Republic of Ghana

The Experience of Ghana with Macro-Fiscal Frameworks and Institutional Reforms

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Outline

1. Macro-Fiscal Process in Ghana
2. Institutional & Regulatory Framework for Macro-Fiscal Process in Ghana
3. Fiscal Rules Characterizing Macro-Fiscal Framework in Ghana
4. Conclusion

1. MACRO-FISCAL PROCESS IN GHANA

What is the Macroeconomic Framework?

A macroeconomic framework is a set of sectoral projections (for the real, external, fiscal, and monetary sectors) consistent with each other, the policy framework, and a given set of macroeconomic goals

Interrelations Among Macroeconomic Accounts

REAL SECTOR

<u>National Accounts</u> (local currency, flows)
Private consumption
General government consumption
(Wages + Purchases of goods and services)

Private investment
General government investment

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

EXTERNAL SECTOR

<u>Balance of Payments</u> (US dollars, flows)

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

CAPITAL & FINANCIAL ACCOUNT
Direct investment
Medium/long-term capital (net)
Private sector (o/w banks)
Government
Short-term capital (net)
Private sector (o/w banks)
Government

Overall balance
Reserves (Change in net foreign assets)

FISCAL SECTOR

<u>Fiscal Accounts</u> (local currency, flows)
Revenues
Grants
Expenditures
Current
Capital

Overall balance
Financing
Domestic financing (net)
Banking system
Nonbanking sector
External financing (net)

MONETARY SECTOR

<u>Monetary Auth</u> (local currency, stocks)
Net foreign assets
Net domestic assets:
Net credit to government sector
Credit to banks
Other items (net)
Reserve money
Currency
Banks reserves

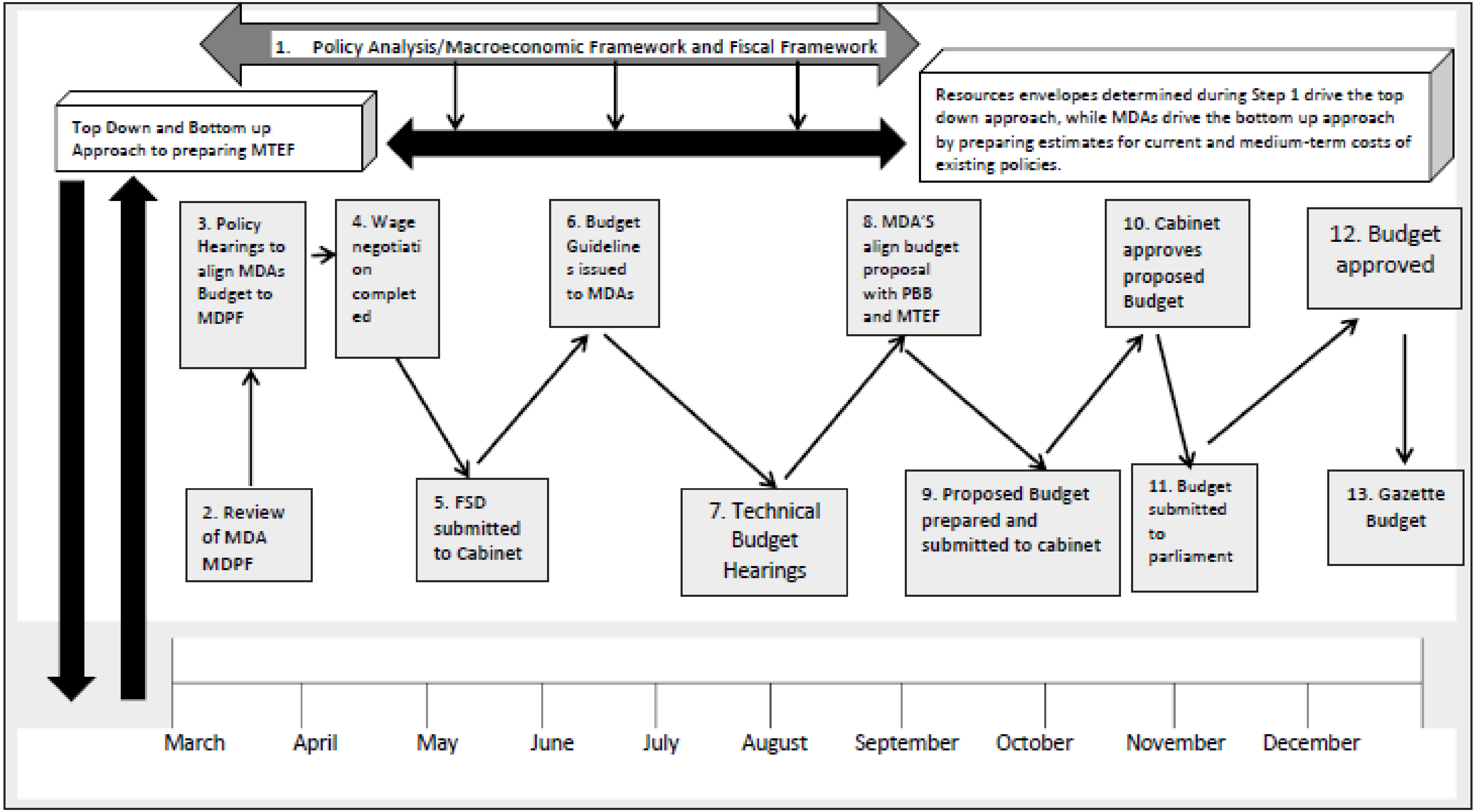
<u>DMBs</u> (local currency, stocks)
Net foreign assets
Banks' reserves
Net domestic assets:
Net credit to government sector
Credit to nongovernment sector
Other items (net)
Liabilities to monetary authorities
Private sector deposits

Recent Macro-Fiscal Developments in Ghana

Indicator	2012	2013	2014	2015	2016	2017 Prov.	2018
Real GDP Growth (%)	9.3	7.3	4.0	3.9	3.7	8.3*	6.8
Yearly Inflation (%)	8.8	13.5	17.0	17.7	15.4	11.8	8.9
Fiscal Deficit (% GDP)	(11.5)	(10.1)	(10.2)	(6.3)	(9.3)	(6.0)	(4.5)
Primary Balance (% GDP)	(8.2)	(5.4)	(3.9)	(0.2)	(1.4)	0.7	1.6
Wage Bill (% of Tax Revenue)	53.3	57.6	49.1	43.7	47.1	45.9	42.0
Gross Public Debt (% GDP)	47.9	55.9	70.2	71.6	73.1	68.7**	<70
Interest Rate (91 Day TB, %)	23.1	18.8	25.8	24.5	16.4	13.3	n/a
Current Account Bal (% GDP)	(11.8)	(11.7)	(9.5)	(7.5)	(6.6)	(4.6)	n/a
Trade Balance (% of GDP)	(10.2)	(7.9)	(3.6)	(8.3)	(4.2)***	2.3	n/a
Gross Int Reserves (US$ billion)	5.4	5.6	5.5	5.9	6.2	7.6	n/a
Gross Int Reserves (Months)		2.9	3.8	3.5	3.5	4.3	≥3.5
Exc Rate (GHs/$:dep/app)	-18.4	-15.0	-34.9	-13.9	-9.7	-4.4	n/a

Note:
*1) * average of Q1-Q3 of 2017*   2) ** Nov, 2017

Macro-Fiscal Framework (MFF) and the Budget Cycle



Overview of Macro-Fiscal Process in Ghana

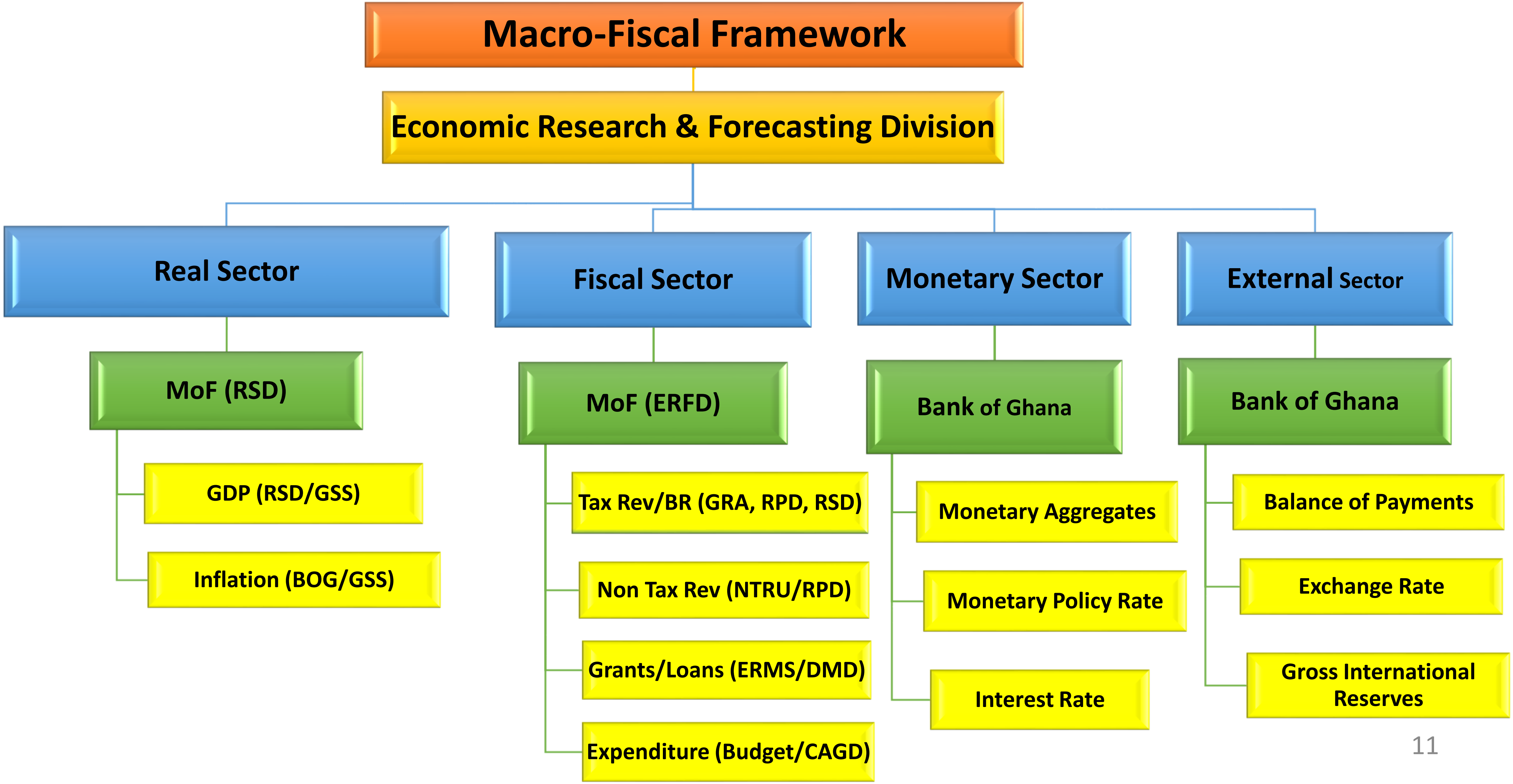
1. *March-May*: Development of the Macro-Fiscal Framework (MFF)
2. *End April*: Completion of Salary Negotiation to inform the MFF
3. *End May*: Preparation of the FSD informed by MFF
4. *End June*—Preparation and Circulation of Budget Guidelines informed by MFF
5. *Aug-Nov*—Update of MMF to inform the annual Budget
6. *November*—Presentation of annual Budget informed by updated MMF to Parliament

2. INSTITUTIONAL & REGULATORY REFORMS

Regulatory Framework

1. Public Financial Management Act, 2016 (Act 921)
2. Petroleum Revenue Management Act, 2011 (Act 815) and its amendments
3. PFM Regulation (Work in Progress)
4. Earmarked Funds Capping and Realignment Act, 2017 (Act 947)
5. African Union Import Levy Act, 2017 (Act 952)
6. Ministries, Departments and Agencies (Retention of Funds) Act, 2007 (Act 735)
7. Enabling Acts of all Earmarked Funds (e.g. DACF, NHIF, GETF, Road Fund Act, etc)
8. Bank of Ghana Act, 2002 (Act 616)
9. Financial Administration Regulations, 2004 (LI 1802)
10. Performance Criteria under the IMF Programme
11. ECOWAS Convergence Criteria

Institutional Framework



Institutional Framework

1. Technical Committee for GDP Forecasting
2. Technical Committee for Petroleum Revenue Forecasting
3. Technical Committee for Revenue Forecasting
4. Economic Policy Coordinating Committee (EPCC)
5. Role of Economic Management Team (EMT): *Strengthened to provide greater oversight and advise on macro-fiscal issues*
6. Cabinet: Approval of macro-fiscal proposals at the executive level
7. Parliament: Approval of Budget underpinned by Macro-fiscal framework

Institutional Reforms

1. *Public Financial Management Reforms*

a) Institution of Public Interest and Accountability Committee-PIAC (PRMA S51)

b) Establishment of the Stabilisation and Heritage Fund (PRMA S11)

c) Institution of the Investment Advisory Committee for management of the Ghana Petroleum Funds (PRMA S29)

d) Fiscal policy principles and indicators now entrenched in the PFM act (PRMA S16)

e) Mandatory Mid-year Review now institutionalized in the PFM Act (S28)

f) Wage negotiation institutionalized to be completed by April of each year (PRMA S19)

g) Fiscal Strategy Document institutionalized to be submitted to Cabinet by May (PRMA S15)

Institutional Reforms

2. Technical Assistance

a) IMF Support for Macro-Fiscal Planning and Fiscal Strategy Document – Aug 2015

b) IMF Functional Review of MoF (Including ERFD- Forecasting & Fiscal Risk Units) – 2016 & 2017

c) SECO Support on Development of FPP Model – 2014 to Present

d) IMF Support for FARI (Fiscal Analysis for Resources Industry) model development – 2014 to Present

3. FISCAL RULES UNDERPINNING MACRO-FISCAL FRAMEWORK

Petroleum Benchmark Revenue Estimation

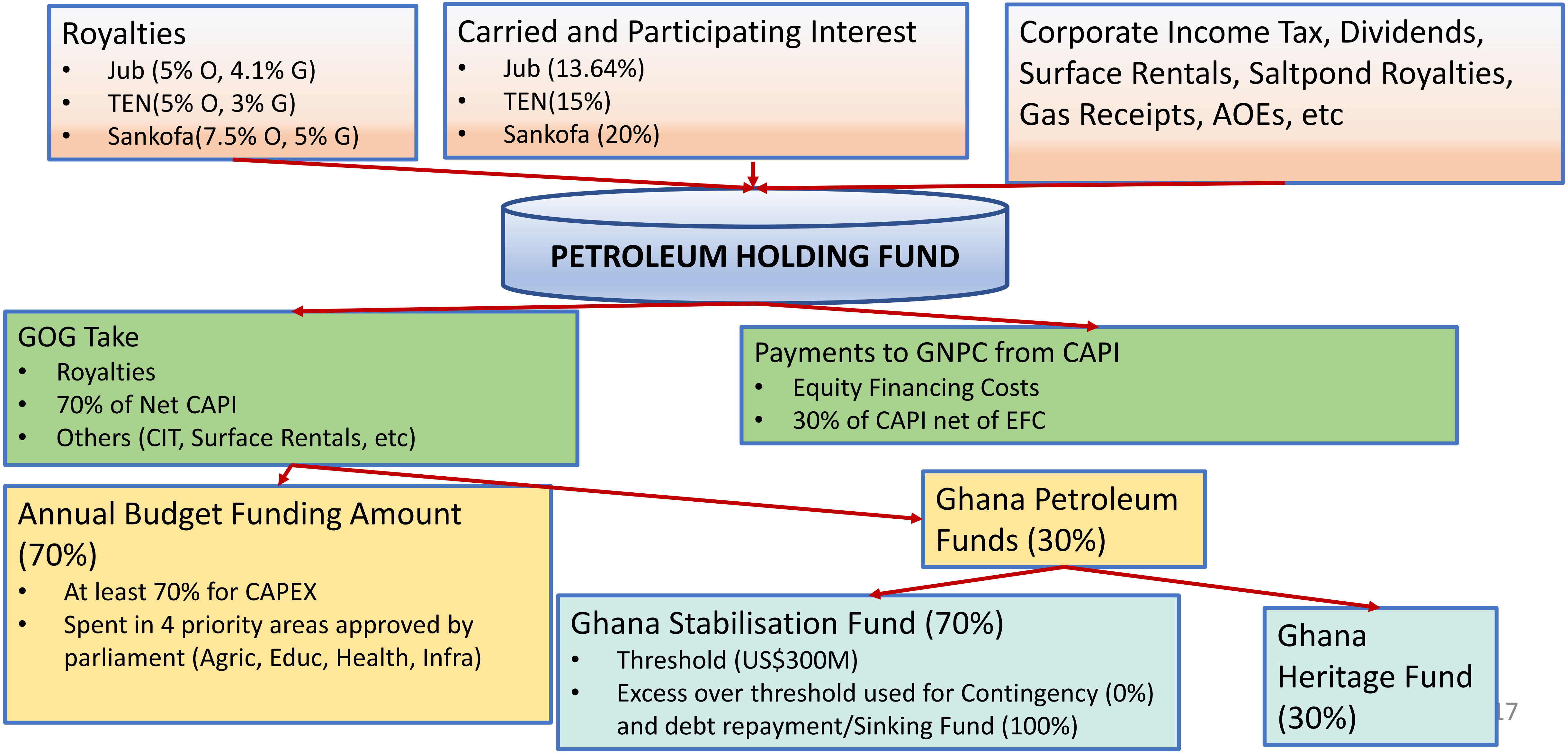
- The Petroleum Benchmark Revenue (BR) is estimated in line with the First Schedule of the PRMA as follows:

  Price:
  - $P_{t+1} = (P_{t-4}+P_{t-3} + P_{t-2} + P_{t-1} + P_t + P_{t+1} + P_{t+2})/7$

  Output:
  - $Q_{t+1} = (Q_{t-1}+Q_t + Q_{t+1})/3$

- Estimates are certified by an independent certifier in line with the PRMA.

Sources and Distribution of Petroleum Revenues -PRMA



Petroleum Receipts & Utilisation

N	RECEIPTS	Unit	2011	2012	2013	2014	2015	2016	Total
1	**Total Receipts**	US$Mn	**444.12**	**541.62**	**846.77**	**978.02**	**396.17**	**247.18**	**3,453.88**
2	Royalties	US$Mn	122.94	150.75	175.41	192.81	104.21	57.85	803.97
3	Carried And Part Int	US$Mn	321.18	390.43	453.57	499.33	270.08	149.94	2,084.54
4	Corporate Income Tax	US$Mn	-	-	216.99	284.55	20.41	29.55	551.49
5	Surface Rentals	US$Mn	-	0.45	0.80	0.91	0.47	0.47	3.08
6	Gas Receipts	US$Mn	-	-	-	-	0.55	9.30	9.86
7	Investment Income	US$Mn	-	-	-	0.12	0.03	0.07	0.23
8	Price Differential - Unipec	US$Mn	-	-	-	0.30	0.42	-	0.72

N	UTILISATION	Unit	2011	2012	2013	2014	2015	2016	Total
1	***GNPC***	US$Mn	207.96	230.95	222.42	180.71	126.86	88.50	1,057.40
	o/w Equity Financing Cost		132.48	124.63	68.32	44.16	65.61	58.11	493.32
2	o/w Net CAPI	US$Mn	75.48	106.32	154.10	136.55	61.25	30.38	564.08
3	***GOG***	US$Mn	236.16	310.67	624.25	797.31	260.97	140.54	2,369.89
4	o/w Budget (ABFA)	US$Mn	166.96	286.55	273.20	409.07	239.30	98.38	1,473.45
5	o/w Ghana Pet Funds	US$Mn	69.21	24.12	351.05	388.23	21.67	42.16	896.44
6	o/w Stabilisation (GSF)	US$Mn	54.81	16.88	245.73	271.76	15.17	29.51	633.87
7	o/w Heritage (GHF)	US$Mn	14.40	7.24	105.31	116.47	6.50	12.65	262.57
8	**TOTAL**	US$Mn	**444.12**	**541.62**	**846.67**	**978.02**	**387.83**	**229.03**	**3,427.29**

Year	% of GDP	% Dom Rev
2011	1.1	6.0
2012	1.3	6.6
2013	1.7	9.1
2014	2.5	12.3
2015	1.0	5.2
2016	0.4	2.2
2017	1.2	6.1
2018	1.3	6.4

Fiscal Rules on Transfers to Earmarked Funds

1. Prior to 2017, Earmarked Funds were distributed according to their formula in their enabling acts. Earmarked Funds averaged 34% of tax revenue from 2013 to 2016 posing significant rigidities to the budget.
2. With effect from 2017 fiscal year, Earmarked Funds are distributed in accordance with Section 3 of the Earmarked Funds Capping and Realignment Act.
3. Budgetary allocation made in each year to Earmarked Funds and encumbered in each year by the Earmarked Funds is 25% of Tax Revenue.
4. The capped earmarked Funds of 25% of Tax Revenue is allocated to each earmarked funds according to a weight which shall be approved by parliament as part of the Annual Budget for each year.

Fiscal Rules on Transfers to Earmarked Funds-Cont.

5. The weight is guided by the allocation of revenue that Earmarked Fund would have normally received if a cap was not placed on those earmarked funds and the corresponding weight that would have applied to the Earmarked Fund
6. Prior to the law, earmarked funds averaged 34.2% of tax revenue from 2013 to 2016.
7. In the 2017 fiscal year, Earmarked Funds constituted about 28.4% of tax revenue after the implementation of the law (with some restorations), freeing up a fiscal space of GHs4.6bn (2.3% of GDP), thereby reducing budget rigidities.
8. In the 2018 Budget, the application of the earmarked funds formula freed up about GHs3.7bn (1.5% of GDP) fiscal space, thereby, reducing budget rigidities.

Fiscal Indicators in the PFM Act (Section 16)

1. The non-oil primary balance or non-oil fiscal balance, as a percentage of gross domestic product
2. Any two of the following:
   i. Public debt as a percentage of Gross Domestic Product
   ii. Capital spending as a percentage of Total Expenditure
   iii. Revenue as a percentage of Gross Domestic Product
   iv. Wage bill as a percentage of Tax Revenue

Performance of Fiscal Indicators

Srn	Fiscal Indicator	2017		2018
		Target	Prov	Target
1	The non-oil primary balance as a percentage of GDP	-1.0%	-0.6%	0.3%
2	non-oil fiscal balance as a percentage of GDP	-7.6%	-7.2%	-5.9%
3	Public debt as a percentage of GDP	73.1%	<70%	NA
4	Capital spending as a percentage of Total Expenditure	11.5%	11.9%	11.1%
5	Revenue as a percentage of GDP	21.3%	20.0%	21.1%
6	Wage bill as a percentage of Tax Revenue	42.5%	45.4%	42.0%

Fiscal Rules Imposed by International Commitments

1. **ECOWAS**
   1. *Primary Convergence Criteria*
      - i. Fiscal deficit as a percent of GDP ≤ 3%
      - ii. Inflation ≤ 10% (≤ 5% from 2019)
      - iii. Central Bank financing as a percentage of previous year’s Tax Revenue ≤ 10%
      - iv. Gross International Reserves ≥ 3 months of import cover
   2. *Secondary Convergence Criteria*
      - v. Nominal Exchange variation of ±10%
      - vi. Public Debt to GDP ratio ≤ 70%

Fiscal Rules Imposed by International Commitment

2. IMF (Performance Criteria: Ref Point is Dec 2017)

i. Primary fiscal balance

- *GHS1.3bn against a floor of GHS704mn*

ii. Wage Bill

- *GHS14.4bn against a ceiling of GHS14.0bn*

iii. Non-accumulation of new domestic arrears (ceiling; millions of cedis)

- *No arrears domestic arrears were accumulated*

iv. Non-accumulation of external arrears

- *No external arrears were accumulated*

v. Net change in the stock of arrears (ceiling, millions of Cedis)

- *Cleared GHS3.0bn against a floor of GHs3.2bn*

Fiscal Rules Imposed by International Commitment

2. IMF (Performance Criteria)

vi. Gross financing of BoG to Government and SOEs

- *GHS15.38bn against a ceiling of 15.39bn*

vii. Contracting or guaranteeing of new external non-concessional debt for projects (cumulative from the beginning of 2015)

- *US$2.0 bn and a ceiling of US$2.25bn*

4. CONCLUSION

Conclusion

1. The institutional reforms, especially the passage of the PFM Act and the PRMA, among others, have strengthened macro-fiscal processes in Ghana
2. The PFM Act is being amended to include a fiscal rule of a fiscal deficit ceiling of 5% of GDP to promote fiscal consolidation
3. Forecasting functions/coordination as well as fiscal risk management are being properly streamlined to enhance the credibility of the budget

THANK YOU