

## Fact Sheet

### “EVERY LIFE MATTERS”

# Highlights of the 2005 National Budget

**ISODEC—a not-for-profit social development organisation that works in solidarity with those striving for social justice towards a life of dignity by promoting rights and accountability.**

#### Macroeconomic Objectives in 2004 Budget

The Key macroeconomic targets in 2004 Budget were the following

- A real GDP Growth of at least 5.2 per cent;
- A commitment to bringing the 12-month CPI inflation rate down to under 10 per cent by the end of December, 2004
- Maintaining our goal to build up the stock of gross international reserves to no less than 3 months of imports cover
- A domestic primary surplus of 1.7 per cent of GDP; and
- A budget deficit of 1.7 per cent of GDP

#### Performance during 2004

- Real GDP grew at 5.8 percent, exceeding the projected growth of 5.2 percent;
- Year-on-year inflation declined to 11.8 percent at end-December, 2004, marginally over the target but well below the 23.6 percent at end-December 2003;
- Average inflation declined from 26.7 percent in 2003 to 12.6 percent in 2004;
- The cedi remained relatively stable throughout the year – depreciating by a moderate 2.2 percent against the US dollar;
- The domestic primary balance registered a surplus equivalent to 0.7 percent of GDP, while the overall budget was in a deficit equal to 3.2 percent of GDP;
- Net domestic financing of the budget was higher than programmed at €393 billion (equivalent to 0.5 percent of GDP) against the target of a net repayment of €1,732 billion (equivalent to 2.2 percent of GDP);
- Gross official foreign reserves were the equivalent to 3.8 months of imports, at the end of December 2004, against the target of 3.0 months of imports;
- Interest rates generally declined and stabilised, with the benchmark 91-day Treasury bill rate falling slightly from 18.7 percent at the end of 2003 to about 17.0 percent;
- Total revenues exceeded expectations in 2004 as a result of measures taken to improve efficiency in administration;
- Total expenditures exceeded projections mainly on account of transfers to fund petroleum price subsidies and capital outlays financed by higher-than-expected disbursement of external inflows including HIPC debt relief.



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INTEGRATED SOCIAL DEVELOPMENT  
CENTRE

4th Sakumo Link, Laterbiokorshie  
P. O. Box MP 2989  
Mamprobi—Accra

Phone: 233-21-306069/310634

Fax: 233-21-311687

Email: [isodec@isodec.org.gh](mailto:isodec@isodec.org.gh)

Web: [www.isodec.org.gh](http://www.isodec.org.gh)

Table 1 – Percentage Growth in Agriculture (2002-2004)

	2002	2003	2004 Prov.
<b>Agriculture</b>	<b>4.4</b>	<b>6.1</b>	<b>7.5</b>
Crops and Livestock	5.2	5.3	5.4
Cocoa	-0.5	16.4	29.9
Forestry & Logging	5.0	6.1	5.8
Fishing	2.8	3.0	3.5

Table 1 – Agriculture's Percentage Contribution on Overall Growth (2002-2004)

	2002	2003	2004 Prov.
<b>Agriculture</b>	<b>34.4</b>	<b>41.4</b>	<b>46.7</b>
Crops and Livestock	28.0	24.9	22.6
Cocoa	-0.4	9.8	17.9
Forestry	3.9	4.2	3.6
Fishing	2.8	2.6	2.6

Table 3 – Percentage Growth in Industry

	2002	2003	2004 Prov.
<b>Industry</b>	<b>4.7</b>	<b>5.1</b>	<b>5.1</b>
Mining & Quarrying	4.5	4.7	4.5
Manufacturing	4.8	4.6	4.7
Electricity & Water	4.1	4.2	3.7
Construction	5.0	6.1	6.6

Table 4 – Industry's percentage Contribution to Overall Growth

	2002	2003	2004 Prov.
<b>Industry</b>	<b>25.9</b>	<b>24.0</b>	<b>22.1</b>
Mining & Quarrying	5.2	4.7	4.1
Manufacturing	9.6	8.0	7.2
Electricity	2.3	2.0	1.6
Construction	8.7	9.3	9.2

Table 5 – Percentage Growth in Services (2002-2004)

	2002	2003	2004 Prov.
<b>Services</b>	<b>4.7</b>	<b>4.7</b>	<b>4.7</b>
Transport, Storage & Communication	5.7	5.8	5.6
Wholesale, Trade & Retail	5.6	5.0	4.9
Finance & Insurance	5.5	5.2	4.8
Government Services	3.6	4.0	4.4
Community, Social & Personal Services	4.4	4.1	4.2
Producers of Private Services	3.1	3.3	3.5

Table 6: Services' Contribution to Growth (2002-2004)

	2002	2003	2004
<b>Services</b>	<b>31.0</b>	<b>26.7</b>	<b>24.3</b>
Transport, Storage & Communications	6.0	5.4	4.7
Wholesale, Trade & Retail	8.5	6.6	5.9
Finance & Insurance	5.2	4.3	3.6
Government Services	8.8	8.4	8.2
Community	1.9	1.5	1.6
Private Non-Profit	0.6	0.5	0.5

#### Fiscal Developments

	Target 2004 (billion)	2004 Prov. (billion)	Target 2005 (billion)
<b>Total Receipts</b>	¢24,853	¢28,736.8	¢35,734.6
<b>Total Payments</b>	¢24,853	¢28,736.8	¢34,618.9

#### Key macroeconomic targets for the 2005 fiscal year

- a real GDP growth of at least 5.8 percent;
- bringing the 12-month CPI inflation down to 13.5 percent by end December 2005 and toward a single digit in 2006: after the expected jump following the recent petrol price adjustment.
- maintaining the buildup in Gross International Reserves at 4 months of import cover;
- a domestic primary surplus equivalent to 2.4 percent of GDP; and
- an overall budget deficit equivalent to 2.7 percent of GDP.

#### Macroeconomic Framework For 2005

- Furthering efforts to consolidate public expenditures, strengthen the revenue collection machinery, and reduce the domestic debt stock with the goal of "crowding-in" private investment, while accelerating public sector reforms.
- Maintaining the stance of monetary policy to achieve the targeted reduction of inflation and build on the improved external reserve position;
- Deregulating the petroleum sector to open up to private sector investment and activity and establishing a pricing regime that will be devoid of government influence while credibly and effectively isolating government from decisions relating to the determination of petroleum prices, except for taxes.
- Making further refinements to our poverty reduction strategy, based on the recommendations contained in the first GPRS Annual Progress Report (APR) that was completed in May 2004 and the feedback recommendations from the 2004 National Economic Dialogue.

#### Personal Income Tax

- The next portion of income which attracts 5% tax rate will be increased from the current ¢1.5 Million to ¢1.8 Million.

- The next €4.8 million instead of €3 million as in 2004 will be taxed at 10%.
- The next €27.6 million instead of €18.6 Million in 2004 will be taxed at 15%
- The next band of €36 million instead of €33 million will be taxed at 20%.
- The maximum tax rate will be reduced from 30% to 28% and will be applicable to incomes exceeding €72 million instead of €60 million.

#### **Withholding Tax**

the withholding tax rate on the supply of goods and services will be reduced from 7.5 percent to 5 percent.

#### **National Reconstruction Levy**

- Part A Companies from 10 percent to 7.5 percent;
- Part B companies 7.5 percent to 5 percent; and
- Part C Companies 5 percent to 3.5 percent.
- All Other companies from 2.5 percent to 1.5 percent.

#### **POLICY INITIATIVES**

- The cost of a year's apprenticeship will be borne by the state. In line with this policy, the Ministry of Manpower, Youth and Employment (MMYE) will be tasked to identify and support private sector businesses to undertake such activity.
- Government has taken a decision to deregulate the petroleum sector to free budgetary resources, allow it to cut down on borrowing and increase allocations to vital social services. It will also allow the private sector to assume the role of service provider within a well-regulated environment.
- the Capitation Grant Scheme introduced last year, covered fees and levies such as cultural dues, sports dues, and development levies paid by pupils in public primary and Junior High School pupils in deprived districts, which meant parents did not have to pay such fees and levies. This year, Government is extending the implementation of the Scheme to cover pupils from public primary schools and Junior High School in all districts with immediate effect.

#### **Centre for Budget Advocacy (CBA) -ISODEC**

**For more information contact ISODEC at the address on the front page.**