

Mid-Year Review – 2020 Budget & Policy Statement

Ghana

Our Views & Perspectives

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Executive Summary

The spread of the Coronavirus (COVID-19) pandemic has been very devastating on the people, business and the economy of the world with 2.2 billion jobs (68 percent of global workforce under threat). Governments around the world are expected to implement various fiscal measures to mitigate the adverse effect and provide relief for businesses and households.

The Ghanaian economy is projected to suffer from significant decline in Government revenue due to adverse impact of the pandemic on the country’s international trade and reserves, disruptions in global supply chains with significant supply shortages and consequent decline in demand for commodities, decline in tourism and international travel and resulting job losses and unanticipated increase in health expenditure.

As a result, government deficits, debt issuance and debt levels are set to surge as the Government races to ease the economic impact of the coronacrisis. It is estimated that events unfolding as a result of COVID-19, even with some mitigating measures, will result in a deficit of 11.4% of revised GDP, which is higher than the de facto fiscal rule of 5% established by the Fiscal Responsibility Law.

In C-ENERGY’s latest mid-year review report, we provide insights into the dramatic changes in the macroeconomic environment, how the Ghana government is responding to these changes and the resulting budgetary impacts from the Mid-Year Review of the Budget Statement and Economic Policy presented to Parliament by Ken Ofori-Atta, Minister for Finance on 23rd July, 2020.

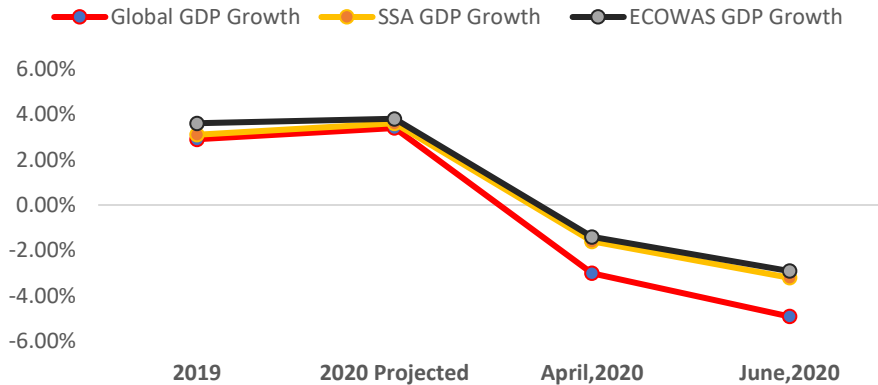
Summary of Revised Targets

Description	2020 Targets	2020 Revised Target	Change (% points)	Revised Medium-Term Target
Growth in Real GDP (incl. oil)	6.8%	0.9%	5.9	5.4%
Growth in Real GDP (non-oil)	6.7%	1.6%	5.1	6.0%
Inflation	8.0%	11.1%	3.1	8.0% (+/-) 2
Fiscal Deficit (% of GDP)	4.7%	11.4%	6.7	3.8%
Primary Balance	0.7%	(4.6%)	5.3	0.1%
Gross International Reserves	3.5 months of import cover	4.0 months of import cover	0.3 months	4.0 months of import cover
Revenue	GHS67.1 bn	GHS53.7 bn	GHS13.4 bn	
Expenditure	GHS84.5 bn	GHS96.3 bn	GHS11.8 bn	

Overview of Recent Macroeconomic Developments

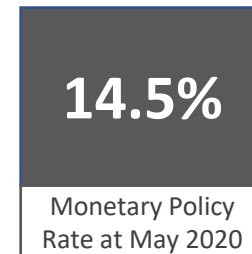
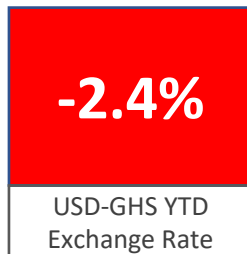
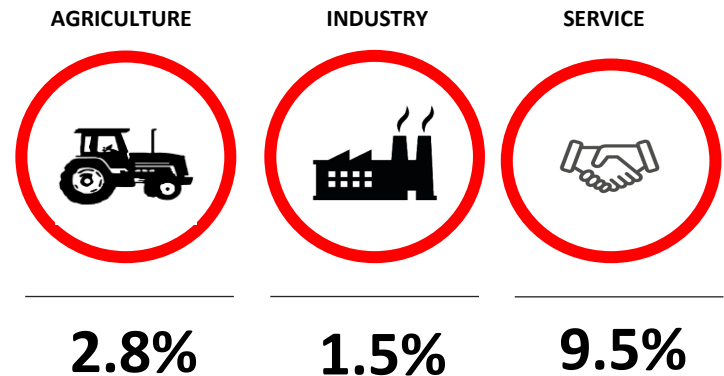
After several years of global output expansion with 2019 posting a growth rate of 2.9 percent, global growth entered into recession as a result of the impact of COVID-19 pandemic. Global growth for 2020 was projected at 3.4 percent, reflecting primarily an expected improvement in economic performance in a number of emerging markets. The emergence of the COVID-19 pandemic has disrupted global economic activity, created uncertainty, and weakened global growth conditions. The impact of the pandemic is becoming even more severe and devastating than initially anticipated. The latest update of the World Economic Outlook (WEO) published by the IMF in June 2020, projected global growth to contract by 4.9 percent in 2020.

Summary of World Output



Source: IMF World Economic Outlook (Various Issues)

2020 Sectorial Growth (Q1)



Status of Key Initiatives

The challenges and the opportunities presented by the onset of the COVID-19 pandemic have reinforced the importance of the Government’s flagship programmes. Responses to some of the emerging issues in the areas of food security, support to SMEs and the manufacturing sector are clearly being addressed by the key initiatives in the following areas;

Agricultural Modernization

- To date, a total number of 1.5 million farmers have been mobilized and registered with the Planting for Food and Jobs programme.
- 131, 59 and 69 percentage increases in yields of maize, rice, and soybean respectively, over the period of implementation.
- To date, 17 warehouses have been completed as part of measures to ensure food security, reduce post-harvest losses, guarantee farmer incomes and improve marketing.

Industrialization

- 76 projects out of the 232 projects under the 1D1F initiative are completed and operational.
- As a result of COVID-19, operational projects are experiencing increased the cost of factory operations, while sales revenues have been impacted negatively as a result of cancelled export orders
- Construction of 58 small-scale processing factories, under the Enable Youth 1D1F projects, financed by the African Development Bank, will commence across the country in the next six months.
- Volkswagen Group rolled out the first VW locally assembled vehicle in Ghana.

Infrastructure Development

- Tema Motorway Roundabout, a 3–tier interchange which has been completed and commissioned.
- Construction of the Pokuase Interchange under the Accra Urban Transport Project is at 74 percent completion.
- A contract for the purchase of 35 trains has also been signed. A set of nine trains will be delivered within 18 months as the first phase, and the remaining 26, forming the second phase, will be delivered within another 18 months.
- Government procured and distributed 307 fully-equipped ambulances for each of the 275 constituencies. This initiative has proved to be invaluable in COVID-19 operations.

Private Sector and Entrepreneurship Development

- 19,000 start-ups under the National Entrepreneurship Innovation Programme have been trained with 4,350 of them funded.
- Under the Green House Initiative, 75 domes have been constructed at Dawhenya for organic vegetable cultivation.
- currently, enrolment stands at
- Under the Free Senior High School Programme, 1,199,750 students have been enrolled. Increasing from the initial 813,443 at the start of the initiative.

COVID-19 Impact and Key Intervention

As a result of the significant impact of COVID-19, Government has put in place various initiatives to mitigate the adverse social and economic difficulties on businesses and the citizenry in general. The sectors heavily affected include the hotel and hospitality industry, foreign direct investment, trade and industry, agriculture, health, transportation, manufacturing, real estates, financial and education.

COVID-19 Impact

- Disruptions in global supply chains, widespread supply shortages (including food, pharmaceuticals and manufactured goods) and consequent price hikes
- Decline in tourism and international travel resulting in revenue losses and decline in foreign direct investments
- Tightened global financing conditions despite monetary interventions to cut interest rates while ratio of Non-Performing Loans equally increased to 15.2% in May 2020
- 19 out of the 28 State-owned Enterprises (SOEs) are projecting losses up to GH¢1.55 billion for 2020
- The National Petroleum Commission has estimated that projects valued at US\$324 million across the petroleum upstream sub sector have stalled due to the pandemic
- 1,531 job losses were recorded between April to June 2020 from eight companies within the Ceramics, Timber, Food and Agro-processing industries in the manufacturing sub-sector. Collectively, job losses as a result of COVID-19 is estimated at 1.2million

Social and Health Interventions

- Increase local production and supply of Personal Protective Equipment to create business opportunities for the textile and garment industry
- Implementation of the Emergency Preparedness Plan II to COVID-19 and other potential disease outbreaks.
- Agenda 111 – Ensuring every district has a decent hospital
- Provision of a seed fund to laid-off workers
- Provision of free water supply for another three months
- Provision of free electricity supply for another three months
- Sanitation and fumigation of markets and schools.

Economic and Other Business-related Interventions

- Pass legislative bills to provide a strong framework for accessing funds and foreign direct investments
- Creation of a National Development Bank with the focus of mobilizing medium to long-term funds
- Payment of Government’s outstanding obligations to contractors and suppliers to ease burden of businesses
- Provision of support to businesses that employ more than 100 people and have been affected by COVID-19
- Establishment of a Guarantee Scheme of up to GHS2 billion to increase access to finance at affordable interest rates
- Reduction of the Communication Service Tax from 9% to 5%

Revised 2020 Macroeconomic Targets

On the heels of a disappointing first half of economic performance, it has become more necessary for the Government of Ghana to review its initial 2020 performance targets along with medium-term strategy. The total fiscal impact of the pandemic is estimated at GH¢13.6 billion (3.5% of revised GDP), stemming from shortfalls in petroleum receipts, import duties, and other tax revenues, the cost of the Emergency Preparedness Response Plan, and the cost of the Coronavirus Alleviation Programme.

Expenditures, on the other hand, are expected to increase by GH¢11.6 billion (3.0% of revised GDP), reflecting mainly expenditures on COVID-19 Preparedness & Response Plan, provision of Health Infrastructure (Agenda 111), Coronavirus Alleviation Programme, Capitalisation of National Development Bank, Security, Elections, and payment of outstanding claims.

The result of reduced revenue and increased expenditure targets is a significant increase in the fiscal deficit, currently projected at 11.4% of GDP. This represents a 6.7 percentage point increase from the original 2020 target of 4.7% of GDP. The ramifications of this significant increase in fiscal deficit is an unprecedented increase in the country’s borrowing levels in future. As at June 2020, the nation’s debt stock stood at GHS258.7 billion, representing 67% of GDP.

Below is a summary of the revised macroeconomic targets for 2020;

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COVID-19 has wiped significant gains made by economies all over the world. Evaluating the impact of this pandemic and the interventions introduced, we believe the Government is determined to reconsolidate the gains made over the past years for growth, jobs and prosperity for all. However, given the projected short-medium term effects of this pandemic on Ghana and the global economy, the next few years will require a more concerted effort by both public and private sectors to regain what has been lost.

Investment Banking Opportunities

We consider the underlisted as key investment banking opportunities for 2020 and beyond

Private Public Partnerships/Project Finance

- Development of Aviation Conventional Centre at Dicheonso in Kumasi;
- Development of Airport City 2 Project;
- Establishment of Aviation Training organization;
- Development of MRO/Cargo terminals at the Tamale Airport;
- Development of an Aviation Park and Museum;
- Ghana to Burkina Rail Interconnectivity Project; and
- Construction of phase 2 of the greater Accra lands commission

Capital Raising

- The financing of major infrastructure projects such as:
 - ✓ Seaport and Airport to position Ghana as a regional logistics hub;
 - ✓ Road network in the country; and
 - ✓ Metro and light rail transit systems in Accra and Kumasi.
- Financing for the establishment of the Petroleum Hub Development Corporation.

Advisory Services

- Feasibility study for the establishment of the National Development Bank;
- Partner the Integrated Aluminium Industry and initiate processes for the establishment of up to three new mines, two refineries and a new smelter; and
- GHS2 billion Credit and Guarantee Scheme.

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