

SECTION FIVE: MACROECONOMIC FRAMEWORK FOR THE MEDIUM-TERM

1. Mr. Speaker, the macroeconomic objective of Government continues to be drawn from the Growth and Poverty Reduction Strategy (GPRS II), in line with its overall objectives. The programme of increased growth, within a stable macroeconomic environment continues to occupy top priority on Government's agenda.
2. Mr. Speaker, we wish to recall that the medium-term growth targets in the GPRS II is between 6 and 8 per cent per annum with the following assumptions:
 - macroeconomic stability, especially, by containing inflation within a single digit range;
 - a stable Ghana cedi exchange rate with prudent management that will keep the depreciation of the cedi below 4 per cent per annum;
 - reduced cost of investment loans as incentives for stimulating investment in support of private sector-led growth;
 - containment of fiscal deficits, and preventing them from being a major source of monetary instability and price inflation;
 - a vigorous domestic revenue mobilization and its effective use in driving the prioritized development targets. This is to be attained through mostly administrative measures and enhancing the capacity of existing tax collection instruments and personnel;
 - an efficient expenditure re-prioritization in favour of development expenditure and to ensure efficiency in the use of public resources; and
 - growth in aggregate investment, especially in energy and infrastructure, including the use of Public Private Sector Partnerships.
3. Mr. Speaker, the accelerated growth of the economy will result from continued macroeconomic stability, a vibrant private sector, vigorous human resource development underpinned by deepening good governance and civic responsibility.
4. As indicated in the 2007 Budget Statement, Government will continue with policies that will sustain the gains made in macroeconomic stability by ensuring:
 - prudent fiscal policy management;
 - a monetary policy that is flexible enough to respond to external shocks, promote growth and ensure price stability;
 - real interest rates that enhance effective mobilization of savings and make credits affordable to the private sector;
 - relatively stable real exchange rates that promote international trade.

Medium-Term Macroeconomic Framework

5. Mr. Speaker, Government's policies for the medium term are designed to raise the current growth rate of 6.3 per cent to 8 per cent by end 2009, and maintain it around that level over the medium term; to achieve an inflation target of 5 per cent by 2009; and preserve relative exchange rate stability, in a stable macroeconomic environment. The pursuit of continued consolidation of public finances will hold the overall fiscal deficit down to an average of 4 per cent of GDP and the gross public domestic and external debt maintained below 60 per cent of GDP.
6. The medium term framework has an estimated set of investments required to achieve the Millennium Development Goals (MDGs). These investments are to be made in identified growth catalytic projects concentrated in energy, transportation, and ICT. They are designed to remove bottlenecks constraining output in the short-run and build the infrastructural foundation to facilitate private sector investment, and increase economic capacity and productivity.

Fiscal Policy

7. Government will continue to pursue the established policy priority of investing in human resource development, promoting the private sector, and deepening good governance, as anchors of social and political stability.
8. Fiscal consolidation over the last few years has entailed reforms with significant improvement in the tax system. These include:
 - introduction of NHIS tax on a value added basis;
 - reducing corporate income tax, and raising the minimum income tax threshold to the level of annual minimum wage;
 - eliminating a number of distorting special taxes and levies;
 - maintaining external tariffs within relatively low dispersions (between 0-20 per cent).
 - improving efficiency of the tax administration to enhance the yield of the existing tax system;
 - review of the import duty exemptions regime; and
 - further rationalization of expenditures, including transfers to public entities.
9. Improved administration of the tax system will enhance the revenue mobilization effort. Revenue as percentage of GDP, which averaged about 23.8 per cent in 2004 and 2005, went down to 22.3 per cent in 2006, and is projected to be maintained at around 23 per cent of GDP over the medium term. Fiscal deficit (excluding divestiture) is estimated to fall from the 7.8% of GDP in 2006 to no more than 4.0 per cent by 2009, which will be maintained over the medium term.

10. Government is committed to implementing a "**Growth with Stability Compact**". This is aimed at ensuring that stability is not compromised while scaling up investment in the critical growth areas.
11. Under this compact, Government will introduce:
 - a fiscal rule using total public debt to GDP ratio as a quantitative target;
 - a high level Value-For-Money Unit in the Ministry of Finance and Economic Planning to ensure proper selection of projects for inclusion in the public investment budget, and efficient use of funds;
 - an enhanced public debt management strategy to ensure a rigorous debt sustainability analysis; and
 - an enhanced Public Private Partnership (PPP) policy to encourage the private sector to participate in key infrastructure aspects of the accelerated growth agenda.

Monetary Policy

12. The Bank of Ghana (BoG) will direct monetary policy towards reducing the end period inflation to 7.0 per cent in 2008, and further down to 4 to 6 per cent by end 2009, and to commit to an inflation target not exceeding 5 per cent over the medium term. The Bank of Ghana has moved to a formal Inflation Targeting (IT) framework, which has been the operating framework over the past four years. This more formal arrangement with a commitment to pre-announced inflation targets and publication of forecasts will help anchor long-term inflation expectations. The flexible exchange rate regime will be maintained with foreign exchange interventions used as an instrument to smooth out volatility in the exchange market.
13. A comprehensive legal and regulatory framework, and strengthened risk-based prudential supervision policies have been put in place to further deepen the financial sector and safeguard the safety and soundness of the financial system.

Structural Policies

14. To remove identified bottlenecks to facilitate growth, Government is committed to further reforms and institutional set-ups to underpin the growth strategy. Among other things, Government has put the following in place:
 - a comprehensive energy policy to guide the critical investment in the sector to optimize the generation, transmission and distribution of energy. This will come with the rationalization of prices in the utilities sectors to ensure full cost recovery and facilitate private sector participation in energy delivery;

- reforms in the public sector to improve productivity and to rationalize public sector wages and compensation. A Fair Wages and Salaries Commission Act has already been passed by Parliament to kick-start the public sector reforms, with responsibility for ensuring wage settlements that are fair and justifiable in line with productivity gains and performance;
 - Government is vigorously pursuing the privatization program to induce foreign direct investment to drive growth.
15. In sum, **Mr. Speaker**, the NPP Government has designed and intends to pursue consistent and predictable macroeconomic policies to provide the underpinnings for a private sector- led growth of the Ghanaian economy. These policies will build on the foundation already created over the past years by investing in growth catalytic infrastructure to create space and improve incentives for private sector development in a competitive market economy. These policies and structural reforms are expected to induce investments needed to boost productivity and expand output in line with the objectives of becoming a middle income country by 2015.

Macroeconomic Policies, Strategies and Targets for 2008

16. Mr. Speaker, the three thematic areas of Private Sector Development; Human Resource Development; Good Governance and Civic Responsibility; will continue to anchor the 2008 economic and financial policies. To this end, Government will seek to accelerate the Growth Agenda outlined in the GPRS II, which stresses the importance of growth for wealth creation and sustainable poverty reduction.
17. This requires a scaling-up of the resource envelope to provide for investments in energy, roads, railways, information and communications technology.
18. For 2008 in particular, and the medium term in general, attention will be focused on increased revenue mobilisation; continued strengthening of public expenditure management including public sector wages; and privatization of SOEs.
19. Mr. Speaker, these assumptions will continue to inform the annual budget and our medium-term macroeconomic targets. In consideration, therefore, the following macroeconomic targets have been set for 2008:
- a real GDP growth of at least 7.0 per cent ;
 - an end period inflation rate of between 6.0 and 8.0 per cent;
 - an average inflation of 7.0 per cent;
 - accumulation of international reserves of the equivalence of at least three months of import cover; and

- an overall budget deficit of 4.0 per cent of GDP
20. Mr. Speaker, conscious of its implications to the budget deficit, we will pursue a prudent use of resources from the borrowing from the international capital market to achieve our growth objective. The conflicts in policy objective of increasing growth and at the same time maintaining a sustainable fiscal deficit will have to be well managed.
 21. The use of HIPC and MDRI inflows, concessional funding from our development partners and the proceeds from the Sovereign bonds floated on the international capital market are also expected to supplement domestic resource mobilization.
 22. Mr. Speaker, the main challenges facing our macroeconomic objectives are the high oil prices in the international market. In addition, the other dimensions of the energy crisis still linger on. As a result of the shift in the generation mix in favour of thermal generation, the Volta River Authority (VRA) will be required to purchase more cargoes of oil to operate its thermal plants. This has serious consequences for the country's fiscal outlook and, indeed, foreign exchange reserves.
 23. Mr. Speaker, Government will continue to maintain very healthy relations with the international financial institutions, the international financial markets, private sector operators and development partners in general. We believe that this will enable us mobilise the optimal mix of resources to achieve our growth agenda.

Outlook for Growth in 2008

24. Mr. Speaker, real GDP is targeted to grow at 7.0 per cent, in 2008. The target growth rate is expected to be propelled by a 5.0 per cent growth in agriculture, a 9.2 per cent growth in industry, and a 7.3 per cent growth in Services.
25. Growth in the **Agriculture sector** is expected to be driven by a strong growth in crops and livestock production (5.5 per cent). In the **Industry sector**, growth is expected to be driven by Electricity and water (22.0 per cent), while in the **Services sector**, Finance, Insurance, Real Estate and Business services (13.0 per cent) is projected to lead the growth in 2008.

Resource Mobilisation and Allocation For 2008

Resource Mobilisation

26. Mr. Speaker, the **total resource envelope** connoted as **total receipts** for the 2008 fiscal year is projected at GH¢7,107.2 million, equivalent to

43.6 per cent of GDP. **Domestic revenue**, consisting of tax and non-tax revenue is projected at GH¢4,763.2 million.

27. **Total tax revenue** comprising all tax revenue from the Internal Revenue Service (IRS), Customs Excise and Preventive Service (CEPS) and Value Added Tax Service (VATS) is projected at GH¢3,973.8 million, representing 24.4 per cent of GDP.
28. Out of the projected tax revenue, **direct taxes** are estimated at GH¢1,112.4 million, accounting for 28.2 per cent of total tax revenue. This amount indicates a 24.1 per cent increase over the 2007 projected actual collection.
29. The projected growth in direct taxes is the result of measures put in place to broaden the tax base, computerisation of district offices of the IRS and increased enforcement actions, among others.
30. **Indirect taxes** are expected to increase from the 2007 projected level of GH¢1,330.6 to GH¢1,548.5 million in 2008. This is made up of GH¢1,000.1 million for total VAT with petroleum and excise taxes yielding GH¢490.0 million and GH¢58.3 million, respectively.
31. **International Trade taxes**, comprising import and export duties, are projected at GH¢746.3 million, representing 4.6 per cent of GDP and an 18.6 per cent increase over the 2007 projected outturn. Out of the projected amount for 2008, import and export duties are projected to yield GH¢672.8 million and GH¢73.5 million, respectively.
32. **The National Health Insurance Levy** is projected to yield an amount of GH¢235.4 million, representing 1.4 per cent of GDP.
33. Mr. Speaker, **Non-Tax Revenue** is projected at GH¢424.0 million, equivalent to 2.6 per cent of GDP. Out of this amount, GH¢299.2 million is estimated to be retained by the MDAs and GH¢124.8 million is projected to be lodged for general government use.
34. **Grants** from donors are projected at GH¢853.4 million. This is made up of **Project** and **Programme grants** of GH¢514.8 million and GH¢201.0 million, respectively. **Highly Indebted Poor Country (HIPC) Assistance** from multilateral institutions and, **Multilateral Debt Relief Initiative (MDRI)**, are expected to yield GH¢81.9 million and GH¢55.6 million respectively.
35. **Project** and **Programme Loans** are estimated at GH¢485.3 million and GH¢136.2 million, respectively.

36. **Divestiture Receipts** are projected at GH¢275.7 million, representing 1.7 per cent of GDP.
37. **Exceptional financing** made up of HIPC relief from our bilateral partners is projected at GH¢77.5 million.
38. Mr. Speaker, Ghana has successfully accessed the **International Capital Market**, by raising US\$750 million equivalent to GH¢713.1 million, through the issue of a sovereign bond.
39. An amount of US\$207.5 million, equivalent to GH¢193.9 million of the amount has been earmarked for specific energy and road projects in 2007. The remaining amount of US\$542.5 million, equivalent to GH¢515.8 million, is earmarked to be utilised in 2008, also for specific projects in the energy, roads and railways sectors.

Payments

40. Mr. Speaker, total payments for 2008 is projected at GH¢7,107.2 million. Out of this amount, GH¢1,728.9 million, equivalent to 10.6 per cent of GDP is estimated for statutory payments, and GH¢5,378.2 million is projected to be used for discretionary payments.

Statutory Payments

41. Mr. Speaker, **Statutory payments**, comprising all expenditure items which are mandatory, are projected at GH¢1,728.9 million.
42. **External Debt Service** is estimated at GH¢293.2 million, out of which interest payments are GH¢114.2 million.
43. **Domestic interest payments** for the 2008 fiscal year are projected to be GH¢352.3 million.
44. Mr. Speaker, Central Government transfers into the **District Assemblies Common Fund** and **Ghana Education Trust Fund** are estimated to be GH¢234.3 million and GH¢163.0 million, respectively.
45. It is estimated that an amount of GH¢235.4 million will be transferred to the **National Health Insurance Fund** in 2008. An amount of GH¢129.2 million is projected to be transferred into the **Road Fund**, while GH¢3.5 million will be transferred into the **Petroleum-related Fund**, for the funding of exploration and other petroleum-related activities.
46. **Transfers to Households**, which is made up of an amount of GH¢127.4 million for **Pensions**, GH¢58 million for **Gratuities** and GH¢132.7 million for **Social Security** contributions by Government on behalf of its employees, will amount to GH¢318.0 million, equivalent to 2.0 per cent of GDP.

Discretionary Payments

47. Mr. Speaker, **total discretionary payments** is estimated at GH¢5,378.2 million, equivalent to 33.0 per cent of GDP, and 75.7 per cent of total payments.
48. Out of this amount, **personal emoluments** is estimated to be GH¢1,559.9 million, representing 9.6 per cent of GDP, 32.7 per cent of domestic revenue, and 29.0 per cent of total discretionary payments.
49. Mr. Speaker, **Administration and Service (Items 2 and 3)** expenses for MDAs are estimated at GH¢385.6 million and GH¢120.6 million, respectively. The two together represent 3.1 per cent of GDP, 10.6 per cent of domestic revenue, and 9.4 per cent of discretionary payments.
50. **Domestic-Financed Investment** (excluding those financed from statutory funds) are projected to be GH¢745.8 million. Out of this amount, GH¢515.8 million which was borrowed from the International Capital Market is earmarked for specific projects in the energy, roads and railways sectors.

51. An amount of GH¢1,000.2 million, equivalent to 6.1 per cent of GDP and 18.6 per cent of total discretionary expenditures is estimated for **Foreign Financed Investment**.
52. **Other transfers** are estimated at GH¢679.2 million, out of which GH¢13.4 million will be used to **mitigate the impact of petroleum price liberalization**, while an amount of GH¢10.0 million has been set aside projected for reimbursement to ECG in respect of subsidies to lifeline consumers of electricity. An amount of GH¢299.2 million of internally generated funds is expected to be retained by MDAs, while import duty exemptions are estimated at GH¢356.6.
53. Mr. Speaker, as has been the practice, 20 per cent of debt relief from the **HIPC debt relief initiative** will be used for the reduction of domestic debt. The remaining 80 per cent will be distributed to MDAs, MMDAs and other institutions for the implementation of activities aimed at reducing poverty and improving the economic and social conditions of Ghanaians. In 2008, the 80 per cent of HIPC relief to be distributed is estimated to be GH¢127.6 million, while **MDRI-financed expenditure** is projected at GH¢55.6 million.
54. Mr. Speaker, an amount of GH¢243.7 million has been set aside in a **reserve fund** for the purchase of crude oil, payment of judgment debts and setting up of an escrow account for the purchase of gas from the West African Gas Pipeline. Additionally, an amount of GH¢25 million has been earmarked in the Reserve fund for **disaster management**, particularly in northern Ghana.
55. Mr. Speaker, the 2008 budget results in a net domestic debt repayment of GH¢382.4 million equivalent to 2.3 per cent of GDP.

Overall Budget Balances

56. Mr. Speaker, as a result of the revenue and expenditure projections indicated above, the 2008 budget envisages an overall budget deficit equivalent to 4.0 per cent of GDP.
57. The domestic primary balance is expected to be a deficit equivalent to 1.7 per cent of GDP.
58. Mr. Speaker, the domestic-debt-to GDP ratio continues to be the fiscal anchor, and we will keep monitoring the target to ensure that this remains sustainable over the medium to long term. The net domestic-debt-to GDP ratio is projected to be 8.0 per cent in 2008 declining from a projected 12.0 per cent in 2007. It is estimated that the gross domestic-debt-to GDP ratio will go down from the projected 21.2 per cent in 2007 to about 16.0 per cent in 2008.

59. The fiscal outlook is critical to Government in achieving the objective of maintaining long-term fiscal and debt sustainability. We believe that the underlying overall budget deficit is still sustainable in 2008 and in the medium term.
60. Government is aware of the need to maintain prudence, and to safeguard the fiscal stance against contingent liabilities stemming from the rationalization of the public sector. Government is committed to managing and preserving the legacy of the macroeconomic gains achieved thus far, particularly, with respect to the fiscal consolidation, and continued track record of accomplishment in all areas – governance, respect for the rule of law, property rights and a liberal economic system where the private sector plays a key role.

Price and Monetary Outlook

61. The broad macroeconomic and financial programme objectives for 2008 require that inflation reduces from its current level of 10.1 per cent (at the end of October) to a target range of 6-8 per cent in 2008 and reduce further to 4-6 per cent in the medium term. Bank of Ghana would continue to implement monetary policies aimed at steering inflation expectations towards the mid single digit range and to ensure an optimal liquidity position which is consistent with the macroeconomic objectives for 2008. Among the key challenges to the forecast for 2008 remain the escalating world crude oil prices and the consequent pass through to domestic costs and dynamics in the labour market.

External Outlook

62. Government policy on the external sector will continue to focus on building up enough reserves to cover at least three months of imports of goods and services. Policies introduced to improve the productivity of the cocoa sector over the past few years will continue to sustain the increased trend in export revenue. In order to encourage more private inward remittances, the gains achieved in the general macroeconomic environment will be consolidated, and all the issues associated with official transfer charges will be streamlined.
63. The projections of the balance of payments (BOP) for 2008 indicate a growth rate of 15.9 per cent in exports to a level of about US\$4,973.66 million, while at the same time imports are projected to grow marginally by about 4 per cent to US\$8,633.63 million in 2008, resulting in a projected narrowing of the trade deficit US\$3,659.97 million in 2008.
64. It is expected that there will be a slow down in imports for two reasons. First, oil-related imports are likely to go down in both volume and value

when we begin to access cheaper natural gas from the West African Gas Pipeline. Second, with the national power crises now seemingly under control, imports of merchandise that relate to energy provision are expected to decline.

65. In view of the recent developments in the international financial markets vis-à-vis Ghana, we expect international finance to begin to have a greater impact on the growth prospects of the country. At the same time, we expect a sharp rise in income to non-residents when coupon payments begin. As a result, the deficit in the income account will somewhat begin to grow.
66. The unrequited transfers account will remain in surplus and, generally, prospects for the achievement of our external sector objectives in the medium-term look bright.