

# LEGISLATIVE ALERT

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## THE 1998 BUDGET STATEMENT

by

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### Introduction

The 1998 Budget Statement was at best a "business as usual" budget when an extraordinary budget was called for to tackle a national crisis situation. The Budget was a disservice to the President in whose name it was presented. The President had called 1998 "a difficult year". The Budget, however, addressed a normal year of more than average performance.

The Budget projections, even under the best circumstances, have been more often missed than attained. The projections for 1998 have been proven unrealistic by the energy crisis which the Budget totally ignored.

The 1998 Budget was therefore still-born. The best the President, the Cabinet and the Parliament could have done to redeem the image of Ghana was to have caused the Budget to be withdrawn and the technicians who got their Minister to read a Budget so far removed from the Ghanaian reality to be redeployed for retraining. The Budget is not an instrument for practical jokes.

The best that can be done here is to share ideas on what is expected of Budget Statements, and to flag some of the good proposals outlined in an otherwise pie-in-the-sky Budget, policy initiatives which will provide stepping stones for future development.

### Where Should the Budget Statement Have Taken Off From?

The 1998 Budget Statement, if it was meant as a serious policy statement of the NDC government, was expected to be viewed against the backdrop of the following:

- a) The January 15, 1998 Sessional Address of the President on the occasion of the State Opening of the Second Session of the Second Parliament of the Fourth Republic.

What needs to be flagged in this address is to be found at pages four and five where the President said of 1998:

"One thing is for sure, however.

We face a difficult year, ..."

- "We remain committed to achieving the consensus goal of a balanced budget by the year 2001".

- b) In September 1997 a National Economic Forum weighed the difficult policy decisions which needed to be taken on a non-partisan platform so as to move the national economy onto a higher level of performance. The aims were the re-establishment of macro-economic stability after its derailment in 1992, and putting in place the policy and institutional framework and programmes for moving Ghana onto the virtuous cycle of accelerated and sustainable growth.

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A key obstacle to the economy's improved performance which was identified by the National Economic Forum was the management of government finances. A key policy agreement was that the budgetary deficit in 1998 was not to exceed 5% of GDP, down from the unsustainable levels of 10.4% in 1996 and 8.7% in 1997.

c) Judging by the NDC government's public pronouncements, the economic blue-print underpinning the whole edifice of improving the quality of life of Ghanaians is VISION 2020. According to this Vision, if the country is serious about achieving a middle income status by that magical year, then it should already have re-established macro-economic stability, moving to GDP growth rate of 8%, with investment rate exceeding 24% from current 15% levels. And measures for transforming agriculture should already have been in place.

The 1998 Budget should provide the building blocks for erecting the foundations which would support the nation's gradual but persistent efforts to achieve the objectives of Vision 2020. The Budget should have offered hard strategic choices to respond to the critical issues militating against the take-off of the economy for accelerated broad-based development.

#### The Realism of the Macro-economic Targets

The broad macro-economic targets will be difficult to attain. The Budget in its "business-as-usual" approach, claims GDP growth will be better than in the two previous average years.

	Forecast		Real
	1998	1997	1996
GDP	5.6	5.1	5.2
agric	4.4	3.3	4.0
industry	6.0	5.7	4.2
manuf.	...	5.4	3.0
constr.	...	6.7	6.1
services	6.0	6.2	6.3
Inflation			
average	15.0	27.9	46.6
yr/year	9.5	20.8	32.7
Budget			
Deficit as	5.8	8.7	10.4
% of GDP			

The first quarter of 1998 is now gone. Industry, especially manufacturing has been forced by the energy crisis to operate at levels below those of

1997. The rains show no signs of coming. Given the country's dependence on "by Grace of God agriculture", the prospects for realising growth targets are not good. Nor are the prospects good for serious attempts at resolving the energy crisis within the next 12 months.

The lowering of inflation in Ghana in recent years has been dependent on availability of food through good harvest, which means good rains. It is now estimated that close to 60% of the average household budget is spent on food. Given the weather developments so far, it will be difficult to attain the year-on-year inflationary target of one digit (year on year).

A March 23, 1998 IMF release quoted by Reuters, on the signing of a \$110 million agreement with Ghana under the Enhanced Structural Adjustment Facility projects growth and inflation figures as follows:

	1997	1998	1999	2000
GDP	5.0	5.6	5.8	5.8
Inflation	20.8	11.0	5.5	5.0
(yr/yr)				

The agreement is intended to help regain macro-economic stability and rein in inflation.

So the achievement of the one-digit year-on-year inflation goal seems to have been shifted to 1999. And the higher level of performance in growth is shifted to beyond the year 2000.

The failure of the Budget statement to have made more serious than business-as-usual effort to control the budget deficit to the generous consensus target of 5% in 1998, is indicative of lack of political will to take and make the hard critical choices needed for accelerated growth.

The revenue targets may also come under severe pressure. With industry operating at lower than normal levels, and with the energy crisis forcing labour retrenchment, taxes on income will be lower, while taxes on domestic goods and services may also be lower than projected since the Budget did not factor the energy crisis into its revenue projections. Tax revenue which was projected to drop from the 1996 and 1997 average of some 81% as a share of total revenue to some 74%, may be lower than expected.



Of course lower than expected revenue will not be matched by lower expenditures since most public sector organizations may be forced to rely on generators and thus push prices higher. Cement and other development inputs will be priced higher to reflect the energy shortages. If the government is forced to borrow to make up for the revenue shortages, this will be bad for the private sector which will continue to be crowded out of the credit market. And if the financing is monetised, then it will generate inflationary pressures.

### Some Worrying Aspects of Public Finances

Certain developments in public finances should be giving reasons to worry. There is reason to believe that there is a structural dis-equilibrium between government expenditures and revenue which needs addressing through a combination of expenditure restructuring and revenue raising measures. Facilitation of the revenue raising aspects requires expenditure management gestures which so far have not been forthcoming. And the rhetoric of those in government does not give confidence that this fundamental disequilibrium can be addressed objectively and realistically.

The share of recurrent expenditures absorbed by interest payment on public debt, seems to be getting out of hand. Interest payment as a percentage of recurrent expenditure has risen from 31% in 1996 to 36% in 1997 and is projected at 35% in 1998. In the meantime the salaries and wages bill has stagnated around 32% in the past two years and is expected to rise marginally to 33% in 1998. In 1997 and 1998 interest payments have been exceeding emoluments. This may be an indication that Ghana has finally become a capitalist nation, with more income being earned on accumulated capital than on the provision of labour and skills.

### Some Indicators of Public Revenue & Expenditure

	1998	1997	1996
As % of Recurrent Expenditure:			
Interest Payment	35%	36%	31%
Emoluments	33%	32%	32%
Total Expenditure (billion cedis)	5,005	3,764.2	2,543.1
Dev. Outlay as %	15%	14%	22%
Total Revenue	3,821.0	2,570.8	2,075.9
Tax Revenue as %	74%	80%	82%

### Some Good Beginnings in the 1998 Budget

A strong point in favour of the Finance Minister was that he moved from the usual preoccupation with macro-economics to sector specific issues. This was a good engineering approach to tackle hard realities.

In paragraph 84, the idea of land lease to get the youth into agriculture is a laudable one, and may prove a beginning to resolving the land problem, which is necessary if agriculture is to be transformed from its current hoe and cutlass technology and as the occupation of the old, to a science and technology oriented activity for the youth. Even, here, the chiefs have to be prevailed upon to co-operate. And of course, medium and large scale nucleus farm propelled agriculture requires energy input. So 1998 output will not benefit from this policy.

The good policy outlined in para. 137 for improving rail transportation failed to include urban transit rail for providing cheap mass transport for the Accra-Tema metropolitan workers. This would be one way of decongesting Accra, saving fuel and lowering cost of transport for workers.

The bad effects of the hasty and poorly managed trade liberalisation programme on industry, especially the garment sector is to be addressed through a rationalisation of the tariff regime as a way of improving the "export competitiveness" of the industrial sector (para. 175). A mechanism has been put in place in MOTI to monitor how world markets "affect our import competing industries with a view to recommending compensation measures to ensure the levelling of the field for local industries". (Para. 176)

A beginning has also been made to rationalise our port operations with CEPS being made to work on 7 days a week basis. A more drastic overhaul of our port operations is needed if we mean serious business. Most S.E. Asian countries have efficient ports with rapid turn-around for vessels.

The tax break for banks on "income derived from bank lending to agriculture" may need chartered accountants to help design the modalities for its implementation. CIT for banks for this activity has been reduced from 35% to 20% (para. 208), while rural banks are now reclassified as "non-traditional banks" and their CIT reduced from 35% to 8%

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(para. 209). Some would have preferred the tax being collected and lodged in a fund for a soft loan window for agriculture, to minimise the shortage of long-term credit at competitive prices for agricultural development.

The 1998 Budget put up some interesting proposals for generating long-term capital through mobilisation of funds. The establishment of the Privatisation Trust (para. 229) to warehouse government shares for floating on the GSE is worthy of support. One of the shortcomings of the divestiture programme was its failure to strengthen the stock exchange and to stimulate Ghanaian participation in the national economy.

Another savings mobilisation measure is the proposal to encourage the establishment of supplementary occupational schemes by the private sector to complement the SSNIT basic pension scheme. If the savings rate is to rise from current low levels to contribute to higher levels of investment rate required for attaining accelerated growth, then this initiative needs to be moved from the status of consultation with SSNIT to a national actionable status as soon as practicable. What is required is an incentive tax package to make it worth the while of employers and employees to contemplate the establishment of such private pension schemes.

The proposals for combined tax teams (para. 264) involving all institutions, and the reintroduction of the VAT provide a unique opportunity to give serious consideration to the proposal for a tax amnesty so that the business community can come clean under a new tax dispensation.

### **Conclusion**

The few measures mentioned above are the potential ingredients of a Budget meant as the instrument for creating the building blocks for realising the goals of Vision 2020.

The energy crisis has provided a unique opportunity for the country to break out of its habit of "business as usual". A Presidential Commission on Energy made up of experts from both the public and the private sector should already have been constituted to come out with immediate, short-term, medium-term and long-term solutions.

The S.E. Asian financial disaster provides a vicarious opportunity for Ghanaians to know that playing in the global market and depending on foreign investment means practicing prudent financial management as a daily habit. It requires transparency and good governance. And no creative accounting on national income and inflation can help us escape the scrutiny of the international financial world.

The recent visit of the American President provides a major potential fillip to our development efforts: the opening up of the markets of the richest nation in the world to us. This was a major factor in the S.E. Asian miracle. Can Ghanaians organise themselves to take advantage of the opportunities, the challenges of quality control and production on time to fulfil contracts?

The 1998 Budget Statement does not give enough confidence for one to respond in the affirmative to the question whether Ghana is ready to make a dash from poverty to broad-based accelerated growth. Ghana needs to become serious in order to reach upwards onto the virtuous cycle of growth. This is the level of production where high incomes generate high savings, which get translated into higher productive investment, leading to another round of higher output with its concomitant rising savings and higher investments. This is where Ghanaians are striving to be. And each Budget statement should be positioning Ghanaians to be reaching up towards this goal. ■

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