



2021 BUDGET & POLICY STATEMENT

Our Views & Perspectives

March 2021

Prepared by:



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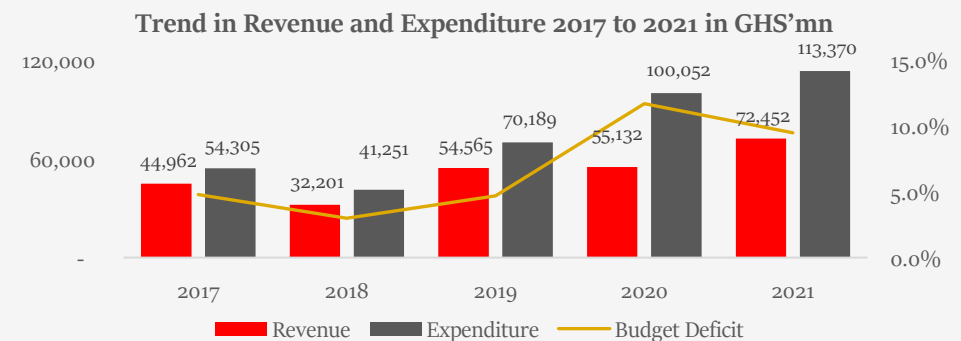
Budget at a Glance

2020 was a difficult year. GDP growth fell below forecast. Revenue shrank, while expenditure ballooned. Debt levels are beginning to be alarming. Some level of macroeconomic stability was achieved during the year. The thrust of Government policy in 2021 is Completion, Consolidation and Continuity. Recovery of fiscal slippages, social interventions (The Obaatanpa Programme) and aggressive infrastructure development will be pursued vigorously. The signal is that Government seeks to look within to raise the resources to finance this agenda.

Description	2020 Revised Targets	2020 Achievement	2021 Target
Overall GDP Growth Rate	0.9%	0.2%	5.0%
Non-Oil GDP Growth Rate	1.6%	0.4%	6.7%
End of Period Inflation	11.1%	10.4%	8.0%
Fiscal Deficit	11.4% of GDP	11.7% of GDP	9.5% of GDP
Primary Balance	4.6% of GDP	(5.3%) of GDP	1.3% of GDP
Gross Foreign Assets	4 months of import cover	4.1 months of import cover	4 months of import cover

Total Revenue and Grants are estimated to hit GHS72.45 billion in 2021				Targeted Fiscal Deficit is GHS41.28 billion
Tax Revenues GHS55.84 bn	Non-Tax Revenues GHS7.08 bn	Grants GHS1.47 bn	Other Revenue GHS8.07 bn	

Government Spending is estimated to be GHS113.75 billion in 2021				
Interest Payment GHS35.86 bn	Wages & Salaries GHS25.8 bn	Statutory Funds GHS18.08 bn	Capital Expenditures GHS25.8 bn	Other GHS25.8 bn



SECTOR GROWTH

AGRICULTURE

The 4.5% growth rate recorded in the agricultural sector at the end of Q3 2020 outperformed both Industry and Services..

INDUSTRY

The industrial sector contracted at a rate of 3.1% at the end of Q3 2020 compared to a 7.2% growth same period in 2019

SERVICE

Growth in the services sector fell from 6.9% in Q3 2019 to 1.9% in Q3 2020

POLICY INITIATIVES/INTERVENTIONS

Ghana Cares Programme

The GHS100 billion Ghana Cares “Obaatanpa” programme is a three-year plan designed to mitigate the impact of the COVID-19 pandemic on the economy and to return the country to a sustained path of study growth.

- Tax Policy Initiatives**
- COVID-19 Levy: 1% increase in both NHIL and VAT flat rate
 - Sanitation and Pollution Levy: 10 pesewas tax on the price per liter of petrol/diesel
 - Energy Sector Recovery Levy: 20 pesewas tax on price of petrol/diesel per liter
 - Financial Sector Clean-up Levy: 5% on profit-before-tax of banks

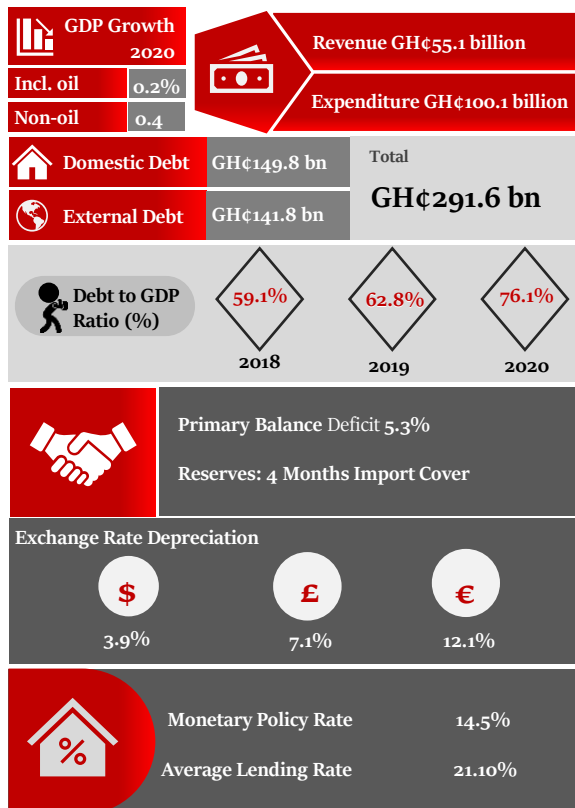
- Tax Reliefs**
- Tax Rebate: 30% rebate on income tax due for companies in hospitality industry, education, arts & entertainment for the rest of 2021.
 - Tax Stamps: Suspension of quarterly income tax instalment payments for the rest of 2021.
 - Vehicle Income Tax: Suspension of quarterly instalment payments of vehicle income tax by Trotros and Taxis for the rest of 2021
 - Extension of Interest Waiver: A waiver of penalty and interest on accumulated tax arrears up to December 2020

- Legislative Review**
- Automatic Annual Adjustment of Road Tolls
 - Introduction of taxes on gaming revenue
 - Strict enforcement of tax collection in downstream petroleum sector

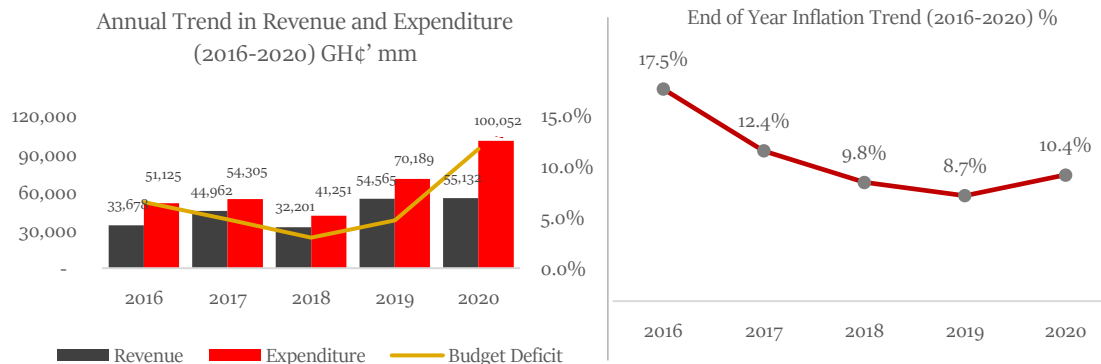
Overview of Macroeconomic Performance

Economic growth fell significantly short of the target GDP growth of 6.8%. The outturn of 0.9% however exceeded the global 3.5% GDP contraction projected by the IMF, a sign of some level of resilience. The effect of this less than anticipated growth (obviously as a result of the COVID-19 pandemic) was the drop in sectoral growth targets, with the industrial sector for instance shrinking by 3.1%. Debt/GDP ratio ballooned as COVID relief related expenditure rose against tightness in revenue inflows. The economy remained largely stable with inflation staying close to the single digit target. Interest rates dropped, while the Cedi stayed relatively stronger with FX reserves staying at 4 months of import cover.

Snapshot of 2020 Macroeconomic Performance



Trend Analysis of Fiscal Performance and Inflation Rate



- ✓ GDP growth forecast was revised from 6.8% to 0.9% to reflect the impact of the COVID-19 Pandemic. However as at end of Q3 2020, GDP growth rate was 0.2%.
- ✓ Total Revenue and Grants (GH¢55,132 million) exceeded the revised target by 2.7%. Total Expenditures including arrears clearance (GH¢100,052 million) also exceeded revised budget. As a result, a budget deficit of 11.7% of GDP was recorded.
- ✓ Gross international reserves accumulated to US\$8.6 billion, slightly above target.
- ✓ Primary balance recorded a deficit of 5.3% of GDP as against a deficit target of 4.6% of GDP.

- ✓ A total public debt increased to GH¢291,614 million. Domestic debt accounted for 51.4% while external debt accounted for 48.6%.
- ✓ The Ghana Cedi depreciated against the US Dollar, the Pound Sterling, and the Euro by 3.9%, 7.1% and 12.1% respectively.
- ✓ End of year inflation was 10.4%. This was higher than what was recorded at close of year 2019, however lower than the target of 11.4%.
- ✓ Money market rates generally remained stable in line with the Monetary Policy Rate which has been unchanged since June 2020.

Macroeconomic Targets for Year 2021 – Fiscal Outlook

Government has indicated its commitment to recovery, consolidation and aggressive growth direction. Achieving all three amidst the fiscal challenges and constraints during a pandemic period requires bold and difficult fiscal measures. Controlling expenditure may be a difficult route if the fight to control the pandemic must succeed. Government aims to spend GHS113.8bn to achieve these three targets in 2021. Additionally, to return to a tighter fiscal deficit position and be able to spend aggressively on infrastructure development it has become imperative to introduce new taxes. This is expected to ensure that the country moves away from domestic and external borrowing as our Debt/GDP ratio reaches alarming proportions. The options are limited but the burden on consumers and businesses may render these fiscal initiatives counter-productive.

Revenue

- Projected revenue for 2021 is GHS 72.452 billion of which tax revenue is GHS55.84bn, oil revenue is GHS5.42bn and grants is GHS1.47bn. The breakdown of projected revenues is shown in the figure below.
- Five new taxes have been introduced to help increase revenues in 2021. The new taxes are :COVID-19 Levy, Sanitation and Pollution Levy (SPL), Energy Sector Recovery Levy , Financial Sector Clean-up Levy and Gaming Tax.
- Government will also implement the Automatic Annual Adjustment of Road Tolls to reflect inflation movements.
- Further, the GRA will be undertaking strict enforcement of tax collection in downstream petroleum sector in response to reports of significant under-reporting of revenues.



GHS72.45 billion

Grants GHS1.46 bn
Other Revenue (ESLA & SSNIT to NHIL) GHS4.85 bn
Oil Revenue GHS5.43 bn
Non-tax Revenue (non-oil) GHS7.08 bn
Tax Revenue(non-oil) GHS53.63 bn
Tax Revenue GHS 55.84 bn

Expenditure

- Total projected expenditure for 2021 is GHS 113.75bn. Interest payments (GHS35.86bn) and wages (GHS25.8bn) dominate this expenditure forecast.
- The contribution of various expense items to total expenditure is contained in the figure below. In addition, government intends to spend GHS 5.5bn in paying customers of the defunct fund management companies.



GHS113.75 billion







Compensation to Employees GHS25.8 bn
Use of Goods and Services GHS5.97 bn
Interest Payments GHS35.86 bn
Grants to Other Gov't Units GHS18.08 bn
Capital Expenditure GHS11.42 bn
Other GHS 16.62 bn

Fiscal Deficit

- The overall fiscal deficit projected for 2021 is GHS 41.28 billion. This represents 9.5% of projected GDP for 2021.
- The Ministry of Finance forecasts that Ghana will achieve the ideal 5% fiscal deficit and a positive primary balance in the medium term.

2021 and Medium-Term Macroeconomic Targets

GDP growth is expected to return towards the 2020 forecast. The 5% projected growth rate will mirror the medium term target, as external and domestic demand gain traction in 2021 after an extended period of slowdown last year. This projected growth in the economy will however be partly flattered by a favourable base effect. It will be important to find the difficult balance between the legislated fiscal deficit target of 5% within a zero Central bank financing framework. Improved agricultural productivity would determine whether the single-digit inflation target would be achieved.

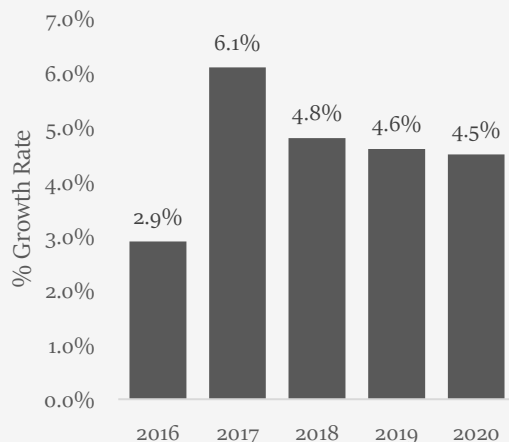
	<u>2021</u>	<u>Medium Term Average</u>
 Real GDP growth rate	5.0%	5.0%
 Non-oil GDP growth rate	6.7%	4.9%
 Inflation Rate	8%	8%
 Foreign Reserves	4	4
	Months import cover	Months import cover
 Primary Balance	-1.3%	+ve
 Fiscal Deficit	9.5%	5%

Sector Developments, Interventions and Outlook - Agriculture

The formation of the Tree Crops Development Authority to coordinate the activities of stakeholders of some cash crops other than cocoa is a step in the right direction. It is a significant policy intervention that focusses on a critical piece of the agriculture value chain which has been identified to be a game-changer. It is estimated that cocoa alone provides the country with about US\$2.5 billion in export earnings. The Authority would be expected to give tree crop productivity a major boost, with the potential export earnings from selected tree crops (especially shea and rubber), increasing exponentially.

OUTTURN

Agricultural Sector Growth Rate (2016 – 2020)



Government efforts to increase production in the agriculture sector through the introduction of the Planting for food and Jobs (PFJ) program is a very important initiative. This is because agriculture provides the highest number of jobs among the sectors and is the main source of employment for most rural folks. However, in order to realize the full potential of this PFJ program and to make the most earnings from the agriculture sector, the industrial sector should be functioning well to process and add value to raw materials produced by the agriculture sector. This makes the success of the 1D1F program crucial to the success of the efforts being made in the Agriculture sector.

FACTS BEHIND THE FIGURES

- The 4.5% growth rate of the agriculture sector in the first three quarters was as a result of growth in sub-sectors, including crops (4.8%), fishing (11.6%), and livestock (5.7%) sub-sectors.
- Enhanced farmers' access to production inputs and increased the planned beneficiary target of 1.2 million to 1.4 million to mitigate the effect of COVID-19.
- 1,736,510 farmers benefited from subsidised fertilizers and improved seeds under the Planting for Food and Jobs programme.
- Government procured 531,100 improved breeds of small ruminants, pigs and poultry for distribution to poultry farmers under the Rearing for Food and Jobs programme.

OUTLOOK/INITIATIVES (2021)

- *Agriculture is projected to grow at a rate of 4%*
- *Continue with the supply of improved seeds and fertilizers to beneficiary farmers to ensure sustained increase in yields.*
- *The Tree Crops Development Authority will focus on developing structures and rolling out activities to develop the sub-sector to support the Planting for Export and Rural Development programme.*
- *Distribution of 531,100 improved breeds of small ruminants, pigs, and poultry procured in 2020 to farmers.*
- *Establishment of bailing centres, procurement of 5 million broiler day old chicks, 20,000 kuroiler birds to farmers at a 50% subsidy.*
- *GHS456.6 million allocated for cocoa roads improvement programme in 2020/2021 cocoa season*
- *Rehabilitation of 91,022 hectares of cocoa farm lands across the country*

Sector Developments, Interventions and Outlook - Industry

The power sector is currently reporting excess generation capacity which costs Ghana GHS2.5 billion a year. As government tries to renegotiate the Power Purchase Agreements with some of the generation companies to manage this exposure, a more efficient approach would be to deploy the latent excess power through an Aggressive industrialization drive. We consider Government’s operational 76 1D1F factories, expansion of existing ports, the development of our iron, steel and aluminum industries, among others as crucial to the achievement of the afore-mentioned. Additionally, efforts to operationalize the West Africa Power Pool Project would absorb the excess power generation while improving our FX inflows.

OUTTURN

Industry Sector Growth Rate (2016 – 2020)



FACTS BEHIND THE FIGURES

- Industry contracted by 3.1% . This was as a result of poor performances in the Mining and Quarrying sub-sector (-7.0%), as well as Manufacturing services (-1.8%).
- 232 projects are at various stages of implementation out of which 76 are currently operational under the 1D1F.
- Expansion and modernisation of the Tema Port (MPS Terminal 3) was completed and in operation.
- 388 out of 588 communities were connected to the national grid under the Rural Electrification Programme. National Electricity Access rate increased from 84.98% in January to 85.17% in December 2020.
- 21 out of 30 warehouses under the One District One Warehouse intervention have been completed. An additional 40 out of 50 were completed under the Ministry of Special Development Initiatives all making up to 80,000 MT of storage capacity.

OUTLOOK/INITIATIVES (2021)

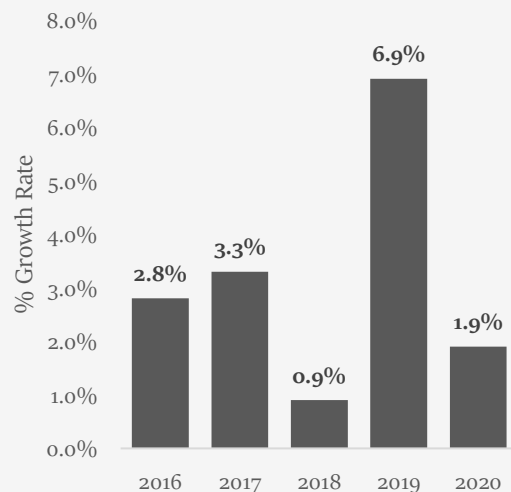
- Industry is projected to grow at a rate of 4.8%
- Completion of expansion project of both Kumasi and Tamale, and rehabilitation works of the Sunyani Airport (Phase 1).
- Development of an Integrated Logistics Terminal at Boankra to decongest the Tema Port and facilitate transit trade to landlocked countries under AfCFTA.
- Establishment and operationalisation of the Petroleum Hub Development Corporation and engaging in preparatory activities towards the development of the Hub.
- Commissioning of Phase 1A of the 400MW Early Power Project (147MW) and relocation of the Ameri Power Plant to Kumasi to help stabilise the national grid.
- Creation of an additional 285,915 direct and indirect jobs under the 1D1F programme.
- Pursuance of nine on-going road projects under the Sinohydro master facility and commence 15 other major pipeline road projects.
- Production from Jubilee, TEN, and SGN fields in 2021 is projected to be 57.3 million barrels of oil.

Sector Developments, Interventions and Outlook - Services

International traffic has been constrained by the pandemic. Domestic tourism should take advantage of this to lead growth in the services sector. This would require direct Government interventionist policies to spur private sector interest and investment in the sector. Direct Government spending in infrastructure development would also give this a major push.

OUTTURN

Service Sector Growth Rate (2016 – 2020)



FACTS BEHIND THE FIGURES

- The severe slowdown in the services sector was largely due to output contractions in Hotels and Restaurants (-45%), Trade: Repair of Vehicles and Household goods (-10.7%).
- 1,200,580 beneficiaries under the Free SHS programme, 539 out of 1,119 SHS infrastructural projects completed to accommodate enrolment increase.
- GHS3.4 billion bailout of failed Asset Management Companies
- Completion of the face-lifting of Odweanoma Paragliding site, construction of the Tafi Atome Monkey Sanctuary and Cultural Village, extension of the Accra Tourist Information Centre, rehabilitation of the Tetteh Quarshie Cocoa Farm and Exhibition Centre.
- Expansion of health workforce: recruited 58,191 personnel into various agencies in the health sector.

OUTLOOK/INITIATIVES (2021)

- *The Services sector is projected to grow at a rate of 5.6%.*
- *Agenda 111: Construction of 100-bed district hospitals in 101 districts with no hospitals, seven Regional Hospitals for the new Regions, the construction of two psychiatric hospitals for the Middle Belt and Northern Belt, and the rehabilitation of Effia-Nkwanta hospital in the Western Region.*
- *GHS5.5 billion to settle investors of the remaining 17 AMCs and the establishment of a Domestic Credit Rating Agency to assist firms with access to capital.*
- *Absorption of registration fees for 416,066 candidates from public JHS.*
- *Rollout of Cocoa Farmers Pension Scheme*
- *Development of the Savannah Regional Office and renovation of the Larabanga and Gushiegu Receptive Centres.*
- *Partner with Fintechs to bring trading of securities to the doorstep of Ghanaians via mobile applications*
- *MASLOC to disburse GHS50,400,000 in Micro and Small Loans and GHS30,000,000 in Tricycle and Vehicle Loans.*

The Ghana Cares (Obaatanpa) Programme

After a successful execution of Phase one in 2020, the Ghana Cares Program seeks to start phase two this year, which includes policies like fast-tracking digitization and developing Ghana’s housing and construction industry, among others.

Overview

- The Ghana Cares GH¢100 billion programs, launched on 18th of November 2020 is to be executed in three and half years to mitigate the impact of the COVID-19 pandemic, return the country to a sustained path of robust growth and to create a stronger, more resilient and transformed economy.
- It will be implemented in a two-phased program that would build on the immediate actions already taken by the government under the Coronavirus Alleviation Programs (CAP).
- Phase One (July 2020-December 2020), already completed, dealt with stabilizing the economy.
- Phase Two (2021- 2023) seeks to revitalize and transform the economy.

Key projects include:

1. Supporting commercial farming and attracting educated youth into agriculture
 2. Fast tracking digitalisation
 3. Creating jobs for young people and expanding opportunities for the vulnerable in society including disabled people
 4. Establishing Ghana as a regional hub.
1. Building the country’s light manufacturing sector targeting agro- processing and food import substitution, pharmaceuticals and textiles subsectors.

Next Steps

- Government would embark on the following actions to put the program into operation;
 - i. *Establishing delivery units in the relevant Ministries Departments and Agencies (MDAs) with clear milestones.*
 - ii. *Partnering with the private sector, academia and other practitioners to facilitate and monitor implementation of the program*
- The quest for transformation and higher manufacturing output under Ghana Cares will be complemented by sustained efforts on technical and vocational skills mostly in targeted sectors while enhancing the collaboration between industry and managers of technical education.
- Also, the skills development partnership with the Faith-Based Organizations will catalyze the drive towards this objective.

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