should be explored.

Ministry of Interior

Government intends to review existing immigration laws and regulations to reflect the current mandate of the Service.

One area that the citizenry and investors expect Government to make major investments in is public safety. Citizens would like to feel safe to go about their normal duties. Law enforcement is expected function smoothly and be fair towards all. This will contribute to increased confidence in the Ghanaian Economy to promote sustainable growth.

Appendix

Appendix 1 – Government revenue projections, outturns and variances for 2012 and 2013.

Items	2013 Budget (A) (million GH¢)	2012 Budget (Revised) (B) (million GH¢)	2012 Projected Outturn (C) (million GH¢)	Variance (D=A-B) (million GH¢)	Variance (E=B-C) (million GH¢)
Direct taxes	**7,825**	**5,874**	**5,536**	**1,951**	**338**
Indirect tax	**4,672**	**3,497**	**3,507**	**1,175**	**(10)**
Value Added Tax	3,768	2,803	2,777	**965**	**26**
Petroleum tax	658	476	544	**182**	**(68)**
Other indirect taxes - Excise duty	246	218	186	**28**	**32**
International trade Taxes	**2,619**	**2,124**	**1,990**	**495**	**134**
Import duties	2,594	1,986	1,887	**608**	**99**
Export duty (duty)	25	138	103	**(113)**	**35**
Import Exemptions	**1,070**	**382**	**779**	**688**	**(397)**
National health Insurance levy	**918**	**682**	**714**	**236**	**(32)**
Other Revenue Measures	**151**	**146**	**128**	**5**	**18**
Total tax revenue	**17,255**	**12,705**	**12,654**	**4,550**	**51**
				-	-
Non Tax Revenue	4,020	2,673	2,853	**1,347**	**(180)**
TOTAL REVENUE (Tax & Non tax)	**21,275**	**15,378**	**15,507**	**5,897**	**(129)**
					-
Grants	**1,258**	**1,550**	**1,160**	**(292)**	**390**
TOTAL REVENUE AND GRANTS	**22,533**	**16,928**	**16,667**	**5,605**	**261**
Foreign Financing	**2,536**	**1,908**	**1,630**	**628**	**278**
Loans				-	-
Amortisation (due)				-	-
Exceptional Financing				-	-
Domestic Financing (net)	**5,474**	**2,760**	**7,018**	**2,714**	**(4,258)**
Total financing	**8,010**	**4,668**	**8,648**	**3,342**	**(3,980)**

Appendix

Appendix 2 – Government expenditure projections, outturns and variances for 2012 and 2013

Items	2013 Budget (A) (million GH¢)	2012 Budget (Revised) (B) (million GH¢)	2012 Projected Outturn (C) (million GH¢)	Variance (D=A-B) (million GH¢)	Variance (E=B-C) (million GH¢)
Recurrent Expenditure	**20,581**	**13,064**	**15,974**	**7,517**	**(2,910)**
Wages and Salaries	7,465	5,638	6,666	1,827	(1,028)
Goods and Services	1,742	967	1,322	775	(355)
Transfers	7,453	3,560	4,478	3,893	(918)
Interest payments	3,194	2,191	2,436	1,003	(245)
Other recurrent expenditure	-	-	-	-	-
Reserve Expenditure Vote	727	708	1,072	19	(364)
	-	-	-	-	-
Capital Expenditure	**7,582**	**5,972**	**4,972**	**1,610**	**1,000**
Domestic-financed	3,731	2,691	2,437	1,040	254
Foreign-financed	3,851	3,281	2,535	570	746
C. HIPC and MDRI -financed	-	-	-	-	-
Total expenditure	**28,163**	**19,036**	**20,946**	**9,127**	**(1,910)**
Arrears clearance and tax refunds	**2,381**	**2,560**	**3,830**	**(179)**	**(1,270)**
Total expenditure (including arrears clearance and tax refunds)	**30,544**	**21,596**	**24,776**	**8,948**	**(3,180)**

Glossary

ACRONYMS	ABBREVIATIONS
ABFA	Annual Budget Funding Amount
AfDB	African Development Bank
AG’s	Attorney General's
AML	Anti-Money Laundering and the
AMSEC	Agriculture Mechanization Service Centres
BECE	Basic Education Certificate Examination
BOG	Bank of Ghana
BOP	Balance of Payment
BOPD	Barrel Of Oil Per Day
BOST	Bulk Oil Storage and Transportation Company
BPO	Business Process Outsourcing
CAGD	Controller and Accountant General’s Department
CBOs	Congregational Budget Offices
CDB	China Development Bank
CEOs	Chief Executive Officers
CEPS	Customs Excise and Preventive Services
CET	Common External Tariff
CHPS	Community-Based Health Planning Services
CHRAJ	Commission for Human Rights and Administrative Justice
CID	Criminal Investigation Department
COCOBOD	Ghana Cocoa Marketing Board
CODAPEC	Cocoa Diseases and Pest Control
COP	Child on line Protection
CODAPEC	Cocoa Disease and Pest Control Programme
CoS	Conditions of Service
CST	Communication Service Tax
CT	Communications Tax
CWSA	Community Water and Sanitation Agency
CIVETS	Columbia, Indonesia, Vietnam, Egypt, Turkey and South Africa
DCRIP	District Capital Roads Improvement Project v
DMS	Debt Management Strategy
DoL	Division of Labour
DSA	Debt Sustainability Analysis
DVLA	Driver and Vehicle Licensing Authority
ECOWAP	Economic Community of West African Agricultural Policy
ECOWAS	Economic Community of West African States
EDC	Enterprise Development Centre
EOCO	Economic and Organized Crime Office
EPA	Environmental Protection Agency
EPA	Economic Partnership Agreement
EPI	Environmental Performance Index
EU	European Union
FAA	Federal Aviation Administration
FDI	Foreign Direct Investment
FIC	Financial Intelligence Centre
FWSC	Fair Wages and Salaries Commission
GAC	Ghana Aids Commission
GAEC	Ghana Atomic Energy Commission
GAF	Ghana Armed Forces
GAS	Ghana Audit Service
GAX	Ghana Stock Exchange

Glossary

GBP	Great British Pound
GAX	Ghana Alternative Market
GCNET	Ghana Community Network Services Limited
GCS	Ghana Civil Service.
GDP	Gross Domestic Product
GIFMIS	Ghana Financial Management System
GIS	Geographic Information Systems
GIS	Ghana Immigration Service
GNFS	Ghana National Fire Service
GNPC	Ghana National Petroleum Corporation
GoG	Government of Ghana
GPF	Ghana Petroleum Funds
GPHA	Ghana Ports and Harbour Authority
GPI	Gender Parity Index
GPRS	General Packet Radio Serviice
GRA	Ghana Revenue Authority
GRATIS	Ghana Regional Appropriate Technology Industrial Service
GRB	Gender Responsive budget
GRD	Registrar General's Department
GSA	Ghana Standards Authority
GSD	Ghana Stock Exchange Depository
GSE	Ghana Stock Exchange
GSGDA	Ghana Shared Growth and Development Agenda
GSM	Global System for Mobile
GSS	Ghana Statistical Service
IAA	Internal Audit Agency
IAUs	Internal Audit Units
ICT	Information and Communication Technology
IDF	Industrial Development Fund
IMF	International Monetary Fund
IT	Information Technology
ITES IT	IT Enabled Services
KIA	Kotoka International Airport
L.I.s	Legislative Instruments
LEAP	Livelihood Empowerment Against Poverty
LESDEP	Local Enterprises and Skills Development Programme
M&E	Monitoring and Evaluation
MASLOC	Micro and Small Loans Centre
MCC	Millennium Challenge Corporation
MDAs	Ministries, Departments and Agencies
MDBS	Multi-Donor Budgeting Support
MDGs	Millennium Development Goals
MEST	Ministry of Environment, Science and Technology
METASIP	Medium Term Agricultural Sector Investment Plan
MiDA	Millennium Development Authority
MIS	Management Information System
MMDAS	Metropolitan, Municipal and District Assembly
MMR	Maternal Mortality Ratio
MNP	Mobile Number Portability
MoC	Ministry of Communications
MoFA	Ministry of Food and Agriculture
MOF	Ministry of Finance

Glossary

MOGCSP	Ministry for Gender, Children and Social Protection
MOH	Ministry of Health
MPC	Monetary Policy Committee
MPR	Monetary Policy Rate
MRI	Magnetic Resonance Imaging
MSMEs	Micro, Small and Medium Enterprises
MTDS	Medium Term Debt Strategy
MTTU	Motor Traffic and Transport Unit
MWRWH	Ministry of Water Resources, Works and Housing
NACAP	National Anti-Corruption Action Plan
NACOB	Narcotics Control Board
NACSA	National Commission on Small Arms
NADMO	National Disaster Management Organization
NDA	Net Domestic Assets
NDC	National Democratic Congress
NFA	Net Foreign Assets
NGOs	Non-Governmental Organisations
NHIA	National Health Insurance Authority
NHIL	National Health Insurance Levy
NHIS	National Health Insurance Scheme
NPL	Non-performing Loans
NSA	National Sports Authority
NTR	Non-Tax Revenue
PDF	Project Development Facility
PPP	Private-Public Partnership
PPP	Public Private Partnership
PRMA	Petroleum Revenue Management Act
SAAAME	South America, Africa, Asia and Middle East
SADA	Savannah Accelerated Development Authority
SEC	Securities and Exchange Commission
SHEP	Self Help Electrification Project
SSA	Sub-Saharan Africa
SSDP	Strategic Sector Development Plan
SSPP	Single Spine Pay Policy
SSSS	Single Spine Salary Structure
T3	Takoradi Thermal Project
TPD	Total Public debt
VAT	Valued Added Tax
VRA	Volta River Authority
WAMI	West African Monetary Institute
WAMZ	West African Monetary Zone
WEO	World Economic Outlook
WTO	World Trade Organization
YIAP	Youth in Agriculture Programme

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