

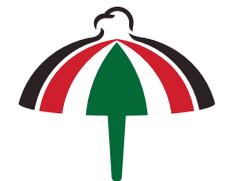
THE ILLUSIONS OF RECENT ECONOMIC DEVELOPMENT:

THE SLOGANS OF POPULISM VRS THE REALITY

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OUTLINE OF PRESENTATION

- Introduction
- Cosmetic Fiscal Deficit And Misreporting
- The Great Hoax (Putting Gh¢12 In The Pockets Of Ghanaians)
- Unproductive Resource Allocation (Kwashiorkor Economy)
- Conclusion



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INTRODUCTION

- I sincerely want to welcome and thank you for being available to join us this afternoon for the public forum on the 2020 Budget.
- I am glad to be here because this is the right opportunity for me to give clarity to all the issues surrounding the usual slogans and the deceptions.
- A lot has happened in the area of economic and finance governance under the leadership of H. E. Nana Addo which has dire consequence on Ghana's enviable reputation.



INTRODUCTION

- **Ghana is a Market Access Country (MAC) and we cannot afford to compromise the standards of good Economic and Financial Governance just to score cheap political points.**
- **The presentation seeks to explore and expose all the illusions of recent economic developments.**



INTRODUCTION

- The NPP did not inherit an economy in a dire state after all. The Hon. Minister in paragraph 34 of his Budget speech announce a Budget deficit of 6.5% of GDP for end year 2016.
- This announcement has brought finality to the whole propaganda about inheriting an economy with a deficit of 9.3% of GDP in 2016.



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INTRODUCTION

- Recently at the 8th edition of the Ghana Economic Forum on Wednesday, 30th October 2019, H.E. the President said, and I quote



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As you all know, the macroeconomic situation that my government inherited in 2017 was a dire one. GDP growth of 3.6 percent at the end of 2016 was the lowest in over two decades. The 2016 fiscal deficit was 9.3 percent.....”



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INTRODUCTION

- This certainly cannot be true because the facts based on the available fiscal data and recent publications from the Ministry of Finance reports a deficit level of 6.5% of GDP for end-year 2016.
- To clear all doubts, Ladies and Gentlemen, the official fiscal deficit for 2016 as published by the Ministry of Finance was GH¢-13,144,932,415 (<https://www.mofep.gov.gh/fiscal-data/2016>).



INTRODUCTION

- The nominal Gross Domestic Product (GDP) for 2016, before the rebasing, was GH¢168,752,715,082. Hence, the fiscal deficit was -7.8% of non-rebased GDP and not 9.3%.
- The rebased nominal GDP for 2016 was GHC 215,077,044,658.61, hence the fiscal deficit for 2016 was -6.5% of the rebased GDP, and not 9.3%. Reference to page eleven (11) of the Mid-year Budget Statement reports the 2016 fiscal deficit to be 6.5 percent of rebased GDP.

The usual propaganda of a deficit of 9.3% of GDP by NPP is total falsehood.



INTRODUCTION

- We entreat the President and his government to stop the usual sloganeering because the reality is that, the numbers are speaking for themselves.



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COSMETIC FISCAL DEFICIT AND MISREPORTING

- The supposed 4.7% of GDP projected end-2019 fiscal deficit as captured in 2020 Budget Statement is too cosmetic. The fiscal deficit for (Q1-Q3)-2019 stood at 4.5% of GDP.
- The fiscal deficits as reported by government are artificially created by government since they do not reflect the true state of the Ghanaian economy and excludes key expenditure items that are not well classified.



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COSMETIC FISCAL DEFICIT AND MISREPORTING

- The main drivers of the cosmetic fiscal deficit as summarized as follows:
- Government desire to achieve a fiscal deficit consistent with its recently created fiscal rule which caps the deficit at 5% of GDP;
- Using "off-Budget" treatments, such as the factoring system and the non-processing of General Government expenditure through GIFMIS which is estimated at GH¢2 billion (0.5% of GDP);



COSMETIC FISCAL DEFICIT AND MISREPORTING

- Off-Balance sheet treatment of GETFund borrowing of \$1.5 billion (2.0% of GDP) which did go through government fiscal operations;
- Treating of energy sector IPP's payment estimated at GH¢5.4 billion (1.4% of GDP) as amortization (below the line treatment); and
- Treatment of the financial sector clean-up cost as below the line expenditure, among other.



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COSMETIC FISCAL DEFICIT AND MISREPORTING

- The treatment of the energy sector IPP's as amortization is not consistent with the Government Finance Statistics Manual (GFSM) 2014 of the International Monetary Fund (IMF).
- The technical and operational definition of amortization in the Glossary of the GFS Manual is as follows:



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COSMETIC FISCAL DEFICIT AND MISREPORTING

- The Amortized Value of a loan reflects the gradual elimination of the liability by regular payments over a specified period of time. An activity is classified as amortization if it is:
 - Reimbursement of the principal of a debt;
 - Distinguished from interest, which is a charge for the use of borrowed money; and
 - Recorded in the balance of payment at the time it is due.



COSMETIC FISCAL DEFICIT AND MISREPORTING

- From the definition and classification above, the treatment of the crystallized payment to the IPPs as an amortization item is technically and operationally unconventional.
- Ladies and Gentlemen, the usual slogan of restoring fiscal discipline is very far from the reality.



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COSMETIC FISCAL DEFICIT AND MISREPORTING

- What then is the reality ladies and gentlemen? The reality is that:
 - 1.** Payment to the IPPs are expenditure (arrears) items that directly affects taxes. The justifications for the increase in the ESLA levies in the mid-year Budget was to raise additional revenues;
 - 2.** The PFM Act, 2016 mandates us to ensure fiscal transparency in the classification of General government revenues and expenditure;



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COSMETIC FISCAL DEFICIT AND MISREPORTING

- 3.** The financial sector clean-up cost cannot be treated below the line because the expected recoveries from receivership will be treated as revenue;
- 4.** GETFund is a general government unit hence its expenditure cannot be treated off balance sheet; and
- 5.** The fiscal deficit that correctly reflects recent development is conservatively above 7% of GDP (Projected 4.7% of GDP for end year 2019 plus 0.5% from factoring plus 2.0% from GETFund borrowing, 1.4% from Energy sector IPP's).



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THE GREAT HOAX (Putting GH¢12 in the pockets of Ghanaians)

- Ladies and gentlemen, the statement by the Finance Minister that he has put GH¢12.2 billions in the pockets of Ghanaian cannot be true.
- This position by government is nothing but an illusion. It is far from reality and must be dismissed totally.



THE GREAT HOAX (Putting GH¢12 in the pockets of Ghanaians)

- The reality is that the government has actually taken money from the pockets of Ghanaians through the following:
 - A. unwarranted increases in fuel prices;
 - B. increases in transport fares;
 - C. unwarranted increases in utility tariffs;
 - D. distortionary and burdensome taxes, e.g. CST, ESLA levies, etc.;
 - E. The extension of NFSL and SIL.



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THE GREAT HOAX (Putting GH¢12 in the pockets of Ghanaians)

- The summary breakdown of the amount taken from the pockets of Ghanaians is contained in the Tables below.

On average, the Government took GH¢ 13.7 billion from the pocket of Ghanaians between Jan 2017 to Aug 2019 by way of increase in the price of Diesel and Petrol alone.



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INCREASE IN THE PRICE OF PETROL AND DIESEL ALONE

Item	2017 (Ltrs)	2018 (Ltrs)	2019(AUG) (Ltrs)	Total (Ltrs)	Average increase in price(GH¢)	Amount Taken From Our Pocket (GH¢)	Total (GH¢)
Gasoil(Diesel)	1,822,961,622	2,132,981,520	1,484,651,438	5,440,594,580	1.415	7,698,441,331	13,671,344,589
Premium	1,431,078,100	1,662,436,300	1,160,690,200	4,254,204,600	1.404	5,972,903,258	

When the increase in taxes are included in the scenario , the Government took GH¢ 27.2 billion on the average from our pocket, between Jan 2017 to Aug 2019 .



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DESCRIPTION	AMOUNT(GH¢)
Decoupling of NHIL and GETFund component of VAT	2,600,388,891
Luxury Vehicle Tax	60,686,352
Extension NFSL and SIL	321,425,688
CST	107,191,919
Increase in ESLA	436,629,512
Utilities Price Increment	9,000,000,000
Fuel price increase	13,671,344,589
Transport fares increase	1,000,000,000
TOTAL	27,197,666,951

UNPRODUCTIVE RESOURCE ALLOCATION (Kwashiorkor Economy)

- Government expenditure since 2017 has been directed towards recurrent expenditure (consumption expenditure) to the extent that the key sectors of the Economy that would provide sustainable and inclusive growth are being neglected.



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UNPRODUCTIVE RESOURCE ALLOCATION (Kwashiorkor Economy)

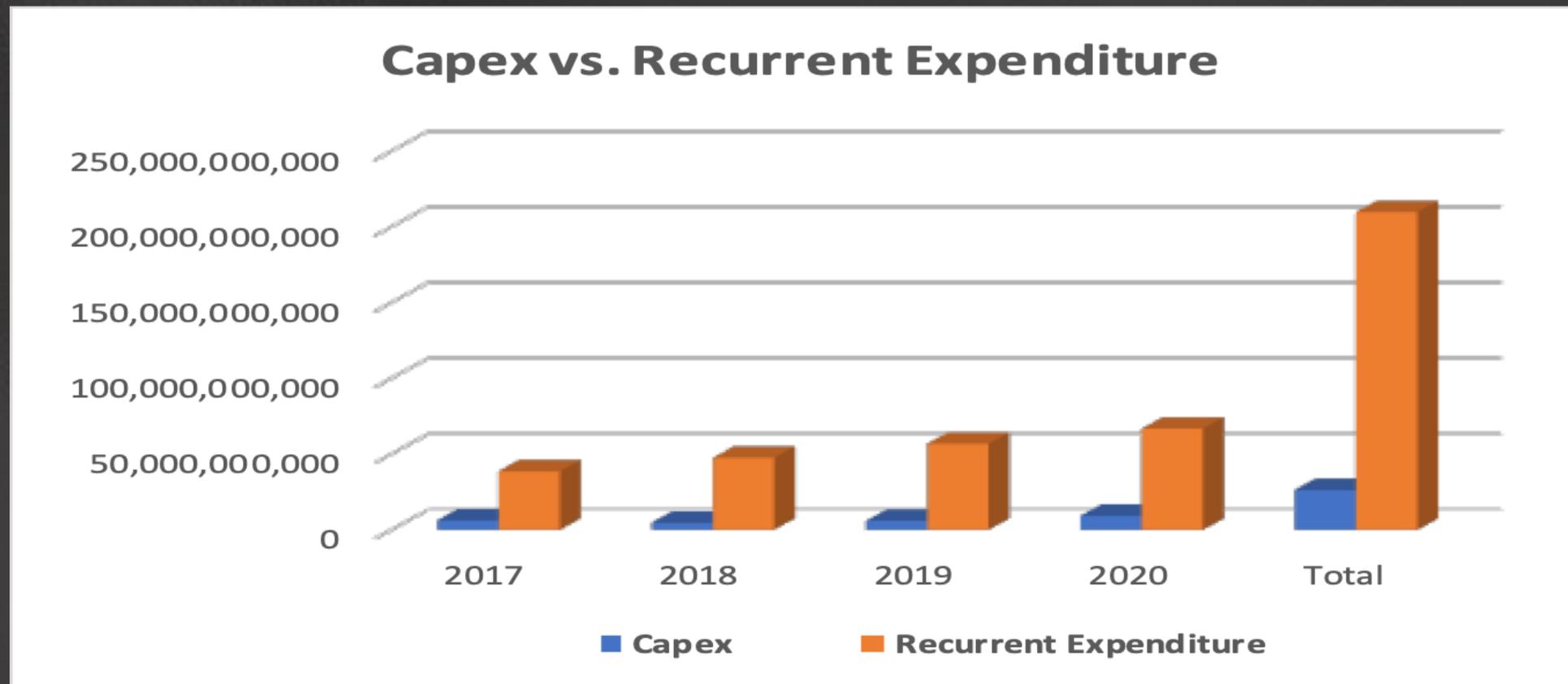
CAPEX VS. RECURRENT EXPENDITURE

Item	2017	2018	2019 Proj.	2020 Budget	Total
Capex	6,331,410,664	4,738,334,834	6,034,451,578	9,260,040,870	26,364,237,946
			1.5% of GDP	2.3% of GDP	
Recurrent expenditure	38,608,638,551	47,477,850,045	56,903,457,990	66,795,455,335	209,785,401,921
			14.3% of GDP	16.8% of GDP	



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UNPRODUCTIVE RESOURCE ALLOCATION (Kwashiorkor Economy)



UNPRODUCTIVE RESOURCE ALLOCATION (Kwashiorkor Economy)

Key infrastructure sectors of the economy such as roads, works and housing, and Energy are not seeing any improvements in Government resources allocation



UNPRODUCTIVE RESOURCE ALLOCATION (Kwashiorkor Economy)

Road Sector Neglect			
	2016	2017	2018
MINISTRY OF ROADS	1,124,027,395	219,646,128	924,100,330
<i>% of GDP</i>	<i>0.52</i>	<i>0.09</i>	<i>0.31</i>
<i>o/w CAPEX</i>	1,086,981,546	176,135,058	792,730,785
<i>% of GDP</i>	<i>0.51</i>	<i>0.07</i>	<i>0.26</i>
ROAD FUND	1,040,684,193	905,299,335	516,807,572
<i>% of GDP</i>	<i>0.48</i>	<i>0.35</i>	<i>0.17</i>
Capex plus RoadFund	2,127,665,739	1,081,434,393	1,309,538,357
<i>% of GDP</i>	<i>0.99</i>	<i>0.42</i>	<i>0.44</i>
Cocoa Roads	592,500,000	0	0
<i>% of GDP</i>	<i>0.28</i>	<i>0.00</i>	<i>0.00</i>
Total investment in Road Sector	2,720,165,739	1,081,434,393	1,309,538,357
<i>% of GDP</i>	<i>1.26</i>	<i>0.42</i>	<i>0.44</i>
Nominal GDP	215,077,000,000	256,671,400,000	300,596,100,000



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UNPRODUCTIVE RESOURCE ALLOCATION (Kwashiorkor Economy)

Government has spent a greater portion of the Eurobond money on consumption. Domestic capital Expenditure net of ABFA expenditure has seen a downwards trend in the last 3 years. This is a very worrying development that must be corrected immediately.

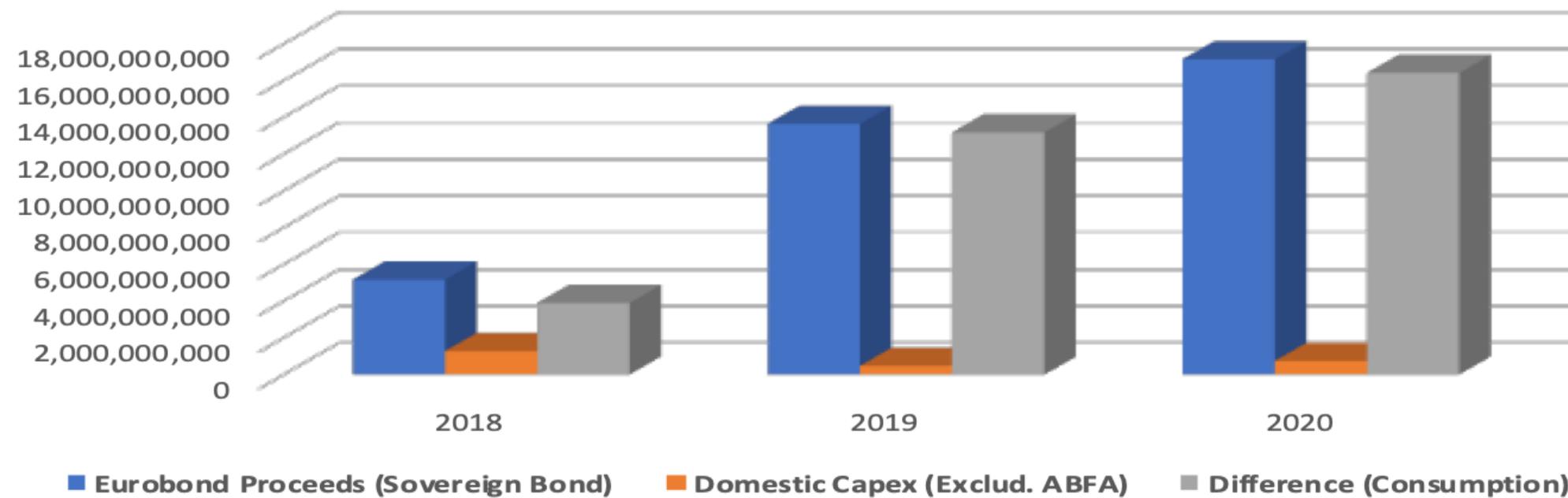


EUROBOND PROCEEDS (SOVEREIGN BOND) VS. DOMESTIC CAPEX (EXCL.ABFA)

Item	2017	2018	2019 Proj.	2020 Budget	Total
Domestic Capex(excl. ABFA)	477,841,661	1,276,184,089	469,712,075	740,210,680	2,963,948,505
Eurobond Proceeds (Sovereign Bond)		5,169,379,506	13,646,557,251	17,155,953,271	35,971,890,028
Difference	477,841,661	3,893,195,417	13,176,845,176	16,415,742,591	33,007,941,532

UNPRODUCTIVE RESOURCE ALLOCATION (Kwashiorkor Economy)

Eurobond Proceeds vs Domestic Capex and Consumption Expenditure



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UNPRODUCTIVE RESOURCE ALLOCATION (Kwashiorkor Economy)

- The rate of public debt accumulation is increasing at an increasing rate while public investment in capital Expenditure has reduced over the period. Government in the last two and half years has, on cumulative basis, added GH¢88.3 billion to public debt and increased domestic capital expenditure by GH¢15.6 billion.



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UNPRODUCTIVE RESOURCE ALLOCATION (Kwashiorkor Economy)

Capex vs Public Debt Accumulation

CAPEX FROM 2017 – SEPTEMBER, 2019	
2017	6,331,410,664
2018	4,738,334,834
2019 (Sept.)	4,557,124,459
Total	15,626,869,957
PUBLIC DEBT FROM 2017 – SEPTEMBER, 2019	
End 2016	120.3 Billion
September, 2019	208.6 Billion
Addition to Public Debt	88.3 Billion



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STARVING STATUTORY FUNDS

Statutory funds such as DACF, NHIL, GETfund, Road Fund, and GIFF, established by successive governments to provide important role in infrastructure Development, Health care and local Governance are being starved with resources.

Resources that are supposed to go to these Statutory funds have been capped and the excess diverted to consumption.



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STARVING STATUTORY FUNDS

Statutory Fund	2017			2018		
	Actual Receipt	Actual Transfer	Amount Taken Due to Capping	Actual Receipt	Actual Transfer	Amount Taken Due to Capping
GETFund	1,376,201,039	503,499,909	872,701,130	1,501,037,191	851,719,919	649,317,272
RoadFund	1,058,114,291	905,299,335	152,814,956	1,331,011,006	516,807,572	814,203,434
NHIL	1,816,685,251	1,106,075,299	710,609,952	1,878,343,014	1,473,283,192	405,059,822
DACF	2,977,088,478	1,046,176,267	1,930,912,211	3,572,754,973	1,446,921,070	2,125,833,902
GIIF	1,376,201,039	0	1,376,201,039	1,501,037,191	0	1,501,037,191
TOTAL DEDUCTIONS			5,043,239,289			5,495,451,621



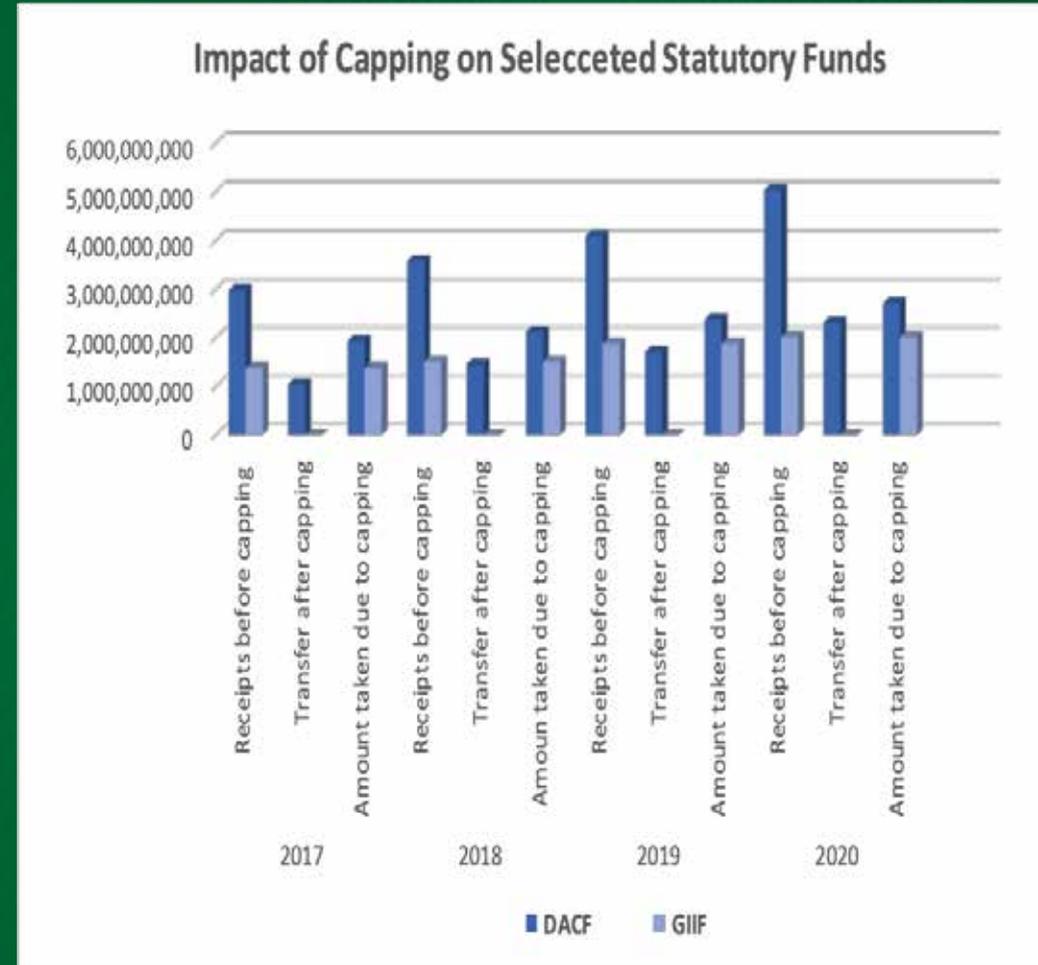
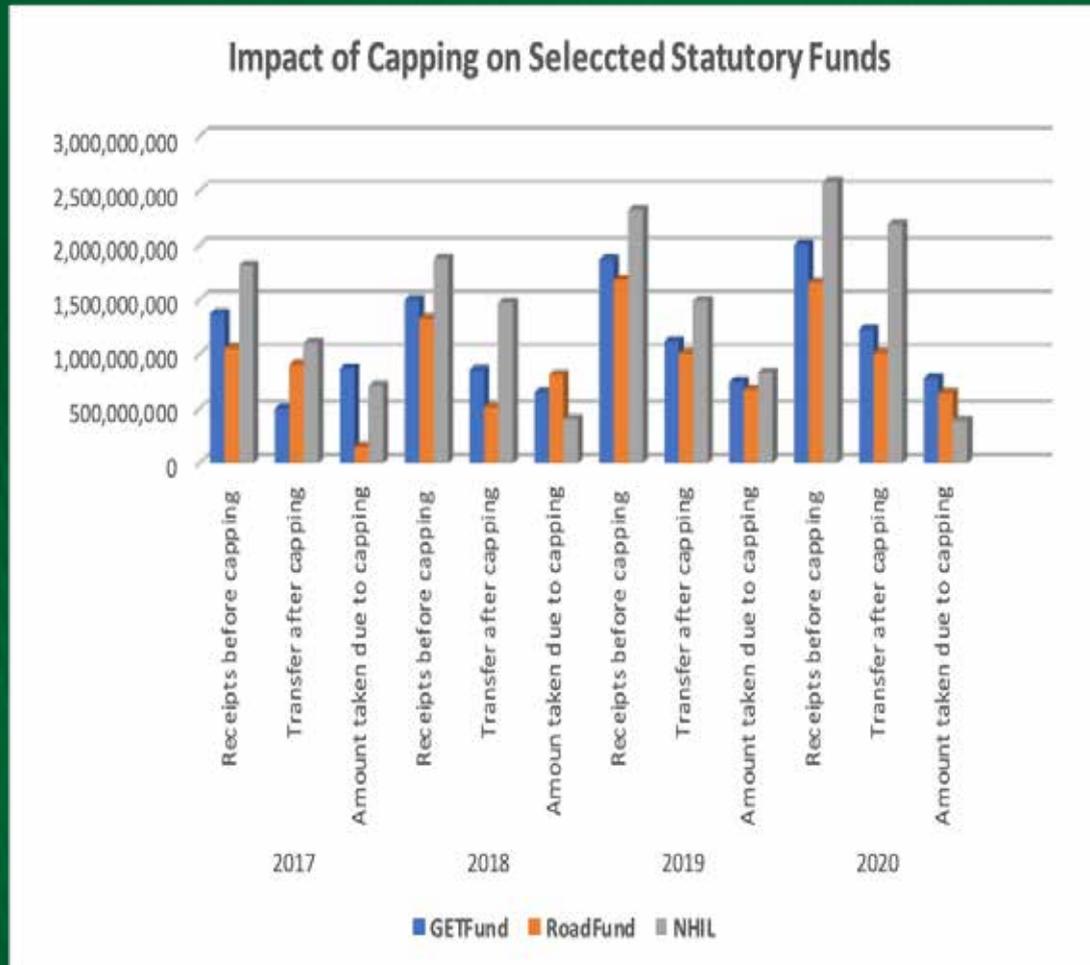
STARVING STATUTORY FUNDS

Statutory Fund	2019			2020		
	Actual Receipt	Actual Transfer	Amount Taken Due to Capping	Actual Receipt	Actual Transfer	Amount Taken Due to Capping
GETFund	1,872,198,595	1,122,325,748	749,872,847	2,009,316,200	1,228,038,448	781,277,752
RoadFund	1,687,176,999	1,011,410,964	675,766,034	1,659,524,523	1,014,255,457	645,269,067
NHIL	2,325,643,608	1,492,416,813	833,226,795	2,582,254,802	2,191,615,926	390,638,876
DACF	4,092,378,226	1,710,132,461	2,382,245,765	5,030,336,993	2,312,706,550	2,717,630,443
GIIF	1,872,198,595	0	1,872,198,595	2,009,316,200	0	2,009,316,200
TOTAL DEDUCTIONS			6,513,310,037			6,544,132,338

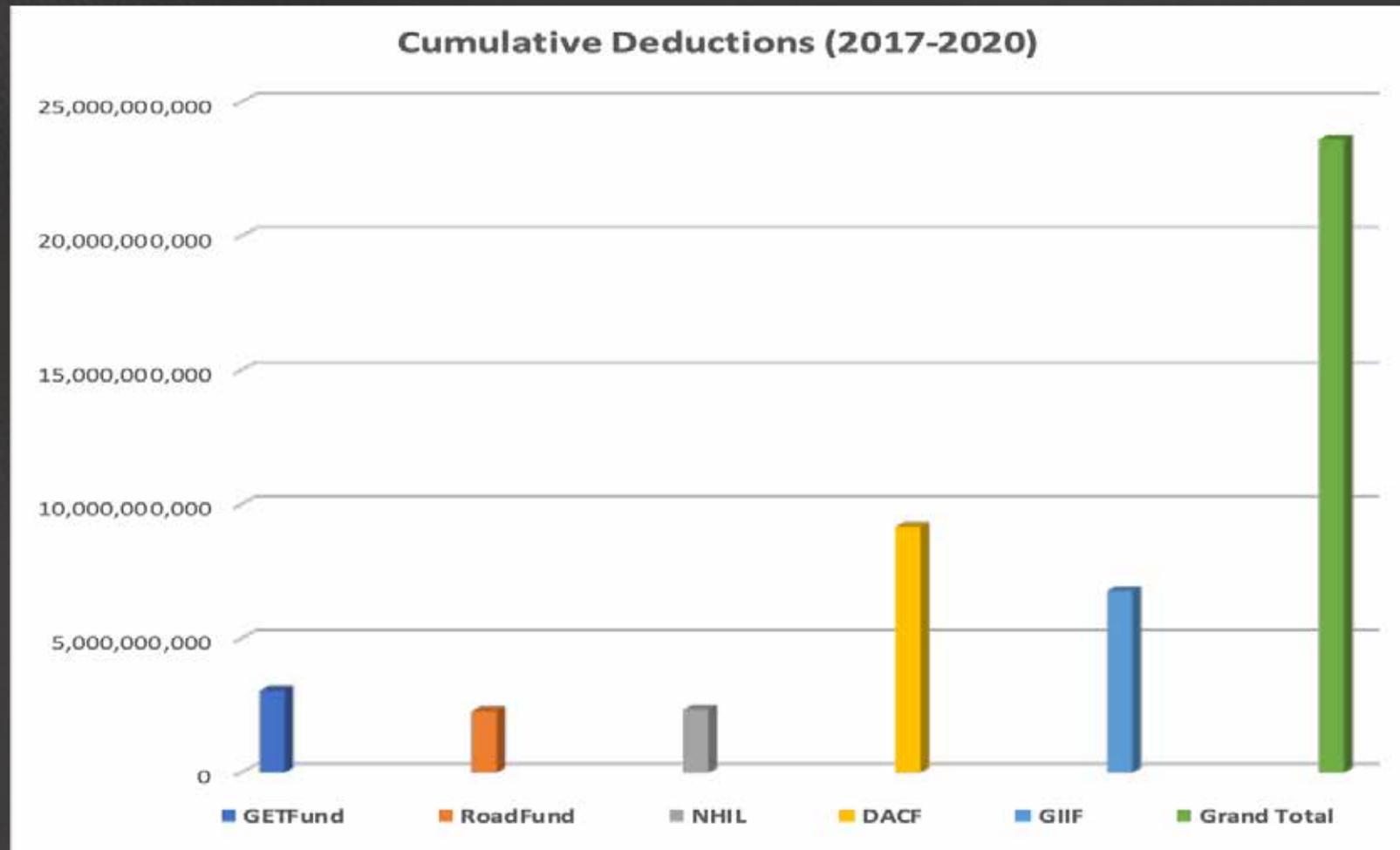


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STARVING STATUTORY FUNDS



STARVING STATUTORY FUNDS



STARVING STATUTORY FUNDS

By end year 2020, government would have deducted a total of GH¢3.1 billion from GetFund, GH¢2.3 billion from Roadfund, GH¢2.3 billion from NHIL, GH¢9.2 billion from DACF, and GH¢6.8 billion from GIIF . These deductions which will sum up to GH¢23.6 billion by the end of 2020 will go into consumption of goods and services. It is not surprising that road infrastructure has deteriorated badly. NHIA has accumulated so much arrears because of governments own policy.



STARVING STATUTORY FUNDS

- in conclusion, a huge chunk of the Expenditure is channeled to consumption (chop chop) while the key sectors of the Economy such as roads, transport, Works and housing and ENERGY is starved with the needed resources to be able to sustain the growth. The key sectors are suffering from malnutrition or Kwashiorkor.



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UNPRODUCTIVE RESOURCE ALLOCATION (Kwashiorkor Economy)



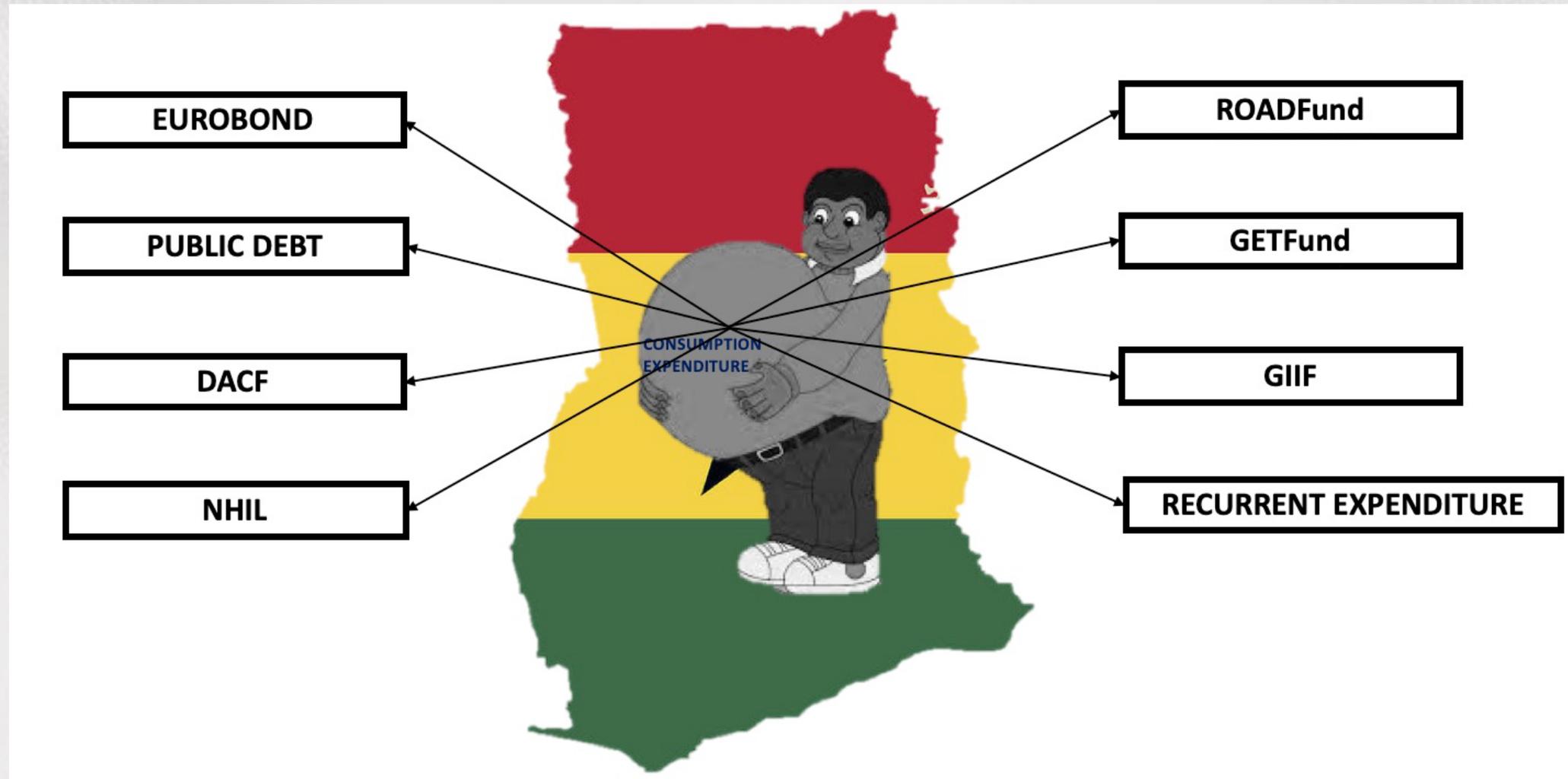
Don't tell me what you value, show me your budget, and I'll tell you what you value"

Joe Biden



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KWASHIORKOR ECONOMY



**THANK
YOU**