REPUBLIC OF GHANA

THE P.N.D.C. BUDGET STATEMENT

AND

ECONOMIC POLICY FOR 1987

PRESENTED BY

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THE P.N.D.C. BUDGET STATEMENT AND ECONOMIC POLICY FOR 1987

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CHAPTER 1

HIGHLIGHTS

The 1987 budget has been formulated to support Government policies for attaining a real GDP growth rate of 5% and reducing inflation to about 15%. Key budgetary measures aim at stepping up mobilization of resources, proportionally increasing allocations to the social sectors, implementing efficiency inducing programmes and fulfilling the objectives of the newly formulated Structural Adjustment Programme (SAP) for 1987-89. The main elements of SAP relate to trade and payments reforms, streamlining of the cocoa sector, reform of the State-owned Enterprises and improving public sector management in general.

The 1987 budgetary estimates envisage increasing total revenue and total expenditure by 49%, as compared to 1986 out-turn. Total revenue is reckoned at ₵109,711 million and total expenditure at ₵109,407 million with ₵82,303 million allocated for meeting recurrent expenditure and ₵27,104 million (25% of the total) allocated to capital expenditures. The budget thus generates a small surplus of ₵304 million. Since it is planned to increase foreign (net) borrowing by ₵4.3 billion, the budget surplus will enable the Government to reduce its indebtedness to Primary Banks by ₵4.5. billion.

The main sources of Government revenue in 1987 are cocoa duty (25%), taxes on domestic goods and services (24%) and import duties (20%). The remainder (31%) is constituted by taxes on income and property (16%) and non-tax-revenue (15%). Proportionally, only cocoa duty records a sizeable gain, as compared to 1986. The 1987 shares contributed by import duties and non-tax revenue remain about the same as in 1986 while those of income and property decline. The latter results from substantive tax concessions offered in the 1987 budget to provide personal relief and to stimulate the economy.

Effective income tax rates have been reduced, particularly at the higher levels. The highest marginal rate of 55% will apply to income levels exceeding ₵300,000 per year, as against ₵180,000 in 1986. Corporate tax rate for manufacturing concerns has been reduced from 50% to 45%. Entertainment tax on sports events has been abolished.

With a view to keep transport costs down, import duty and purchase tax on all commercial vehicles, vans, motor-cycles, bicycles, etc., have been abolished. Saloon cars of less than 1800 cc. will enjoy total exemption

from import duty and purchase tax, while saloon cars of 1,800 to 2,000c.c. will attract an import duty of only 15% and purchase tax of 10%; luxury cars will attract an import duty of 30% and purchase tax of 10%. Spare parts, accessories and lubricants will attract a concessionary duty rate of only 10%.

To stimulate local production, duty rates on basic raw materials and capital goods have been reduced. Raw materials like cotton, jute and pig iron will be subject to a duty rate of only 10%; other raw materials and capital goods will be subject to only 20% duty. Pharmaceutical raw materials will be subject to a duty rate of only 10%.

Stimulating agricultural production is a key element of Government's development policy. Therefore, agricultural machinery and equipment will continue to be imported free of duty. To provide more goods to workers in productive sectors, import duty on consumer goods has been reduced to 25%. The 10% special sales-tax on goods imported under SUL has also been abolished. However, to encourage local production of some products, import sales taxes will be levied on imported milk, rice, prepared fish, etc. Sales tax rates on a number of locally produced construction inputs—cement, roofing sheets, paint—are also reduced.

The needed increment in total import duties will emanate from increased volume of imports planned for the year. The increase in the valuation of goods resulting from the shift in exchange rate from ₵90 to the dollar to market determined rate will also lead to sizeable expansion in revenue receipts. The increase in excise taxes will originate from higher taxes on beer and alcoholic beverages. Since containing inflation is a principal objective of the Government, expenditures will be kept in line with revenue receipts. In fact, the planned generation of a small surplus will help to reduce the indebtedness of the Government, as mentioned above.

Economic developments, domestic and external, which have direct or indirect effect on the budget, are discussed in Chapter II; budgetary performance in 1986 is evaluated in Chapter III; while the budget for 1987 is presented in Chapter IV. The budget speech delivered to the nation by Dr. Kwesi Botchwey, P.N.D.C. Secretary for Finance and Economic Planning (Annex II), follows the Statistical Annex I.

CHAPTER II

ECONOMIC DEVELOPMENTS

The National Economy, 1986

For the third successive year, the national economy experienced a commendable rate of growth. Gross Domestic Product (GDP) in real terms increased by 5.3% in 1986 (Table 1). *Per capita* real income grew by 2.6%. The growth was almost evenly spread over the main sectors. Agricultural output increased by 4.6% while services expanded by 5.4%. However, the growth of 6.4% in industry was somewhat slower than expected.

TABLE 1

ECONOMIC INDICATORS, 1980–1986

(AVERAGE CHANGE)

				REAL GDP				BOP	
Imports			*Inflation*	*Per Capita*	*Total*	*Agriculture*	*Industry*	*Services*	*Exports*	*Imports*
1980	..	..	50.1	–2.1	0.5	2.1	0.3	–2.3	3.6	12.5
1981	..	..	116.5	–6.0	–3.5	–2.6	16.0	3.3	35.6	5.1
1982	..	..	22.3	–9.3	–6.9	–5.5	–17.0	–3.6	–9.8	–32.2
1983	..	..	122.8	–7.2	–4.6	–7.0	–22.9	2.3	–31.5	–1.8
1984	..	..	39.6	6.0	8.6	9.7	8.5	6.9	28.9	10.0
1985	..	..	10.4	2.5	5.1	0.8	20.0	6.0	11.8	9.1
1986	..	..	25.0	2.6	5.3	4.6	6.4	5.4	22.0	17.0

Memorandum Item:

Population (1984 Census) : 12.2 million.

Annual Growth Rate: 2.6%

[1] Based on Dollar value of exports and imports.

Growth in production of commodities was impressive. Recovery in food output in 1986, led by 15% increase in maize and 10% in cassava, greatly eased the food situation. Production of export products maintained their steady upward trend. Out-put in 1986, as compared to 1985, increased by 8% for cocoa, 19% for gold, 27% for diamonds, 17% for manganese and 92% for bauxite. Production of logs reached a peak (Table 2).

Inflation increased in 1986 mainly as a result of considerable depreciation of the cedi. The index of consumer prices recorded an increase of 25%. The rise in prices was led by gross rent, fuel and power (43%), transportation and communications (34%) and beverages and tobacco (33%).

TABLE 2

PRODUCTION OF MAJOR COMMODITIES, 1980–86

	1980	1981	1982	1983	1984	1985	1986
Cereals ('000 tonnes)							
Maize	382	378	346	172	574	411	471
Rice	78	97	36	40	66	90	90
Others	213	250	162	96	140	155	160
Total ..	673	725	544	308	780	656	721
Cassava ('000 tonnes)	2,322	2,063	2,470	1,729	4,083	3,076	3,700
Cocoa ('000 tonnes) ..	258	224	179	158	175	186	200
Gold ('000 troy oz.) ..	353	341	331	281	289	310	369
Diamonds ('000 carats)	1,149	837	684	347	346	630	800
Manganese ('000 long tons)	250	223	160	191	287	300	350
Bauxite ('000 tonnes)	225	181	64	70	49	130	250
Logs ('000 cu. meters)	600	550	410	560	578	600	700
Sawn Wood ('000 tonnes)	210	190	150	189	180	223	232
Hydro-electricity (million KWH)	5,316	5,373	4,982	2,575	1,819	3,020	3,599

The external payments position eased somewhat in 1986. The dollar value of exports expanded by 22%. Cocoa exports increased by 26% inspite of the fall in world prices. Non-cocoa exports rose by 15%; the gain was largely accounted by gold and timber. On the other hand, imports increased by only 7%. Non-oil imports recorded a significant growth of 24%. But, oil imports, influenced by a sharp fall in world prices, actually fell by 37% from $199 million in 1985 to $125 million in 1986. As a result, the trade gap was nearly wiped out in 1986. However, non-factor service and interest payments continued to rise, as usual. Thus, the negative current account balance of $194 million in 1986 was lower than the $283 million experienced in 1985.

Prospects, 1987

The upward trend in the volume of exports will be maintained in 1987. In particular, exports of cocoa beans and products are likely to rise from 216,000 tons in 1986 to 230,000 tons in 1987. However, due to the sharp fall in the world price of cocoa, the value of these exports will actually fall from $519 million in 1986 to an estimated $475 million in 1987. This fall will offset the increase in non-cocoa exports which are projected to rise by 19% from $254 million in 1986 to $302 million. The increase will be mainly contributed by gold; its value is expected to rise in terms of price as well as volume. Thus, total value of exports in 1987, estimated at $777 million would be about the same as in 1986.

Imports for 1987 are reckoned at $891 million, reflecting an increase of 14% over the 1986 level. Oil imports are projected to rise from $125 million in 1986 to $148 million in 1987, due mainly to the strengthening of the world price of petroleum. Non-oil imports are estimated to increase by 13%. Thus, the trade balance will worsen for Ghana due to decline in its terms of trade.

International Assistance

Over the next three years the Government plans to implement the Structural Adjustment Programme (SAP) which constitutes the core of the second phase of the Economic Recovery Programme. At the centre of the SAP is a three year rolling Public Investment Programme (PIP). The macro-economic targets underlying these programmes are real GDP growth of 5% per year and further reductions in the rate of inflation. Foreign assistance has a crucial role to play in the implementation of the SAP.

The development plans for 1987 would need to be supported by an import programme of $891 million, as compared to $780 million in 1986. Due to the worsening terms of trade, export earnings are estimated at only $777 million, leaving a trade deficit of $144 million. Allowing for net service payments ($154 million), and debt payments ($459 million), the gap in foreign exchange needs adds up to $727 million. To fill this gap, ODA disbursements of $428 million are needed, with the remaining financed through commercial borrowing, IMF purchases and private transfers. ODA disbursement in 1986 amounted to $357 million, a figure well below our requirements.

Assuming that the disbursement ratio in 1987 would be about the same as in 1986, signed ODA commitments of $575 million would be needed for 1987 (Table 3). This need will be pressed by the Government at the May, 1987 meeting of the Consultative Group for Ghana to ensure successful implementation of the current phase of the ERP.

TABLE 3

FOREIGN AID COMMITMENTS AND DISBURSEMENTS, 1985–1987

($Million)

	1985	1986	1987
Beginning Undisbursed Balance	514	769	859
New Signed Commitments	487	391	575
Disbursements	224	357	428
Exchange Rate Adjustment	–8	+56	—

International Developments

The international economic environment for the commodity exporting countries further deteriorated in 1986. This was particularly true of the heavily indebted developing countries and Sub-Saharan Africa despite the downward adjustment of nominal interest rates and the fall in petroleum prices.

The real GDP of industrial countries increased by only 2.4% in 1986, 0.6 percentage points lower than in 1985, inspite of the growth inducing effect of lower oil and other commodity prices and the marked easing of interest rates. A significant strengthening of demand in these countries was more than offset by a decline in their net exports to the developing countries. The latter was chiefly associated with reduced capital flows to the developing countries and the huge debt service payments made by the developing countries which reduced their capacity to import from the industrial countries.

The real GDP of developing countries rose by 3.4% in 1986, 0.7 percentage points lower than in 1985. However, the growth of non-oil developing countries was about the same as in 1985; the overall deceleration was accounted chiefly by the oil exporters. The same was true of Sub-Saharan Africa (Table 4).

Commodity prices weakened further in 1986. The average spot price of crude oil fell from $26.70 per barrel in 1985 to $13.60 in 1986. Prices of virtually all other commodities fell as well.

TABLE 4

GROWTH OF OUTPUT OF DEVELOPING COUNTRIES, 1985–86
(ANNUAL PERCENTAGE CHANGE)

	1965–73	1973–80	1980–84	1985	1986
All Developing Countries	6.7	5.0	2.9	4.1	3.4
Sub-Saharan Africa ..	6.5	3.4	–1.3	2.3	0.9
Western Africa	7.6	4.0	–2.7	3.0	–0.9
Nigeria	9.4	3.7	–4.9	2.2	–3.3
Other West African countries	4.3	4.5	1.4	4.3	2.9
Eastern and Southern Africa†	4.6	2.0	1.9	1.0	4.6
Memo Item:					
Per Capita Income					
Sub-Saharan Africa ..	3.1	1.0	–4.6	–1.8	–9.2

†Excluding South Africa

Source: World Bank.

The notable exception was coffee, whose price rose sharply following crop damage in Brazil. Cocoa prices (ICCO average daily price) fell by 8% from $2,254 per ton in 1985 to $2,070 per ton. Prices fell quite sharply in terms of other major currencies. However, the price of gold (an important export for Ghana but not for Sub-Sahara or developing countries as a group) strengthened in dollar terms due to the rapid depreciation of the dollar. In real terms, aggregate non-oil commodity prices reached depression levels of the 1930's. On the contrary, the prices of manufactured goods exports from main industrial countries have continued to rise. Their manufactured export unit values, in dollar terms, rose by 17% in 1986.

Since Sub-Saharan Africa is heavily dependent on exports of primary commodities, its terms of trade deteriorated at a record rate of 26% in 1986 (Table 5). Only the main coffee exporting countries escaped this adversity. The loss of several billion dollars in purchasing power of Sub-Saharan countries possibly exceeded their capital inflows. Influenced by the declining terms of trade, real *per capita* incomes in Sub-Sahara declined by 9.2% in 1986.

TABLE 5

TERMS OF TRADE FOR DEVELOPING COUNTRIES, 1985–86

(ANNUAL PECENTAGE CHANGE)

	1965–73	1973–80	1980–84	1985	1986
All Developing Countries	0.6	1.6	–0.6	–0.7	–4.4
Sub-Saharan Africa ..	–8.3	4.8	–1.5	–3.0	–26.2
Western Africa	–9.6	9.2	–1.3	–2.9	–37.2
Nigeria	–11.2	13.9	–0.6	–3.6	–53.5
Other West African Countries	–1.5	1.9	–0.6	–3.6	–19.7
Eastern and Southern Africa†	–2.0	–3.7	–1.6	–4.1	5.8

† Excluding South Africa

Source: The World Bank.

External debt of the developing countries, which passed a trillion dollar mark in 1985, increased by another 9% in 1986. The debt ratio (the ratio of debt to exports of goods and services) increased to 168% in 1986. The debt ratio of small low-income countries rose from 406% to 424% *. The concessional nature of official borrowing has enabled these countries to absorb more debt and escape short-term financial pressures that faced the commercial borrowers, but at the expense of more rapid accumulation of debt and sharper deterioration in debt ratios.

Debt service ratio (ratio of interest and amortisation of long-term debt to exports of goods and services) of small low income countries in Africa rose from 30% in 1985 to 36% in 1986. In Ghana's case, the corresponding debt service ratio (excluding IMF charges and arrears payments) dropped from 47% in 1985 to 37% in 1986, due to 22% increase in exports, mainly from cocoa. Ghana's debt service ratio, including IMF and arrears payments, dropped from 62% to 47% for the same reason.

The outlook for 1987 does not seem to be encouraging. Prices of non-oil primary commodities, including cocoa, are likely to fall further; growth in the industrial countries is expected to remain slow; and debt service difficulties are likely to intensify. Furthermore, continued financial imbalances in the industrial countries are apt to push up interest rates and dampen the prospects for a faster growth in world trade.

* *Source:* IMF.

CHAPTER III

POLICY FRAMEWORK AND BUDGETARY PERFORMANCE, 1986

The 1986 budget out-turn fell short of expectations. Revenue was 15% lower than planned with the result that expenditures had to be adjusted accordingly, since deficit financing would have been inflationary (Table 6). Nonetheless, the policy actions that had been conceived at the formulation of the 1986 budget were fully implemented during the year.

TABLE 6

SUMMARY OF GOVERNMENT ACCOUNTS, 1986
(Million Cedis)

			Difference	
	Budget	*Out-turn*	*Amount*	*As % of Budget*
Revenue	84,908	73,625	–11,283	–13
Expenditure	88,356	73,326	–15,030	–17
Current	66,365	60,833	–5,532	–8
Capital	21,991	12,493	–9,498	–43
Balance†	–3,448	299	3,747	–109
Financing	3,448	–299	–3,747	–109
Foreign (net)	–52	–5,614	–5,562	10,696
Domestic (net)	3,500	5,315	1,815	52

† minus sign indicates deficit; plus indicates surplus.

Revenue

Total revenue closed at ₵73,625 million as against a target of ₵84,908 million. The shortfall occurred in every main item, except taxes paid by companies and state enterprises and taxes on domestic goods and services (Table 7).

The shortfall in personal income taxes was relatively small and was mainly due to savings in personal emoluments resulting from reversal of some of the announced benefits. The sizeable shortfall in import duties resulted largely from the scrapping of the import surcharge during the course of the year. The 24% shortfall in export duties is explained by the inability of the Cocobod to adhere to expenditure targets.

Notwithstanding the shortfall in planned revenues, total revenue collected in 1986 was 50% higher than in 1985. An amount of ₵6,600 million was realized as a result of the sharp drop in the price of imported crude oil. Sales tax provided the second largest chunk of incremental revenue—realized tax amounted to ₵5,172 million as compared to only ₵785 million in 1985. Company taxes, including those paid by state enterprises, increased by 90% from ₵4,368 million in 1985 to ₵8,295 million in 1986. Taxes realized from international transactions, including cocoa increased by 80%, from ₵15,764 million in 1985 to ₵28,379 million in 1986 (Annex Table II).

TABLE 7

MAJOR SOURCES OF REVENUE– 1986
(Million Cedis)

Taxes on	*Budget*	*Out-turn*	DIFFERENCE *Amount*	DIFFERENCE *As % of Budget*
Income and Property	14,325	14,121	–204	–1
Personal	6,304	5,242	–1,062	–17
Paye	4,151	3,461	–690	–17
Self-Employed	2,153	1,781	–372	–17
Company	6,683	8,295	1,612	24
Rent	42	56	14	33
Other	1,296	528	–768	–59
Domestic Goods and Services	18,637	19,619	980	5
International Transactions ..	38,317	28,467	–9,850	–26
Imports	20,680	14,236	–6,444	31
Exports	17,637	14,231	–3,406	–19
Non-Tax Revenue	13,627	11,419	–2,208	–16
Income and Fees	8,100	7,551	–549	–7
Grants	5,527	3,868	–1,659	–30
Total	84,908	73,625	–11,283	–13

Expenditure

As a result of the ₵11,283 million shortfall in revenues mentioned above, expenditures had to be reduced. A strict control on items 2–5 (general purchases) resulted in savings of ₵4,755 million. Unfortunately, these savings were partly offset by the increase in statutory payments, particularly interest, which proved to be ₵3,084 million larger than the budgeted amount (Table 8).

Since current expenditures closed only 8% below the budgeted amount, the brunt of the forced cuts fell on capital expenditures. Development expenditure had to be reduced by ₵3,794 million with the result that many of the new projects had to be deferred until 1987, while the progress of some other projects was slowed down. The special efficiency programme designed to finance specific measures aimed at raising productivity in selected segments of the public sector had to be postponed. As a result of these cuts, capital expenditure was 43% or ₵9,499 million lower than the budgeted amount. If allowance is made for inflation, these expenditures were only 6% more than in 1985.

TABLE 8

MAJOR EXPENDITURE ITEMS 1986
(Million Cedis)

	Budget	Out-turn	Difference Amount	Difference As % of Budget
Current Expenditure ..	66,365	60,833	–5,532	–8
Personal Emoluments ..	30,772	26,194	–4,578	–15
Items 2–5	17,283	12,528	–4,755	–28
Subventions	7,046	7,351	305	4
Pensions, etc.	3,007	3,419	412	14
Gratuities	332	927	595	179
Pensions	1,933	985	–948	–49
Social Security	742	1,507	765	103
Interest	8,257	11,341	3,084	37
Capital Expenditure ..	21,991	12,492	–9,499	–43
Development Expenditure	13,620	9,826	–3,794	–28
Net Lending	6,151	2,666†	–3,485	–57
Special Efficiency	2,220	—	–2,220	–100
Total Expenditure ..	88,356	73,325	–15,031	–17

† Exclude repayment of external loans which are normally recorded in the financing portion of the Budget.

Financing

The 1986 budget had envisaged a deficit of ₵3,448 million to be financed exclusively by domestic (net) borrowing. Foreign financing was expected to be in balance, with payments cancelling out receipts. In the event, foreign (net) financing turned out to be negative to the tune of ₵5,614 million. New borrowings were significantly lower and repayments somewhat higher than the budget amounts. The adverse development in external financing forced an increase in domestic (net) borrowing beyond the budgeted amount (Table 9).

Inspite of the above-mentioned difficulties, the Government continued to pursue anti-inflationary policies. Expenditures were kept in line with the revenues. Infact, prudent policies resulted in generating a surplus of ₵299 million.

TABLE 9

FINANCING OF THE BUDGETARY BALANCE, 1986
(Million Cedis)

			Difference	
	Budget	*Out-turn*	*Amount*	*As % of Budget*
Foreign (net) *	–52	–5,614	–5,562	10,696
New Borrowing	17,351	13,412	–3,939	–23
Repayment	–17,403	–19,026	–1,623	9
Domestic (net)	3,500	5,315	1,815	52
Primary Banks	2,000	3,000	1,000	50
Secondary Banks	—	—	—	—
SSNIT	1,000	3,182	2,182	218
Other *	500	–867	1,367	273
Total †	3,448	–299		

* minus sign indicates repayment.
† minus sign indicates budgetary surplus.

Policy Framework

The policy framework in which the 1986 budget was formulated and executed encompassed further reform of the exchange rate regime, expansion of price incentives to productive sectors and mobilization of resources for a sustained development effort. The progress in these areas stayed right on course, with the exception of mobilization of revenue resources mentioned above.

The official exchange rate, which later came to be known as Window 1, was set at ₵90 to the US dollar from the beginning of 1986. This rate applied to all transactions until September when a second window, Window 2, based on weekly auctions of foreign exchange conducted by the Bank of Ghana was introduced. From then on, exports and imports by the private sector were priced at the Window 2 rate but Window 1 rate remained applicable to Government transactions. Until the end of 1986, Window 1 rate remained at ₵90 to the dollar while Window 2 rate fluctuated around ₵150 to the dollar. The exchange rate changes had the effect of providing substantially enlarged incentives to exporters.

Price incentives were expanded to further stimulate production. The producer price of cocoa, the main export commodity, was raised from ₵56,600 per ton for 1985-86 to ₵85,000 per ton for 1986-87, with an additional bonus of ₵500 per ton payable in the event of a production target being attained. The producer price of seed cotton was raised from ₵25,000 to ₵38,000 and that of tobacco from ₵125,000 to ₵142,000. The minimum guaranteed price of paddy was raised from ₵2,000 to ₵2,500 per bag of 82kg.

The new Minerals Code was promulgated in July, 1986, to attract foreign investment. The benefits accorded correspond to those of the 1985 Investment Code, including government guarantee against expropriation and provision for arbitration in case of investment disputes.

CHAPTER IV

THE 1987 BUDGET

Economic and Social Objectives

The 1987 budget has been formulated in the context of the newly prepared Structural Adjustment Programme (SAP). The main elements of SAP relate to:

(*a*) Trade and payments reforms—these encompass expanded role for market determined exchange rate; further strengthening of export incentives through specification of export documentation, removal of tax elements from exporter's costs and increased retentions for non-traditional exports; and simplification of taxation and protection structure.

(*b*) Cocoa sector policies—these aim at further real increase in return to farmers; reduction in procurement and marketing costs; and streamlining of extension services, adaptive research, disease control, farm inputs and farm credit.

(*c*) Public Expenditure Policies—these will focus on increased provisions for operation and maintenance of existing investment; implementation of PIP; resource mobilization; and cost recovery for public services.

(*d*) State Enterprise reforms—these are aimed at giving commercial orientation to these enterprises so that they operate without subsidies, and contribute to Government revenue and development, strengthening their management through retraining, remunerative salaries, security of tenure and autonomy for managers; rationalizing their structure through mergers, divestiture and liquidations; and ensuring their long-term economic and financial viability through expansion of their capital base.

(*e*) Public Sector management—institutional and administrative capabilities will be strengthened through maintaining at least real remuneration in the public service, mobilization of skills, retraining programmes and policy co-ordination.

(*f*) Social policies—realizing that the prolonged economic decline had hit hardest the small-scale farming households in the drought-prone northern areas, the urban informal sector, children under five and pregnant and lactating women, policies and programmes will be instituted to provide more adequate public services, nutritional support for target groups, expanded resource flows into primary health care, education and rural water supply, and literacy programmes.

A three-year rolling Public Investment Programme (PIP) is an integral part of SAP. PIP has been designed to improve planning and control in order to ensure efficient allocation of scarce resources and expeditious implementation of investment projects.

The 1987 Budget has the broad objective of:

(i) increasing the real GDP by 5%;

(ii) reducing the rate of inflation to 15%;

(iii) stepping up mobilization of resources and allocating increased proportion of funds to the social sectors;

(iv) implementing efficiency inducing programmes;

(v) generating employment outside the public sector through expanded overall investment; and

(vi) at least maintaining real incomes in the public sector.

TABLE 10

SUMMARY OF GOVERNMENT ACCOUNTS, 1986–87
(Million Cedis)

	1986	1987		
	Out-turn	*Budget*	*Increase over* 1986 *Out-turn*	*As %* *of* 1986 *Out-turn*
Revenue	73,625	109,711	36,086	49
Expenditure	73,326	109,407	36,081	49
Current	60,833	82,303	21,470	35
Capital	12,493	27,104	14,611	117
Balance	299	304	5	2
Financing†	–299	–304	–5	2
Foreign (net)	–5,614	4,324	9,938	–177
Domestic (net)	5,315	–2,500	–7,815	–147

† minus sign indicates net repayment.

Main Features

The main features of the 1987 Budget, as compared to the 1986 out-turn are as follows:

(i) there is a 49% increase in revenues; the largest increases come from cocoa duty, import duties, excise duty and sales tax; petroleum tax revenues will actually decline as world prices have risen.

(ii) expenditures also increase by 49%; but current expenditures rise by 35% while capital expenditures rise by 117%;

(iii) capital expenditures rise to 25% of the total budgetary expenditures, the target which had been set for 1986 but could not be attained; and

(iv) a special efficiency fund of ₵3,000 million to help finance specific measures aimed at raising productivity in selected segments of the public sector.

The increases in real terms in total revenue and total expenditure amount to 30%.

Revenue

Total revenue for 1987 is estimated at ₵109,711 million, an increase of 49% or ₵35,086 million over the 1986 out-turn of ₵73,625. The main sources of revenue are shown in Table 11. It is significant to note that out of every one hundred cedis of revenue, cocoa duty will contribute 25 cedis. In fact, this is the only category where the share rises significantly as compared to 1986. For all other categories, either the share increases are small or they actually fall.

In absolute terms, the gain of ₵13,155 million in cocoa duties is followed by a gain of ₵8,135 million in import duties. Together, these two categories account for 59% of the revenue increase and flow principally from the impact of exchange rate changes. As stated in Chapter I all transactions are now valued at the market or auction exchange rate. This rate is significantly higher than the official rate of ₵90 per US dollar prevailling in 1986.

Taxes on income and property rise only modestly despite the 25% across the board increase in wages and salaries for civil service, increases in taxable allowances and anticipated increase in business activity. The low level of tax gains result from personal and company tax reliefs that have been granted to spur real incomes and stimulate business activity.

Taxes on domestic goods and services, remain the second largest contributors to revenue coffers, as in 1986, despite the fall in petroleum taxes. Grants are expected to be another major source of revenue gains in 1987.

TABLE 11

MAJOR SOURCES OF GOVERNMENT REVENUE 1986–1987
(Million Cedis)

Taxes On	1986	1987	*Increase*	*Shares* 1986	1987
	Out-turn	*Budget*	%	%	%
Income and Property	14,121	17,230	22	19	16
Personal	5,242	6,881	31	7	6
Paye	3,461	4,681	35	5	4
Self-employed	1,781	2,200	24	2	2
Company	8,295	9,643	16	11	9
Rent	56	68	21	0	0
Others	528	638	21	1	1
Domestic Goods and Services	19,619	26,240	34	27	24
Excise Duty	7,848	12,770	63	11	12
Sales Tax	5,172	8,470	64	7	8
Petroleum Tax	6,600	5,000	–24	9	5
International Transactions ..	28,466	49,477	74	39	45
Imports	14,236	22,371	57	19	20
Cocoa Duty	13,951	27,106	94	19	25
Other Exports	280	0	–100	0	0
Non-Tax Revenue	11,419	16,764	47	16	15
Income and Fees	7,551	9,120	21	10	8
Grants	3,868	7,644	98	5	7
TOTAL	73,625	109,711	49	100	100

Personal Income Tax

The new tax schedule offers considerable tax relief to the tax payer, particularly at the higher levels. The highest marginal rate of 55% will apply to income levels exceeding ₵300,000 as against ₵180,000 in 1986.

The new income tax rates are shown in Table 12. The new effective income tax rates are presented in Annex Table VI.

TABLE 12

NEW INCOME TAX RATE FOR A SINGLE PERSON

First ₵30,000 of chargeable Income	5%
Next ₵30,000 of chargeable Income	10%
Next ₵60,000 of chargeable Income	20%
Next ₵60,000 of chargeable Income	30%
Next ₵60,000 of chargeable Income	40%
Next ₵60,000 of chargeable Income	50%
Excess	
Over ₵300,000 of chargeable Income ..	55%

Tax on Excess allowances

All allowances other than the following, and those that are exempted by existing law, will be added to basic salary and taxed. The allowances that are exempt from tax and the levels are:

(i) 20 % of salary as housing allowance.

(ii) 15 % of salary as Bonus.

(iii) Night duty allowance.

(iv) Transport allowance not exceeding ₵800 per month.

(v) Canteen allowance not exceeding ₵600 per month.

(vi) Car maintenance allowance not exceeding ₵2,500 per month

(vii) Motor cycle allowance not exceeding ₵600 per month.

(viii) Leave allowance not exceeding 1,500 per annum.

Customs and Exicse Duties

New SUL and special taxes and duties have been fixed as follows:

(1) Special tax on goods imported under SUL:

Item	*Old Tax Rates*	*New Tax Rates*
(*a*) Cigarettes ..	₵50/packet of 20 sticks	₵100/packet of 20 sticks
(*b*) Beer, Stout, Cider, etc.	₵70 litre ..	₵125 litre
(*c*) Alcoholic beverages—wine, gin, whisky, etc.	₵300/litre ..	₵550/litre
(*d*) Non-alcoholic beverages ..	₵35/litre ..	₵70/litre
(*e*) Textile fabrics ..	100 per cent or ₵150 per square meter whichever is higher.	50 per cent or ₵75 per square meter whichever is higher.

(2) Raw materials

Basic raw materials	15%
All Others	20%

(3) Excise Duties

(*a*) Increase in omnibus excise duty rate from 5 per cent to 10 per cent of selling price;

(*b*) Excise Duty on edible oil increased from ₵0.10 per gallon to 10 per cent of selling price;

(*c*) All other commodities locally manufactured and attracting an *ad valorem* duty rate less than 10 per cent increased to 10 per cent of selling price.

In recognition of the vital role transportation plays in the national economy, and to further moderate fares, the following decisions have been taken:

(i) Import Duty and Purchase Tax on all commercial vehicles, motor-cycles, bicycles, railways coaches, locomotives, fixtures, fittings, vans, etc. are abolished.

(ii) Saloon cars, with less than 1,800 cubic capacity will also enjoy total exemption from import duty and purchase tax.

(iii) Saloon cars with cubic capacities of more than 1,800 and up to 2,000 will attract a reduced import duty rate of 15% and purchase tax of 10%.

(iv) Luxury saloon cars of 2,000 cubic capacity and above will attract an import duty of 30%, a purchase tax of 10% and a penalty under the Motor Vehicle Importation Law as amended.

New excise duty rates, fees, charges and penalties have been fixed as follows:

Tariff No.	*Description*	*Present Rate*	*Sales Tax New Rate*
18	Edible Oil	10%	20%
22	Salt of all kinds, including common, rock, table and medicinal	the pound ₵0.10	10%
23A	Soap, common and washing including detergents ..	the 100 pound ₵2.50	10%
	Toilet soap	₵2.50	20%
24	Spirits except "Akpeteshie"		
	A. Distilled the proof gallon	₵30.00	₵100 on proof gallon
	B. Blended or compounded in Ghana.	.. ..	55%
	C. Rectified in Ghana:		
	(1) For use solely in laboratories or in compounding drugs and medicines	the proof gallon ₵1.00	10%
	(2) Denatured to the satisfaction of the Comptroller	the proof gallon ₵1.00	20%
	(3) Other	the proof gallon ₵75.00	20%

Tariff No.	*Description*	*Present Rate*	*Sales Tax New Rate*
25	Sugar manufactured whether or not refined.	the cwt. ₵5.00 ..	20%
27	Tobacco		
	B. Cigars	the pound ₵5.00 ..	67.815%
	C. Negro head	the pound ₵4.00 ..	invoice produced
	D. Snuff and other tobacco	the pound ₵5.00 ..	20%
28.	Toilet paper	10 per cent ..	20%
55.	All other manufactured goods not particularly exempted.	10 per cent ..	20%
Fees Fines and Penalties		9 per cent ..	9 per cent
		Existing Rates	*New Rates*
(1)	Overtime Fees	₵50 per hour or part thereof	No change
13 (2)	Supplying a Certificate of origin for goods produced or manufactured in Ghana.	₵100	No change
	Supplying a Certificate of landing shipment for each original bill of entry on which goods were entered	₵100	
	Supplying a Certificate of examination and verification of the contents of the packages for each package.	₵100	
	Supplying Certificate copy of any document required by the Decree, provided the proper officer is satisfied the applicant is entitled to have such copy, per page or part thereof.	₵100	No change
Reg. 102			
(2)	Transit Goods	$1 per package or $10 per tonne whichever is greater	No change
	Vehicles in Transit	$5 per vehicle ..	No change
Reg. 136			
(*a*)	State Warehouse rent Charges	₵30 per tonne per week.	No change
136 (*c*)	Government Warehouse rent	₵15 per tonne per week.	No change
136 (*d*)	Porterage Charges	₵45 per package ..	No change
142 (2)			
(*a*)	Licence fee for small craft ..	₵1,000	No change
L.I. 1280			
Reg. 1 (2)	Industrial Licence for Methylated spirit.	₵200 or ₵20 per drum, whichever is higher.	

Section	*Subject*	*Existing Rate*	*New Rate*
141	(2) Licence Fee for Private Warehouse.	₵5,000	No change
266	Licence to manufacture under Excise	₵2,000	No change
228	(*a*) Reduction of Licence fees for Excise manufacture taken within the second quarter	₵1,500	No change
228	(*b*) Taken within the third quarter.	₵1,000	No change
228	(*c*) Taken within a 4th quarter.	₵500	No change
232	(3) Fee for transfer to Licence	₵500	No change
233	Transfer to other premises, etc.	₵500	No change

SALES TAX ACT, 257 AS AMENDED BY ACT 264

The Registration fee to Manufacture .. .. ₵500

GENERAL PENAL PROVISIONS UNDER N.R.C.D. 114

Section	*Subject*	*Existing Penalty*	*New Penalty*
46	Any act or omission contravening any provision of the Decree.	₵30,000	No change
47	Penalty of forfeiture where no penalty is provided.	₵50,000	No change
48	False Declaration, etc. ..	₵30,000	No change
49	(1) Smuggling and other evasions	₵50,000	No change
49	(2) Penalty on smuggling	₵30,000	No change
52	(2) Prohibition of road construction near a boundary.	₵30,000	No change
60	Obstruction of Officer ..	₵30,000	No change
65	(3) Unlawful possession of uncustomed goods without a mark under section 65.	₵50,000	No change
66	Concealment of goods ..	₵30,000	No change
68	(2) Bribery, extortion, etc. by Officer	₵50,000	No change
69	Offering of Bribes, etc. ..	₵50,000	No change
70	(1) Smuggling Ships and aircrafts	₵50,000	No change
71	(*a*) Officer of ship aircraft ..	₵50,000	No change
	(*b*) Implicated in smuggling ..	₵50,000	No change
74	(2) Control of small ships ..	₵50,000	No change
75	Good unlawfully loaded ..	₵50,000	No change
77	Failure to bring seized aircraft or ship, etc.	₵10,000	No change
78	Interfering with Customs gear	₵50,000	No change
118	Failure to make due report ..	₵50,000	No change

Corporate Taxes

The current practice of the tax authorities which requires advance payment of taxes at the beginning of the quarter was based on the existing income tax law. This is now changed so that corporate bodies and self-employed persons can now pay taxes at the end of each quarter.

The corporate tax rate for manufacturing concerns is also reduced from 50% to 45% as an incentive to industrial enterprises as against mere commerce.

Other Income Tax Measures

Entertainment taxes on football matches and other sports are abolished.

Commercial motor vehicle owners will pay taxes on a daily basis.

It is no longer necessary to obtain authorization from the Ministry of Finance and Economic Planning before registering a motor vehicle A Tax Clearance Certificate obtained at the District level will be sufficient.

Expenditure

Total expenditure for 1987 is estimated at ₵109,407 million representing an increase of 49% or ₵36,081 million over 1986. Out of every ₵100 of total expenditure, ₵75 will be earmarked for meeting recurrent expenditure and ₵25 for capital expenditure (Table 3). It has been the policy of the Government to steadily increase the share allocated to capital budget although the effort suffered a temporary setback in 1986 because of stringency of overall resources.

Capital expenditures are deemed to more than double, rising from ₵12,492 million in 1986 to ₵27,104 million in 1987. Its main components, development expenditure and net lending and equity contribution to State Enterprises are also nearly doubled. The rationalization programme for state enterprises call for increasing the capital base of selected enterprises to place them on a stronger financial footing so as to steadily reduce their dependence on annual budgetary support.

The Government had created a Special Efficiency Fund of ₵2,220 million in 1986 to raise productivity in selected public sectors. However, the programme did not take off because preparatory work could not be completed. The programme has been reconstituted and ₵3,000 million has been earmarked for these purposes (*see* paragraphs 64 and 65 of Annex II). The programme will be supported by complementary funding and technical assistance from the World Bank.

TABLE 13

MAJOR EXPENDITURE ITEMS, 1986–87

(Million Cedis)

	1986	1987		1986	1987
			In-	*Share*	*Share*
	Out-turn	*Budget*	*crease* %	%	%
Current Expenditure ..	60,834	82,303	35	83	75
Personal Emoluments ..	26,194	35,800	37	36	33
Items 2–5	12,528	16,065	28	17	15
Subventions	7,351	9,142	24	10	8
Pensions, etc.	3,419	4,364	28	5	4
Gratuities	927	1,159	25	1	1
Pensions	985	1,321	34	1	1
Social Security ..	1,507	1,884	25	2	2
Interest	11,342	16,932	49	15	15
Internal Debt	5,449	6,462	19	7	6
External Debt	5,892	10,470	78	8	10
Capital Expenditure ..	12,492	27,104	117	17	25
Development Expenditure	9,826	18,904	92	13	17
Net Lending (Loans and equity)	2,666	5,200	95	4	5
Special Efficiency	—	3,000	—	—	3
Total	73,326	109,407	49	100	100

Budgetary Balance and its Financing

As in 1986, the 1987 budget will generate a small surplus of ₵304 million. However, unlike 1986, foreign (net) financing will be positive. New foreign borrowings are planned at ₵27,657 million while repayments are estimated at ₵23,333 million. Also unlike 1986, domestic (net) borrowing will be negative. There will be net repayments of ₵4,500 million to primary banks, and there will be no net borrowing from the Social Security system. The financing plan should help to expand lending by the Banks to the private sector.

TABLE 14

FINANCING OF THE BALANCE, 1986–87

(Million Cedis)

	1986	1987	CHANGE	
	Out-turn	*Budget*	*Amount*	*As % of Out-turn*
Foreign (net) †	–5,614	4,324	9,938	–177
New Borrowing	13,412	27,657	14,245	106
Oil	8,219	12,963	4,744	58
Non-Oil	5,193	14,694	9,501	183
Repayment	–19,026	–23,333	–4,307	23
Oil	–10,038	–8,965	1,073	–11
Non-Oil	–8,988	–14,368	–5,380	60
Domestic (net) †	5,315	–4,628	–9,943	–187
Primary Banks	3,000	–4,500	–7,500	–250
Secondary Banks	—	—	—	—
SSNIT	3,182	—	–3,182	–100
Others	–867	–128	–739	–85
Total †	–299	–304	–5	–2

† Minus sign indicates net repayment; plus sign indicates incremental borrowing.

ANNEX I—STATISTICAL TABLES

TABLE I

SUMMARY OF GOVERNMENT ACCOUNTS, 1984–87

(Million Cedis)

	1984	1985	1986	1987
Revenue	22,641	40,311	73,625	109,711
Expenditure	27,485	47,391	73,326	109,407
Current	22,700	38,461	60,833	82,303
Capital	4,785	9,430	12,493	27,104
Balance *	–4,844	–7,580	299	304
Financing †	4,844	7,580	–299	–304
Foreign (net)	1,816	3,522	–5,614	4,324
Domestic (net)	3,028	4,058	5,315	–4,628

* Minus indicates deficit; plus indicates surplus.

† Plus indicates net borrowing; minus indicates net repayment.

TABLE II

MAJOR SOURCES OF GOVERNMENT REVENUES 1984-87
(Million Cedis)

Taxes on	1984 *Amount*	%	1985 *Amount*	%	1986 *Amount*	%	1987 *Amount*	%
Income and Property	4,125	18	7,993	20	14,121	19	17,230	16
Personal	1,650	—	3,058	—	5,242	7	6,881	6
Paye	910	4	1,862	5	3,461	5	4,681	4
Self-employed	740	3	1,196	3	1,781	2	2,200	2
Company ..	2,402	11	4,368	11	8,295	11	9,643	9
Rent	8	0	25	0	56	0	68	0
Others	65	0	542	1	528	1	638	1
Goods and Service ..	5,562	25	8,373	21	19,620	27	26,240	24
Excise Duty ..	5,121	23	7,588	19	7,848	11	12,770	12
Sales Tax ..	441	2	785	2	5,172	7	8,470	8
Petroleum Tax ..					6,600	9	5,000	5
International Transactions	8,242	36	15,764	39	28,379	39	49,477	45
Imports	3,159	14	6,591	16	14,236	19	22,371	20
Cocoa Duty ..	4,509	20	8,861	22	13,951	19	27,106	25
Other Exports ..	465	2	312	1	192	0	0	0
Non-Tax Revenue ..	4,712	21	8,182	20	11,419	16	16,764	15
Income and Fees	3,798	17	6,562	16	7,551	10	9,120	8
Grants	914	4	1,620	4	3,868	5	7,644	7
TOTAL	22,641	100	40,311	100	73,539	100	109,711	100
Memo Item:								
Total Revenue in 1986 Prices ..	34,900		44,500		73,539		95,400	

TABLE III

MAJOR ITEMS OF GOVERNMENT EXPENDITURE, 1984–87
(Milion Cedis)

	1984 *Amount*	%	1985 *Amount*	%	1986 *Amount*	%	1987 *Amount*	%
Current Expenditure	22,700	83	38,461	80	60,834	83	82,303	75
Personal Emoluments	5,055	18	14,523	30	26,194	36	35,800	33
Items 2–5 ..	10,447	38	12,948	27	12,528	17	16,065	15
Subventions ..	2,785	10	3,958	8	7,351	10	9,142	8
Pensions, etc. ..	988	4	1,946	4	3,419	5	4,364	4
Gratuities ..	168	1	332	1	927	1	1,159	1
Pension ..	637	2	1,289	3	985	1	1,321	1
Social Security	183	1	325	1	1,507	2	1,884	2
Interest ..	3,425	12	5,086	11	11,341	15	16,932	15
Internal Debt ..	2,895	11	4,548	9	5,449	7	6,462	6
External Debt ..	530	2	538	1	5,892	8	10,470	10
Capital Expenditure	4,785	17	9,430	20	12,492	17	27,104	25
Development ..	3,994	15	7,303	15	9,826	13	18,904	17
Net Lending ..	791	3	2,127	4	2,666	4	5,200	5
Special Efficiency	—	—	—	—	—		3,000	3
Memo Item:								
Total Expenditure in 1986 prices ..	42,400		52,900		73,326		95,100	
TOTAL ..	27,485	100	47,890	100	73,326	100	109,407	100

TABLE IV

FINANCING OF THE BUDGETARY BALANCE, 1984–87

(Million Cedis)

	1984	1985	1986	1987
Foreign (net)	1,816	3,522	5,614	4,324
New Borrowing	5,073	9,562	13,412	27,657
Oil	—	—	8,219	12,963
Non-Oil	—	—	5.193	14,694
Repayments	–3,257	–6,040	–19,026	–23,303
Oil	—	—	–10,038	–8,965
Non-Oil	—	—	–8,988	14,368
Domestic (net)	3,028	4,058	5,315	–4,628
Primary Banks	1,760	2,005	3,000	–4,500
Secondary Banks	591	1,368	—	—
SSNIT	437	511	3,182	—
Others	240	175	–867	–128
TOTAL	4,844	7,580	–299	–304

Note: minus indicates net repayment; plus indicates incremental borrowing.

TABLE V

BALANCE OF PAYMENTS
(Millions of us Dollar)

	1984	1985	1986	1987
			PROJECTED	
Exports (F.O.B.)	566	632	773	764
Cocoa	382	376	483	438
Non-Cocoa	184	257	291	326
Imports (C.I.F.)	-670	-727	-780	-879
Oil	-163	-212	-125	-148
Non-Oil	-507	-515	-655	-731
Trade Balance	-104	-94	-7	-115
Services (net)	-176	-199	-236	-249
Freight and Insurance	—	13	14	16
Interest Payments (net)	—	-106	-105	-110
Other Services	—	-106	-145	-155
Unrequited Transfers (net)	203	137	167	201
Government		105	118	149
Private		32	49	52
Current Account Balance	-76	-157	-75	-163
Capital Account (net)	93	62	54	319
Official Capital (net)	187	32	131	311
Long-term Loans (net)	84	110	227	264
Gross Inflows	133	135	257	304
Amortization	-50	-25	-30	-41
Medium-Term Loans (net)	104	-70	-84	59
Gross Inflows	170	153	133	172
Amortization	-65	-223	-217	-113
Trust Fund	-1	-7	-11	-12
Private Capital (net)	-9	6	4	8
Direct Investment	2	6	4	5
Suppliers' Credits	-11	0	-1	4
Others		0	0	0
Non-Monetary, Short-term Capital	-26	-3	-16	0
Monetary, Short-term Capital	-59	27	-24	0
Special Deposit Account	0	0	-33	0
VRA/AGC Accounts Outside Banking System	0	0	-8	0
Errors and Omissions (ex ante:gap)	20	-21	-36	-48
Overall Balance	37	-115	-57	108
Financing	-37	115	57	-108
Change in NFA	-27	108	66	-120
IMF (net)	214	122	16	-23
Change in Arrears	-208	-57	-4	-26
Other Reserves (net)	-33	42	54	-71
Bilateral Balances	-10	8	-9	12

Source: Bank of Ghana

TABLE VI

EFFECTIVE INCOME TAX RATES

Annual Income Level	*At* **1986** *Rates*		*At* **1987** *Rates*	
	Single	*Married*	*Single*	*Married*
	%	%	%	%
25,000	2.8	2.3	2.8	2.3
30,000	3.1	2.7	3.1	2.7
40,000	3.5	3.2	3.5	3.2
50,000	4.3	3.5	4.5	4.0
60,000	5.9	5.3	5.3	4.9
70,000	7.1	6.6	5.9	5.6
80,000	8.0	7.5	7.1	6.5
90,000	8.7	8.3	8.4	7.9
100,000	10.2	9.6	9.5	9.0
110,000	11.5	10.9	10.4	9.9
120,000	12.5	12.0	11.1	10.7
130,000	13.6	13.0	11.7	11.3
140,000	15.0	14.4	12.4	12.0
150,000	16.2	15.7	13.5	13.0
160,000	17.3	16.7	14.4	14.0
170,000	18.6	18.0	15.3	14.8
180,000	20.0	19.3	16.0	15.6
190,000	21.2	20.6	16.7	16.3
200,000	22.2	21.7	17.2	16.9
220,000	25.0	24.3	19.1	18.7
240,000	27.3	26.7	20.7	20.3
260,000	29.2	28.6	22.0	21.6
280,000	30.8	30.3	23.7	23.3
300,000	32.3	31.8	25.3	24.9
320,000	33.5	33.1	26.7	26.3
340,000	34.6	34.2	28.1	27.7
360,000	35.6	35.2	29.5	29.1
380,000	36.5	36.1	30.7	30.1
400,000	37.3	36.9	31.8	31.4

ANNEX II

THE STATE OF THE NATIONAL ECONOMY AND THE 1987 BUDGET

The main objective of our economic recovery programme has been to return the economy from its crisis-ridden path to a path of stable development. In 1983, when the financial programme was formally launched we were in a critical economic situation the culmination of about ten years of steady decline. In that year, the production of goods and services measured in real terms, declined further largely as a result of a sharp drop in agriculture and fishing sectors due to severe drought conditions.

2. In 1986, for the third successive year, economic performance has followed an upward path; real GDP grew by 5.3% representing a modest improvement over the 5.1% growth in 1985. A significant aspect of the 1986 performance, however was the wider spread of growth over the various sectors, with manufacturing and construction registering particularly strong recovery.

3. Even more impressive has been the response of our cocoa farmers to the incentives provided by the yearly increase in the producer price. Cocoa exports have steadily increased from 154,000 metric tons in 1983/84 to over 210,000 metric tons in 1985/86. Our total export earnings have gone up from $440 million in 1983 to $773 million in 1986.

4. But, whilst the economic reforms of the last few years have registered some success, the need to deepen the recovery process to deal with the underlying structural problems of the economy has become even more urgent. Hence the decision to shift the edge of our recovery effort from the short-term stabilization to clearly longer-term perspectives in which rehabilitation of our educational and health facilities would allow for increasing access of the population to better health and better education. It is particularly important in this regard to step up programmes designed to protect deprived and vulnerable groups within our society, particularly the rural poor, and to more systematically reallocate resourcesto them by assuring adequate prices for what they produce.

5. Of course, the realization of these objectives does not just depend on government. Eliminating wasteful and unproductive expenditures in government's budget so as to free more resources for important social expenditures depend on the collective vigilance of all patriots. The scarce resources available to government must be judiciously allocated so as to generate more resources, and we must strike the right-balance between current consumption and investment if we are to secure the medium-term goals. The cost recovery in sectors such as health and education is not the result of government's determination to impose punitive costs on the population. They are rather an acknowledgement that if we saddle the government budget indefinitely with high costs for social services without a programme for generating revenues to sustain those costs into the future, we will simply initiate a self-defeating course.

Text of the Budget Speech delivered to the Nation by Dr. Kwasi Botchwey, P.N.D.C. Secratry for Finance and Economic Planinng.

By eliminating corruption in the Ghana Education Service, by maximizing the use of equipment and other facilities and also, for instance, by mobilizing the energies of the youth in agricultural projects so as to reduce the burden on the budget of feeding costs, educational institutions will be expanding their capacity to give more children and young people access to education. The proportion of costs that parents will bear can therefore bo reduced through widespread cost-consciousness in the whole system and the buffer that the national budget can provide from increased national resources. A key dimension of our medium-term development efforts should therefore be the continued harnessing of community initiatives and, in particular, the demonstrated action of communities, including urban communities to contribute labour and other available resources to supplement Government's limited resources. This will be of tremendous importance for the attainment of a number of infrastructural projects throughout the country, such as electrification, water supply and road construction, as well as in the provision of housing at reasonable cost for working people.

Review of 1986 Performance

6. The 1986 Budget marked the first year of the second phase of the Economic Recovery Progarmme E.R.P. (II). The 1986 estimates provided for total revenues and grants of ₵84. 9 billion as against total expenditure and net lending to state corporations of ₵88.4 billion. However, although revenue performance in 1986 showed an increase of over 83% over 1985, it still fell significantly short of expectations mainly as a result of shortfalls in revenue from cocoa and import duties. Total revenue and grants collected amounted to only ₵73. 6 billion. Consequently, expenditures had to be severely curtailed to levels consistent with revenue performance. Cash limits had to be placed on the purchase of goods and services especially for maintenance, repairs and renewals. Development expenditures and loans and equity to state corporations also had to be reduced from ₵22.0 billion to ₵12.5 billion. Total expenditure therefore closed at ₵73.3 billion in 1986, as against a budgetary target of ₵88.4 billion. This reduction, backed by restraint in monetary expansion led to a moderation in inflationary pressures despite further depreciation of the cedi during the last quarter of 1986.

7. On the export side, Cocobod's operational expenses turned out to be much higher than projected. As a result, revenues from cocoa exports fell short of target by about ₵3 billion.

8. It will be recalled that the trend in 1984 and 1985 years had been to reduce the proportion of personal emoluments in total expenditure. But in 1986, this component actually increased as a result of the substantial wage increases which were granted. Expenditure on wages and salaries in 1986 amounted to ₵26.2 billion. This represented 43% of recurrent expenditure and 36% of total expenditure. Quite obviously, we cannot continue on this path and at the same time undertake the much needed rehabilitation and development of our social and economic infrastructure.

The Outlook for 1987

9. The central task before Government in implementing the second phase of the E.R.P. is to consolidate the gains of the recovery policies pursued in 1984–86 and to ensure that the economy stays firmly on the path of growth. This calls for a reinforcement of the macroeconomic policies of the past four years and streamlining the institutional framework for planning and monitoring the implementation of our investment programmes. The primary objective of the 1987 fiscal programme is to further enhance incentives for production and at the same time generate employment.

10. The Gross Domestic Product is expected to grow at 5%, while the rate of inflation is targetted at 15%. Total revenues and grants are estimated at ₵109.7 billion while total expenditure is estimated at ₵109.4 billion, leaving a modest surplus of ₵304 million. Development expenditure has been set at ₵18,9 billion.

Exchange Rate and Payments System

11. The existing system of exchange rates consists of the two official windows and the parallel market exchange rate. Of these three windows, the rate on the first, Window 1, has been fixed at ₵90 to the U.S. dollar. The second window, Window 2, was introduced in September, 1986. This rate is determined at the weekly auctions conducted by the Bank of Ghana. The parallel market rate is negotiated informally.

12. On the export side, all foreign exchange receipts from the sale of cocoa beans, cocoa products and residual fuel oil are surrendered to the Bank of Ghana at the fixed rate of ₵90 per U.S. dollar. On the import side, all foreign exchange requirements for the procurement of crude oil, processed petroleum products, foreign inputs for Ghaip and about $5 million dollars of essential drugs are bought from the Bank of Ghana at $90 to the U.S. dollar.

13. Foreign exchange required for the importation of all other officially approved purposes is either brought directly through the auction or else at the marginal rate determined for any particular week at the auction of the preceding week. This has meant that importers including those operating on the unofficial or parallel market were for official purposes treated as if they procure foreign exchange at the second window ruling marginal rate for any particular week under review. The same marginal rate has been used as the price that the Bank of Ghana (and for that matter the commercial banks and other authorised dealers) would pay for foreign exchange earned in respect of exports other than the Window 1 commodities namely cocoa and residual fuel oil.

14. At the time of instituting the auction system, however, it was decided to exempt crude oil imports and cocoa exports from the second window rate. In effect farmers have been subsidising crude oil imports and petroleum products for the past eight months. This cannot be allowed to continue indefinitely since we would otherwise be going back to bad old days when cocoa farmers provided cheap foreign exchange that was dissipated without being replenished even as the farmers themselves languished in conditions of extreme deprivation. We must be concerned about appropriately pricing this scarce foreign exchange resource. At no time again

in this country must we allow a false value to be given to the cedi and then maintained even as productivity declines. There is no wisdom in over-valuing the cedi if local productivity does not sustain the value that is set. With immediate effect the dual foreign exchange system will be replaced by a unified auction system. The weekly auction will thus determine the applicable rate for all transactions within the economy.

15. In a bid to increase our foreign exchange earnings especially by diversifying the sources of their generation, a major effort is now under way to encourage non-traditional exports. To provide further incentives for these exports the level of retention is being increased from 20 per cent to 35 per cent.

16. Secondly, it is well known that significant foreign exchange resources are still being channelled outside the official foreign exchange system. This is partly because authorised dealers in foreign exchange are limited and do not operate country-wide. The Bank of Ghana will now authorise licensed dealers, other than banks, to set up "bureau de change" to buy and sell foreign currency officially.

17. The country also loses massive amounts of foreign exchange through the illegal mining and export of gold and diamonds. The progress we have made in appropriately pricing foreign exchange now creates the basis for all gold and diamond produced in the country to be channelled officially into national coffers. To facilitate the contribution of gold and diamond production to our foreign earnings the P.N.D.C. has decided that private gold dealers will be licensed in the same manner as is done for diamond winners. The Government is studying proposals to authorise the licensing of official buyers for gold.

18. At the beginning of our economic reform intiatives, we had to take firm steps to reduce excess liquidity. This involved demonetizing the ₵50 note. Subsequently, we converted these withdrawn notes into interest bearing bonds. To further enhance public confidence, the P.N.D.C. has now decided to allow the public to redeem these amounts ahead of time.

Wage Policy

19. In order to secure purchasing power against likely erosion due to the expected inflation rate of 15% for 1987 and to allow for a further increase in real income, a 25% across the board increase in wages and salaries for Civil Service is being implemented effective 1st January this year. Additionally, Transport allowance of Civil Servants has been increased by 100% although the anticipated increase in fares with the petrol price increase is not expected to exceed 30%. Canteen allowance has been increased by 50% to ₵30 per day. The new tax schedule also offers considerable tax relief to the worker. The highest marginal rate of 55% will apply to income levels exceeding ₵300,000 per annum. In addition, the interest Government pays on securities purchased by SSNIT has been raised from 6% to 16%. This should reflect increased yields on employees' contributions.

20. Government has noted with concern the wide range and high levels of allowances paid both within the public service and the private sector. These allowances were introduced to supplement the low levels of salaries prevailing in the past. With the recent increases in salaries and the downward revision in income tax structure as well as the down-turn in the rate of inflation, existing laws on taxation of allowances will now be enforced. All allowances other than the following and those that are exempted by existing law will be added to basic salary and taxed. The allowances that are exempted from tax and the levels are:—

(i) 20% of salary as Housing Allowance:

(ii) 15% of salary as Bonus.

(iii) Night duty allowance.

(iv) Transport allowance not exceeding ₵800 per month.

(v) Canteen allowance not exceeding ₵600 per month.

(iv) Car Maintenance allowance not exceeding ₵2,500 per month.

(vii) Motor Cycle allowance not exceeding ₵600 per month.

(viii) Leave allowance not exceeding ₵1,500 per annum.

Corporate Taxes

21. The existing income tax law requires advance payments of taxes at the beginning of the quarter. This is now changed so that corporate bodies and self-employed persons will now pay at the end of each quarter. As an incentive to industrial enterprises, the corporate tax rate for manufacturing concerns is also reduced from 50 per cent to 45 per cent.

Tax Measures

22. In the area of tariffs, an elaborate structure had been constructed over the years to compensate for the over valued cedi. A policy of simplyfing and rationalising the tax system will now be vigorously pursued. Government has decided to reduce import duty rates especially on imported items which satisfy priority needs of the economy.

23. In recognition of the vital role transportation plays in the national economy, and to further moderate fares, the following decisions have been taken:

(i) Import Duty and Purchase Tax on all commercial vehicles, motor-cycles, bicycles, railway coaches, locomotives, fixtures fittings, vans, etc. are abolished.

(ii) Saloon cars, with less than 1800 cubic capacity will also enjoy total exemption from import duty and purchase tax.

(iii) Saloon cars with cubic capacities of more than 1800 and up to 2000 will attract a reduced import duty rate of 15% and purchase tax of 10%.

(iv) Luxury saloon cars of 2000 cubic capacity and above will attract an import duty of 30%, a purchase tax of 10% and a penalty under the Motor Vehicle Importation Law as amended.

24. Spare parts, accessories and lubricants will now attract a concessionary duty rate of 10%, as part of the package of measures designed to hold fares down.

25. It is also no longer necessary to obtain authorization from the Ministry of Finance and Economic Planning before registering a motor vehicle. A Tax Clearance Certificate obtained at the District level will be sufficient.

26. To stimulate local production duty rates on basic raw materials like clinker, cotton (carded and combed), raw jute, and pig iron have been reduced from their 1986 level of 20% to 15%.

27. Other raw materials and capital goods which attract duty of between 20% and 30% will now attract a duty rate of 20%.

28. All raw materials for the manufacture of pharmaceutical products will attract a concessionary rate of 10%.

29. Inputs into the agricultural sector like agricultural machinery, plant, agricultural tractors and trailers and fertilizers will continue to be imported duty free.

30. Consumer goods will now attract a duty rate of 25% instead of the current rate of 30% which will continue to be charged on luxury goods.

31. Foreign Exchange Shops have until now enjoyed concessionary rates of duty and sales taxes. This situation can no longer be justified especially as similar goods imported under SUL do not enjoy such subsidy. Accordingly, Foreign Exchange Shops will, with immediate effect, pay the normal duties and sales taxes applicable to the goods they import.

32. The 10% Special Sales Tax on goods imported under Special Licence (SUL) is abolished.

33. It is our objective to encourage efficient domestic production and minimise the extent of dependence on imported goods. Import sales taxes are therefore being imposed on such goods as milk, rice and prepared fish from other countries.

34. Furthermore the Special tax on the following goods has been raised as indicated below:

Commodity	*Present Special Tax Rate*	*New Special Tax Rate*
Cigarettes	50 per packet of 20 sticks	100 per packet of 20 sticks
Beer, stout, cider, perry and ale ..	70 per litre ..	125 per litre
Alcoholic beverages such as wine, gin, whisky, brandy, rum, schnapps, genver, and liquer ..	300 per litre ..	550 per litre
Non-alcoholic beverages such as coca cola, fanta, etc. ..	35 per litre ..	60 per litre

35. The Special tax on textile fabrics will remain at the existing level of 50% or ₵75 per sq. meter, whichever is higher.

36. Excise duties on all locally produced goods with the exception of petroleum products, tobacco, alcoholic and non-alcoholic beverages, have been merged into sales taxes.

37. To reduce the cost of construction, the Sales Tax rates on a number of locally produced inputs for the housing industry have been revised downwards:

Items	*Existing Excise Duty and Sales Tax Rate*	*New Sale Tax Rate*
Cement	21%	10%
Roofing Sheet ..	21%	10%
Paint	21%	10%

38. Agricultural machinery, plant and apparatus will continue to be exempted from sales tax.

39. The 10% sales tax on the domestic consumption of electricity is abolished and will be passed on to consumers.

40. For the valuation of goods imported under Special Licence, General Superintendence attestation of prices will now be accepted for customs purposes.

41. Entertainment taxes on football matches and other sports are abolished.

42. In an effort to spread the tax net, the Revenue Secretariat recently introduced a system whereby commercial motor vehicle owners pay taxes on a daily basis. We commend the co-operation of the G.P.R.T.U. and the Ghana Co-operative Transport Union in the institution of this scheme. Others too must display a similar appreciation of civic responsibilities so that the burden of taxes is evenly spread.

Infrastructure

43. The development budget of ₵18,904 million signifies Government's commitment to development projects that will enhance the living conditions of the population. Under the Economic Recovery Programme, the P.N.D.C. has been making substantial investments in the provision, rehabilitation and maintenance of infrastructure. The great strides made in infrastructural development will continue in 1987.

44. In 1986, a total of 800 km of trunk roads were improved through regravelling, resealing or resurfacing. The feeder road programme under which rural areas are opened up so that food and cash crops move from the production areas to the consumption areas continued. A total of approximately 1,000 km of feeder roads were either regravelled, or reshaped whilst 50 culverts of different sizes were constructed. Additionally to improve accessibility to rural areas, particularly to cocoa, food and timber producing areas, bailey and steel assembly bridges are being constructed throughout the country. Three major bridges were completed at Jumoro in the Western region, Ejisu in Ashanti region and Dadieso in Eastern region. Rehabilitation of city roads started in Accra and Kumasi. Under this programme, all the major roads in Accra and Kumasi city are to be asphalted.

45. In the area of telecommunications, it has long been recognised that too much resources and time are spent on moving physically from one place to the other due to the poor telecommunications system. To reduce fuel consumption, vehicle wear and tear, etc. a major rehabilitation of the telecommunications system is being undertaken. A new 6 digit telephone system was introduced in Accra and new automatic telephone exchanges were installed at Obuasi, Bekwai, Tarkwa, Dunkwa and Teshie-Nungua which enable these areas to have direct dial access to the rest of the country.

46. The rehabilitation of our broadcasting facilities in Accra continued in 1986. Under this programme Ghana Television introduced colour television. Broadcasting facilities are being replaced with modern transmitters and the studios (sound and television) are being re-equipped.

47. Under the E.R.P., it is envisaged that increased export and import activity would take place. Unfortunately, the present state of the two harbours cannot handle the productive activity at the harbours. Work started in 1986 at rehabilitating the two harbours to improve their depths to allow bigger vessels to berth at the harbour. The railway system used to carry the bulk of the country's export of cocoa, timber, and mineral resources, but, its operation deteriorated and then virtually ceased. A railway rehabilitation programme which started in 1984 saw the Western line fully rehabilitated in 1986.

48. A major project of supplying electricity to the Northern parts of Ghana from the National Transmission Grid, will begin in 1987. This project is planned to be completed by the end of 1990 at a total cost of one hundred and fifty million dollars (US$150 million). The Project is being financed by eight international agencies and bilateral institutions. The various contributions are as follows:

1. The African Development Bank ..	US$35 million
2. The International Development Association	US$6.3 million
3. The European Development Bank ..	US$18.0 million
4. The Commonwealth Development Corporation	US$18.0 million
5. The Saudi Fund for Development ..	US$4.5 million
6. The Canadian International Development Agency	US$7.5 million
7. The Japanese EXIM Bank	US$5.0 million
8. The Volta River Authority	US$3.2 million

Furthermore, the Volta River Authority will finance all the local costs equivalent to US$45 million.

49. The Project when fully completed will establish the basic infrastructure for the supply of electricity from the national power system for virtually the whole of Ghana. In particular, most parts of Brong-Ahafo, the Northern Region, the Upper East Region and the Upper West Region will be connected to the existing Power Grid supplied from Akosombo and Kpong. This Project known as the "Northern Electrification and System Reinforcement Project", will be undertaken and managed by the Volta River Authority.

50. During the construction of this Project it is also planned to improve the existing Diesel Generation supplies of electricity in Northern Ghana by rehabilitating the existing Diesel Generators, all of which would eventually be used as support to the new transmission line in case of a Transmission Line failure. The existing distribution system of these towns will also be rehabilitated at the same time. This Project referred to as the "Northern Diesel Generation and Distribution Project" estimated to cost $16 million is expected to be financed from a loan to be negotiated soon with the Kuwaiti Fund for Development.

51. The Programme to extend electricity to Rural Communities, especially those with local resource contributions will be accelerated in 1987. The extension of the Volta Region Rural Electrification Project by providing electricity to the coastal towns from Denu to Keta will also commence in 1987.

52. Transportation holds the key to our development. Agriculture, Mining and Industry all depend on efficient transportation network to realise the value of production. Our road and rail systems need continuing efforts at rehabilitation, maintenance and extension.

53. In 1987, work on asphalting the 136 km Anyinam-Kumasi road and the 120 km Kintampo–Morno–Yapei road and bridge approaches which started in 1986 will continue. In addition work will commence on the 40 km Duayaw Nkwanta-Sunyani road. Preparatory work on the 180 km Kumasi–Cape Coast road will commence and contracts will be awarded for work to begin in 1988.

54. Work on 25 km of Accra City roads covering the asphalting the Ring Road West and Ring Road Central Dual Carriage ways and the Nkrumah Circle–Achimota Road as well as the 8 km 6-Lane Kaneshie-Mallam road will continue. Also scheduled for continuation will be the 100 km Kumasi City roads.

55. As far as road maintenance is concerned, a total of 960 km of trunk roads will be regravelled, resealed or resurfaced while 2,000 km of feeder roads will be reshaped and about 300 km regravelled. Priority attention will also be paid to the construction of new cocoa roads in addition to the maintenance of existing roads.

56. Public transportation will be improved by the importation of 100 buses which should help ease the transportation problem. Rail transportation will also be improved by the importation of 130 passenger coaches and 4 locomotives. Express train service between Takoradi and Kumasi will commence on the Western line. Rehabilitation of the Eastern and Central railway lines will start in 1987.

57. The first Phase of the rehabilitation of the two habours which involves the removal of sunken vessels will be completed in 1987.

58. In the telecommunications sector, micro-wave lines connecting us to our neighbours, Burkina Faso, Cote d' Ivoire and Togo will be installed to enable us have direct telephone access to these countries without passing through London or Paris. Direct telephone dialling worldwide will also be in place in 1987.

59. The stock of houses on the housing market has not increased over the last several years while the demand for houses has increased tremendously. This has led to a situation where landlords are charging exhorbitant rents. It is the aim of the P.N.D.C. to reverse this trend and this budget aims to encourage people to invest in housing by reducing the duties and taxes payable on building materials. Support will be given to institutions like SSNIT, SIC, and REDCO to start a phased programme for completion of the numerous uncompleted housing projects scattered all over the country.

60. The initiatives of communities themselves are required to generate new levels of activity to augment the housing stock and improve upon maintenance of existing facilities. In this regard, it is worth noting that the Armed Forces have started a highly commendable housing scheme which other institutions will do well to emulate. Under this Scheme, officers and men alike make voluntary monthly contributions and provide free labour using whatever materials are available to construct core design houses. Resources have therefore been allocated in the 1987 budget to enable infrastructural support to be provided to communities willing to undertake projects to house ordinary working people. Such infrastructural support will include land, equipment for low-cost building materials to be produced, electricity and water supply, roads, culverts and the basic sewerage system.

61. Much more need to be done to improve the quality of life in the rural areas. The thrust of government policy in a situation of scarce resources is to complete projects that have already begun, particularly those in the areas of health, water supply and electricity supply. Emphasis will be placed on projects where local initiatives have already provided an impetus. Our dialogue with donors has provided indications that the use of local currency counterpart funds derived from commodity aid for such 'social sectors' projects would be acceptable, especially where direct benefits to deprived sectors of the nation will accrue. Government's objective is to develop the institutional framework for the direct channelling of such resources to the District Authorities so that decisions can be taken locally about priorities within the range of eligible projects.

62. In the educational reform programme that the Government has launched, we have already begun to see new demonstrations of community initiative. Where there are no middle schools to be turned into junior secondary schools, communities are offering buildings or undertaking to build schools through voluntary labour. The Government is also making financial provision to help communities by providing the roof and pillars of classrooms while the communities fill in the walls. Support will also be provided for essential renovations of existing structures. From the school mapping exercise currently going on we will know very concretely the space available and what more is needed to start the junior secondary school with the support of donors and communities themselves. Government is funding the provision of basic tools, educational materials and equipment. The textbook situation in the schools has improved significantly and textbook production is very far advanced. Training for about 35,000 teachers and 5,500 Headmasters for junior secondary schools is also being undertaken in 1987.

63. It is a matter of concern that 40% of children of school-going age are not in school. Steps are being taken for increasing enrolment both by the provision of additional classroom space and by maximizing the efficiency of current utilization of available space. We are re-equipping primary schools especially with needed books and basic teaching materials.

Special Efficiency

64. The scheme for resettlement of the individuals who elect to retire from the Civil Service in 1987 will involve, in addition to some retirement awards, allocation of funds for re-training to facilitate their adjustment to alternative employment. The budget is also assuming the extra burden of providing tools and equipment as well as support for the acquisition of land, to ensure continued productive deployment of these persons in the national economy.

65. It must be recognised that so long as we retain redundant labour in the public service, it will not be possible to pay those who actually work adequately and adequately fund social programme. For instance, the ₵3 billion provision made in the budget to provide funds for resettlement schemes could have been channelled, say, into a housing programme.

66. Our recovery programme and all the successes we have thus far registered have been made possible largely through financing from foreign loans and grants. There is no doubt that our national situation would have been much worse without such assistance. We cannot and must not perpetuate this trend. For the future, any improvements in wages and salaries and allowances must come from surpluses generated by increased production. It is the only way we can secure our sovereignty and independence.

DR. KWESI BOTCHWEY
P.N.D.C. Secretary for Finance and Economic Planning



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