



2021 MID-YEAR BUDGET & POLICY STATEMENT REVIEW

Our Views & Perspectives

July 2021

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Mid-Year Budget Review at a Glance

The thrust of the mid-year budget review is to provide an update of Ghana's performance over the past six months vis a vis the global economy and its peers in SSA as the global economy continues to grapple with COVID-19 and its impact on key macroeconomic performance indicators. The review focuses extensively on Government's key interventions, status of their implementation and their related impact on the social and economic well-being of Ghanaians. Unlike in prior budget reviews, the 2021 budget review did not seek to increase programmed expenditure.

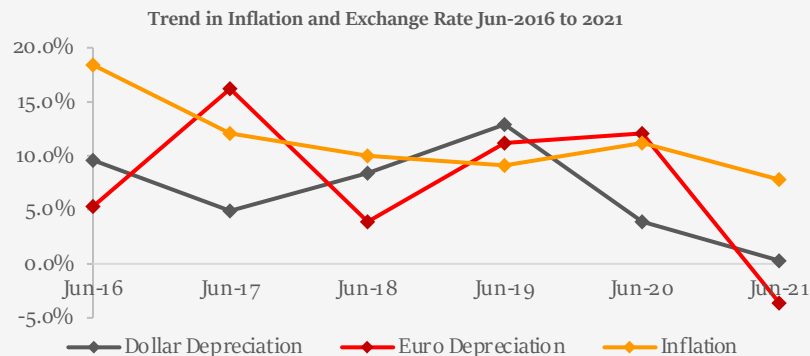
Description	YTD June 2021 Performance	Programmed 2021 Target	Revised 2021 Target		STATUS OF KEY INITIATIVES
Overall GDP Growth	3.1%	5.0%	5.1%	▲	<div style="border: 1px dashed red; padding: 5px;"> <p style="text-align: center; background-color: #333; color: white; margin: 0;">Completion</p> <ul style="list-style-type: none"> ▪ Four-tier interchange at Pokuase, first of its kind in West Africa ▪ 85-bed Central Gonja District Hospital, located in Buiepe ▪ Key strategic factories to provide jobs and accelerate industrialization: <ul style="list-style-type: none"> ▪ Premium Foods factory, Ejisu ▪ Nano Foods Limited pineapple juice processing factory, Nsawam ▪ Phase 1 of B5 Plus Steel plant set to become the largest steel factory in West Africa ▪ Toyota Tsusho Vehicle Assembly Plant, Tema ▪ Removal of Ghana from the Financial Action Task Force (FATF) gray-list ▪ Signing of 7 implementation compacts under the Ghana CARES Programme </div>
Non-Oil GDP Growth	4.6%	6.7%	7.0%	▲	
Inflation	7.8%	8.0%	8.0%	■	
Fiscal Deficit	5.1% of GDP	9.5% of GDP	9.4% of GDP	■	
Primary Balance	1.7% of GDP	1.3% of GDP	1.1% of GDP	■	
Gross International Reserves	5 months of import cover	4 months of import cover	4 months of import cover	■	
Revenue and Grants	GHS28.3 billion	GHS72.45 billion	GHS72.48 billion	▲	
Expenditure	GHS50.6 billion	GHS113.75 billion	GHS113.75 billion	▲	
Agriculture Growth Q1	4.3%	4.0%	5.3%	▲	
Industry Growth Q1	1.3%	4.8%	2.6%	▲	
Services Growth Q1	4.0%	5.6%	7.3%	▲	<div style="border: 1px dashed red; padding: 5px;"> <p style="text-align: center; background-color: #333; color: white; margin: 0;">Consolidation</p> <ul style="list-style-type: none"> ▪ Prudent macro-fiscal policies to restore economic stability and growth shown in the single digit inflation ▪ Resilient financial ecosystem under Ghana CARES by establishing building blocks for stronger and catalytic collaboration between institutions such as GIRSA, GCX, VCTF, and GEI to support entrepreneurship and job creation ▪ Issued historic foreign currency-denominated zero-coupon bond ▪ Revamped energy sector to further stabilize electricity supply </div>
<p>Even though total expenditures are expected to remain unchanged, Government has made the following adjustments in its expenditure;</p> <ol style="list-style-type: none"> i. Upward adjustment in the public sector base pay by 4.0 percent, increasing Compensation of Employees from GHS30.3 billion to GHS31.5 billion; ii. downward adjustment of interest payments from 8.3% of GDP to 7.4% of GDP; and iii. Adjustments in expenditures on Goods and Services and Domestic Capex expenditures to reflect other priority interventions. 					
<div style="border: 1px dashed red; padding: 5px;"> <p style="text-align: center; background-color: #333; color: white; margin: 0;">Continuity</p> <ul style="list-style-type: none"> ▪ Phase II of the Ghana CARES after successful execution of Phase I ▪ Key flagship programmes: Free SHS, IDIF, PFJ among others ▪ Environmental Protection Agenda by embarking on a war against illegal mining </div>					

Overview of Macroeconomic Performance

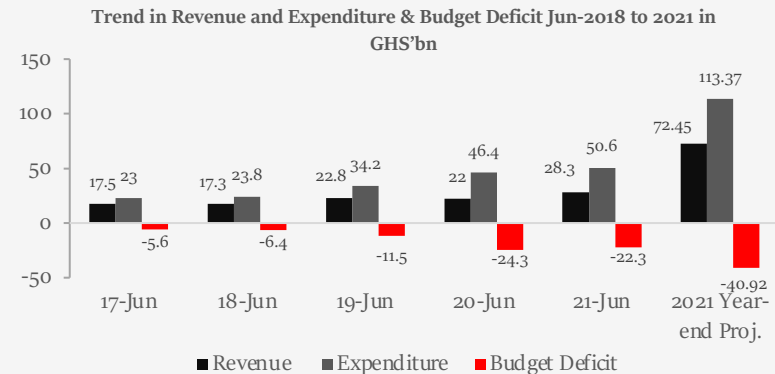
The Global Economy is still reeling under the harsh effects of COVID-19 after spending over US\$16 trillion (15% of Global GDP in 2020) to contain a pandemic that has cost the world 4.22 million lives. Ghana has lost about 428 lives to COVID-19 and has spent over GHS8.1 billion on various economic and social interventions to contain the spread of the virus while keeping lives and livelihoods going. The Ghanaian economy was put to severe test in 2020, resulting in a sluggish GDP growth rate of 1.1% compared to the 1.9% and 3.3% contraction recorded in Sub Saharan Africa and the Global economy.

Economic resilience has continued with Ghana recovery faster and growing at 3.1% in Q1 2021 and 4.6% excluding oil. Inflation has stayed within the single-digit levels at 7.8% as at June 2021. The Ghana Cedi has depreciated by 0.6% and 3.6% against the US Dollar and Euro respectively – the best performance of the local currency recorded against the US dollar since the beginning of the 4th Republic. The fiscal deficit recorded at the end of June is GHS22.3 billion, 5.1% of GDP. Government has indicated its plans to stay within the 9.5% of GDP target by end of year amidst the growing concerns over public debt sustainability.

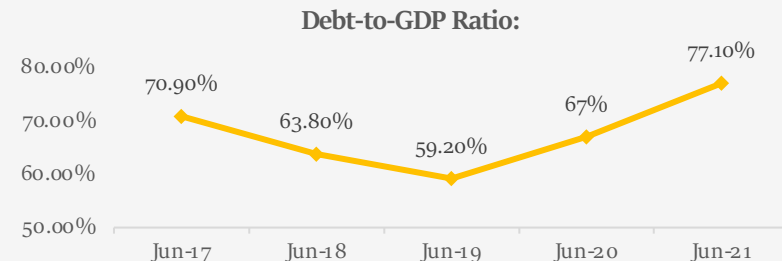
Monetary Performance



Fiscal Performance



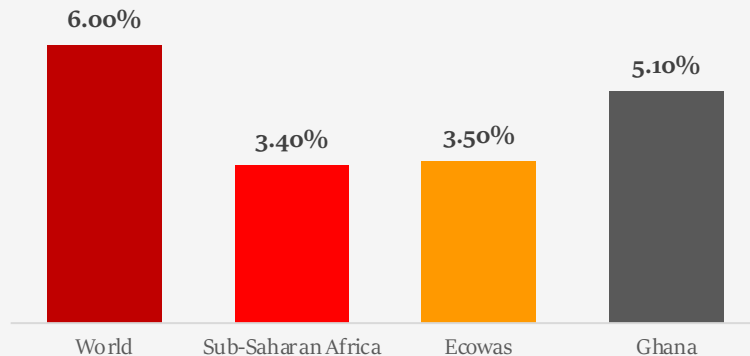
	Jun-17	Jun-18	Jun-19	Jun-20	Jun-21
Inflation	12.1%	10.0%	9.1%	11.2%	7.8%
MPR	21.0%	17.0%	16.0%	14.5%	13.5%
Bank Lending Rate	29.8%	28.2%	27.7%	22.4%	20.9%



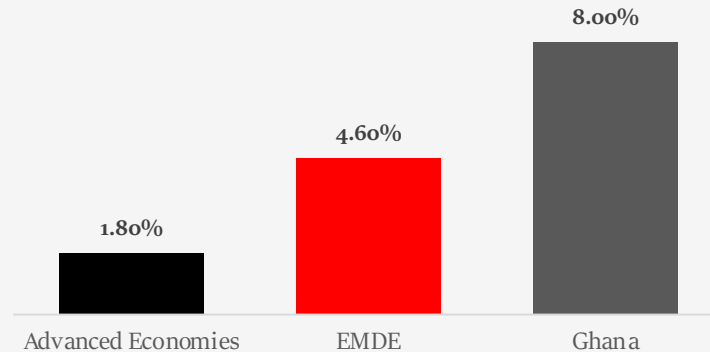
2021 and Medium-Term Macroeconomic Outlook & Targets

As the global economy adjusts to COVID-19 shocks, it is projected that global GDP would recover from the 2020 contraction. From 3.3% in 2020, global GDP is projected to grow at 6% in 2021. Advanced countries whose vaccine programs are better are expected to lead the pack. As developing countries struggle to evolve their own vaccine programs amidst the threat of further waves, growth in Emerging Markets and Developing Economies (EMDEs) are projected to be slower at 2.2% below the 4.4% projected for European countries. Sub-Saharan Africa is expected to mirror the EMDE trend with AfDB's forecast for the region pegged at 3.4%. Ghana's GDP is projected to grow at 5.1% in 2021 and 5.0% within the medium term, with inflation pegged at 8.0% above Africa and EMDEs' forecast rates of 1.8% and 4.6% respectively.

GDP Growth Outlook (2021)



Inflation Targets (2021)



Description:	Programmed 2021 Target	Revised 2021 Target	Medium Term Average
Real GDP growth rate:	5.0%	5.1%	5.0%
Non-oil GDP growth rate:	6.7%	7.0%	4.9%
Inflation Rate:	8.0%	8.0%	8.0%
Foreign Reserves:	4 months import cover	4 months import cover	4 months import cover
Primary Balance:	1.3%	1.1%	1.8
Fiscal Deficit	9.5%	9.4%	5%

Fiscal Targets for Year 2021

While controlling expenditure was the focus of fiscal management in 2020, the mid-year budget review suggests that revenue mobilization may be the source of major concern in 2021. As shown below, the expenditure component of the consolidation agenda appears to be on course to achieve the target whereas the revenue mobilization end is trailing the target by a margin of 12.7%. The third COVID-19 wave currently sweeping across the globe has further heightened uncertainty making the business climate unpredictable. Nonetheless, Government continues to signal commitment to its fiscal consolidation agenda by maintaining the expenditure targets set in the 2021 Budget.

Budget Component	H1 Fiscal Target (GHS)	H1 Result (GHS)	Execution Rate (%)	Annual Target (GHS)
Revenue				72.45 bn
Grants	869 mn	448 mn	51.5	1.46 bn
Other Revenue (ESLA, SSNIT to NHIL)	2.16 bn	1.25 bn	57.8	4.85 bn
Oil Revenue	1.81 bn	1.90 bn	104.9	5.43 bn
Non-tax Revenue (non-oil)	3.14 bn	2.61 bn	83.1	7.08 bn
Tax Revenue (non-oil)	24.40 bn	22.09 bn	90.6	53.63 bn
Expenditure				113.75 bn
Compensation to Employers	15.16 bn	14.69 bn	96.9	25.8 bn
Use of Goods and Services	2.69 bn	4.40 bn	163.5	5.97 bn
Interest Payments	17.93 bn	15.03 bn	83.8	35.86 bn
Grants to Other Gov't Units	7.99 bn	5.69 bn	71.3	18.08 bn
Capital Expenditure	5.36 bn	6.87 bn	128.2	11.42 bn
Other	3.93 bn	2.93 bn	74.4	16.62 bn

Revenue

- Total Revenue and Grants for H1 2021 amounted to GHS28.3billion, equivalent to 6.5% of GDP, against an estimated target of GHS32.4billion or 7.5% of GDP.
- Projected revenue for the 2021 fiscal year is GHS 72.45 billion yet revenue at the end of H1, amounted to GHS 28.3 billion. This represents only 39% of the target revenue for the year with two quarters remaining to ramp up tax collection efforts.
- Low aggregate demand amid resurging uncertainty due to the emergence of new COVID-19 variants may hinder the government's ability to mobilize tax revenue. For the same reason, government's ability to secure grants from various development partners was severely impacted in H1 due to strain on donors' national economies.

Expenditure

- Total expenditure for H1 (January-June 2021) is GHS 50.6 bn representing 11.7% of GDP. This indicates that barring a lapse in fiscal discipline in H2, the expenditure target of GHS 113.75bn for the 2021 fiscal year is likely to be achieved.
- Expense items that exceeded budget allocations are Capital Expenditure and Use of Goods and Services and these were mainly driven by critical expenditure on Health, roads and Agriculture and faster pace in Project Loan disbursements.

Status on Key Initiatives

01

Employment & Jobs for our Youth

- Revitalizing the skills development initiatives under Ghana Enterprises Agency, NEIP, YEA, and COTVET.
- Launch of “One Million Jobs initiative” – To promote growth in SMEs, support new ventures, and stimulate innovation and start-ups.
- Setup “Youth banc” to finance youth-led start-up businesses.

02

Road Sector Developments

- Phase 2 of Obetsebi Lamptey Circle Interchange in progress (15% complete)
- La Beach Road Project – Lot 1 (13% complete) & Lot 2 (11% complete)
- Kumasi Lake Roads and Drainage Extension Projects (73% complete)
- Construction of 25 bridges (70% complete)
- Contracts awarded for the implementation of 84 critical regional and inter-regional road projects costing GHS7,839 million.

03

Security

- Various equipment have been acquired by Ghana Armed Forces (GAF) in the efforts to enhance their combat and operational capabilities.
- Construction of a Forward Operating Base: Sod has been cut in Ezinlibo close to the Western border to protect the country’s oil, gas, and other natural resources. Government aims to establish 15 FOBs to prevent cross border crimes and terrorist infiltration

The year 2021 was declared “The 2nd Year of Roads” seeing government commence and award several major road contracts. Youth unemployment has been at the heart of discussions causing government to launch a 1 million jobs initiative to promote SMEs and Entrepreneurship, while also setting up a “Youth banc” for financing businesses.

04

Agenda 111

- Phase 1 completed (pre-contract works for 88 sites for the district hospitals). Phase 2 (construction) commences on 17th August 2021 establishing businesses

05

Lands and Mining

- Commencement of regional education and sensitization on the new Land Act, 2020 and Green Ghana Project which saw over 5 million trees planted. Before the end of 2021, records at the Lands Commission would be fully digital and an alternative employment and livelihood programme for illegal small-scale miners would be launched.

The Ghana Cares (Obaatanpa) Programme Update

After a successful execution of Phase one in 2020, the Ghana Cares Program started the execution of phase two this year. It includes policies like fast-tracking digitization and developing Ghana's housing and construction industry among others and is set to last till December 2023. Government has so far set out a well thought out implementation framework with a functional coordinating office within the Ministry of Finance.

Overview



The Ghana Cares GH¢100 billion program launched on 18th 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.

Progress:

- Operationalized a well-thought-out implementation and coordination framework with a functional and staffed Ghana Cares Coordinating Office within the Ministry of Finance.
- Establishing building blocks for stronger network of institutions to support business and entrepreneurship, including Development Bank of Ghana, GIRSA, Ghana Commodities Exchange, Venture Capital Trust Fund, and the Ghana Enterprises Agency.
- Investing in initiatives to improve production and productivity in the rice, poultry, soybean, and tomato sub-sectors using interest rate subsidies, facilitating equipment acquisition, and linking market and producers.
- Accelerated expansion of Ghana's light manufacturing through the production capacity expansion of our pharmaceutical, garments, textiles, and agricultural industries to increase exports, create additional jobs, and benefit from the African Continental Free Trade Area.
- Provision of catalyst investment for the development of communication infrastructure and projects such as Smart Workplace, National ID, Digital Address Systems, Land Records Digitization, as well as virtual learning platforms.
- Establishment of the Revenue Assurance and Compliance Enforcement (RACE) to compliment the efforts of GRA. It will be launched on 2nd August.
- Providing funds to the National Homeownership Fund (NHF), to provide low blended mortgage interest rates between 11 and 12% as compared to market rates of 25 to 26%.

COVID-19 Impact and New Interventions

More than a year into the pandemic, the Government of Ghana is working to manage the negative impact of COVID-19 on various aspects of the economy and the lives of citizens mainly via the implementation of Social and Economic Interventions. In addition to those introduced in the 2021 Budget, a few new interventions have been added on to cover neglected areas. These interventions are designed primarily to ease the financial hardships visited upon businesses, with the MSME, private education and hospitality segments hardest hit. The most notable of these interventions are described below.

Status Update



	No. of infections	No. of deaths	No. of vaccines doses
World	196.6 million	4.2 million	4.18 billion
Africa	4.9 million	116,100	79 million
Ghana	103,019	823	1.27 million

Government Healthcare Interventions

- Through the COVAX facility, the government has procured 1.2 million Pfizer vaccines from the United States of America and 249,600 AstraZeneca vaccines from the UK.
- Government has committed to purchase through the African Medicine Supply Platform, 17 million Johnson & Johnson single dose vaccines. This will vaccinate 20 million Ghanaians to reach the milestone of herd immunity under the National Deployment and Vaccination Plan (NDVP).
- Further, the President has set up a committee dedicated to facilitate the domestic manufacture of COVID-19 vaccines to serve the sub regional market.
- The government has procured 16 ultra-low cold freezers, 58 units of ultra-low freezers, 50 normal vaccine refrigerators, 300 boxes to be filled with ice packs, 300 ice packed freezers, 10 cold chain vans and 120 temperature monitoring devices since March 2021 under the NDVP.

COVID-19 Alleviation Programme Business Support Scheme

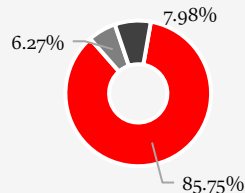
No. of Beneficiaries:

299,490 MSMEs

Total Amount Disbursed:

GHS 613.6 Million

Industries Covered:



Total Amount Disbursed:

84.8%

■ Others: ■ Private Schools: ■ Creative Arts:

New Policy Interventions

- DBG will provide support to businesses that employ more than 100 people and have been affected by COVID-19.
- Government is activating a policy to have 20% of procurement awarded to women-owned businesses
- Ghana Skills and Enterprise Development Project, Student Entrepreneurship Initiative, the Youth in Community Improvement Module, and the Alternative Employment and Livelihood programs have been introduced to train entrepreneurs
- The Enterprise and Youth Support Fund will set up a "Youth banc" with the aim of financing youth-led start-up businesses
- The government is developing an ESG framework to allow proceeds raised from green bonds to be used in financing or refinancing eligible green and sustainable projects

Conclusion

- **Some semblance of economic resilience:** Compared to the global economy and its EMDEs/Sub-Saharan African peers, Ghana's growth, monetary and fiscal targets have been largely on track, within an extremely challenging global environment. The economy has certainly exhibited some resilience in the first half of 2021. This was mainly driven by favorable commodities prices, vaccine rollout program penetration and a favorable Q2 2020 base effect.
- **Fiscal position still shaky:** Government spending by mid-year was about 45% of the programmed GHS113 billion while revenue mobilisation was only 39% of the programmed GHS72 billion. Revenue mobilization remains a challenge for government as growth in business activities and unemployment rates continue their slow recovery after taking a hit in 2020 as a result of the pandemic. Our debt to GDP ratio has raised concerns about debt sustainability. If the trend continues, not only will the private sector continue to be out-crowded by government deficit spending, but macroeconomic gains in lower inflation, interest rates and stronger Cedi will suffer setbacks.
- **Ahead of the curve in GDP growth targets, but behind the pack in macroeconomic stability:** GDP growth in the near to medium term, is expected to outperform the estimated average for sub-Saharan Africa and the global economy. This expectation hinges on a sustained smooth recovery and low volatility in commodity prices since the economy is largely dependent on commodities export revenues. The 8% single digit inflation is a significant improvement on our recent history, but high and above Advanced Economies and peer EMDEs rates of 1.8% and 4.6%. If we keep a lid on food inflation with improved growth in agriculture and the cedi stronger our inflation rates should trend further down towards the EMDEs levels.
- **COVID-19 remains a challenge:** We have done well so far in managing the pandemic. Our Completion, Consolidation and Continuity Plan will be put to a severer test in the face of future waves and more dangerous variants of the virus. The several social interventions have helped in mitigating the impact of the pandemic on livelihoods. The success of other initiatives (**Employment & Jobs for our Youth, Road Sector Developments, Agenda 111, digitization and support to MSMEs, Lands and Mining etc.**) that are not directly related to COVID-19 management strategies will determine the long-term sustainability of the environmental safety, macroeconomic growth and stability gains we have made so far. Obaatanpa and an aggressive vaccination of the at least 20-million adult population to attain herd immunity will be critical to our success in fighting this pandemic and **“returning the economy to strong and sustainable growth, while protecting lives and livelihoods”**.
- **We need to be more creative fund-raising efforts and diversify our funding sources:** we believe that government should encourage its agencies to explore innovative sources of funding projects including public private partnerships, municipal bonds and other non-sovereign off-balance sheet funding options to reduce the rate of sovereign debt accumulation and lessen concerns of the country's unsustainable debt levels.

Contact Us



Tel: (+233) 302 789 011

Fax: (+233) 302 789 050

E-mail: info@cenergyglobalholdings.com

Website: www.cenergyglobalholdings.com

LinkedIn: www.linkedin.com/c-energy-global-holdings

HEAD OFFICE

Bryanston Gate Office
Park 170 Curzon Road - Bryanston
P. O. Box 787599
Sandton - SOUTH AFRICA

GHANA OFFICE

4th Floor, Special House
14 Senchi Street, Airport Residential
P. O. Box CT 9549
Cantonments, Accra, GHANA

NIGERIA OFFICE

12 Inuwa Wada Crescent
Off T.O.S Benson Crescent by Okonjo
Iweala Way, Utako, Abuja, NIGERIA