Budget Brief

Macroeconomic Outlook for Women and Children in the 2013 Budget

March 2013

KEY MESSAGES

- The drastic decline in GDP growth from 14.4% in 2011 to 7.1% in 2012 points to the shrinking state of the economy which has negative implications for job creation and poverty reduction.

- The decline in the performance of the Industrial sector from 41.1% in 2011 to 7% in 2012 affects real output growth, income generation and employment opportunities given the inter-sectoral linkages within the economy.

- Government deficit of 12.0% of GDP in 2012 is unsustainable and has the propensity to crowd out investments in goods and services which are critically needed to improve the lives of the vulnerable, in this case women and children

- The Projected decline in poverty reduction expenditure in 2013 could have negative implications for poverty reduction and income distribution

- The full pass through effect of upwards and downwards adjustment in petroleum product prices and exchange rate depreciation on the domestic market could cause price hikes in 2013 thereby aggravating the economic hardships on the poor with emphasis on women and children.

- Budgetary allocations (as a percentage of the total MDA allocation) to key sector MDAs critical to women and children have either been almost flat or experienced declining trends which is not conducive for inclusive development.

isodec
Integrated Social Development Centre
Institute for Fiscal Policy IFP Developing Policy Alternatives
unicef United Nations Children's Fund

Prepared by ISODEC in collaboration with IFP and UNICEF

REVENUE AND EXPENDITURE ANALYSIS

Total Revenue for the 2012 fiscal year fell short of its target by 1.5%. This was accounted for by a short fall in tax revenue by 0.5% and less inflow of grants. Non-tax revenue however exceeded its target by 6.8% but was not enough to offset the impact of the short falls in tax revenue and grants.

Total expenditure and arrears for the 2012 fiscal year exceeded the target by 9.1%. Recurrent expenditure also exceeded its target by 18.2% thereby crowding out fiscal space for other critical areas of expenditure such as goods and services and investments. Capital expenditure however fell below its target by about 20.1% in 2012.

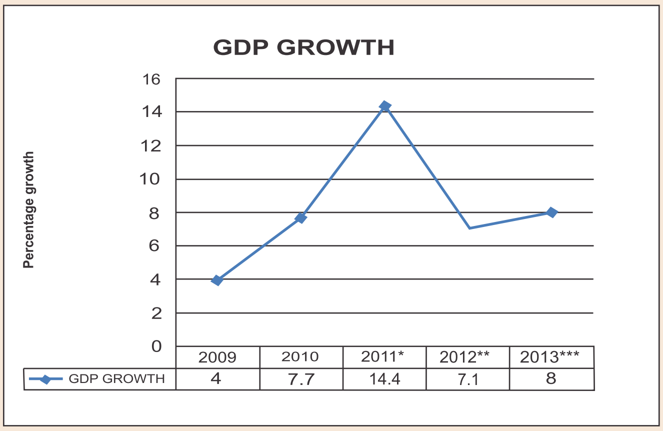
ANALYSIS OF MACROECONOMIC PERFORMANCE 2012

The 2012 fiscal year was premised on the basis of ensuring sustainable economic growth and development. This goal was to be pursued within the framework of credible fiscal management and debt sustainability. Growth has however not been sustainable and inclusive. The current levels of government debt and budget deficits attest to the unsustainable nature of economic development. The analysis of the 2012 macroeconomic performance is further elaborated below

Real GDP Growth

The trend in real GDP growth in Figure 1 shows an increase from 4% in 2009 to 14.4% in 2011. The 2012 fiscal year however experienced a drastic decline in growth to 7.1% and this was accounted for by the negative growth in the Oil and Gas sector, overall decline in the performance of the industrial sector, underperforming agricultural sector and the global financial crises. Real GDP growth which is projected to increase to 8% in 2013 may not be achieved if pragmatic policy strategies are not developed to tackle the real challenges in the various sectors. Figure 1 shows the trend in GDP growth

Figure 1 *Trends in Real GDP growth and Projections (2009 - 2013)*[1&2]



Source: *Ghana Statistical Service and the Government Budget Statements*

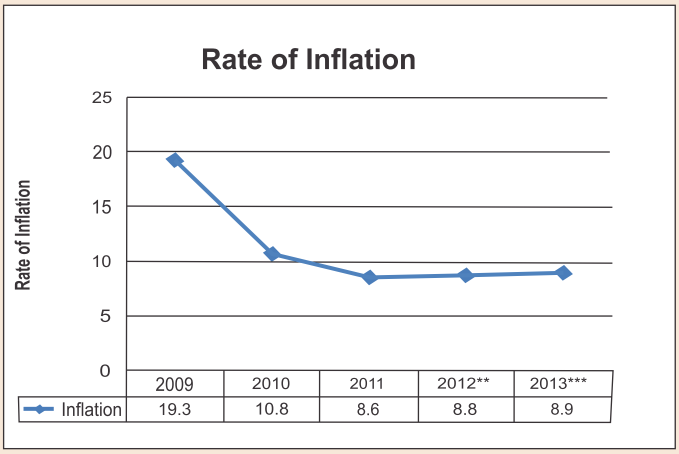
[1] Real GDP includes Oil

[2] Revised (*), Provisional(**) and Projection(***)

Inflation

Inflation over the years has shown a downwards trend declining from 19.3% in 2009 to about 8.6% in 2011. The target of 8.7% for the 2012 fiscal year was however not achieved as provisional outturn show a marginal increase to 8.8%. It is projected to increase in 2013 to 8.9% given sound monetary and fiscal policy mix. Figure 2 illustrates the trend in inflation over the last four years and projections for 2013

Figure 2: *Trends in Inflation and Projections (2009 - 2013)*[3&4]

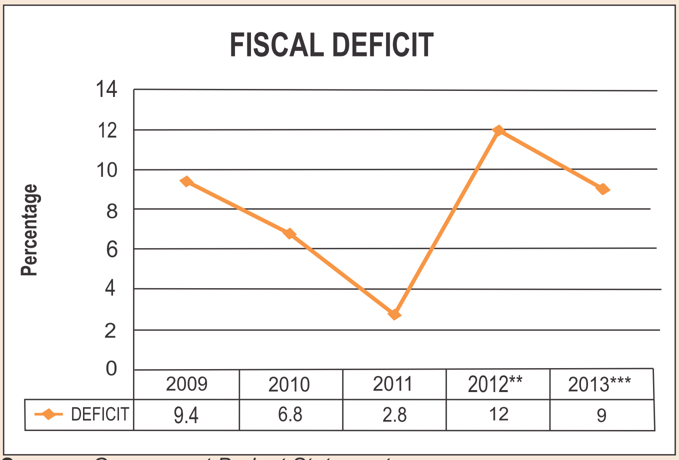


Source: *Ghana Statistical Service and the Government Budget Statements*

Fiscal Deficit

Fiscal deficit declined from 9.4% in 2009 to 2.8% in 2011. There was however a sharp rise in 2012 to 12.0% of GDP. The target of 5% deficit for the 2012 fiscal year was therefore not achieved and was accounted for by the rise in the wage bill as a result of the implementation of the single spine salary structure, short falls in corporate taxes and grants and higher interest cost on capital projects. It is projected to fall to 9% of GDP in 2013 as prudent fiscal management measures are put in place. Until these measures are implemented to the latter the projected target might not be achieved. The implications are that the private sector will be crowded out. The fiscal space for investments in social services will be greatly reduced and will ultimately impact negatively on the lives of the poor with emphasis on women and children. Figure 3 shows the trend in fiscal deficit over the years

Figure 3: *Trends in Budget Deficit and Projections*[5]



Source: *Government Budget Statements*

[3] Average inflation figures were used

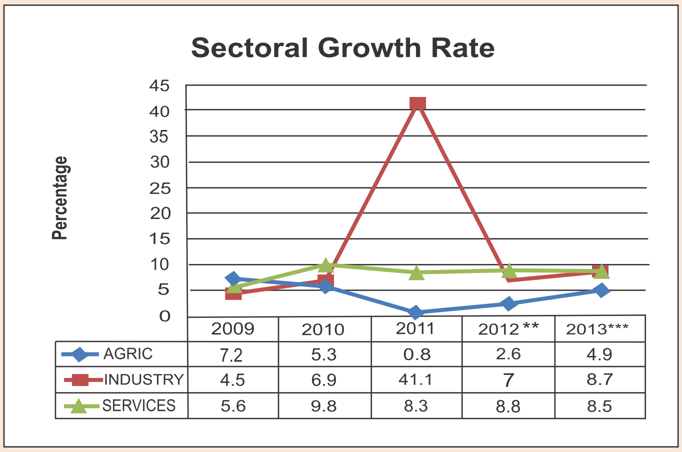
[4] Revised (*), Provisional(**) and Projection(***)

[5] Revised (*), Provisional(**) and Projection(***)

Real Sector Performance

Generally the real sectors did not meet their targets for 2012 except for the services sector. With growth target of 4.8% for Agriculture, 15.8% for industry and 7.7% for services, provisional outturns indicated growth rates of 2.6%, 7.1% and 8.8% respectively. Growth in the agricultural sector however improved from the low value of 0.8% in 2011. Industry experienced a major decline in its performance from 41.1% in 2011. The services sector experienced a marginal increase from its 8.3% growth in 2011. With a higher population of the vulnerable (women) in Agriculture it would be prudent for government to increase investment in the sector to improve the sector's performance. The projected growth of 4.9% in Agriculture, 8.7% in Industry and 8.5% in Services might not be achieved unless measures are taken to tackle the problems confronting the sectors such as the energy crises and rising cost of credit facilities. Figure 4 shows the trend in real sector performance.[6&7]

Figure 4: *Trends in Sectoral Growth Rate and Projections (2009 - 2013)*



	2009	2010	2011	2012 **	2013***
AGRIC	7.2	5.3	0.8	2.6	4.9
INDUSTRY	4.5	6.9	41.1	7	8.7
SERVICES	5.6	9.8	8.3	8.8	8.5

Source: *Ghana Statistical Service and the Government Budget Statements*

2013 MACROECONOMIC TARGETS AND THEIR IMPLICATIONS FOR WOMEN AND CHILDREN

Fiscal targets of government which include prudent management of debts and deficit would create adequate fiscal space for increasing investment in critical infrastructure and social services sectors with higher potential to improve the welfare of the vulnerable (women and children). The expected overall GDP growth rate of 8% and prudent measures proposed in the budget might not necessarily translate into improved standard of living of the poor and the marginalized (women and children) unless this growth is made inclusive by efficient targeting measures.

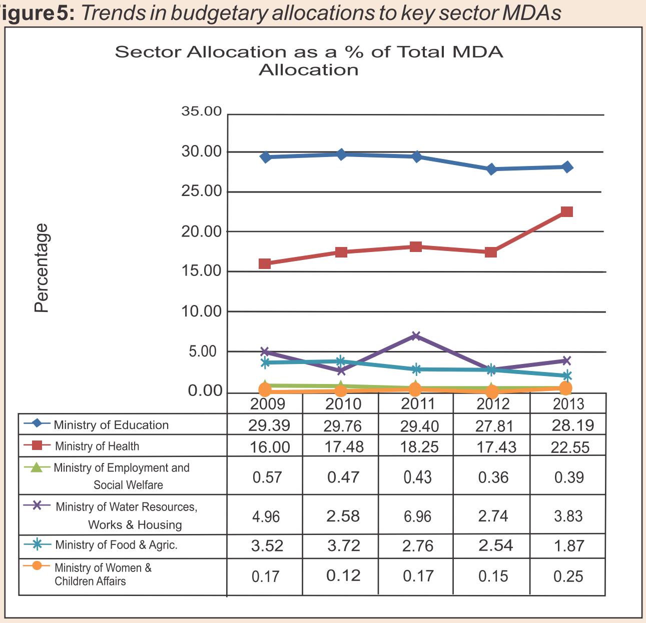
The 2012 budget is silent on measures targeted to create jobs which could further ensure redirection of resources to areas with greater potential to impact on poverty reduction.

The application of the automatic upward and downward price adjustment in the pricing of fuel in Ghana could worsen the lives of the poor with more emphasis on women as the world market price of petroleum products and the exchange rate of the Ghana cedi are both often volatile. Government should therefore continue to cross subsidize products that are largely consumed by the poor households while using the hedging fund to insulate the vulnerable (women and children) from fuel price shocks.

Government institutionalization of measures in 2013 meant to improve revenue generation could expand the resource base to undertake the needed investment for improving the welfare of the poor (women and children) ceteris paribus. This objective can only be achieved with political will, rigorously pursued measures and innovative ways put in place.

TRENDS IN BUDGETARY ALLOCATIONS TO KEY MDAS AS A PERCENTAGE OF TOTAL BUDGET

Figure5: *Trends in budgetary allocations to key sector MDAs*



	2009	2010	2011	2012	2013
Ministry of Education	29.39	29.76	29.40	27.81	28.19
Ministry of Health	16.00	17.48	18.25	17.43	22.55
Ministry of Employment and Social Welfare	0.57	0.47	0.43	0.36	0.39
Ministry of Water Resources, Works & Housing	4.96	2.58	6.96	2.74	3.83
Ministry of Food & Agric.	3.52	3.72	2.76	2.54	1.87
Ministry of Women & Children Affairs	0.17	0.12	0.17	0.15	0.25

Source: *Government Budget statements and Appendices (2009 – 2013).*

6 Industry growth includes Oil

7 Revised (*), Provisional(**) and Projection(***)

8 This includes both statutory and discretionary payments

9 Ministry of Women & Children Affairs is now called Ministry of Gender, Children and Social Protection meaning social welfare has been removed from the Ministry of Employment and Social Welfare. It is also now known as the Ministry of Employment and Labor Relations

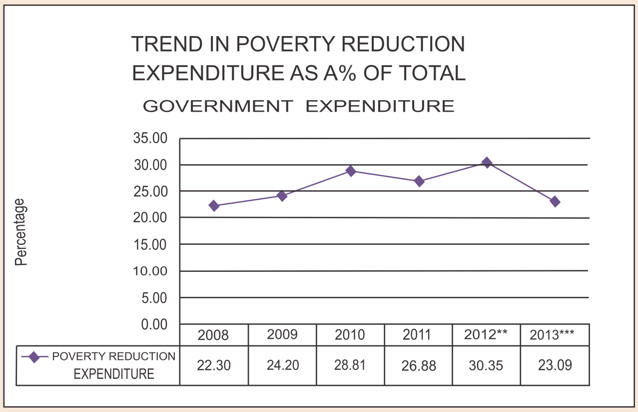
Allocation to the Education, Health, Water Resources Works and Housing as a percentage of total MDA allocation increased in 2012 from 27.8% to 28.19%, 17.43% to 22.55% and 2.74% to 3.83% respectively. The Ministry of Employment and Social Welfare as well as the Ministry of Women and Children affairs which is now called the Ministry of Gender, Children and Social Protection remained relatively flat with slight percentage increase in 2013. Allocation to the Ministry of Food and Agriculture however declined as observed in Figure 6. It is important to note that these trends in budgetary allocations do not always reflect reality since actual sector allocation sometimes increases as a percentage of GDP

.

POVERTY REDUCTION EXPENDITURE AS A SHARE OF TOTAL GOVERNMENT EXPENDITURE

Poverty reduction expenditure as a share of total government expenditure increased from about 22.3% in 2008 to about 28.8% in 2010 as depicted in Figure 6. There was however a dip in 2011 to a percentage of 26.88%. Provisional outturn in 2012 shows an increase in spending to about 30.5%. The 2013 projection on the contrary shows a decline to about 23.09% which has serious implications for welfare improvement. Figure 6 illustrates the detailed trend

Figure 6: *Trends in Poverty Reduction Expenditure (2008 -2013)*[10&11]



Source: *Government Budget Statements and Appendix*

CONCLUSION

The economic fundamentals required to sustain confidence in the future of the economy are totally absent. The growing government debt and deficit could potentially reduce the amount of resources available for investment in critical social services sectors and infrastructure which should improve the status of the economy and impact positively on the lives of the vulnerable (women and children). The Projected decline in poverty reduction expenditure in 2013 could have negative implications for poverty reduction and income distribution.

The periodic upward and downward adjustment of petroleum prices as proposed in the 2013 budget could lead to higher cost of living for households. It will also mean high cost of production for businesses that use these products as inputs.

With a shrinking private sector due to high domestic interest charges, unreliable power supply and the global crises, government revenue targets might not be achieved in the 2013 fiscal year with immeasurably dire consequences for the economy and for women and children.

Integrated Social Development Centre- ISODEC
11 Wawa Street, Kokomlemle
P. O. Box MP 2989 Mamprobi, Accra Ghana
Tel: 233-302-254918/254921, Fax: 233-302-253613
Email: isodec@isodec.org.gh, Website: www.isodec.org.gh

10 Provisional(**) , Projected (***)

11 2010 Percentage represents the total actual outturn from January to September, the rest are from January to December.