

Fiscal Responsibility Laws, Experiences and Results: A Case Study of Ghana.

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Outline of Presentation

- Introduction
- Fiscal Responsibility Laws in Ghana (Acts and Bills)
- Practical Experiences in Applying the Laws
- Comparing Ghana's Fiscal Laws with Best Practices in other Countries
- Conclusions
- The way forward

INTRODUCTION

- Presentation on Fiscal Responsibility Laws and its impact on PFM and GG
- Shared experiences would be beneficial to most developing countries in their area of PFM and GG
- Fiscal rules typically aim at correcting distorted incentives and containing pressures to overspend, particularly in good times, so as to ensure fiscal responsibility and debt sustainability. (IMF Fiscal Affairs Department)
- Ghana's Fiscal Responsibility Laws embedded in the PFM Act of 2016.
- New Fiscal responsibility bill to replace PFM Act of 2016. Fiscal deficit target: 9.3 to 5%

TYPES OF FISCAL RULES

- **Budget Balance Rule.** Difference between revenues and expenditure. Set as a percentage of GDP.
- **Debt Rule.** Sets limits or targets for the level of public debt. Set as a percentage of GDP.
- **Expenditure Rule.** Sets limits on total spending. Set in absolute terms, by growth rates, or as a percentage of GDP.
- **Revenue Rule.** Sets ceilings on certain revenue streams such as natural resource revenues. Set by growth rates or as a percentage of GDP.

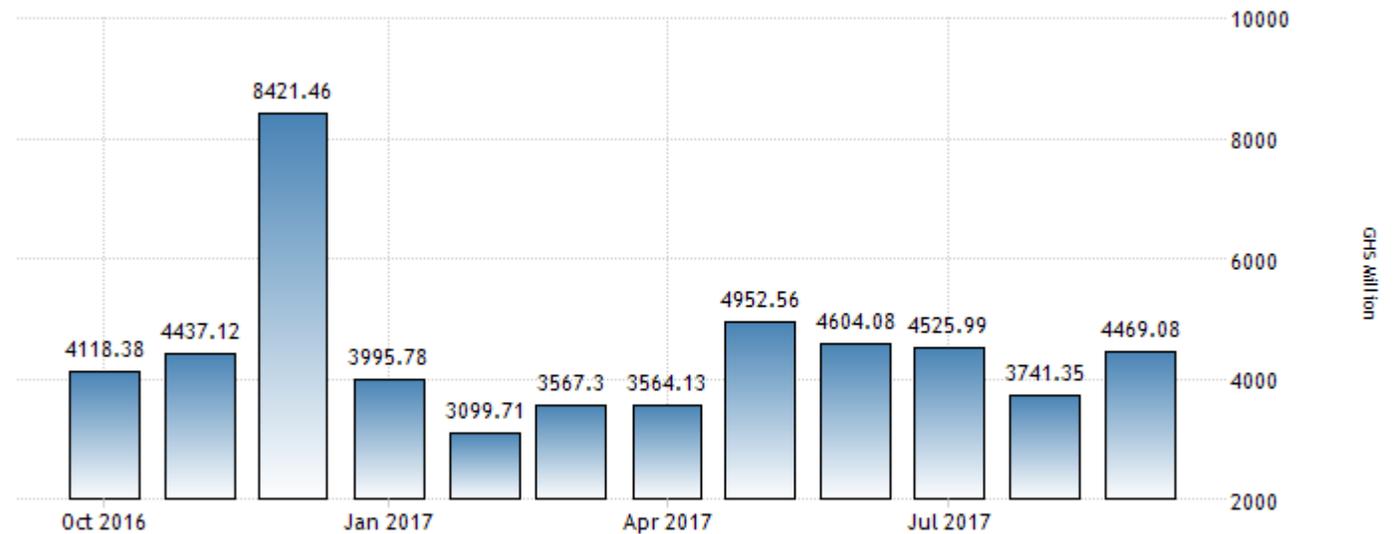
Budget Balance Rule

GHANA GOVERNMENT REVENUES



SOURCE: TRADINGECONOMICS.COM | BANK OF GHANA

GHANA GOVERNMENT SPENDING



SOURCE: TRADINGECONOMICS.COM | BANK OF GHANA

Budget Balance Rule

Ghana	Last	Previous	Highest	Lowest	Unit	
Government Debt to GDP	73.40	72.20	111.90	26.20	percent	[+]
Government Budget	-8.70	-6.70	-0.40	-24.20	percent of GDP	[+]
Government Revenues	3378.90	3305.50	3707.85	1036.69	GHS Million	[+]
Military Expenditure	146.20	190.50	241.60	8.30	USD Million	[+]
Government Spending	4469.08	3741.35	26277.16	836.07	GHS Million	[+]
Government Budget Value	-499.63	-252.93	2060.06	-2764.37	GHS Million	[+]
Credit Rating	31.25					

Experiences and Results

- Revenue targets have persistently been missed
- Contrary to the government's expectation, revenues from petroleum on average represents only 4% of total government revenues.
- First Eurobond in 2007. Five issuances in total, to the tune of USD 4.5 billion. Ghanaian bonds constitute over half of the total African Eurobond market.
- By 2014, government had saved about GHS 1.7 billion in the petroleum funds, but also increased public debt by about GHS 70 billion

Experiences and Results

- By 2016, the government estimated that interest payments alone accounted for 29% of domestic revenues. This amount is equivalent to three times the Ministry of Health's budget for the year.
- A rapidly escalating debt over GDP, necessitated an International Monetary Fund (IMF) program for financial assistance in 2015, due to end this year, 2018.
- By December 2017 Ghana's public debt stock stood at GHS142.5 billion. The latest figure translates to a debt-to-GDP of 70%. There is reason to believe that expectations of oil wealth helped fuel the borrowing spree and subsequent debt crisis
- The Petroleum Revenue Management Act (2011), which aimed at ensuring prudent management of oil revenues, did not address challenges of overall budget sustainability and volatility on its own.

Good Fiscal Laws Based on International Experience

- Public availability of information. Comprehensive fiscal information at clearly specified times
- Rules on the budget process. Open budget preparation, execution, and reporting.
- Sound laws on assurances of integrity and independent scrutiny of fiscal information.

Good Fiscal Laws based on International Experience

- Fiscal laws tailored to a country's economic challenges and opportunities.
- Fiscal laws should be simple and easy to understand to enhance easy monitoring by oversight actors
- Fiscal laws needs well-defined escape clauses.
- Fiscal laws built on existing institutions and national consensus.

Conclusions

- Fiscal responsibility laws are not a panacea in ensuring sound public financial accountability practices. Cameroon, Chad and Mongolia experience
- Fiscal Laws do not operate in isolation and require supporting Institutions and reforms to deliver the anticipated outcome
- Key reforms to fiscal laws include strengthening budget preparation, independent fiscal policy council to provide independent assessment.
- The need for additional fiscal rules; a) Legislative limit on total expenditure by government b) Fiscal deficit limits and c) debt rules
- Ironically, fiscal responsibility laws in Ghana have had an insignificant impact in correcting fiscal problems such as government's over expenditure.

THE WAY FORWARD

- Based on Ghana's policy priorities, historic performance and international experience, the following recommendations may improve the effectiveness of Ghana's fiscal rule
- Commitment to entrench fiscal responsibility rules and establish a fiscal council to provide oversight on the implementation of such rules
- Strengthen budget transparency. Publish all relevant budget information
- Institute punitive measures for non-compliance and arbitrary departures from the fiscal rule in any given financial year
- Ghana's proposed fiscal rule is simple and has been defined clearly. However, inherent risk of government circumventing the rule. No clarity about which government levels and entities will be involved in the fiscal rule.

Question to Audience

- What are the main characteristics of existing fiscal councils around the world?
- Are there specific features in the design and institutional form of fiscal councils that can enhance their effectiveness?
- What are the main building blocks of effective fiscal councils?

END OF PRESENTATION

THANK YOU FOR YOUR ATTENTION

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