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REPUBLIC OF GHANA

1965 SUPPLEMENTARY BUDGET STATEMENT

by

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Minister of Finance

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Mr. Speaker,

By command of Osagyefo the President, General Secretary and Chairman of the Central Committee of the Party, I beg to move "That this House approve the financial policy of the Government for the period 10th September, to the 31st December, 1965".

Introduction

Mr. Speaker, the presentation of a "Little" Budget during the course of a financial year is an unusual occurrence in this country. Indeed this appears to be the first time that this event has taken place. But there is an explanation for it. Year in year out it has transpired that Finance Ministers in this country have for one reason or another found it necessary to appear before this House to ask for the approval by the House of supplementary estimates submitted by Departments and Ministries. Invariably these supplementaries have been approved without any regard for the need to bridge the gap between revenue and expenditure created thereby. For the past few years this additional provision has gone to increase the original deficit on the budget, which has been financed to a large extent by a drawing down of our foreign exchange reserves and resort to central bank borrowing.

Mr. Speaker, as Members are aware the use of the Printing Press for balancing budgets may be a very convenient device. Like all such devices however, it tends to throw up evils which in their result defeat the purpose for which they were designed. In particular it may lead to the creation of an intolerable inflationary situation which will hit the poor much harder than the rich. Ours being a society in transition to socialism, our aim should be to even out our burdens and to ensure that no one bears more than lies within his ability. It is with this aim in view that the Party and Government have decided that the introduction of the Supplementary Estimates in this House this year should be coupled with tax proposals for meeting the expenditure resulting from the provision of the additional funds. This is indeed in line with the thoughts of our illustrious leader when he referred in his recent sessional address to the House, to the Government's policy of ensuring financial stability without sacrificing growth and development.

Financing the Deficit

Members will no doubt recall that the 1965 Annual Estimates provided for a total expenditure of ¢480 million (£G200 million) made up of ¢240.7 million (£G100.3 million) for recurrent expenditure and ¢239.3

million (£G99.7 million) for development plan expenditure. The total expenditure of ¢480 million (£G200 million) exceeded the total estimated revenue of ¢321.4 million (£G133.9 million) by ¢158.7 million (£G66.1 million). I proposed, in the statement which I made to the House on the 21st January, 1965, to finance the deficit of ¢158.64 million (£G66.1 million) by external and internal borrowings as follows:—

(*a*) Credits available in 1965 under Suppliers' credits contracted	¢63.36m.	(£G26.4 million)
(*b*) Additional foreign suppliers' Credits to be obtained ..	¢57.60m.	(£G24.0 million)
(*c*) Borrowing from IMF ..	¢12.00m.	(£G5.0 million)
(*d*) Arrears of compulsory savings	¢1.20m.	(£G0.5 million)
(*e*) Internal Borrowing i.e. Treasury Bills, Government Stocks, etc.	¢24.48m.	(£G10.2 million
Total	¢158.64	(£G66.1 million)

Actual revenue for the first half of the year, that is, from 1st January to 30th June, 1965, was ¢156.5 million (£G65,219,143) while expenditure, including advances, was ¢196 million (£G81,668,866) made up of ¢113.28 (£G47.2 million) on recurrent account and ¢82.56 million (£G34.4 million) on development. There was thus a surplus of ¢43.20 million (£G18.0 million) on current account. This is equivalent to about 38 per cent of recurrent expenditure. Mr. Speaker, this is an achievement of which we should be justly proud for there are very few countries in the developing world which can boast of a surplus of this magnitude on recurrent account. On development account however, there was a cash deficit of ¢39.36 million (£G16.4 million). In addition, suppliers' credits utilised during the same period was ¢28.6 million (£G11.9 million) as against an estimate of ¢120.96 million (£G50.4 million for the whole year. The cash deficit of nearly ¢39.6 million (£G16.5 million) was financed from loans raised totalling nearly ¢59.5 million (£G24.8 million). Of this ¢2.2 million (£G0.9 million was obtained from external sources. It will thus be seen that against an estimated local borrowing of ¢25.7 million (£G10.7 million) for the whole year we have already borrowed ¢57.1 million (£G23.8 million).

Expenditure during the second half of the year has been increased by the Supplementary Estimates which have already been distributed to Members. These Estimates provide for a net additional expenditure of ¢39.1 million (£G16,333,780) made up of ¢23.3 million (£G9,667,480) for recurrent expenditure and ¢15.8 million (£G6,666,300) for development plan expenditure. It is however estimated that actual cash expenditure for the full year, that is, from 1st January to 31st December will not exceed ¢408 million (£G170 million). This together with anticipated credit finance expenditure of about ¢72 million (£G30 million) will bring total expenditure to the ¢480 million (£G200 million) mark. There is therefore an additional cash requirement of ¢48.96 million (£G20.4 million) which has to be covered if we want to maintain the strength of

the Cedi. In the past we were able to run large budget deficits without weakening the strength of the £G because we had substantial foreign exchange reserves which we utilised to finance these deficits.

IMF Preliminary Report

Unfortunately, Mr. Speaker, we have now reached a stage where our resources cannot be run down any further without endangering the stability of the Cedi. It was for this and other reasons, particularly the catastrophic drop in the price of cocoa, Mr. Speaker, that the Government decided recently to invite a mission from the International Monetary Fund of which Ghana is a member to come to this country and to assist us to prepare a programme which would enable us to re-negotiate some of the suppliers' credits which we have contracted. The object of this exercise is to re-negotiate with the foreign suppliers, through their governments, to extend the period of repayment of these credits and to reduce the burden of debt servicing. This would make it possible to use proportionately more of the revenues we are able to raise and the foreign exchange we earn in the further development of our country. The final report of the Mission has not yet been received, but before they left the Mission submitted a preliminary report in which they indicated certain lines of action for consideration. Mr. Speaker, I am happy to inform the House that these preliminary recommendations were not substantially different from those proposed by Osagyefo the President and the Central Committee of the Party before the arrival of the Mission. These recommendations have therefore been accepted by the Government and action has already been initiated to implement them.

It was Government's intention to treat this preliminary report as a confidential document until the full report was received, studied and discussed with both the Fund and the International Bank for Reconstruction and Development otherwise known as the World Bank whose Mission is currently in the country at the invitation of the Government. In view, however, of the uninformed comments that are being made in certain sections of the world press with an axe to grind against Ghana I propose, Mr. Speaker, with your permission, to give Members a brief summary of the recommendations and to inform them of the steps being taken to implement them.

The report observes that the Ghana economy is severely overstrained and recommends a period of consolidation. This in no way means stagnation. We have to ensure that industries we have set up or in the process of establishment are provided with the necessary tools to run efficiently. To achieve this the Mission recommends the following measures:—

(1) Government expenditure, recurrent and capital, should be limited to an amount that can be covered by Government revenue and by non-inflationary borrowing.

(2) A temporary halt should be placed on the launching of new projects financed by suppliers' credits of a short or medium term nature.

(3) Steps should be taken to cut domestic demand, including a cut in the producer price of cocoa.

(4) The dependence of State enterprises on subsidies from the Central Government should be stopped.

(5) The control of the public purse and the commitment of public funds should be centralised and strengthened.

(6) The liberal attitude toward foreign investment found in the Capital Investments Act should be made more manifest in public policies.

(7) Import licensing should be based on a strict system of priorities. Some global quotas should be introduced, and licences issued should be honoured promptly by all relevant agencies of the Government.

(8) The present bilateral and barter arrangements should be reconsidered with a view to reducing their harmful impact of the Ghana economy.

Mr. Speaker, the Party and Government see nothing wrong with these recommendations and have therefore started to implement them. The most delicate part of the recommendation, that is, the reduction of the producer price of cocoa has already been implemented, thanks to the realism and patriotism of our farmers who on their own initiative volunteered for a cut in the naked ex-scale price per load of 60 lb. payable to them from ¢7.20 to ¢4.80 per load. Osagyefo the President has also directed that the weight of the 1966 Budget should be shifted in favour of the productive sector; in other words the total budget expenditure on the productive sector should be raised from 35 per cent to 55 per cent of the State Budget. A Master Budget is also in the course of preparation by which every effort is being made to rephase the rest of the planned expenditure in the Seven-Year Development Plan so that resort to borrowing from banking system is reduced and 65 per cent of budgetary resources is used on economic or productive sectors by 1970.

Nowhere in the report was there any specific mention of Ghana Airways, diplomatic missions or defence spending as a recent article in *The Economist*, a London weekly, suggested. Indeed the Fund report expressly stated and with your permission, Mr. Speaker, I wish to quote:

> "It would be impertinent for us to suggest which areas of expenditure might most appropriately be cut."

Mr. Speaker, I have already stated that actual cash expenditure for the year is estimated to be ¢408 million (£G170 million). This exceeds our estimated cash resources by ¢48.96 million (£G20.4 million). It is proposed to cover ¢42.24 million (£G17.6 million) of this from the following non-inflationary sources:

	million ¢	*million* £G
Cash held by banks and sub-accountants ..	22.32	9.3
Excess collection of Income Tax	7.20	3.0
Counterpart funds	0.72	0.3
Issue of Government stocks (to be taken up by institutional investors)	12.00	5.0
Total	42.24	17.6

This will leave a gap of ¢6.72 million (£G2.8 million) which I propose to cover by levying additional taxation. Mr. Speaker, I wish to emphasise that unless we take firm measures our economy will be further weakened and our gates may well be thrown open to neo-colonialist infiltration. Under the dynamic leadership of Osagyefo the President, and the unbreakable mass support of our people in town and country I am sure I echo the thoughts of this House when I say that this is beyond the realm of practical politics.

Foreign Exchange Budget

With regard to the Foreign Exchange Budget, Mr. Speaker, it would appear that the forecast of our foreign exchange earnings of about ¢309.1 million (£G128.8 million) for 1965 is likely to materialise.

For the preparation of the Foreign Exchange Budget presented to Parliament in January, an average c.i.f. prices of ¢432 (£G180) per ton was assumed for cocoa. However, the average price obtained in the course of the year was much lower than expected and in fact dropped to about ¢336 (£G140) per ton c.i.f. On the other hand the size of the crop turned out to be much larger than was originally estimated so that the expected receipts from cocoa exports are likely to be maintained. If the 1963–64 average price of ¢432 (£G180) per ton c.i.f. had materialised the country's reserves on an output of the current crop year, would have improved by ¢86.4 million (£G36 million). Thus this ¢86.4 million (£G36 million) which should have justly accrued to us has been taken by middlemen, speculators and manufacturers in the developed consuming countries to the detriment of our economy. Mr. Speaker, this is why Osagyefo the President, the Party and Government have constantly emphasised the need for fair trade between the developed and the developing countries.

The forecast of expected payments of ¢450.2 million (£G187.6 million) in respect of imports of goods and services is also likely to be borne out. In my main Budget Speech early this year I stated that planned imports for 1965 would amount to ¢343.2 million (£G143 million) f.o.b. Added to this was an extra provision of ¢31.2 million (£G13 million) for freight and insurance, so that the total allocation for imports c.i.f. in 1965 was ¢374.4 million (£G156 million). Licences issued up to the end of July amounted to ¢473.5 million (£G182.3 million). This means an excess of ¢62.1 million) (£G26.3 million) over the planned imports for the whole of 1965.

A breakdown of licences issued against allocations gives the following picture:

Main Export Grouping	*Allocation*		*Issues*		*Balance*	
	¢m.	£Gm.	¢m.	£Gm.	¢m.	£Gm.
Health Services and Chemicals for treatment of water ..	(1) 8.16	3.4	(2) 12.24	5.1	(3) –4.08	–1.7
Primary industries						
(1) Mining	9.60	4.0	6.48	2.7	3.12	1.3
(2) Timber	4.08	1.7	3.84	1.6	0.24	0.1
(3) Agriculture ..	4.80	2.0	13.92	5.8	–9.12	–3.8

Main Export Grouping	*Allocation*		*Issues*		*Balance*	
	¢m.	£Gm.	¢m.	£Gm.	¢m.	£Gm.
	(1)		(2)		(3)	
Manufacturing industries	136.32	56.8	127.68	53.2	+8.64	+3.6
Consumer goods ..	191.28	79.7	273.12	113.8	-81.84	-34.1
Contingency	20.16	8.4	—	—	20.16	8.4
Total ..	374.40	156.0	437.28	182.2	62.88	26.2

I may mention that the over-issue of import licences has occurred in respect of consumer goods where the value of licences issued exceeded the allocation by ¢81.84 million (£G34.1 million).

In the supplementary Estimates placed before the House, Parliament is being requested to approve additional expenditure of ¢39.12 million (£G16.3 million) out of which about ¢13.44 million (£G5.6 million) is expected to be financed in foreign exchange. This amount represents imports for which licences have already been issued and which are already included in the total issue of ¢437.52 million (£G182.3 million).

I would like to add, however, that due to the slight delay in the issue of licences not all licences are likely to be utilised during 1965. It is estimated that a total of about ¢60 million (£G25 million) of these licences may not be utilised for imports in 1965 and are likely to be extended for use in 1966.

On this basis the planned level of imports and exports in 1965 is not expected to be materially exceeded. The forecast in respect of payments and receipts from services is also not expected to change. I would therefore like to assure Members that the foreign exchange plan as presented on January 21st this year, will be substantially fulfilled.

This means that the payments deficit of ¢141.12 million (£G58.8 million) in the foreign Exchange Budget will also be maintained. In the financing of this deficit it was hoped that ¢72 million (£G30 million) would be obtained through trade credits. An additional ¢63.36 million (£G26.4 million) was expected from suppliers' credits. Also, the planned expansion of our trade with the centrally planned economies was expected to lead to an additional net inflow of ¢20.40 million (£G8.5 million). On the other hand our performance to-date indicates that trade credits at the end of the year will be about ¢36 million (£G15 million). The expected net inflow from suppliers' credits will be maintained. With regard to trade credits from the bilateral agreements countries, Mr. Speaker, I am happy to say that we expect to exceed the planned figure of ¢20.40 million (£G8.5 million) for the year 1965. The total of these inflows still falls short of the estimated deficit on the current account.

But the difference is accounted for by the net increase in the liabilities of the banking system so that the gross reserves still stand at virtually the same level as they were at the end of the year.

Revenue Proposals

Mr. Speaker, I now wish to turn to Government's proposals for raising the additional revenue already referred to.

In my Statement to the House last January I said that I had no intention to increase the rate of personal income tax. Instead I promised to give concessions to those employees whose salaries did not exceed ₵432 (£G180) per annum. I also promised to give concessions to expatriate employees engaged in mining and timber industries as well as those highly skilled technicians engaged in other sectors of the economy. The Bill, namely, the Income Tax (Amendment) Bill designed to bring about these concessions was unfortunately held up as a result of a misunderstanding about one of the clauses of the Bill. Mr. Speaker, I am happy to announce that that misunderstanding has now been resolved as a result of a series of meetings which, on the direction of Osagyefo the President, I had with the industrial organisations concerned. I propose therefore to submit the Bill to the House during the present meeting.

The Bill will require commercial firms and financial institutions to pay tax at the rate of 50 per cent instead of the existing rate of 45 per cent. The exemption from the minimum tax on turnover, previously granted to all companies which have not traded for more than five years, will now apply only to timber, mining and other heavy industrial concerns. The system whereby the tax-payer had to wait until he received an income tax assessment form before he submitted his return to the Central Revenue Department will be abolished as soon as the Bill becomes law. Instead, every tax-payer will be required by law to submit his income tax return without waiting to be asked to do so by the Commissioner. Forms for such returns can be obtained from the Banks, Post Offices and other public offices. In order to prevent delays in the submission of accounts by companies, they will now be required to submit accounts not later than four months after the end of their financial year. Individuals are also to submit accounts within two months from the beginning of the year of assessment, i.e. by the end of August every year. The Bill also provides for the declaration of net assets by individuals once every three years, the first declaration to be made within thirty days after the date of assent. This is in keeping with the spirit and letter of the historic Dawn Broadcast and will make it possible for more realistic assessments to be made. It is also expected that these changes will enable more tax-payers to be reached as well as strengthen and facilitate the collection of revenue.

It is also proposed to amend the Hotel Customers Act, which has been a source of wealth to unscrupulous hotel and bar keepers, by limiting its provisions to registered hotels. The tax which will remain at 10 per cent will be levied on food, accommodation and hotel service only. Drinks at the bar will be excluded.

Mr. Speaker, it has been decided to increase some of the customs duties already in force to raise additional revenue. The details of these duties are contained in the Customs (Amendment of Duties) (No. 2) Order, 1965 just published. I want only to mention a few of the items in this Statement. Duty on socks and stockings has been increased from 12

pesewas per pair or 50 per cent *ad valorem* to 50 pesewas per pair or 100 per cent *ad valorem*. This has been done to protect a local industry whose products are much superior to some of those being imported into the country. Duty on shirts and singlets has been increased from 60 pesewas or 66⅔ per cent *ad valorem* to 75 pesewas or 75 per cent *ad valorem*. Duty on cement is to go up by 7 pesewas that is, from 18 pesewas per cwt gross to 25 pesewas. Duty on refrigerators is increased from 50 per cent to 66⅔ per cent *ad valorem*.

For a very long time the duty on motor vehicles has not been varied. It is proposed that the rate be now increased from 15 per cent to 25 per cent *ad valorem*. I wish to explain, Mr. Speaker, that this increase does not affect commercial vehicles the duty on which remains at 10 per cent *ad valorem*. This concession has been granted to ensure that passenger fares are not increased by unscrupulous drivers.

For some time now imported spirits have not been allowed into the country. As a result of the opening of the border between Ghana and Togo and the statement made on it by Osagyefo the President quantities of spiritous drinks are coming into the country from our neighbouring sister states. For revenue purposes, therefore, it is proposed to increase duty on these drinks from ¢37.30 (£G11 7s. 6d.) per gallon to ¢42.00 (£G17 10s.) per gallon. Mr. Speaker, I wish to mention here that this increase is not excessive when it is realised that people are known to pay as much as ¢9.60 (£G4) for a bottle of smuggled Whisky. Duty on cigarettes has also been raised from ¢9.00 (£G3 15s.) per lb. to ¢9.60 (£G4) per lb.

I now come to excise duties. Excise duties on certain products have been increased slightly. These increases do not exceed 2½ per cent in most cases and cannot therefore be regarded as excessive. Excise duty on beer has been increased from ¢1.20 (10s.) per gallon to ¢1.50 (12s. 6d.) per gallon. Duty on furniture has been increased from 10 per cent to 15 per cent *ad valorem*. Details of all these changes are set out in the Excise (Amendment of Duties) (No. 2) Order, 1965 published today.

Mr. Speaker, it is proposed to raise an additional revenue of ¢8.40 million (£G3.5 million) for the rest of the year from these tax changes. This will leave a surplus of ¢1.68 million (£G0.7 million) which will be used to meet any unforeseen expenditure which may arise in the course of the year.

Conclusion

Mr. Speaker, in my Statement last January I informed the House that the task of building a socialist society was not easy. I repeat that now. We have to keep on with our programme of development as set out in the Seven-Year Development Plan the main tasks of which as Osagyefo explained in his address to this House on the 11th March, 1964 are: firstly, to speed up the rate of growth of our national economy. Secondly to enable us to embark upon the socialist transformation of our economy through the rapid development of the State and co-operative sectors and, thirdly, to eradicate completely the colonial structure of our economy.

We have to keep aloft the banner of our socialist Nkrumaist revolution. We have to protect the stability of the Cedi and above all we have to fight for the total economic liberation and political unity of Africa. These things can only be achieved with a sound economy based on the principles of our Leader as enunciated in his masterpiece *Consciencism*. It is toward this objective, Mr. Speaker, that these proposals are submitted to the peoples' representatives who are gathered in this first socialist Parliament of the Republic, and I trust Members will support them for the greater glory of Ghana and Africa.

Mr. Speaker, I beg to move.

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