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2018 Budget Highlights

"Putting Ghana Back to Work"

November 2017

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2018 Budget Highlights

Commentary

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The 2018 Budget Statement is premised on consolidating the gains made during 2017 in stabilising the Ghanaian economy and increasing individual participation in the economy by "putting Ghana back to work". The primary policies outlined in the budget statement focus on the creation of a conducive business environment which allows for the economic engagement of all Ghanaians; promoting inclusive growth without compromising fiscal consolidation.

In a bid to consolidate the Ghanaian economy's path to macroeconomic stability and to boost the productive sectors of the economy, the 2018 Budget Statement ("the Budget") of Government of Ghana has the theme ***"from stabilisation to growth: putting Ghana back to work again"***. This is anchored on the medium term development programme aimed at providing opportunities for growth and job creation.

The Akufo-Addo Government's maiden budget in March 2017 highlighted a number of bold policy initiatives designed to restore macroeconomic stability, tackle structural rigidities in the budget, boost productivity through abolishing "nuisance taxes" while plugging revenue leakages and reducing import exemptions, tightening expenditure controls to minimise inefficiencies, and reducing the incidence of poverty through job creation.

The 2018 Budget Statement is premised on consolidating the gains made during 2017 in stabilising the Ghanaian economy and increasing individual participation in the economy by "putting Ghana back to work". The primary policies outlined in the budget statement focus on the creation of a conducive business environment which allows for the economic engagement of all Ghanaians; promoting inclusive growth without compromising fiscal consolidation.

Projections for selected macroeconomic indices suggest that Ghana has good economic prospects over the medium-term, given prudent fiscal management, with a sound basis provided for the private sector to expand. It is significant to note however that achieving these macroeconomic targets will require aggressive policy implementation as well as an ambitious adjustment and reform agenda.

In 2017, the overall GDP growth is projected to rise to 7.9%, from 3.7% in 2016, owing largely to stepped-up oil production and the deferral of the FPSO Turret Remediation Project to 2018, allowing for increased production in 2017 and a lower forecast production in 2018 than originally projected. However, non-oil growth has declined from 5.0% in 2016 to 4.8% in 2017, largely due to the subdued private sector credit growth and a frontloaded fiscal consolidation that led to a significant cut in capital expenditure. While commending Government for achieving its fiscal target, we encourage the continued pursuit and implementation of measures that stimulate higher growth in the non-oil growth sector, which is more inclusive and sustainable. This includes purposefully growing the manufacturing and agricultural sub-sectors to offset the potential fall-off in overall growth as the effects of oil growth wash out from 2018 onwards and potentially even turns negative in the medium to long term.

Achievement of the fiscal and macroeconomic targets for 2018 to 2021 is predicated on the successful implementation of a number of strategic policy initiatives and programmes over the short-to-medium terms such as:

- **Transformation of agriculture and industry –** to act as catalysts for accelerated growth and aggressive job creation. This is anchored by initiatives from the 2017 Budget Statement, such as One District-One Factory ("1D1F") programme, as well as new initiatives to achieve large scale mechanisation of agriculture under the Akufo-Addo Program for Economic Transformation ("AAPET").

- **A revamp of economic and social infrastructure –** including the educational system with programmes such as Free Senior High School ("Free SHS") and physical infrastructure such as roads to support the productivity gains from the transformation of agriculture and industry.
- **Strengthening of social protection and inclusion –** supported by key social initiatives such as the establishment of the three zonal development agencies to complement the National Entrepreneurship Programme ("NEP"), the Zongo Development Fund among other existing initiatives.
- **Reformation of public service delivery institutions –** with the Nation Builders Corps programme acting as the pivot. Through this new initiative, Government will deploy thousands of youth to address lower standard of service delivery in areas such as healthcare, education, agriculture and sanitation. This initiative is aimed as the proverbial 'killing two birds with one stone' by reducing graduate unemployment while improving the quality of service delivery in the public sector.

On the fiscal side, consolidation efforts will need to be balanced with growth and should continue to be anchored in wide-ranging structural fiscal reforms, so that consolidation gains can be sustained over the medium term. These include measures to broaden the tax base and enhance tax compliance and public financial management, especially considering the large unpaid arrears accumulated in 2016 and the significant revenue shortfall of 10% in 2017. The 2018 Budget Statement did not introduce any new taxes aimed at widening the revenue net, however, Government is still optimistic that in 2018 it can achieve over 25% increase in tax revenue over the total projected tax revenue for the year 2017.

Overall, we believe that Government's revenue estimate for 2018 remains very aggressive and will require further intensification of tax compliance measures. Over a long period of time, Government revenue projections have tended to be over-optimistic, creating the risk of fiscal illusion by providing Government the latitude to over-spend. Incentivising and encouraging the establishment of new businesses will indirectly influence the revenue pool of the country but may not be achievable in the short-term and is perhaps more of a medium term target.

To achieve the revenue target for 2018, Government will need to be proactive at implementing additional short-term measures that will ensure tax compliance and revenue collection from the current taxpayer pool, particularly from the informal sector. Government should also leverage mobile payment technology to efficiently boost revenue collection in the informal sector. The implementation of the National Identification Scheme, the National Digital Addressing System, Tax Identification Number System, and the Presumptive Tax System, among others, as enumerated by Government could contribute towards the revenue mobilisation strategy, if implemented effectively.

On the expenditure side, while efforts at capping revenue earmarking—a key source of budget rigidities—and limiting exemption abuses are welcome, there is a need for Government to avoid creating another set of rigidities by introducing several social initiatives which are very heavy on expenditure. For example, the introduction of Free SHS, restoration

Commentary

of teacher training allowances, one constituency one million dollars, the intention to create new regions and zonal development authorities as well as the new nation building initiative intended to hire 100,000 graduates, can exert enormous pressure on Government expenditure. These programmes should be carefully phased in, not only to ease spending pressures but also to ensure quality, value for money and proper targeting. We believe that well-planned and sequenced implementation is the only way to make these programs sustainable over time.

Regarding debt management and restructuring, while acknowledging Government efforts at ensuring sustainable debt management via debt re-profiling and the gradual normalisation of the yield curve as well as the increasing participation of non-residents in domestic bond issue, we caution against over indulgence in this since the dominance of external holders of local bonds could increase the country's vulnerability to external shocks while the reprofiling can increase debt servicing cost that emanate from the expensive long term debt. The recent bond issue to cover the legacy energy sector debt and to reduce the stress on the financial sector is also laudable, however, we note that this should not be a substitute for improving the management and governance structure of State Owned Enterprises ("SOEs"). More attention should be given to restructuring these SOEs to ensure their financial viability and return them to a path of profitability.

In concluding, it is our view that Government is on track towards achieving macroeconomic stability as evidenced by the fact that macro-indicators are moving in the right direction. However, challenges of sustainability of the gains so far and the implementation of various initiatives remain. We therefore encourage continued focus in the following areas:

- Aggressive domestic revenue mobilisation effort through enhancing tax compliance;
- Ensuring Sustainable Debt management: Achieving debt sustainability by accelerating growth for base effect, minimising the fiscal gap and ensuring exchange rate stability to control exchange risk;
- Increased investment in agriculture value chains and in growth-enhancing infrastructure including radical structural transformation to ensure export diversification.

As always, we wish Government the best of luck in the implementation of its key policies and initiatives for 2018. We will continue to contribute where we can, in line with PwC's overall purpose of helping to build trust in society and solve important problems.

2018 Budget Highlights

At a Glance

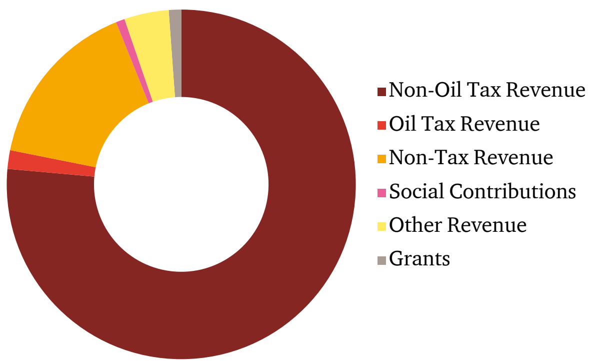
Snapshot of 2018 Budget Statement

- Real GDP growth for 2017 is estimated at 7.9% compared to 3.7% for 2016
- Inflation reduced from 15.4% in December 2016 to 11.6% in October 2017
- Budget deficit is projected at 4.6% in September compared to 6.4% for the same period last year
- Total expenditure, including provision made for the clearance of arrears is estimated at GH¢62,010.3 million, equivalent to 25.7% of GDP. This compares to projected outlook of GH¢54,141.5 million for 2017
- Total revenue and Grants for 2018 fiscal year is estimated at GH¢51,039.1 million, equivalent to 21.1% of GDP. This compares to a projected outlook of GH¢41,254.3 million for 2017
- There has been an overall shift to social spending from spending on infrastructure

Revenue

- Total revenue and grants for the first nine months amounted to GH¢28,429.2 million compared to a budget of GH¢31,346.4 million last year
- Shortfalls in revenue were a direct result of the delays in implementation of tax compliance and administrative measures and slow real GDP growth in the non-oil sectors of the economy
- Total revenue and grants for 2018 is estimated at GH¢51,039 million compared to 2017 projected outlook of GH¢41,254.3 million
- This represents 23.7% over the projected end year outturn for 2017
- Preliminary end-year projections indicate a 95.5% attainment of the annual target

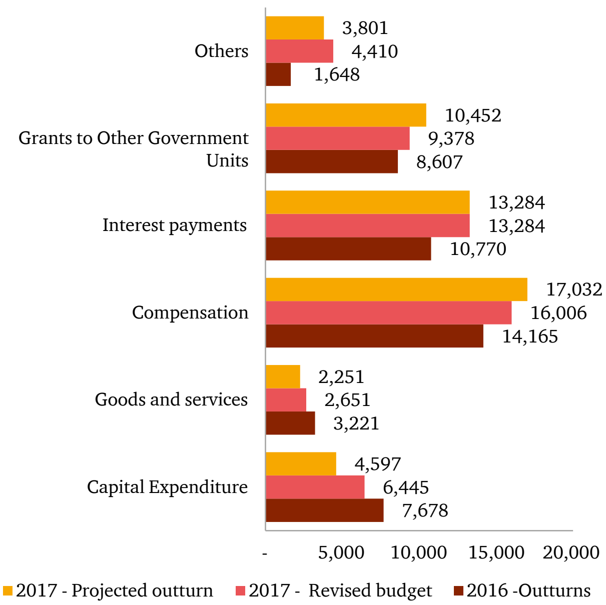
2018 Revenue Sources



Expenditure

- Total expenditure for first nine months of 2017 amounted to GH¢37,705 million compared to budget of GH¢41,036.2 million
- Interest payments as at September 2017 amounted to GH¢9,710.3 million, representing a 5.5% reduction as compared to budget of GH¢10,276.5 million

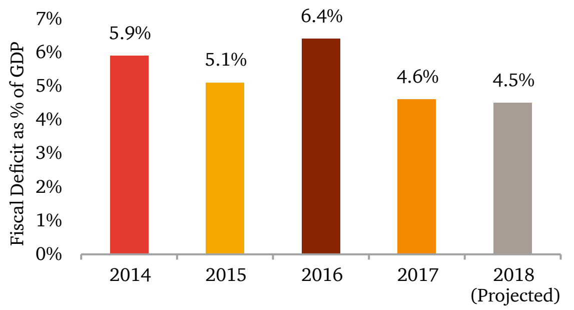
Government Expenditure



Budget Deficit

- As at September 2017, overall budget deficit on cash basis for 2017 was 4.6% of GDP compared to a target of 4.8% GDP
- Budget deficit is projected to be GH¢10,971.1 million (4.5% of GDP) in 2018
- Net foreign financing is GH¢2,970.8 million (1.2% of GDP)

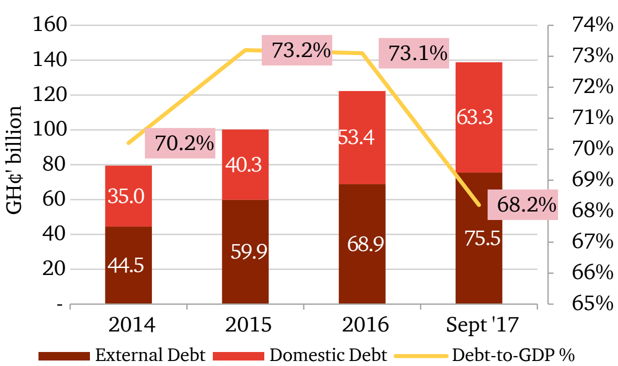
Fiscal Deficit



Debt

- Public debt was 68.27% of GDP at the end of September 2017 down from 73.1% at the end of 2016
- Domestic debt stood at GH¢63,342.00 million or 31% of GDP
- External debt stood at GH¢75,530.22 million or 37% of GDP

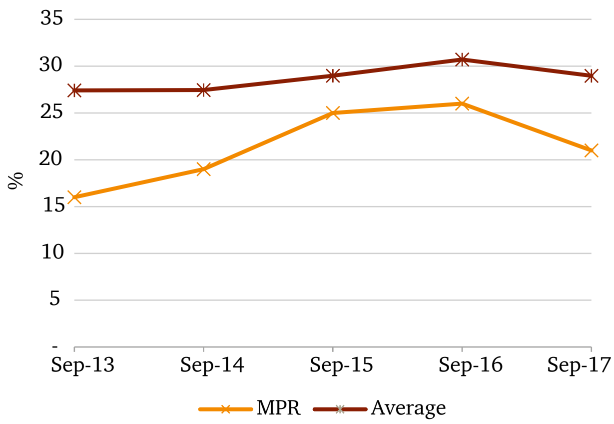
Public Debt Levels



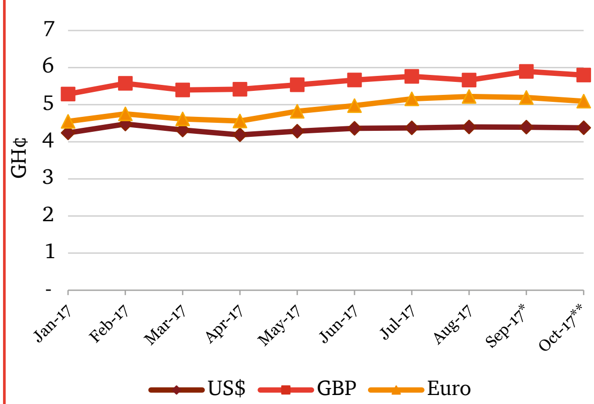
Interest and Exchange Rates

- In the year to October 2017, the cedi cumulatively depreciated against the US dollar by 4.0% compared to 4.3% during the same period in 2016
- The Monetary Policy Rate ("MPR") was reduced by 450 basis points to 21.0%
- Average weighted interest rates declined to 20.9% as compared to 25.3% last year

Interest rate and average lending rates



Average month - end exchage rates -2017

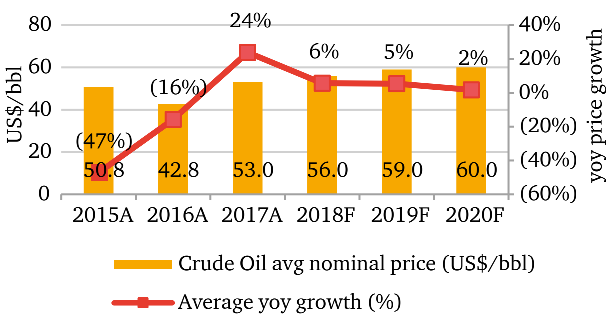


At a Glance

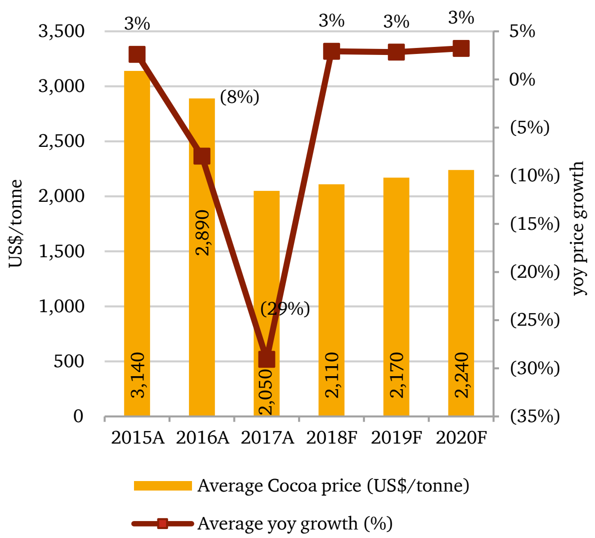
Commodities

- Petroleum receipts for 2017 was GH¢1,552.13 million, against GH¢671.49 million for 2016
- Global cocoa prices fell by 29% to US$2,050 per tonne compared to last year leading to lower receipts from cocoa
- Gold prices fell by 1% to US$1,238 per ounce as compared to last year and are expected to fall by the same percentage in 2018

Crude oil prices (in US$/bbl)



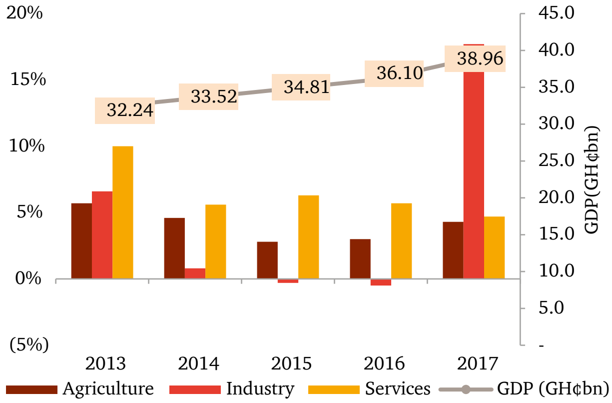
Cocoa prices (in US$/tonne)



Sector Growth

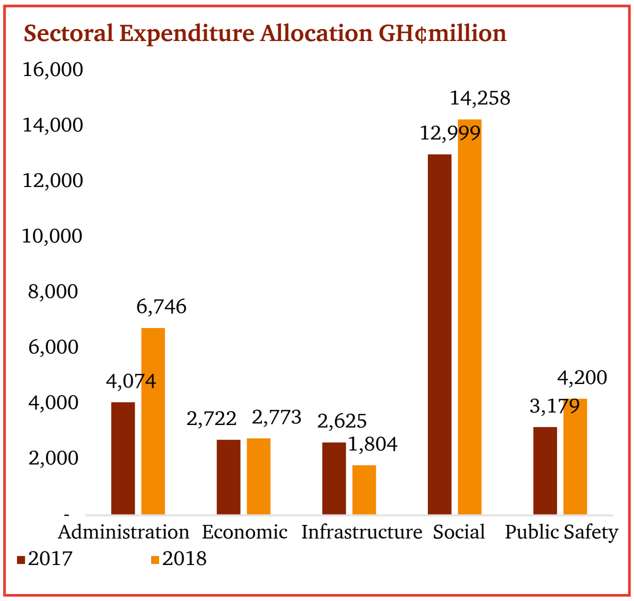
- Agriculture sector is estimated to expand by 4.3% in 2017, against its target of 3.5%. The Crops sub-sector accounted for about 74% of the sector
- The estimated growth in the Services sector in 2017 was 4.7% compared to the 5.1% target
- Growth in the Industry sector is estimated at 17.7% for 2017, largely driven by the Mining and Quarrying subsector

Growth per sector: 2013-2017



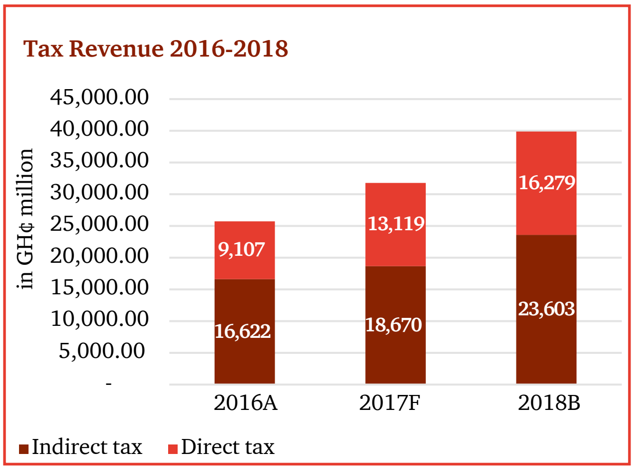
Sectoral Outlook

- Total sectoral budget was increased by 16.34% to GH¢29,782.31 million from GH¢25,599.40 million in 2017
- The Infrastructure sector received a 31.26% decline in budget allocation
- The Social Sector has an allocation of GH¢14,258.09 million (representing 47.87% of the total sectoral budget)
- Administration Sector saw the highest increase in allocation of 65.57% from its current budget



Distribution in Tax Revenue

The 2018 budget projects tax revenue of GH¢39,882 million compared to the 2017 projected outlook of GH¢31,788 million. This is about 25% growth in tax revenues over the expected 2017 performance.



In order to achieve this ambitious tax revenue growth rate, the 2018 budget proposes policies that focus on granting concessions, widening the tax net and improving tax compliance rather than the introduction of new taxes. The following are measures to be instituted by Government in 2018:

Tax initiatives

Direct Tax Initiatives

- Granting tax breaks to privately-owned and managed universities to help position Ghana as a higher-education hub
- Exempting Collective Investment Schemes and Real Estate Investment Trusts ("REITs") from income tax to deepen the capital market and address the housing deficit
- Granting additional tax incentives to support agro-processing businesses under the Akufo-Addo Program for Economic Transformation ("AAPET")
- Providing accelerated depreciation on machines of manufacturers and importers for the implementation of the excise tax stamp policy
- Providing tax concession for Ghanaian start-up entrepreneurs under 36 years to encourage innovation and employment as part of the National Entrepreneurship and Innovation Plan ("NEIP")
- Abolishing income tax on commissions to lotto agents and lotto winnings to discourage illegal lottery activities
- Expanding the tax-free income tax band to avoid taxing of minimum wage
- Inculcating the culture of filing income tax returns by linking access to Government services to proof of filing of returns
- Unifying Pension Schemes in line with the National Pensions Act to create some fiscal space for Government and streamline the pensions payment process
- Extending the validity period of the 5% National Fiscal Stabilisation Levy ("NFSL") to December 2019 to generate additional revenue for social interventions programmes

Indirect Tax Initiatives

- Introducing 7% VAT withholding tax on standard rated supplies to improve VAT compliance
- Rolling out the fiscal electronic devices to facilitate real time monitoring of VAT collections
- Enforcing the affixing of Excise Tax Stamps on qualifying excisable products such as beers and soft drinks to protect revenue and check smuggling and counterfeiting of such products

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- Abolishing duties on some agricultural produce processing equipment and machinery
- Reforming customs suspense regime - transit and warehousing – to deal with abuses in the system
- Extending the 2% Special Import Levy ("SIL") to December 2019 to generate additional revenue for social interventions programmes

General Administrative Measures

- Making Tax Clearance Certificates a requirement for significant private contracts to expand the tax net
- Introducing Voluntary Disclosure Procedures ("VDP") and tax amnesty regimes to encourage voluntary compliance
- Introducing Alternative Dispute Resolution ("ADR") for timely resolution of tax disputes
- Introducing Automatic Exchange of Financial Account Information to curb cross-border tax evasion

2018 Budget Highlights

The Economy

Overview

The 2018 Budget Statement ("the Budget" or "Budget Statement") is premised on consolidating the gains made in stabilising the Ghanaian economy and increasing individual participation in the economy by "Putting Ghana back to work". The primary policies outlined in the Budget Statement focus on the creation of a conducive business environment that allows for the economic participation of all Ghanaians. The following major themes were outlined in the Budget Statement:

The main thrust of the Budget Statement is building on the economic stability achieved in 2017 by increasing the quantity and quality of social and economic service delivery to create a business environment that supports entrepreneurship and job creation.

It is however instructive to note that the gains from transformation of agriculture and large scale industrialisation can only be achieved with a holistic strategy which includes improved infrastructure, the development of ancillary services to support industries, strong business linkages and increased exports, among others. GoG should therefore invest in these areas to ensure that its industrialisation efforts are not hampered by the lack of a competitive and mature industrial ecosystem.

Sustainable improvement in the fundamentals of the economy *– based on maintaining the positive trend in major macroeconomic indicators as a result of prudent fiscal and monetary policy management of economy by Government in 2017.*

Transformation of agriculture and industry *– to act as catalysts for accelerated growth and aggressive job creation. This will be anchored by initiatives first announced in the 2017 Budget Statement, such as One District-One Factory ("1D1F") programme, as well as new initiatives to achieve large scale mechanisation of agriculture, including the Akufo-Addo Program for Economic Transformation ("AAPET").*

A revamp of economic and social infrastructure *– including the educational system, with programmes such as Free Senior High School ("Free SHS"), and physical infrastructure such as roads to support the productivity gains from the transformation of agriculture and industry.*

Strengthening of social protection and inclusion – *supported by key social initiatives such as the establishment of the three zonal development agencies to complement the National Entrepreneurship Programme ("NEP"), the Zongo Development Fund among other existing initiatives.*

Reformation of public service delivery institutions – *with the Nation Builders Corps programme acting as the pivot. Through this new initiative, Government will deploy thousands of youth to address lower standard of service delivery in areas such as healthcare, education, agriculture and sanitation. This initiative is aimed as the proverbial 'killing two birds with one stone' by reducing graduate unemployment while improving the quality of service delivery in the public sector.*

Summary of Key Fiscal Indicators

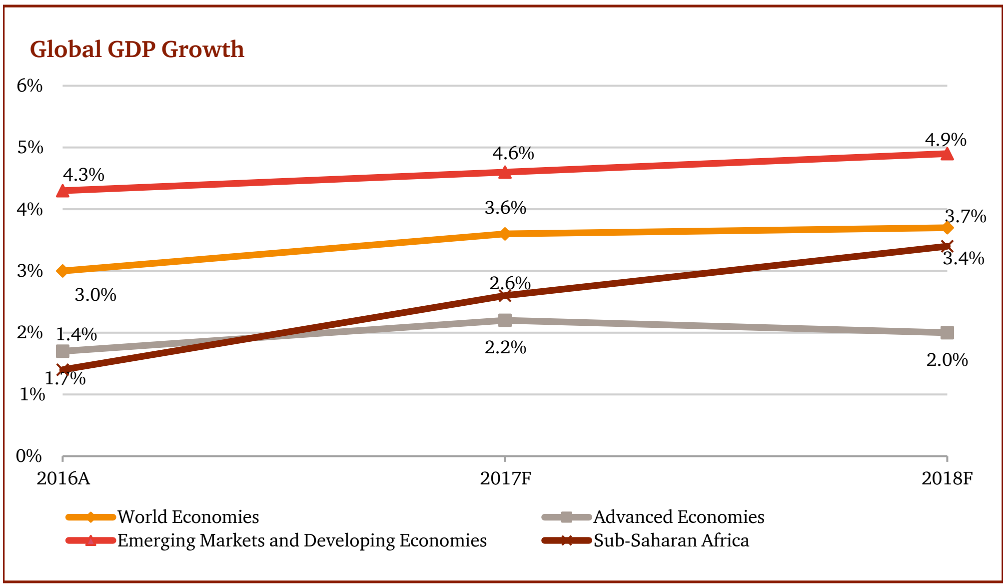
Description	2017 Target	2017 Provisional[1]	2018 Target
Growth in Real GDP (incl. oil)	6.3%	7.9%	6.8%
Growth in Real GDP (non-oil)	4.6%	4.8%	5.4%
End of Period Inflation (%)	11.2%	11.6%[2]	8.9%
Overall Fiscal Budget Deficit (% of GDP)	6.5%	6.3%	4.5%
End Period Inflation	11.2%	11.6%	8.9%
Gross International Reserves	at least 3 months of import cover	4.1 months of import cover	at least 3.5 months of import cover

Source: 2018 Budget Statement

The global economy experienced broad-based growth in 2017, with positive GDP growth rates recorded in all three global economic blocs: Advanced economics, Emerging Markets and Developing economies. Growth in Emerging Markets and Developing economies was underlined by China's return to a robust growth rate of about 6.5%, while advanced economies have been bolstered by expanding global trade. This positive performance is expected to be maintained in 2018, with moderate gains across board.

The World Economy

- The World Economic Outlook ("WEO") Update, October 2017, projects global economic growth for the year end 2017 to be about 3.6%, a 20% increase on the 3.0% growth rate achieved in 2016.
- According to the WEO Update, the global GDP growth rate is expected to increase slightly in 2018, driven by growth rate for Emerging Market and Developing Economies ("EMDEs"). The growth will however be weighed down by a slight slowdown in the advanced economies.



Source; WEO, October 2017 Update

The Economy

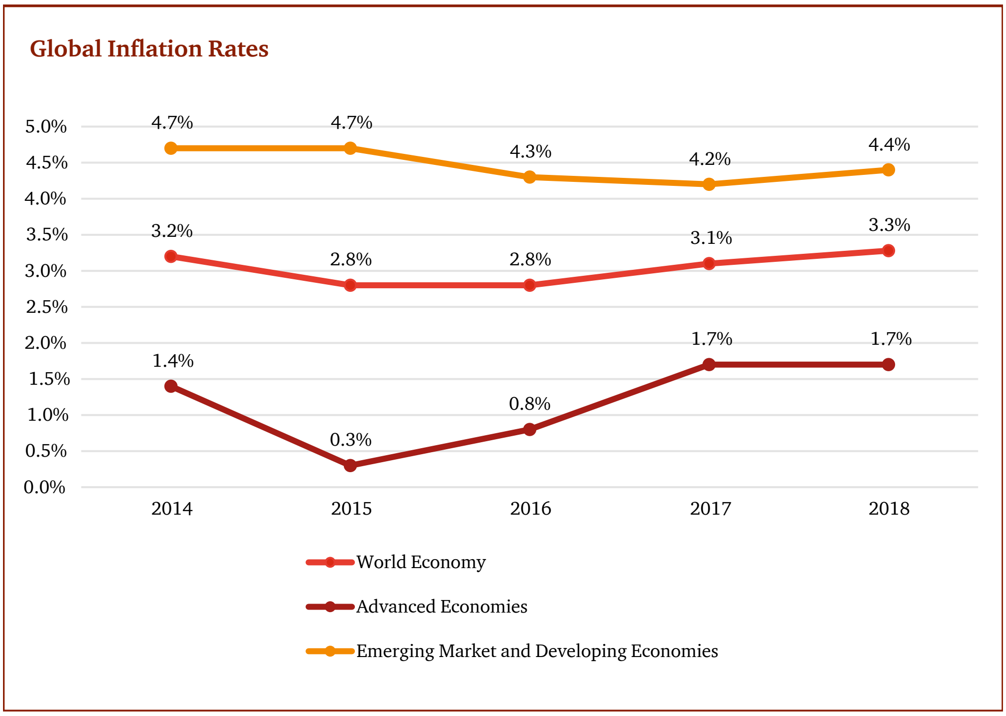
The Ghanaian economy significantly outperformed the Global economy and all major sub-groupings in 2017 and same is forecasted for 2018. While Ghana's GDP growth rate is expected to decline slightly to 6.8% in 2018, this is still expected to be higher than that of the world economy.

Ghana economic growth rate was higher than that of the Global economy and most of sub-Saharan Africa in 2017. The country has been an attractive investment destination as a result of the relative political stability over the last two decades and improved macroeconomic conditions. Government is also putting in place additional measures to enhance Ghana's attractiveness as an investment destination, including a review of the Ghana Investment Promotion Centre ("GIPC") Act and efforts to make Ghana the business hub of the West African sub-region. These measures if implemented fully will increase the attractiveness of the country to foreign investments and enhance Government's industrialisation agenda.

Inflation

Global inflation is expected to increase marginally (3.1% in 2017 and 3.3% in 2018) due to rising inflationary pressures in Advanced Economies resulting from increasing domestic demand.

- The WEO October 2017 Report estimates that the average inflation rate in Advanced Economies will be 1.7% in 2018, same as realised in 2017. For EMDEs, average inflation is expected to be 4.2% in 2017 and increase marginally to 4.4% in 2018.

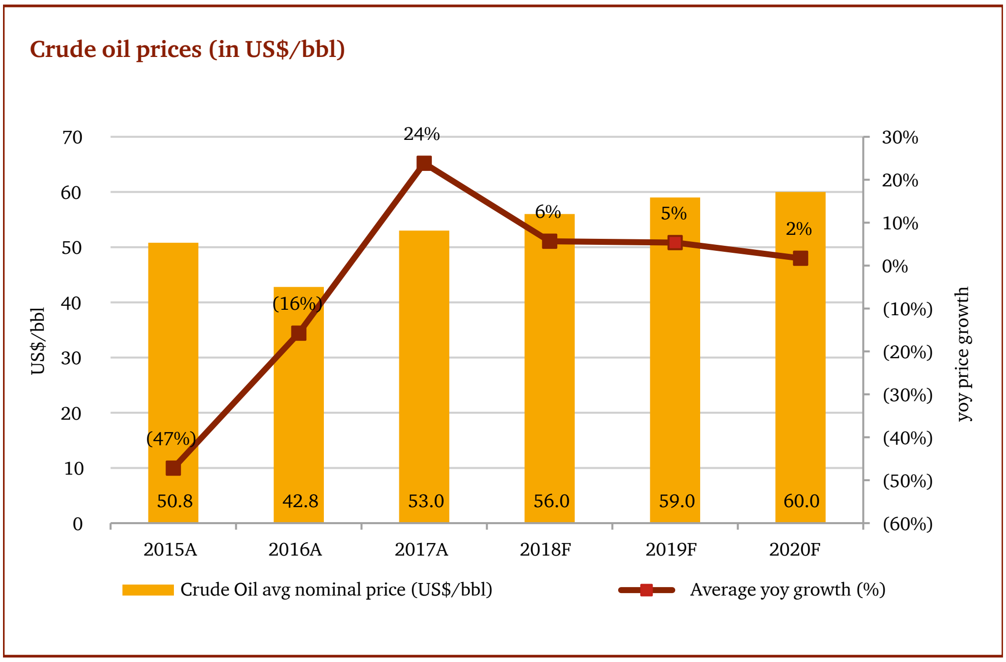


Source: WEO, October 2017 Report

While global inflation is expected to increase moderately, developments in advanced economies present risks to the projected level of inflation. The US Federal Reserve has increased rates twice in 2017 and the UK Treasury has followed suit by increasing rates for the first time in almost a decade. These are likely to make Government securities in advanced economies more attractive, leading to a potential increase in investment in these securities. Such a development will strengthen hard currencies such as the US Dollar. A stronger US Dollar can put exchange-driven inflationary pressure on the Ghana Cedi. Government and BoG should therefore monitor developments in Advanced Economies and be proactive in managing the value of the local currency against its major trading counterparts.

In 2018, average crude oil price is expected to hover around US$56.00 per barrel, a 6% increase from the 2017 average price of US$53.00 per barrel.

Global Commodity Prices



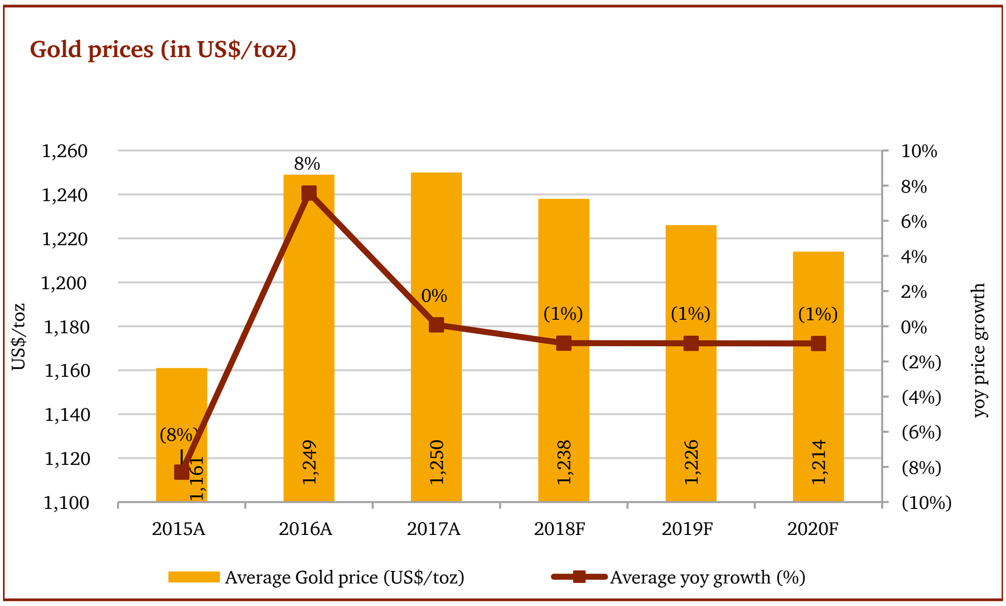
Source: World Bank Commodity Markets Outlook, October 2017

- Total cuts in crude oil production is set at 1.8 million barrels per day. This follows the OPEC members' agreement in May 2017 to extend the agreement to cut production by 1.2million barrels per day to March 2018, and the decision by Russia and other non-OPEC oil producing countries to hold production at current levels.
- The World Bank Commodity Markets Outlook for October 2017 forecasts a 4% climb in the prices for energy commodities – which includes oil, natural gas, and coal – in 2018. The same report also forecasts a 6% increase in the price of crude oil only. The increase is however conditioned on whether oil producers extend production cuts that they have agreed.
- It is important to note that should OPEC members fail to renew the agreement to cut production further after March 2018, the price of crude oil may drop, especially if the anticipated increased production from the U.S. shale oil industry is realised.

Government's decision to assume an average crude oil price of US$57.40 per barrel for budgetary purposes demonstrates prudent planning. Government could have budgeted with a higher crude oil price due to current upward pressure on the price of oil resulting from uncertainties in countries such as Libya, Nigeria and Venezuela, and the possibility of OPEC countries extending the agreement to cut production. Oil prices however remain volatile so Government should focus strongly on its commitment to industrialisation and transformation of agriculture to enable the country absorb any shocks from a potential slump in the price of crude oil.

- Gold prices are expected to decline to $1,238 per ounce in 2018 compared to the 2017 average price of US$1,250 per ounce due to expectations of higher U.S. interest rates.

The Economy

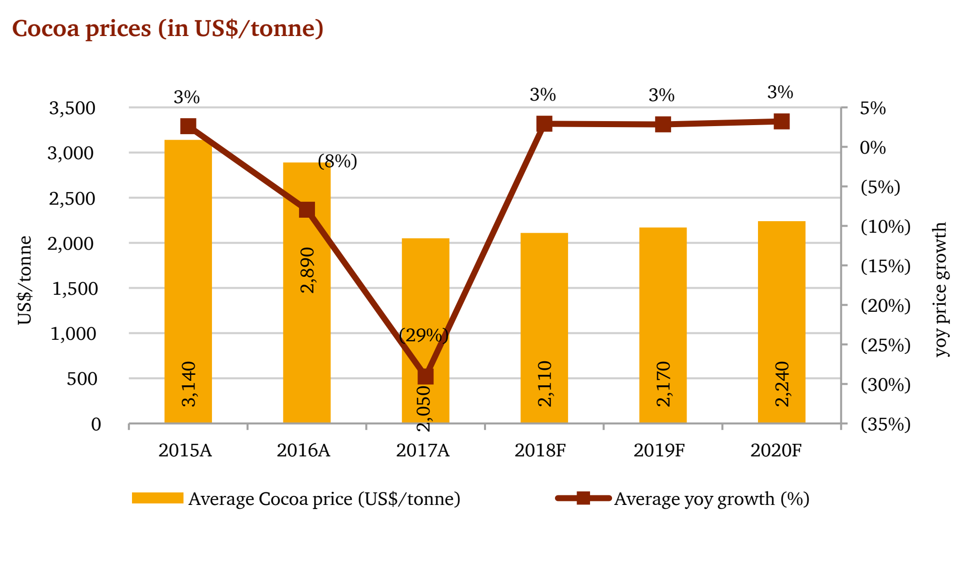


Source: World Bank Commodity Markets Outlook, October 2017

- The drop in global demand for gold in 2017 compared to 2016 is largely accounted for by tax and other regulatory changes in India, one of the two largest gold consuming countries. The new tax laws and anti-money laundering policies that govern jewellery retail transactions tightened demand for gold in India.
- However, auspicious day purchases by China, the largest gold consuming country, helped to keep global gold prices in 2017 relatively stable, less than one percent above the 2016 price of US$1,249 per ounce.

With gold prices projected to continue falling in the near term, there is yet another risk of downward pressure on the local currency since the commodity is still one of Ghana's major foreign exchange earners. This risk will add to the potential loss of revenue from gold exports. This adds further urgency to the efforts to diversify the economy through industrialisation, improved service delivery and support for non-traditional exports to bring in additional foreign currency.

- According to the World Bank Commodity Markets Outlook, cocoa price is projected to rebound slightly from the slump in prices experienced in 2017. The average price for 2018 is expected to be US$2,110 per tonne, up from US$2,050 in 2017, even though a surplus of supply over demand is being forecast by the International Cocoa Organization.



Source: World Bank Commodity Markets Outlook, October 2017

The significant decline in the price of cocoa was the result of an increase in the global cocoa output of approximately 11%, to an estimated record of 4.4 million metric tonnes during 2016 to 2017. Cocoa production for 2018 is expected to result in a surplus in supply of nearly 0.13 million metric tonnes over global demand. The 2018 level of production is to be propelled by strong output from Cote d'Ivoire and Ghana due to favourable weather, and increased production in Latin America.

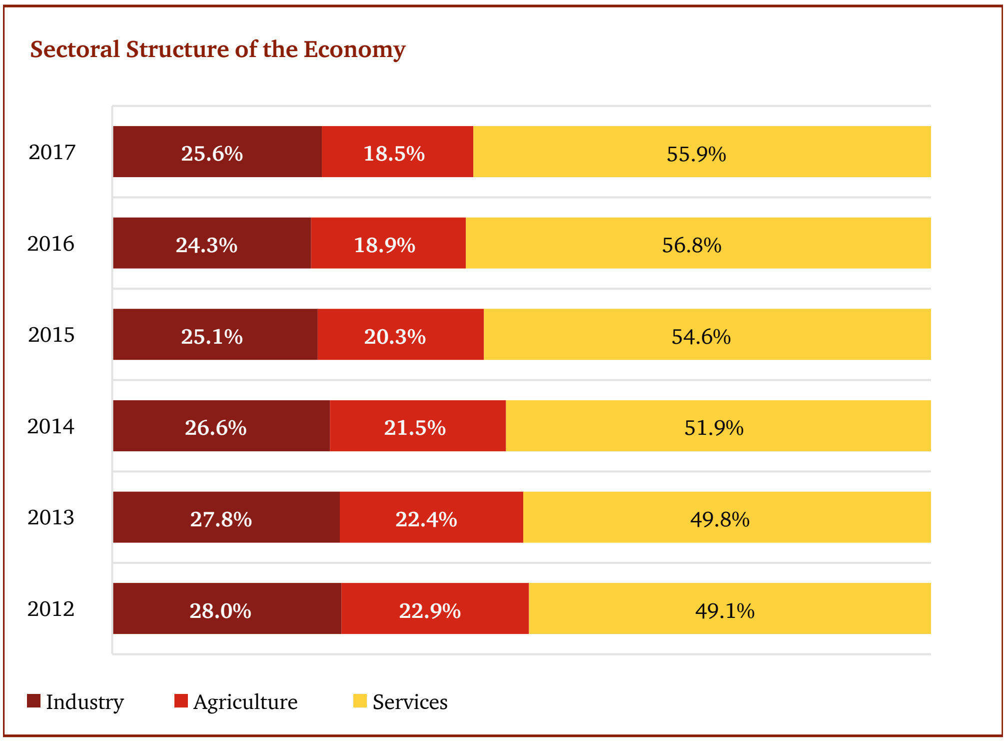
Government should actively pursue the policies outlined in the budget to transform agriculture, especially the large scale cultivation of non-traditional crops. Initiatives such as the Planting for Food and Jobs programme, the launch of the Agricultural Commodities Exchange, and the establishment of a development bank to support agriculture and industrialisation will be critical to reduce Ghana's over-reliance on cocoa and other traditional exports.

Sectoral Analysis

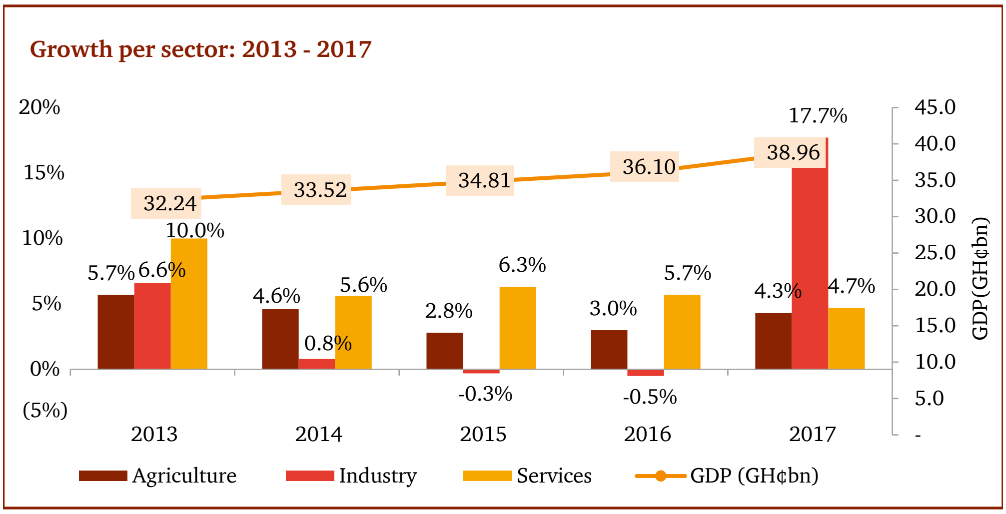
In 2017, there was no significant change in the structure of the economy. The Services sector continues to be the largest contributor to GDP. With the exception of the Industry sector which expanded, the Services and Agriculture sectors contracted marginally. The 2018 Budget Statement estimates significant growth in the economy in 2017 with Real GDP growth estimated at 7.9% by the end of 2017 higher than the target growth of 6.3%. This higher than budgeted growth was driven by the increase in oil production as a result of the deferral of the Jubilee FPSO Turret Remediation projected from the third quarter of 2017 to 2018 and the commencement of production in the "*Sankofa-Gye Nyame*" oil field.

The Economy

For the first time since 2012, the Services sector's contribution to the Ghanaian Economy declined with a contribution of 55.9% from January to September 2017 compared to a contribution of 56.8% for the same period in 2016.



Source: 2018 Budget Statement



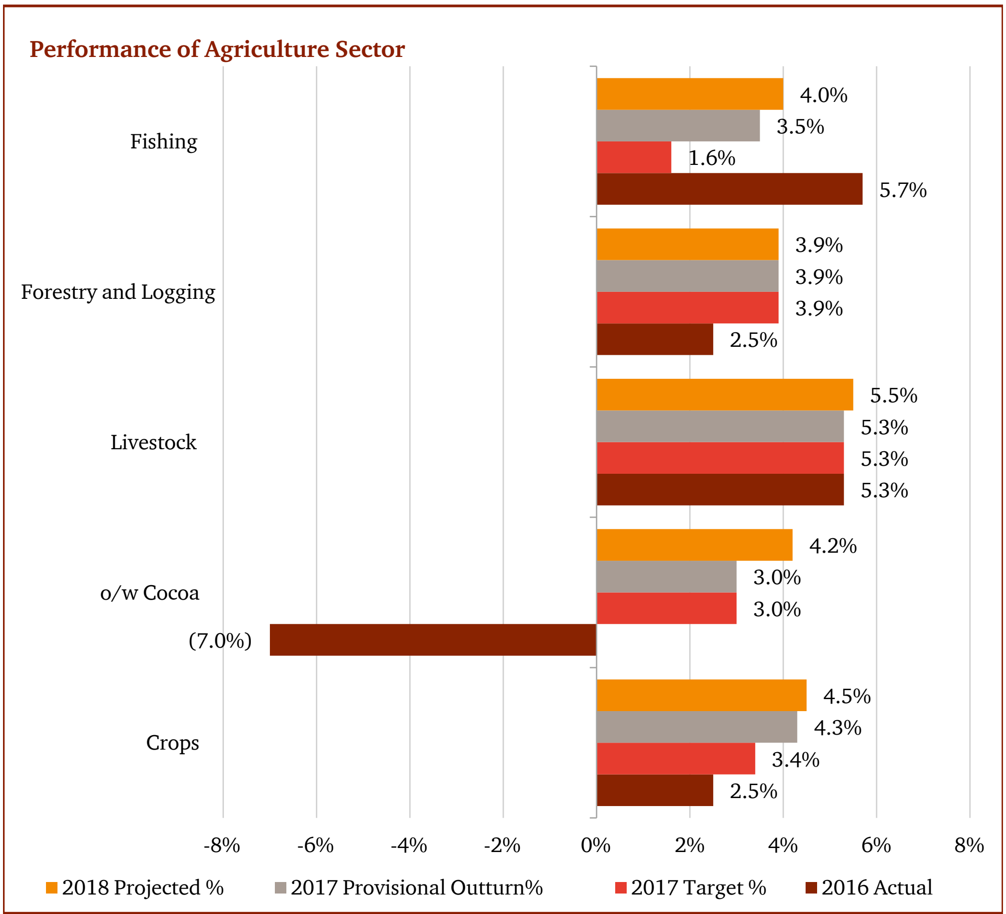
Source: 2018 Budget Statement

The structure of the Ghanaian economy is not expected to change significantly in the short to medium term. The current structure has the characteristics of a mature or stable economy where growth in the Industry and Services sectors drive overall economic growth. There are a number of Agriculture and Industry related policy initiatives which are expected to drive growth. The Services sector is also expected to continue growing, driven by the Information and Communication subsector. As indicated in the 2018 Budget Statement, there are plans to invest heavily in agriculture with a focus on mechanisation and also to ensure rapid industrialisation of the economy. It is unclear if the impact of the policy initiatives will be evident by the end of 2018 considering the lag in the implementation of some of the policy initiatives from 2017.

Agriculture Sector

The Agriculture sector is estimated to expand by 4.3% in 2017, exceeding its targeted growth of 3.5%. The Crops subsector accounted for about 74% of the sector's contribution to GDP and is in line to exceed the 2017 targeted growth of 3.4%, with a provisional 2017 outturn of 4.3%. The Fishing subsector is estimated to achieve 3.5% growth in 2017, which is more than double its targeted growth of 1.6%. The Forestry and Logging and Livestock subsectors are expected to achieve their targeted growth of 3.9% and 5.3% respectively in 2017. Government continues to focus on the growth of the Agriculture sector and plans to implement policies such as the three-pronged economic development programme, the AAPET which is expected to accelerate investments in the Agriculture sector.

The Agriculture sector is set to exceed its targeted growth of 3.5% in 2017 driven largely by a 4.3% growth in the Crops sub-sector, including cocoa.



Source: 2018 Budget Statement

Government has continued to focus heavily on Agriculture as a key area for economic growth and job creation. Government projected a growth of about 3.5% in the sector for 2017 which it estimates to exceed by 0.8%, with a provisional outturn of 4.3%; this could be attributed to the interventions such as the 'Planting for Food and Jobs'. The favourable weather experienced in the country also contributed to the growth in the Agriculture sector. In 2018, Government projects a growth of 4.5% and continues to invest heavily in the sector in a bid to achieve this growth.

Government is set to introduce the AAPET in 2018 which is expected to boost performance in the Agricultural sector through many initiatives including the development of modern storage facilities through the "One District, One Warehouse" project. Although some of these initiatives such as the

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abolishment of duties on some agricultural processing equipment and machinery could be implemented in the short to medium term, it seems rather ambitious to project a large growth in the sector based on these policies as the implementation of some of these initiatives may take more than one year as evidenced by the "One-District, One-factory" initiative outlined in the 2017 Budget Statement, which has been launched but is yet to be implemented fully.

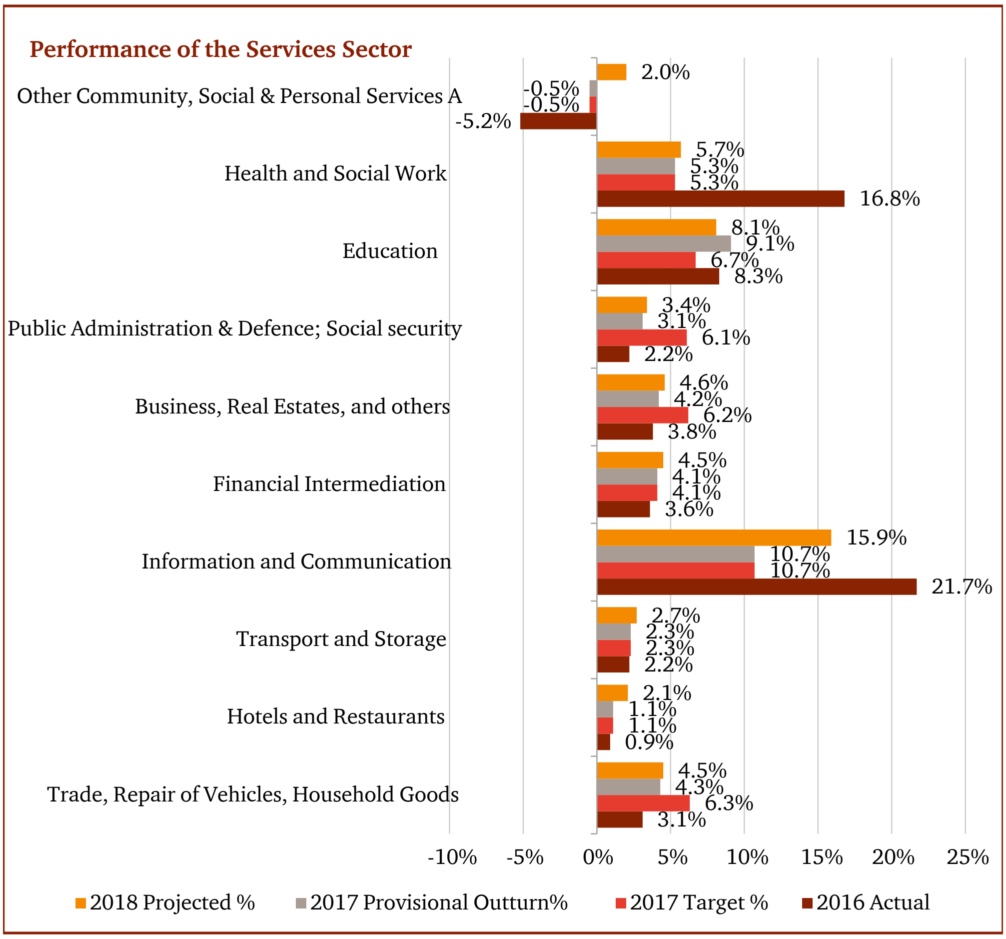
Government also intends to operationalise the Ghana Commodity Exchange ("GCX") and Warehouse Receipt System which it anticipates will support agricultural transformation by enabling easy access to markets, fair pricing for smallholder farmers and the formalisation of informal agriculture trading activities. The Budget is however silent on how this will be achieved even though section 836 of the 2018 Budget Statement indicates that work on setting this up has been on-going for a decade.

Services Sector

The growth in the Services sector slowed largely due to the inability of a number of key subsectors to meet their targeted growth rates.

The Services sector continues to be the largest sector with an estimated GDP contribution of 55.9% in 2017. The provisional outturn for the sector for 2017 is 4.7% which is less than the 5.1% target for the year. The inability of the sector to meet targeted growth could be attributed to the Trade, Repair of Vehicles, Household Goods, Business, Real Estate, and the Public Administration & Defence; Social security subsectors which have a provisional outturn of 4.3%, 4.2% and 3.1%. The 2017 provisional outturn for the education sub-sector is 9.1% as against the target growth of 6.7%.

Growth for the sector in 2018 has been projected to be 6.2% with the Information and Communication sector expected to record the highest growth of all the subsectors at 15.9%



Source: 2018 Budget Statement

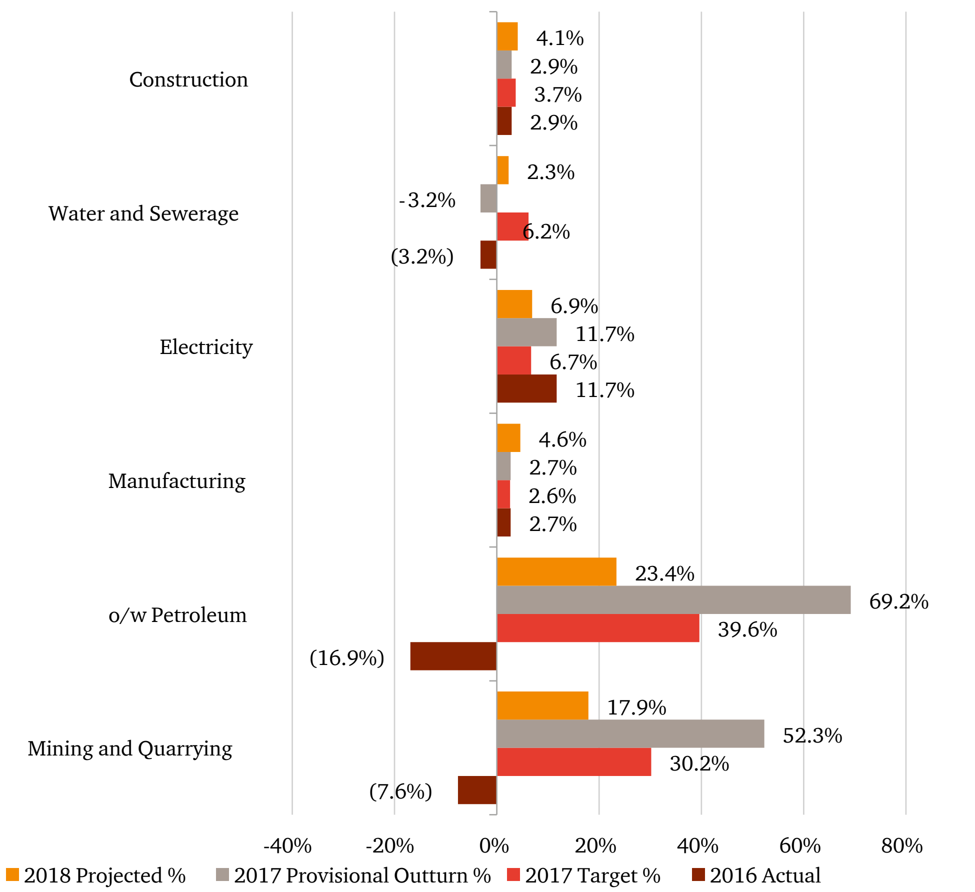
In 2017, Government planned to boost growth in the 'Trade, Repair of Vehicles and Household Goods' subsector through various reforms including tax cuts on spare parts. This however failed to achieve the targeted growth, which in turn affected the performance of the Services sector as a whole. In 2018, Government has been more conservative in estimating growth within that subsector. Government has however been rather ambitious estimating a growth of 15.9% for the Information and Communication sub-sector. Various Information Communication Technology ("ICT") projects have been slated for 2018 including the creation of an ICT Park, the transition from analogue to digital television transmission and the operationalisation of the Accra Digital Centre expected to accommodate about 100 IT-Enabled Services companies to provide job opportunities and nurture digital entrepreneurs. Should the implementation lead times for these projects exceed 2018, the estimated growth of 15.9% for 2018 may not be achieved, which may in turn affect the growth of the entire sector.

The impressive 17.7% provisional outturn for the Industry sector in 2017 compared with the decline in 2016 is driven by the growth in the mining and quarrying sub-sector.

Industry Sector

Growth in the Industry sector for 2017 is estimated at 17.7%. This will largely be driven by the Mining and Quarrying subsector, of which upstream petroleum constitutes a significant share. Upstream petroleum has a provisional outturn of 69.2% in 2017, a sharp reversal from the negative 16.9% recorded in 2016. This figure is higher than previously targeted and is principally due to the deferral of the FPSO Turret Remediation Project to 2018, allowing for increased production in 2017 and a lower forecast production in 2018 than originally projected. Manufacturing subsector is expected to slowly recover from the severe hit it took at the height of the power crisis, with a 2017 provisional outturn of 2.7%.

Performance of the Industry Sector



Source: 2018 Budget Statement

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The Industry sector is projected to experience a 9.4% growth in 2018; a significant decline from the 17.7% provisional growth recorded for 2017. The 2017 surge is largely attributable to the deferral of the FPSO Turret Remediation Project to 2018 as well as the increase in revenue from new production from the Sankofa-Gye Nyame and the Tweneboa Enyenra Ntomme ("TEN") oil fields. The Industry subsector continues to be driven by the Mining and Quarrying subsector, of which Petroleum is projected to contribute 78% and 82% of real GDP for the Industry sector in 2017 and 2018 respectively. The World Bank Commodities Market Outlook forecasts a rise in oil prices, with an average price of US$56 a barrel in 2018, from US$53 in 2017 as a result of steadily growing demand. Despite the significant contribution of petroleum to the economy, it is important to note that unfavorable oil price movements may leave the economy vulnerable.

The One District One Factory initiative is one that brings exciting prospects for the industrialisation of the economy. In implementing the policy however, the establishment and siting of factories should take into account the relative transaction and production costs in the particular area in order to ensure that the businesses remain competitive and relevant in the various districts.

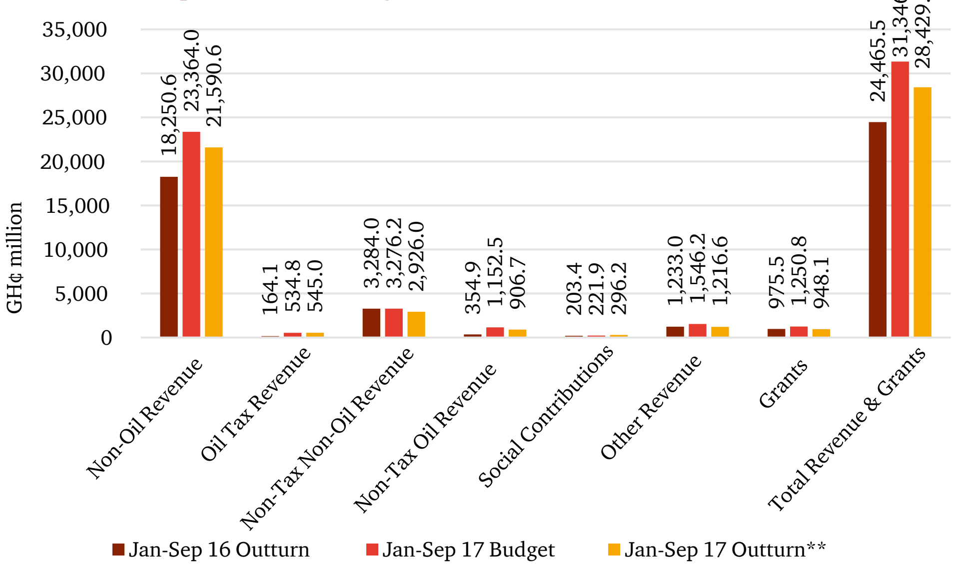
Fiscal Developments

Total budgeted revenue and grants is expected to increase by 14% from GH¢44,961.60 million in 2017 to GH¢51,039.10 million in 2018 driven mainly by tax revenues resulting from increased productivity and widened tax net as a result of the increase in the number of businesses.

Revenue

- Total Revenue and Grants from January to September 2017 amounted to GH¢28,429.20 million, approximately 14.1% of GDP compared to a target of GH¢31,346.40 million (15.5% of GDP) over the same period. Although the outturn recorded is 9.3% below the target, it represents an annual growth of 16.2% (over the September 2016 outturn of GH¢24,465.50 million) compared to 4.1% during the same period in 2016.
- The shortfalls in revenue performance is a direct result of the delays in implementation of tax compliance and administrative measures as well as slow real GDP growth in the non-oil sectors of the economy, particularly the Services sector. Corporate profits and trade taxes; which were projected to constitute a combined 31.3% of Total Revenue and Grants for the year 2017 were the most affected as a result of the dynamics mentioned.
- Revenue performance is expected to improve during the last quarter of the year as expected yields from ongoing special audits and compliance measures materialise. Preliminary end-year projections indicate a 95.5% attainment of the annual target.

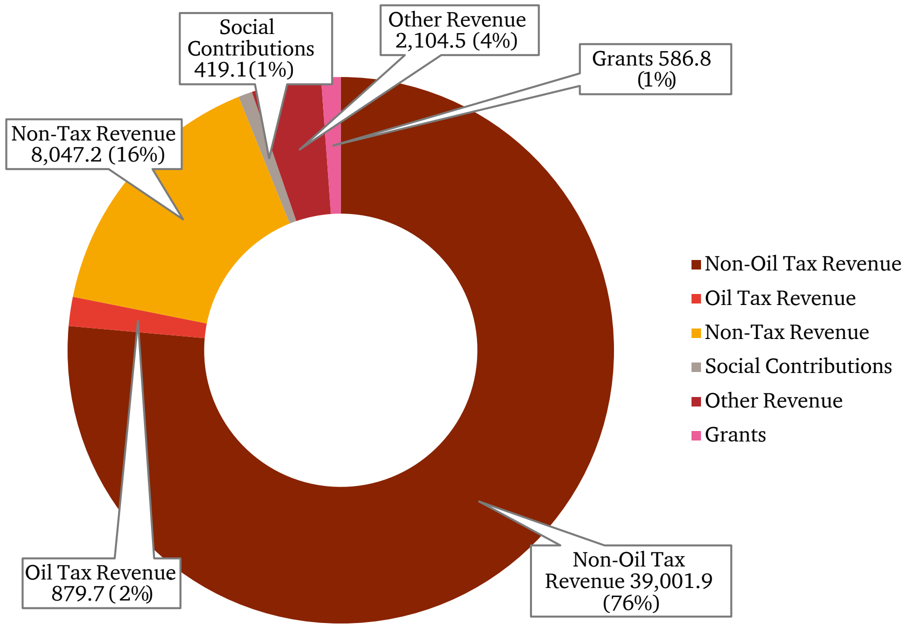
2017 Revenue performance (Budgeted vrs Outturn)



Source: 2018 Budget Statement

For 2018, Government budgeted total revenue and grants of GH¢51,039.1 million. This represents an increase of 14% over 2017 budgeted revenue and 21.1% of GDP.

2018 Budget revenue sources (GH¢ million)



Source: 2018 Budget Statement

While initiatives towards revenue enhancement such as eliminating nuisance taxes to encourage a free and fair tax system are laudable, Government's revenue estimate for 2018 remains rather too ambitious considering the fact that revenue mobilisation has not been encouraging this year. Incentivising and encouraging the establishment of new businesses will indirectly influence the revenue pool of the country but may not be achievable in the short-term.

To achieve the revenue target for 2018, Government will need to be proactive at putting in place short-term measures that will enhance revenue collection from the current taxpayer pool such as intensifying the monitoring of the gaming industry to mobilise non-tax revenue and improving the structures for mobilising funds from property taxes etc. Government should also improve its digitalisation strategy to help eliminate taxes being siphoned elsewhere rather than Government coffers. The implementation of the National Identification Scheme, the National Digital Addressing System, Tax Identification Number System, and the Presumptive Tax System, among others, as enumerated by Government could contribute towards the revenue mobilisation strategy.

Total petroleum receipts for 2018 is expected to increase to US$669.41 million (GH¢3,207.1 million) from the full year target of US$515.67 million (GH¢2,358.18 million) in 2017. This is equivalent to 1.3% of the 2018 GDP.

Petroleum Receipts

- Total petroleum receipts (i.e. proceeds from Jubilee liftings and other petroleum receipts) as at the end of September 2017 was US$362.58 million (GH¢1,552.13 million), compared to the 2016 receipts of US$172.91 million (GH¢671.49 million) for the same period.
- There was no receipt of gas royalties as at September 2017 compared to an amount of US$0.38 million in the previous year. Actual receipts for the period up to September 2017 showed a negative variance of US$24.18 million over the Budget estimate for the same period.

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- In 2018, Government expects to make total petroleum receipts of US$669.41 million based on the revised oil price forecast of US$57.36/ bbl (price is derived from the average futures prices of Brent across the 12 months of 2018. Gas price for 2018 is estimated at US$3.94/MMBtu, up from US$3.0433/MMBtu. The sum of the field-by-field averages of the three producing fields –Jubilee, TEN as well as SGN is expected to yield a 2018 crude oil output of 53.25million barrels (145,887 barrels per day), compared to 45.95million barrels in 2017 (32.2million barrels in 2016).
- The increase in the output projection for 2018 is primarily as a result of the revised projections from TEN (from 50,000 barrels per day to 54,000 per day) and SGN (from 35,441 barrels per day to 43,000 barrels per day).

Analysis of Petroleum Receipts	Jan-Sep 2015 (Actual)	Jan-Sep 2016 (Actual)	Jan-Sep 2017 (Actual)
Jubilee Royalties	91.70	44.80	54.00
Jubilee Carried and Participating Interest	237.80	116.10	140.10
TEN Royalties	-	-	37.700
TEN Carried and Participating Interest	-	-	107.5 0
Surface Rentals	0.50	0.40	0.80
Corporate Income Tax	11.60	2.20	22.10
PHF Income	0.00	0.10	0.30
Gas Royalties	0.00	0.40	-
Gas Carried and Participating Interest	0.500	8.90	-
Interest on Late Payment on TEN Lifting	-	-	0.00
Total Petroleum Receipts in US$ million	342.20	172.90	362.60
Total Petroleum Receipts in GH¢ million	1,246.20	671.50	1,552.10

Source: 2018 Budget Statement

Oil revenue budget for 2018 is US$669.41 million, based on benchmark crude oil price forecast of US$57.36/ bbl (price is derived from the average futures prices of Brent across the 12 months of 2018. Given the past experience of volatility in oil prices, actual revenues may vary significantly with less impact from changes in gas prices which have been fairly stable in 2017.

Despite the relative stability in the global commodity prices, the increased supply of oil in the market could put a downward pressure on oil prices, thus affecting Government's revenue target. Also, the revenue estimates for 2018 is largely dependent on the increased production targets from the TEN and SGN fields. In the event of unanticipated operational challenges, the revenue projections from petroleum products could be affected negatively.

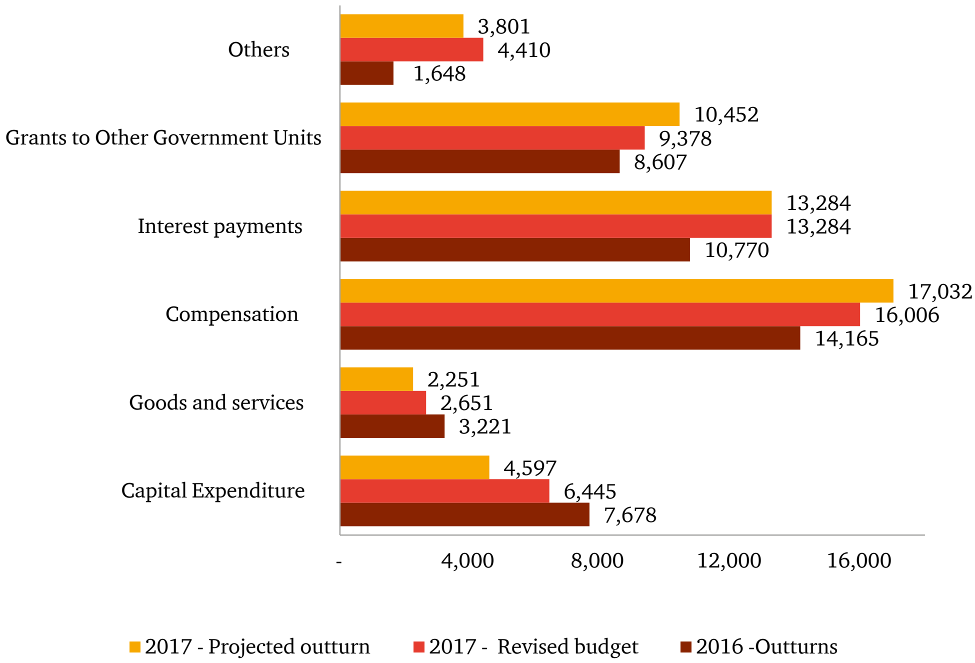
Government needs to have clear-cut policies and strategies to ensure that it achieves its revenue target from petroleum receipts which could include hedging mechanisms to mitigate the risk and impact of price volatility on the international oil market.

Total expenditure including clearance of arears to increase by 11% per the 2017 revised Budget to GH¢62,010.30 million in 2018. However, the allocation of expenditure is skewed towards social expenditure rather than capital expenditure.

Expenditure

- Total expenditure including clearance of arears from January to September 2017 amounted to GH¢37,705 million, equivalent to 18.7% of GDP against the target of GH¢41,036.20 million (20.3% of GDP). Total expenditure declined by 8.1% as compared to the 2017 budget, but increased by 7.4% as against the 2016 outturn
- Expenditure on compensation to employees (wages, salaries and social contributions) through to September 2017 amounted to GH¢12,512.10 million, representing 6.2% of GDP, as compared to the GH¢11,975.50 million target. In comparison to the outturn for 2016, expenditure on compensation to employees increased by 19.3%
- Interest payments on domestic and external borrowings as at September 2017 amounted to GH¢9,710.30 million, representing a 5.5% reduction from the target of GH¢10,276.50 million. Of the total interest payments, 78% represents domestic interest payment of GH¢7,562.8 million
- Total capital expenditure for the year end 2017 amounted to GH¢3,696.40 million, falling behind the 2017 budget by 21.2% and the 2016 outturn by 30.4%. The foreign financed component of total capital expenditure was GH¢5,629.57 million representing 73% of total capital expenditure
- The graph below illustrates the projected outturn for 2017 in comparison to the revised budget and actual expenditure for 2016.

2017 projected outturn in comparison to revised budget and 2016 outturn (GH¢ million)



Source: 2017-2018 Budget Statement

- Government projects total expenditure including clearance of arrears to increase by 11% from GH¢55,915.60 million in 2017 to GH¢62,010.30 million (25.7% of projected GDP) in 2018. The chart below shows the allocation of budgeted expenditure for the year 2018.

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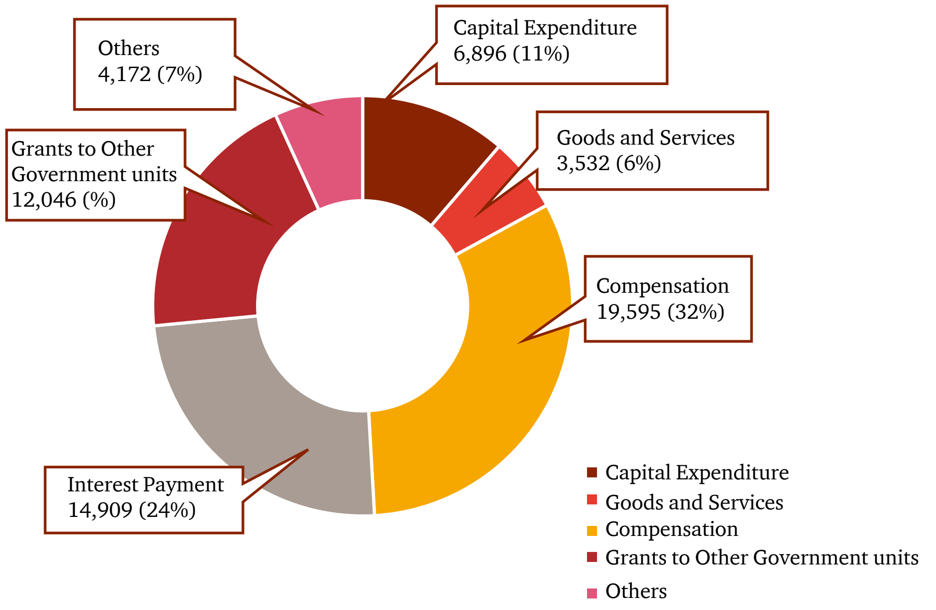
2018 Budget Expenditure Allocation (GH¢ million)



Source: 2018 Budget Statement

Government's primary focus of fiscal consolidation is geared towards reducing its fiscal deficit to 4.5% of GDP from the 6.3% 2017 end of year projection. Part of its effort is to reduce the debt accumulation in line with the IMF Extended Credit Facility ("ECF") programme is to ensure the clearance of expenditure arrears in wages and statutory funds, including the payment of compensation to employees and interest from domestic and external finance. Grants to Government units also constitutes a large portion of expenditure for 2018, key of which are the National Health Fund ("NHF"), District Assembly Common Fund and the Retention of Internally-generated Funds ("IGFs").

Although these allocations may augur well for the medium term fiscal deficit management, this leaves Government with a major challenge of raising sustainable funding to finance its long-term strategic capital investments. With key initiatives such as the "One District-One Factory" and major infrastructure development to support the Agricultural Sector, the question then becomes "How would Government finance these economic development projects with a capital expenditure allocation of 11% and how that bears on the projected economic growth of 6.8% for 2018?. Moreover, Government advocates for private-sector-led growth through tax cuts and enabling the financial system to increase domestic credit to private businesses. These plans are laudable and might contribute to the economic growth projected for 2018.

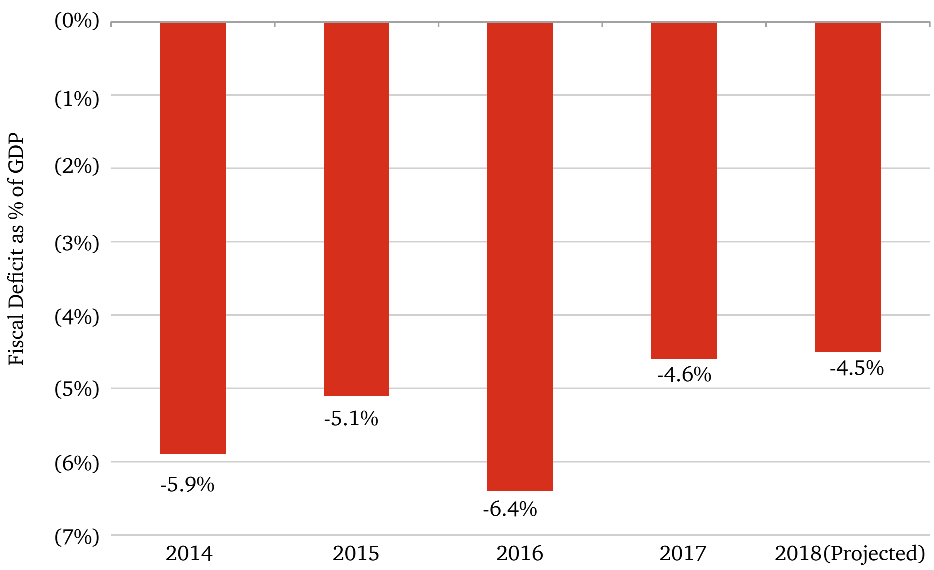
Overall budget deficit on cash basis for 2017 was 4.6% compared to a target of 4.8%. Government is targeting a deficit of 4.5% of GDP in 2018.

Deficit

- Based on the overall revenue and expenditure outturns, the budget deficit of GH¢9,275.8 million on cash basis, was 4.6% of GDP in September 2017 as against a target of 4.8% of GDP and an outturn of 6.4% of GDP for the same period in 2016. The reduction in the 2017 deficit compared to that of 2016 was mainly as a result of a 16.2% growth in revenue for 2017. This was favourable in comparison to 4.1% growth over the same period in 2016 as well as an annual growth of 7.4% in the total expenditure in 2017.

- The deficit was financed from both domestic and external sources. External financing comprised disbursements of project loans for both new and on-going projects, while domestic financing was from marketable instruments. Compared to 2016, there was no issuance of a sovereign bond to partially finance the deficit.
- Government estimates an overall budget deficit GH¢10,971.1 million equivalent to 4.5% of GDP in 2018, a marginal reduction by 0.1% of the 2017 deficit.
- The deficit will be financed from both domestic and foreign sources. Net domestic financing for 2018 is estimated at GH¢8,000.30 million, equivalent to 3.3% of GDP. The financing will be made up of both commercial bank and other non-bank financing sources.
- Net foreign financing is estimated at GH¢2,970.8 million representing 1.2% of GDP which will be financed from both project loans and programme loans net amortisation due for the year and the issuance of the sovereign bond.

Budget Deficit since 2014



Source: 2014-2018 Budget Statement

Government's projected budget deficit of 4.5% of GDP for 2018 may be attainable if it aggressively pursues its revenue mobilisation strategies including widening the tax net and ensuring that taxes are efficiently collected. The implementation of the National Digital Addressing System may also help in identifying the location of potential taxpayers and therefore facilitate the collection of taxes as well as property rates from property owners. In addition, Government must ensure that it efficiently implements it public expenditure management control mechanisms including tightening expenditure controls in the Ghana Integrated Financial Management Information System ("GIFMIS") to ensure that there are no expenditure overruns.

Public debt

Total Public debt stock stood at 68.27% of GDP as at the end of September 2017.

- As at the end of September 2017 the public debt stock stood at GH¢138,872.22 million, equivalent to 68.2% of GDP, down from 73.1% of GDP in 2016. The debt comprised both the domestic and external debt of GH¢63,342.00 million and GH¢75,530.22 million, equivalent to 31% and 37% of GDP respectively

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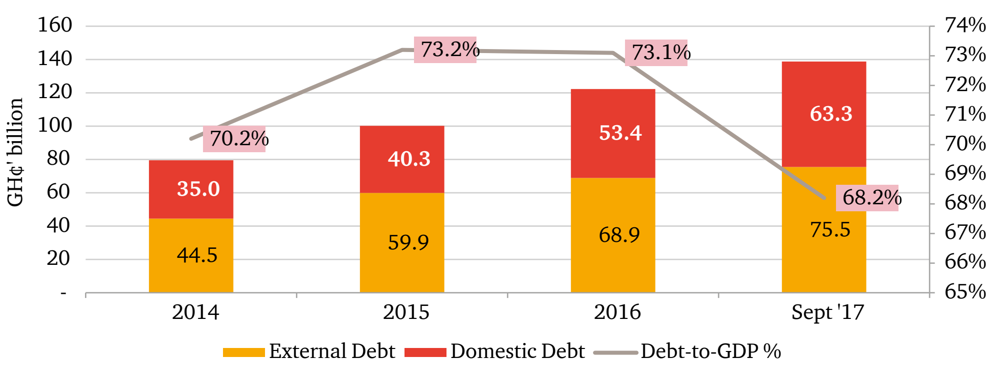
- The decline by 4.83% in the public debt to GDP ratio from 2016 to September 2017 has been mainly attributed to prudent public debt management strategies and policies, which include:
  - » The reduction in the fiscal deficit from 6.4% in 2016 to 4.6% in 2017
  - » A debt re-profiling program which involved the issuing of a 15 year and 7 year bond, with debut callable option and proceeds used in re-profiling maturing 91 and 182 day Treasury bills and reducing Non Performing loans in banks
  - » An increase in the magnitude of the GDP base from GH¢167,353.40 million at year end of 2016 to GH¢204,078.0 million at year end in 2017
  - » A significant decrease in the annual average rate of debt accumulation from 36.0% in 2016, to 13.58% within 9 months in 2017
- Ghana's debt-to-GDP ratio had increased from 70.2% at the end of 2014 to 73.1% at the end of 2016
- Due to Government's efforts at reducing the fiscal deficit in 2017 and its policy of debt re-profiling (which involves borrowing at less expensive rates to replace more expensive debt at longer tenor), the debt to GDP ratio has declined from 73.1% at the end of December 2016 to 68.2% at the end of September 2017
- IMF's Country Report on Ghana for September 2017 projected to end of 2018, Ghana's public debt to GDP ratio to be 66.1%

Analysis of Public Debt, 2014 – 2017



Source: 2013-2018 Budget Statement

Government should continue to pursue its debt management programme which has generated some benefits in 2017 such as the reduction in interest payments from 45% of tax revenues to 43.8% as at September 2017.

Enhanced and efficient tax revenue mobilisation and effective control of borrowing and expenditure will impact on Government's budget deficit and will in turn impact positively on Government's reliance of debt financing. The issuance of Government's maiden 15 year domestic bond would augment the country's foreign reserves, while its long tenor will extend the maturity profile of the public debt. This will reduce Government's pressure on debt repayment.

Money Supply recorded an annual growth of 20% as at the end of September 2017 mainly on the back of significant growth recorded in Net Foreign Assets ("NFA"). This growth is lower than the 22.3% achieved over the same period in 2016.

Money Supply

- Broad money supply growth slowed down in 2017 with a 20% year-on-year growth at the end of September 2017, compared with a 22.3% growth a year ago. This was mainly driven by the build-up in Net Foreign Assets ("NFA") of the Bank of Ghana ("BoG"), which also recorded a 124.4% annual growth, partially mitigated by a contraction of 0.7% in Net Domestic Assets ("NDA").

Government's resolve to restructure its domestic debt, and therefore shift demand, from short-dated instruments (i.e. Treasury bills) to long-dated instruments (i.e. long term domestic bonds) has largely accounted for declines in the various short term money market instruments. The 91-day, 182-day and 1 Year T-bills respectively declined from 22.9%, 24.7% and 23.5% in September 2016 to 13.2%, 14.1% and 15.0% in September 2017. In restructuring the domestic debts, Government has issued a number of long term domestic bonds, which has largely accounted for an increase in domestic debt from GH¢53,400 million as at December 2016 to GH¢63,300 million as at September 2017. The consequent increase in Government's domestic liabilities has also resulted in a contraction of the NDA.

Government's decision to reprofile its debt from short term to long term will relieve Government of short term liquidity pressures and allow Government to pursue its economic growth agenda through the various long term production-based initiatives planned for the coming years. Furthermore, the consequent decline in short dated T-bills rates (due to the debt reprofiling) is likely to result in increased supply of credit to the private sector, which could drive down lending rates and increase private sector accessibility to credit. An increase in private sector accessibility to credit is key to Government's economic growth agenda as it seeks to position the private sector as the engine of its targeted economic growth.

On the other hand, the significant growth in the NFA has resulted mainly from increase in Government's international reserve (from an import cover of 2.5 months as at September 2016 to 3.9 months as at September 2017), which was mainly spurred by the increased allocation from the petroleum revenue. It is important that Government maintains the increasing trend in international reserves in order to improve further the import cover over the long term. This can be achieved through implementing measures to promote exports such as diversifying exports from primary commodity exports to value added commodity products.

Credit to the private sector recorded a growth of 4.2% in September 2017, indicating a significant improvement compared to a contraction of 3.6% in September 2016. The private sector accounted for 87.9% of total outstanding credit as at the end of September 2017.

Credit to the private sector

- Credit to the private and public sectors in the year to September 2017 by Deposit Money Banks ("DMBs") recorded a 16.8% annual growth compared with 13.0% in the same period in 2016. The slower credit growth reflects banks' efforts to repair their balance sheets to address the high Non-Performing Loans ("NPLs").
- Private sector accounted for 87.9% of the total credit to both private and public sectors. Outstanding credit to the Private Sector as at the end of September 2017 was GH¢3,500.00 million. In real terms, private sector credit expanded by 4.2% compared to a 3.6% contraction in September 2016.

The increase in credit to the private sector has resulted mainly from the following;

- *An expansion in economic activities in 2017 compared to 2016, suggesting an increase in investment opportunities for the private sector and consequently, demand for credit. Real GDP growth is projected to hit 7.9% by end of 2017, which compares significantly higher when matched against a revised real GDP growth of 3.7% for 2016; and*

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- *A significant decline in T-bill rates, which has reduced the 'crowding-out' effect on the private sector in the credit market. The effect of the decline on T-bill rates is that banks are now willing to offer credit to the private sector as investment in T-bills have become less attractive.*

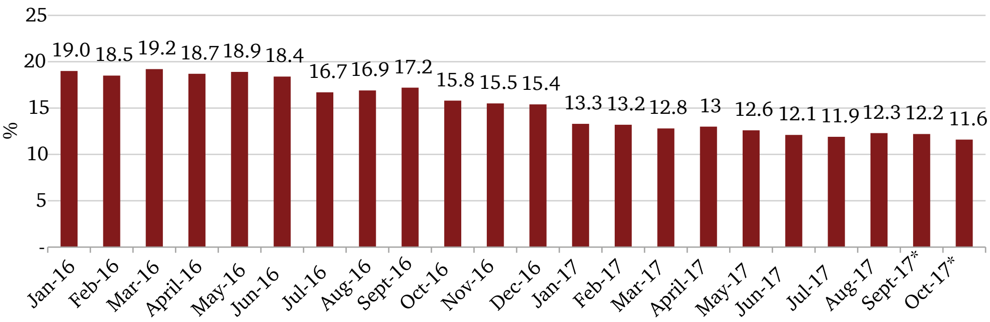
The restructuring of the Energy Sector debts through the Energy Sector Levy Act ("ESLA") bond issued in November 2017 is expected to increase credit availability to the private sector as banks' NPLs improves. We therefore expect further increase in credit to the private sector as the impact of the ESLA bond unfolds in the coming months.

Inflation

Headline inflation eased from 15.4% in December 2016 to 11.6% in October 2017 mainly driven by exchange rate stability, tight monetary stance and prudent fiscal consolidation policies.

- Headline consumer price inflation declined steadily from 15.4% in December 2016 to 11.6% in October 2017. The downward trend in inflation was largely driven by exchange rate stability, tight monetary policy and prudent fiscal consolidation policies, as well as base drift effects.
- The slowdown in inflation over the period is reflected in both non-food inflation, which fell from 18.2% to 13.6%, and food inflation which also fell from 9.7% to 8.2%.

Monthly year-on-year headline inflation



*Source: BoG Monetary Policy Summary, Sep 2017; *BoG Monetary Time Series Data; **2018 Budget Statement*

The ease in inflation in 2017 reflected in both food and non-food inflation, with the non-food component being the main driver. Non-food inflationary pressures eased mainly on the back of exchange rate stability, fairly stable utility cost (amidst some marginal increase in fuel prices) and a cut down on Government expenditure. This was complimented by reduced food inflation due to higher food harvest in 2017 compared to 2016. We note that that the Agriculture sector grew by 4.3% as at September 2017, compared to 3% for the same period in 2016 and higher than the target of 3.5% for the full year 2017.

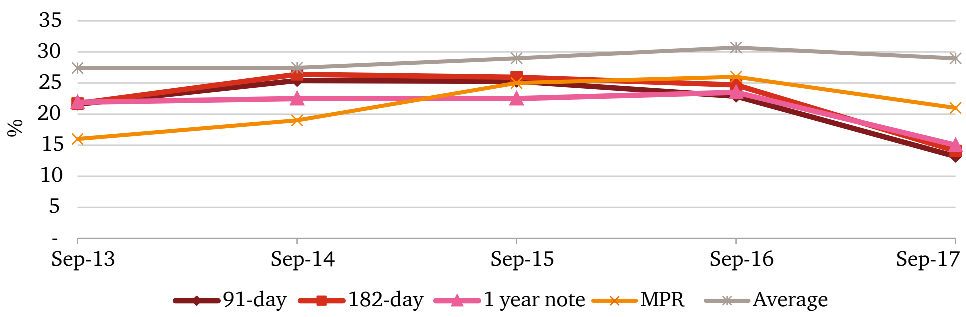
Government projects average inflation to decline to about 9.8% in 2018. To achieve this, there is the need to significantly increase the productive capacity of the economy. In this respect, we would expect key production-based initiatives such as; 'Planting for Food and Jobs' and 'One district, One factory'; to play key roles in increasing production and driving down the inflation. However, it will require high level of fiscal discipline and commitment on the part of Government to ensure that these ambitious policies are carried out successfully.

Interest rates on short term money market instruments declined in response to Government's policy to re-profile public debt from short to the medium and longer end instruments.

Interest rates

- The Monetary Policy Committee ("MPC") of BoG has cumulatively lowered the Monetary Policy Rate ("MPR") by 450 basis points to 21.0%. This followed gradual improvement in the macroeconomic fundamentals, exchange rate stability, easing inflation pressures, and improved sentiments. In line with the declining MPR, money market interest rates also declined broadly.
- The 91-day T-bill rate steadily declined to 13.2% from 16.8% in December 2016, in response to Government's policy to re-profile public debt to the medium and longer end instruments. Similarly, the rate on the 182-day T-bill declined to 14.1% from 18.5%, while the rate for the 1-year note also fell to 15.0% from 21.5% in December 2016.
- On the interbank market, the weighted average interest rate declined to 20.9% in September 2017 from 25.3% in December 2016. In response to the downward revision in the BoG's policy rates, average lending rates of DMBs also gradually declined to 29.0% in September 2017 from 31.7% in December 2016.

Interest rate and average lending rates



Source: BoG Statistical Bulletin, 2013-2017; 2018 Budget Statement

We note that commercial banks have not responded to the notable declines in the MPR and the T-bills rates as average lending rates declined only marginally to 29% as at September 2017, down from 30.7% as at September 2016. This can be attributed to the delayed effect of the 'Transmission Mechanism' – the time lag between when changes in factors influencing the lending rates occur and when these changes materialise to cause a change in the lending rate.

Another major reason is the fact that NPLs over the period to September 2017, have remained high, affecting the quality of banks' loan book and restricting banks' ability to reduce lending rates. Currently, a significant portion of banks' NPL portfolio relates to the energy sector debts.

Going forward, we expect the ESLA bond issued in November 2017 to help clear the energy sector debts owed to the banks, and thereby significantly reducing their NPLs, strengthening their balance sheet and reducing average lending rates further. Reduction in lending rates is key to increasing private sector access to credit which will be vital in driving Government's economic growth agenda.

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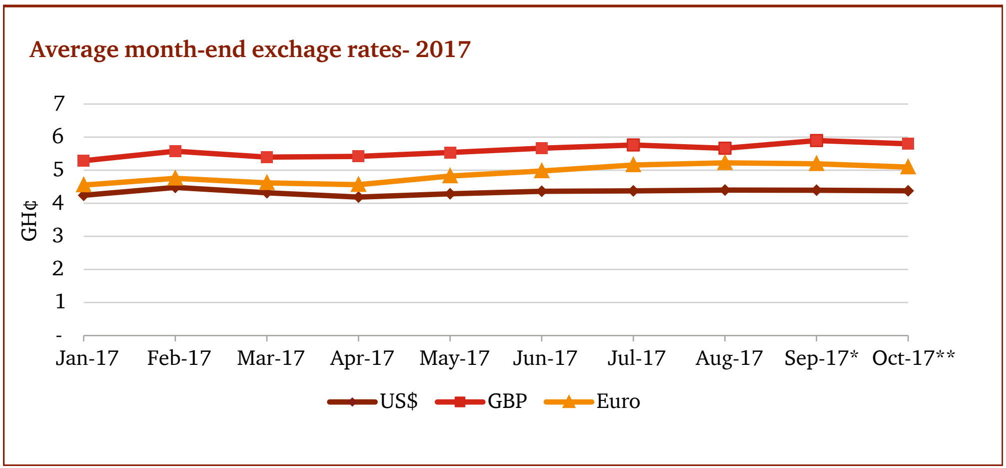
The Ghana Cedi recorded a lower depreciation of 4.0% in the year to October 2017, which compares favourably to the depreciation of 4.3% recorded in the same period in 2016.

Exchange rates

- In the year to October 2017, the cedi cumulatively depreciated by 4.0%, compared to a depreciation of 4.3% against the US dollar during the same period in 2016, reflecting the strong and improved macroeconomic fundamentals and the stronger external position. These favourable developments in the country's external position, together with the cocoa syndicated loan are expected to help moderate exchange rate volatilities.



Source: BoG Monetary Policy Summary, Sept Exchange Rates

Although 2017 has seen relative stability in exchange rates compared to 2016, exchange rate pressures remain high. However, Government appears to have accumulated enough reserves mainly through the issue of the cocoa syndicated loan and the funds received from the Extended Credit Facility from IMF, which respectively resulted in inflows of US$1,300 million and close to about US$100 million, significantly shoring up Government's reserves and reducing exchange rate pressures. In addition, increase in some commodity prices, particularly oil, has contributed to increasing foreign exchange earnings and reducing exchange rate pressures.

Going forward, sterilisation policy (the purchase or sale of financial instruments by Government) may be key in holding exchange rates in check as upcoming Christmas festivities and its related demand for foreign exchange usually presents exchange rate pressures. We further note that there is some uncertainty surrounding the supply side of the global oil market due to the ongoing political crisis in the Gulf Region. Whilst this could potentially lead to increase in oil price and therefore oil revenue (foreign exchange) for Ghana, its impact may be reduced by expected increase in production from countries like Nigeria and Libya.

It is critical for Government to consolidate the gains made so far with stabilising the exchange rates as losing the stability achieved so far will have inflationary pressures and could threaten Government's economic growth agenda.

Government intends to achieve an average real GDP growth of 6.2% over the medium term (2018 to 2021), indicating a slower growth compared to the projected outturn of 7.8% for 2017. Also, inflation is set to decline from 11.6% in October 2017 to a target band of 8±2% over the medium term, whilst overall fiscal deficit is expected to remain within 3%-5% over the same period.

Outlook and projections

Medium term real GDP growth:

Item	2018	2019	2020	2021	Average
Agriculture	4.5%	5.8%	5.0%	5.3%	5.2%
Industry	9.4%	9.5%	5.1%	1.2%	6.3%
Services	6.2%	6.5%	6.1%	7.6%	6.6%
Overall GDP (excl. oil)	5.4%	5.9%	6.0%	6.1%	5.9%
Overall GDP (incl. oil)	6.8%	7.3%	5.6%	5.3%	6.2%

Source: 2018 Budget Statement

Government projects to achieve a real GDP growth of 7.8% by end of 2017, exceeding the budgeted growth of 6.3% for the year. This is mainly attributable to an underestimation of oil production for the year as expected shut down of FPSO Kwame Nkrumah in 2017 was deferred to 2018. In addition, production from Sankofa-Gye-Nyame oil fields came on stream in July 2017, contributing to the overall GDP growth.

Going forward, it is critical for Government to roll out the key production-based policy initiatives scheduled for 2018, and constantly monitor to ensure their successful implementation. Since these initiatives were planned for 2017 but are yet to be rolled out, the speedy delivery of these will be absolutely vital considering the gestation period involved in these types of initiatives.

In the medium term (2018-2021), Government is seeking to limit the fiscal deficit to between 3% and 5%. Whilst this is good for macro-economic stability, it has the tendency to stifle economic growth, particularly where the approach to achieving this is overly focused on expenditure cuts. We therefore recommend for Government to focus more on reforms targeted at increasing revenue generation and collection. This will allow for some space for Government spending, whilst staying within the targeted fiscal deficit band, as Government spending, if properly directed, could stimulate economic growth.

2018 Budget Highlights

Taxation

Direct Taxation

Introduction:

In order to increase domestic revenue mobilisation, the 2018 National Budget proposes policies that focus on widening the tax net and improving tax compliance. Government aims to put Ghana back to work by providing income tax incentives to stimulate growth of key economic areas. In spite of the incentives, Government extends the imposition of some taxes temporarily to carry out social interventions. The following measures principally affects taxes on income and property:

Tax incentives to higher-education institutions

Tax breaks to help position Ghana as a higher-education hub

Government intends to provide reliefs from corporate income tax for higher education institutions that are privately owned and managed to the extent that the profits are ploughed back to expand or maintain facilities.

Government appears to have heeded calls for tax reliefs to be provided to privately-owned universities whose income tax rate is 25%. With Government's flagship free senior high school programme, it is expected that more senior high school students will graduate in the coming years. Private universities contribute immensely in providing tertiary education to students. This incentive will ensure that private universities are able to expand their facilities in order to admit more students.

One practical concern with this policy is how the taxpayer will be required to provide evidence of profit plough-back. Will mere non-distribution of prior period profits be enough or will there be a need to demonstrate how much expenditure has been incurred in "maintaining" and "expanding" the educational facilities? Another concern is how the exemption will actually work. Will it be the case that current profits will be exempted in order to be used in a subsequent year for expansion or maintenance activities? If so, will the fact that exempted profit is not used in the next year render it taxable or will there be a period of time for the profit to be used?

Tax incentives for young entrepreneurs

Tax holidays for start-ups by young Ghanaian entrepreneurs

Through a National Entrepreneurship and Innovation Plan ("NEIP"), Government will provide a holiday period to start-ups or early stage businesses of Ghanaian entrepreneurs who are 35 years or younger. A preferential tax rate will apply for a period between three to five years thereafter after the tax holiday. The business will also be able to carry forward tax losses for up to five years.

This comes hot on the heels of the 2017 policy initiative of getting young graduates employed by existing businesses. This new policy decision now looks to encourage the youth to create opportunities for themselves. The budget did not specify the *concessionary tax rate to be applied, but more details of this policy be available in the near future. This job creation policy aligns with the theme of the 2018 budget of "putting Ghana back to work".*

Areas of concern include the linking of the tax incentive to the number of persons employed by the business. We hope that this criteria will rather encourage partnerships and quicker growth of start-up business.

The proposal to allow these forms of start-up businesses to carry forward their losses for five years is welcomed. The Income Tax Act, 2015 (Act 896) (ITA) permits businesses to carry forward tax losses for a minimum of three years. It is well established that new businesses struggle in their infancy and end up making losses. By extending the ability for these new businesses to carry forward tax losses for an additional two years will reduce the likelihood for new businesses to fold up in their infancy. We hope the continuous enjoyment of these concessions will be linked to complying with the tax laws evidenced by valid tax clearance certificates.

Expanding the tax-free band

Abolishing tax on income earners

Government will abolish income tax on the incomes of minimum wage earners.

Government intends to increase the monthly tax-free chargeable amount from GH¢216.00 to about GH¢261.36 (assuming 27 workings days at GH¢9.68/day) for tax resident individuals. This revision is necessary as a result of the proposed increments in the daily minimum wage to GH¢9.68 from January 2018.

The last time the personal income tax bands changed was in 2016 and Government is yet to make public the new bands. The average Ghanaian worker should expect an increase in take-home pay after tax-free band is expanded.

We consider the increase in the tax-free band as encouraging but we recommend to Government to consider a band which at any point in time will exceed the higher of the annual equivalent minimum wage and the annual equivalent national income allowance (currently at GH¢ 559 per month).

Abolishing income tax on lotto commisions and winnings

Abolishing tax on lottery activities

Income tax on commissions of lotto agents will be abolished as a means to make legal lottery more attractive and discourage illegal lottery. Lottery winnings will also be made exempt from tax.

Government has intensified efforts to make illegal lottery activities unattractive by removing various taxes on legally operated lotteries. Government expects that this will reduce illegal lottery activities. To this end, Government intends to remove the 7.5% [10%?] tax on commission paid to lotto agents and the marginal 5% tax on lottery winnings.

Direct Taxation

The ITA provides that commissions of individual resident lotto agents are subject to a withholding tax rate of 10% as payment on account. The amount withheld is available as tax credit when the individual lotto agent is subject to a marginal tax rate of up to 25% as any other resident Ghanaian or foreigner. To manage expectations, Government should clearly indicate whether it intends to exempt lotto commission from income tax or just withholding tax. If it is Government's intention to exempt lotto commissions from income tax entirely, then we suggest a time limit of three years to be provided for the exempting lotto commissions.

The idea to entirely exempt lotto winnings should be re-considered in light of our current fiscal deficit and campaign of the Ghana Revenue Authority (GRA) to mobilise revenue. Our suggestion in this area is that the tax-free lotto winnings of GH¢2,592 should rather be increased to about GH¢5,000 and the 5% tax maintained.

Unification of pension schemes

Unification of Pension Schemes in line with the National Pensions Act

Government proposes to lay the groundwork towards unifying the Pension Schemes as required by the National Pensions Act, 2008 (Act 766) ("NPA").

The NPA, upon commencement in 2010 allowed as a transitional provision, the concurrent operation of other pension schemes for a period of four years after the commencement date. There were other existing pension schemes that were running parallel to the three-tier pension scheme which the NPA aimed to unify under the new three-tier pension scheme.

Although this unification did not occur as planned, and the old schemes continue to run, it is refreshing to know that Government has decided to unify the old schemes with the three-tier system. This will ensure that pension benefits provided by pension schemes are standardised and some workers do not enjoy varied benefits simply because they are required to participate in the three-tier pension scheme. We expect this unification process to involve all stakeholders in order to avoid unnecessary agitations by workers.

Tax incentives for agro-processing businesses

Tax incentives to support agro-processing businesses

As part of its measures under the Akuffo-Addo Program for Economic Transformation ("AAPET"), Government proposes to abolish duties on some agricultural produce processing equipment and machinery, and provide tax incentives to support agro-processing packaging, and market access.

This is a policy proposal that aims to further enhance the agricultural sector's contribution to GDP. Currently, there are tax concessions for agro-processing businesses and cocoa by-product businesses. Income from non-traditional exports, which is defined by the ITA to include processed agricultural products, also benefits from some concessions. In another instance, the supply of agricultural machinery is not taxable under the VAT law.

For the proposed tax incentives, we expect the implementation to be done either through an extension of the concessionary period or a reduction in the tax rate. Also, we expect the abolishing of import duties to be made via an exemption *list which will detail qualifying agro-processing equipment within protocols related to the ECOWAS Common External Tariff. We look forward to the specific additional agro-processing incentives to be granted by Government.*

Extension of National Fiscal Stabilisation Levy

Extension of National Fiscal Stabilisation Levy ("NFSL")

Government proposes to extend the imposition of NFSL to the end of 2019.

NFSL is levied at 5% on accounting profit before tax of certain entities. The current levy was first imposed in 2013 by the National Fiscal Stabilisation Levy Act, 2013 (Act 862) on certain entities such as banks, insurance companies, telecommunication companies, and mining support companies. This levy was originally expected to expire in 2014. It was then extended for three more years.

Government now seeks to extend it for two more years. It is our expectation that this will be the final extension, particularly when this levy is meant to be a short term tool, is not tax-deductible and effectively increases the income tax rate of affected entities by 5%.

Exemption for Real Estate Investment Trusts

Tax waiver for Real Estate Investment Trusts ("REITs")

Government intends to deepen the domestic capital market by encouraging investments in Collective Investment Schemes and REITs.

REITs are Trusts that own and operate commercial real estate properties by mobilising funds from the public. Our research indicates that there is only one dominant REIT in Ghana licensed by the Securities and Exchange Commission since 1995. This policy may therefore be in the right direction to increase to number of REIT operators and boost the capital market on REITS.

Currently, approved unit trusts are taxed at a concessionary rate of 1% on their income for the first 10 years, and thereafter at 25%. Distributions from resident trusts to beneficiaries are also exempt from income tax under the ITA. This means that REITs and their investors will be exempt from income tax on profits and distributions and hopefully this should make it a more attractive investment avenue and will eventually help close the gap on the housing deficit.

Indirect Taxation

Introduction:

Although actual tax revenue attributable to indirect taxes appear to be lower than the budgeted 61% of total tax revenue, indirect taxes are expected to remain a major source of Government funding accounting for about 60% of Government's expected tax revenues for 2018. Arguably, and ignoring extensions, the 2018 budget did not introduce new indirect taxes. However, the budget has made provision for newer and more efficient ways of administering and collecting indirect taxes which should increase Government's revenues.

The key proposals on indirect taxes for 2018 are discussed below:

Extension of Special Import Levy

Extension of Special Import Levy ("SIL") to the end in 2019

Government in its commitment to carrying out social interventions to improve the well-being of citizens, has maintained some tax handles in the short term, as efforts are made to improve compliance. In this regard, the SIL will be extended to the end of 2019.

Following the abolishing of the 1% SIL as promised in the 2017 budget presentation, it was expected that the 2% SIL levy on imported goods would also be abolished with this budget statement or at worst, left to end in December 2017, the time set for the levy to expire.

Contrary to expectation, Government has indicated in its budget presentation that the 2% SIL will be extended from its current end date of December 2017 to December 2019. This will serve as a short term measure to increase the sources of revenue to enable Government carry out social interventions to improve the well-being of citizens. It is hoped that the 2% levy will end in December 2019.

Review of suspense regime

Review of suspense regimes: transit and warehousing

The transit regime permits the clearing of transit goods without payment of duties. Modalities will be developed to ensure that transit importers pay the duties on imports in Ghana, which will be transferred to the designated destination country. In addition, Government intends to introduce a requirement for importers to submit Letters of Credit ("LC"), guarantees or insurance covers from participating financial institutions before goods are warehoused. This is being introduced in a bid to curb the abuse of trade facilitation arrangements on suspension of payment of import duties for imports kept in bonded warehouses.

The current customs regime allows for a person, under the transit procedure, to move goods imported into the country to another port outside the country without the payment of duty. The proposed reform from the 2018 budget gives an indication of Government's intent to change this current system. This proposed reform is expected to curb loss of tax revenues from the abuse of the transit regime by certain importers who divert goods meant for foreign markets into the Ghanaian market. Although the proposed reform may curb abuse, Government needs to consider carefully how the measure will be implemented as there are likely to be administrative challenges and may also result in Ghana being viewed as an unfavourable transit hub.

The current customs regime allows for importers to enter their goods into bonded warehouses for designated periods and make payment of the duties when the goods are subsequently cleared. The proposal in

Implementation of the Excise Tax Stamp policy

Deployment of Fiscal Electronic Device

Withholding Tax on VAT Supplies

the budget for submission of LCs, insurance or guarantees will help secure Government revenue as this will likely eliminate default by importers who import under the bonded warehouses regime. We expect that Government will provide specific guidance on how this will be implemented. We also expect that consultations with various stakeholders will be held in order to assess the impact of this on businesses since this measure will have cost implications for businesses.

Implementation of the Excise Tax Stamp to improve resource mobilisation

Government proposes that the Excise Tax Stamp policy will take off from January 2018 with full enforcement from March 31, 2018.

The Excise Tax Stamp Act was passed in 2013 and should have been implemented by 2 March 2015. Government officially launched the excise tax stamp on 31 August 2017 and in its 2018 budget has indicated a commitment to ensure implementation from January 2018. Although this is not an increase in excise duties, full implementation should lead to better protection of tax revenues from excise duties and help check the illicit trading, smuggling and counterfeiting of excisable products.

Full implementation will have cost implications for manufacturers and importers as they need to invest in the applicators and stamps. To address this concern and provide some relief, Government has promised in its 2018 budget to provide accelerated tax depreciation for the cost of the machines.

It is expected that Government will be able to address all the other concerns of the affected manufacturers and importers that have caused the delay in implementation in order to ensure a smooth implementation from 2018.

Roll out of fiscal electronic devices ("FED") to facilitate real time monitoring of VAT

The frequent audit (or control verification) of businesses has been a source of concern for the business community. In response to these concerns, Government, in 2018, will deploy the FED to VAT registered businesses. This will have positive effect on VAT compliance and record keeping.

Government intends to step up its efforts in boosting VAT mobilisation by ensuring proper accounting for the tax through the roll-out of the FEDs to specified VAT registered businesses. The FEDs are expected to minimise the incidence of revenue suppression by taxpayers, record accurate volumes of sales for VAT and serve as a tool for monitoring VAT transactions by VAT registered suppliers.

In furtherance of the deployment of the FEDs, there is a bill before Parliament to be passed into law in time for the proposed implementation in 2018. The bill when passed is meant to provide for the mandatory use of FEDs by the specified VAT registered persons at each point of sale. As a sign of commitment to the implementation of the policy, Government has also promised in the budget to assist with the acquisition of the devices for the initial two years.

Introduction of withholding tax on standard VAT supplies to improve VAT compliance

To improve the compliance of VAT accounting and payment process, there is a proposal to withhold 7% of output VAT on standard VAT supplies. This tax will be withheld on taxable supplies made to VAT registered entities whose supplies are zero-rated, to selected Government and other VAT registered entities as determined by the Commissioner-General.

Indirect Taxation

VAT

Withholding Tax on VAT Supplies

The current VAT system typically provides for a taxable person to account for and pay VAT by the last working day of the month immediately following the month to which the transactions relates.

Government intends to introduce a withholding tax on standard VAT supplies as another layer to improve VAT compliance by appointing selected agencies and businesses who will act as the VAT withholding agents. Although this measure will improve the cash flow of Government, we envisage that it will cause cash flow issues for companies, especially companies who are usually in tax credit positions. Based on the current VAT regime which allows a refund only under certain circumstances, questions arise on how such credits, if any, would be treated so as not to compound the challenges businesses face in assessing VAT refunds. The current complexities of distinguishing supply of tangible goods from other taxable supplies will further compound the issue on when the withholding VAT should apply.

Further, there is the need to understand whether the VAT withheld will be accounted for through the monthly withholding tax system or as part of output tax of the VAT withholding agent. We expect that guidance will be issued to indicate how this measure will be implemented.

General Administrative Measures

Introduction:

Government reiterated the essence of domestic revenue mobilisation as a necessary tool to promote efforts at ensuring fiscal consolidation to move Ghana towards its strategic goals for 2018 and the medium term. In this regard, the Minister of Finance outlined a number of tax administrative measures to be embarked upon in the coming year(s). The measures seek to broaden the tax base, deepen voluntary tax compliance and improve enforcement of the tax laws.

Broadening of the tax base through various taxpayer identification measures

Improving taxpayer identification and increasing the tax base

Government intends to broaden the tax base through improved taxpayer identification, extensive use of Tax Clearance Certificates, the national digital addressing system and enforcement of presumptive tax provisions.

The National Identification Authority Act, 2006 (Act 707) was passed to help manage the National Identification System and to serve as a means of providing data for socio-economic policy including making taxing decisions. To facilitate the achievement of this goal, Government relaunched the National Identification Scheme and introduced the National Digital Address System to aid in taxpayer identification.

This initiative is in the right direction as it will help the GRA to identify businesses and individuals carrying out economic activities in the informal sector and rope them into the tax net. To consolidate gains made in this regard, practical measures must be put in place to promote non-confidential taxpayer information sharing among regulatory bodies such as the GRA, Registrar General's Department, Ghana Investment Promotion Centre, Public Utility Regulatory bodies, the local Authorities and financial institutions to ensure that relevant records and information required to appropriately assess taxpayers income to taxes are available to the tax authorities in order to minimise the tendency of tax evasion and tax avoidance.

The decision to extend the use of Tax Clearance Certificates ("TCC") to cover large private sector contracts is commendable. This will extend the scope of the TCC requirements beyond Government contracts to cover major private contracts to ensure that taxpayers are up to date with their tax compliance obligations. However, to ensure that this requirement does not become a bottleneck to ease of doing business in Ghana, we recommend that GRA puts in place effective and efficient measures in applying for and obtaining TCC. The GRA could consider implementing an online-application regime practised in other developed tax regimes.

In our view, the implementation of the presumptive tax regime contained in the Income Tax Act, 2015 (Act 896) is long overdue as the law is about two years old. The presumptive tax seeks to address the taxation gaps for the informal sector and ease the cost of compliance. As such, for an economy like Ghana that has a large informal sector and is dominated by small scale businesses, the benefits of presumptive tax cannot be overemphasised.

Introducing voluntary disclosure procedures and tax amnesty regime

Introduction of voluntary disclosure procedures and tax amnesty for defaulting taxpayers

Government intends to introduce Voluntary Disclosure Procedures ("VDP") in the Revenue Administrations Act, 2016 (Act 915) to waive penalties on voluntary disclosure and payment of unreported and understated taxes by taxpayers. In addition, a tax amnesty will be granted temporarily in 2018 for defaulting taxpayers.

Studies have shown that countries that have implemented VDP have seen short-term boosts in revenue collected and have experienced increased voluntary compliance. Although Government has not indicated the approach to implementing the VDP, it is likely to use the VDP as a permanent measure of encouraging voluntary tax compliance and supporting this with temporary measures such as the tax amnesty under specified conditions whenever necessary. To ensure that the regime does

General Administrative Measures

not become an incentive to taxpayers to deliberately default on taxes and hold on to Government's funds with the hope of paying the taxes in the future time under the VDP, it is important for Government to be strategic in deciding whether the VDP would be applicable to all taxpayers and all tax types, or rather target a niche taxpayer group under specified conditions that will yield the best results. It is also important for Government to leverage on the experiences of VDP in countries that have successfully implemented it.

In addition to the VDP, Government intends to implement a temporary tax amnesty in 2018 under which taxpayers can willingly present themselves, register for tax, file all outstanding tax returns and pay any principal taxes in default. This is intended to deepen voluntary tax compliance and ensure that Government retrieves all taxes owed by taxpayers in an efficient manner. Although the modalities of the proposed tax amnesty has not been outlined, we are inclined to believe that it will encourage voluntary disclosure of taxes and help bring the unregistered pool of taxpayers under the tax net for monitoring purposes going forward. Given that the GRA had last implemented this regime in 2013, we are of the hope that lessons learnt in implementing it will be leveraged upon to make the upcoming one more effective.

It is however important for Government to monitor the impacts of these regimes to ensure it is meeting its goal of inculcating in taxpayers the culture of tax compliance and timely remittance of taxes in future. The results of the monitoring should be made public.

Alternative Dispute Resolution

Introduction of Alternative Dispute Resolution ("ADR") in resolving tax disputes

Government intends to introduce ADR mechanisms in resolving tax disputes between taxpayers and the tax administration.

One fundamental requirement of a growth-supporting tax system is certainty – certainty on the amount of tax to pay, certainty in interpretation and application of tax laws, certainty on procedures to follow in making payments and in resolving disputes between the taxpayer and the tax administrator, and finally certainty that the dispute resolution mechanisms are fair and thorough enough to boost confidence in the tax system. Ghana's tax system has not been that desirable in terms of the certainties around these issues, as compared to the desire of Government in attracting investors and promoting a friendly business climate.

At present, GRA's posture towards finalising tax audits, responding to objection requests, and responding to request for tax rulings can be improved. Furthermore, there are several experiences where extremely high assessments are raised with taxpayers required to pay at least 30% of domestic tax liability before the client's right to a fair hearing is complied with. There are also inconsistent practices, and inadequate precedents to guide future transactions which tend to increase the uncertainties associated with doing business in Ghana. This is reflective in the low ranking of Ghana as the 122nd out of 197 countries ranked for the ease of paying taxes in 2017.

The introduction of an ADR mechanism in tax dispute resolution will go a long way to complement and improve upon the existing tax dispute resolution system which is generally perceived as biased towards the tax administration. Judgments and rulings arising from ADR will serve as precedents for tax treatment of future transactions by taxpayers. Further the ADR is likely to reduce cost of tax litigations. Ultimately, an effective ADR mechanism to tax dispute resolution will promote certainty in the tax system and also boost investor confidence in Ghana.

We suggest that the ADR mechanism should be implemented with minimal bottlenecks. The process should be under the oversight of an independent tax appeal board with fair representation from the Ghana Bar Association, Institute of Chartered Accountants, Chartered Institute of Taxation and private sector. The main task of the independent tax appeal board should be hearing, determining and disposing against assessments and decisions of the GRA concerning taxes and duties in accordance with relevant laws. The rulings

General Administrative Measures

of the independent tax appeal board should be binding in order to serve as judicial precedence and made public for tax education purposes. This will help avoid undue delay in the payment of taxes.

Introduction of Automatic Exchange of Financial Account Information

Automatic Exchange of Financial Information law

Automatic Exchange of Financial Information Bill will be laid before Parliament to facilitate the exchange of information through the use of the Common Reporting Standards ("CRS").

As part of a global move to combat tax evasion and protect integrity of tax systems, Governments around the world are introducing a new standard to facilitate gathering of offshore financial account information about their tax residents. As a result, new information gathering and reporting standards requirements are being placed on financial institutions.

This reinforces Ghana's interest in closing tax evasion opportunities for transactions across borders. In 2012, Ghana signed onto the Convention on Mutual Administrative Assistance in Tax Matters, a major step in having control over the tax affairs of its citizens. The introduction of the Automatic Exchange of Financial Account Information legislation is a further step in the same direction but with a focus on having access to financial account information of Ghanaian tax resident individuals and businesses owning offshore financial assets. This step is to further deepen the tax policy and administrative efforts of Government to combat illicit financial flows, tax evasion, tax base erosion and profit shifting and money laundering.

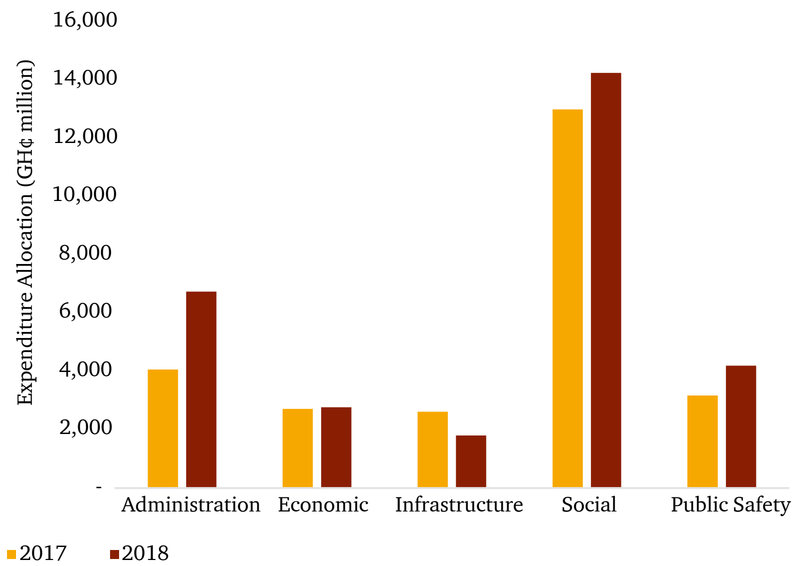
The introduction of the Automatic Exchange of Financial Information law will however place additional administrative and compliance burden on financial institutions as they will be required to structure their systems to capture and provide financial account information on taxpayers to GoG for automatic exchange with other competent authorities of other jurisdictions.

2018 Budget Highlights

Sectoral Outlook Overview

The Sectoral Outlook is categorised into five sectors namely; Administration, Economic, Infrastructure, Social and Public Safety. The 2018 budget is allocated among these sectors in line with Government's initiatives. The chart below shows how these compare to the 2017 budget allocation.

Sectoral Expenditure Allocation



On the whole, Government has increased the total sectoral budget by 16% to GH¢29,782 million from GH¢25,599 million in 2017. This is significant, compared to the 3% increase recorded in 2017. This appears to highlight Government's growing confidence in obtaining the needed funding to implement initiatives that are at the heart of its strategy for growth and development. These initiatives include:

- Free Senior High School ("SHS") education
- One District One Factory
- Nation Builders Corps
- Planting for Food and Jobs

Except for a 31% decline in budget allocation to the Infrastructure Sector, all other sectors received an increase in allocation. The major casualties of the decline in infrastructure spending are the Ministries of Roads and Highways, Communication and Transport. The Administration Sector saw the highest increase in allocation of 66% over its 2017 budget.

The 2018 budget for the Social Sector represents 48% of the entire sectoral budget.

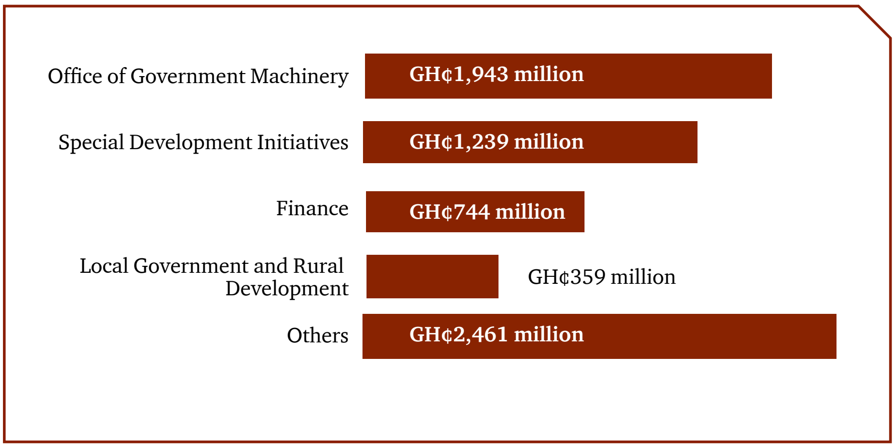
In this section of the Budget Highlight report, we set out details of Government's key initiatives and spending plans in 2018 for the five sectors noted above.

Sectoral Outlook

ADMINISTRATION SECTOR— KEY MINISTRIES

Budget Allocation

GH¢6,746 Million



Office of Government Machinery (“OGM”)

New policy initiatives to be implemented in 2018 include;

- Develop the Nasia-Nabogo dam to propel food production
- Comprehensive review of the investment and business climate, including the Ghana Investment Promotion Centre (“GIPC”) Act
- Conduct field inspections and evaluation of internal control systems of Ministries, Departments and Agencies (“MDAs”) and Metropolitan, Municipal and District Assemblies (“MMDAs”)

The 2018 budget allocation for the OGM increased by 24% from GH¢1,560 million in 2017 to GH¢1,942 million in 2018. The significant increase can mainly be attributed to the free SHS policy which was previously under the Ministry of Education (“MoE”) and has now been moved to the OGM in the 2018 budget.

Ministry of Special Development Initiatives

For 2018, the Ministry will establish the Headquarters and Regional Offices for the three Development Authorities to ensure that the Infrastructure for Poverty Eradication Program (“IPEP”) and other local initiatives are implemented in a well-coordinated manner. The Authorities comprise:

- Northern Development Authority (“NDA”)
- Middle Belt Development Authority (“MBDA”)
- Coastal Development Authority (“CDA”)

With a budget allocation of GH¢1,239 million, Government intends the newly commissioned ministry to make the development authorities functional for IPEP and other local initiatives such as the One District One Factory; small business development; agricultural inputs including equipment and the ‘Water for All’ project.

Out of the OGM’s budget of GH¢1,942 million, GH¢1,137 million is allocated to the free SHS programme. This appears to be direct oversight of the programme by the Office of Government Machinery.

Some progress has been made in the investment and business climate but, investors continue to have concerns on the ease of doing business in Ghana. A review of the investment climate and the GIPC Act in 2018 will guide policy decisions and promote foreign direct investment in the country as well as address concerns of potential investors.

The development of the Nasia-Nabogo dam aligns with the theme of the 2018 budget as it will ensure the creation of jobs and boost food production once completed.

The three development authorities have been established as a vehicle to administer Government’s flagship policies across all the regions of Ghana. Government’s oversight of these institutions is an indication of its commitment to successful implementation of the programme. Government can gain additional value by exploiting synergies between projects in the various districts and constituencies: sharing resources, increasing buying power and cross-marketing of goods and services.

Ministry of Finance ("MoF")

For 2018, the Ministry of Finance intends to undertake the following:

- Establish and operationalise the law on the Single Entity to exercise ownership and governance oversight role of the State Owned Enterprises ("SOE") Sector
- Develop the Public Investment Management ("PIM") Reform Strategy and Action Plan
- Create the International Financial Services Centre, establish the Financial Services Council and facilitate the development of an informal pension scheme which will be piloted in the Cocoa sector
- Commence the Fiscal Electronic Device ("FED") policy for monitoring Value Added Tax ("VAT") transactions
- Link all bank accounts residing with the Bank of Ghana ("BoG") to form a comprehensive Treasury Single Account ("TSA") to establish a consolidated view of Government's cash position
- Launch a national development bank, with the capacity to mobilise private capital towards agricultural and industrial transformation
- Partner with financial institutions to develop and deepen the local mortgage and housing finance market to offer affordable mortgages at subsidised interest rate beginning with public sector workers
- Develop the Public Private Partnership ("PPP") Regulations and present it to Parliament for enactment

Budget allocation for MoF increased by 30% from GH¢573 million in 2017 to GH¢744 million in 2018 mainly due to the implementation and review of various governance frameworks and strategies from the prior year.

Ministry of Local Government & Rural Development

For 2018, Government plans to undertake the following:

- Ensure the passage of the Birth and Deaths Act to improve events registration and services
- Develop a Local Government Financing Act aimed at harmonising Public Financial Management legislations for MMDAs
- Sign the 2018 Performance Management Contract ("PMC") and assess the implementation of the 2017 PMC
- Construct and re-develop model markets in Tamale, Nkoranza, Asokore-Mampong and Asesewa under the PPP

Budget allocation for the Ministry increased by 10% from GH¢321 million in 2017 to GH¢359 million 2018. The increment in the allocation could be due to the construction and re-development of model markets in various regions in the country.

The TSA initiative by Government will enable it consolidate and monitor its funds across the country. In order to bring Development Partners and other stakeholders on board, it behoves Government to ensure transparency and financial discipline. Pooling funds and centralising treasury activities come with their challenges as Government's Agencies and Departments need to restructure their financial operations to accommodate any delays associated with Government disbursements.

Government's initiative to develop a PIM Reform Strategy and Action Plan will go a long way to sanitise the management of public investment in the country and prevent the indiscriminate utilisation of public funds. Also, the PIM is expected to give clear guidelines and assist decision makers in prioritising projects in line with GoG's strategy on fiscal discipline.

The commencement of the FED policy will also assist Government to meet its revenue mobilisation target and mitigate against revenue shortfalls as recorded in 2017.

The state of our markets is deplorable. As a key outlet for farm produce, the initiative to re-develop markets will provide decent environments to boost trading activities in these areas. An added benefit will be the ease of identification of traders for tax collection and mitigating business disruption from market fires.

For the Local Government Financing Act to be effective, suitable controls must be implemented to monitor activities and ensure relevance and sustainability.

Sectoral Outlook

Ministry of Regional Re-organisation and Development

The key programmes for 2018 include:

- Conduct a referendum in four regions namely Western, Volta, Brong–Ahafo and Northern to seek the consent of the people for the creation of additional Regions in Ghana
- Facilitate the conduct of stakeholders' consultative meetings by the Commission of Inquiry and collaborate with the Electoral Commission to conduct the Referendum
- Facilitate the passage of a Constitutional Instrument to implement the results and undertake socio-economic surveys

Government has allocated GH¢4 million for the above mentioned programmes of the Ministry in 2018.

The referendum on regional re-organisation will ensure that Government has the full backing of all stakeholders in the creation of the new regions in accordance with the 1992 constitution. The institutional structures required after the creation of a region comes with cost, therefore, the planning for these new regions should begin at the same time the referendum is being conducted.

Others

The other Ministries, Departments and Agencies ("MDAs") under the Administration Sector include the Ministry of Business Development, Ministry of Planning, Parliament of Ghana, Audit Service, Ministry of Foreign Affairs, Ministry of Information and the Electoral Commission.

Government's key initiatives in 2018 under some of these MDAs include:

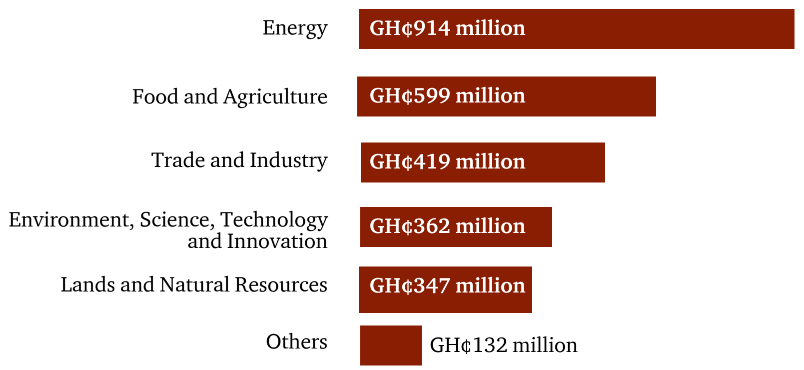
- Develop and implement a comprehensive National Entrepreneurship Policy
- Create and maintain an information databank for policy formulation and decision-making
- Undertake vocational skills training for the youth, provide educational infrastructure, scholarships and support tourism
- Allocate GH¢315 million to the Electoral Commission to conduct a referendum on regional re-organisation

The complimentary nature of these initiatives creates a platform to achieve a prime objective of job creation and empowering the youth through developing talent and skill sets.

ECONOMIC SECTOR- KEY MINISTRIES

Budget Allocation

GH¢2,773 Million



* Others include: Ministry of Tourism, Culture and Creative Arts (GH¢75 million), Ministry of Fisheries and Aquaculture Development (GH¢57 million)

Ministry of Energy

The key initiatives include:

- Reduce electricity tariffs across various customer categories
- Enhance the petroleum legal framework to deepen transparency and predictability in contracting and operations
- Use financial products as part of the petroleum price risk management programme to hedge the country's exposure to crude oil prices fluctuations
- Build renewable energy capacity through the 'Government Goes Solar' programme to reduce Government's expenditure on utilities
- Roll out of National LPG promotion policy and the implementation of the Cylinder Recirculation Model

The Ministry of Energy has been allocated GH¢914 million of the total budget for the Economic sector as against GH¢890 million in 2017 representing a 3% increase. Significant components of the allocation are costs attributable to the Energy and Petroleum Commissions budget for the initiatives relating to renewable energy and the Cylinder Recirculation Model.

Ministry of Food and Agriculture

The key initiatives GoG aims to achieve under this sector include:

- Construct dams and irrigation schemes coupled with the provision of extension services to farmers to increase crop production
- Operationalise the Ghana Commodity Exchange ("GCX") to enable easy access to markets and improve pricing of farm products
- Introduce solar-powered pump irrigations on cocoa farms in the 2017/18 cocoa season through public-private partnership

The electricity tariff reduction is geared towards easing the burden on the consumers of electricity in the country. The high tariffs has been a concern to stakeholders because it eroded disposable income of domestic consumers and the profitability of business.

As a country we are yet to tap into the vast renewable resources available. Initial cost outlay may be steep but with current technology there are long term benefits. Government should seek to diversify energy sources by encouraging the use of renewable energy.

The debt burden from this sector has had considerable strain on the banks. Arrangements to settle the debts should be expedited to allow the banks to support other sectors of the economy

The expansion of the "Planting for food and jobs" programme is intended to create more jobs within the industry through the provision of extension services. It is important however, that the required infrastructural base is provided to ensure viability of this initiative.

Sectoral Outlook

- Develop the framework to operationalise the contributory pension scheme for the nation's cocoa, coffee, and sheanut farmers
- Recruit, train and deploy 30,000 youth under the artificial pollination initiative in the 2017/18 cocoa season

The allocation for Ministry of Food and Agriculture represents 22% of the entire budget for the Economic sector of GH¢2,773 million. In 2017, an amount of GH¢760 million was allocated to the sector compared to an expenditure allocation of GH¢599 million in 2018, representing a decrease of 21%.

Ministry of Trade and Industry ("MoTI")

The key initiatives GoG aims to achieve under this sector include:

- Provide stimulus packages to local companies and factories which are currently distressed
- Provide business advisory and financial support services to selected entrepreneurs under the National Entrepreneurship and Innovation Programme ("NEIP")
- Train craftsmen and apprentices as well as manufacture agro-processing equipment to address the challenges faced by small and medium enterprises
- Implement a 5-year development plan to boost cashew production and export
- Develop the African Growth Opportunities Act ("AGOA") Strategy to ensure effective participation in the new AGOA

The allocation for MoTI represents 15% of the entire budget of GH¢2,773 million for the Economic sector. In 2017, an amount of GH¢269 million was allocated to the sector compared to an allocation of GH¢419 million in 2018. The significant increase of 64% in 2018 budget allocation for the Ministry is mainly driven by priority programs such as the One District One Factory and the establishment of Stimulus Fund which GoG intends to undertake.

Ministry of Environment, Science, Technology and Innovation ("MESTI")

The key initiatives GoG intends to undertake include the following:

- Train and equip graduates with the necessary work tools to be engaged as Sanitation Inspectors under the Nation Builders Corps Programme ("NBCP")
- Add 1000 MW of power to the national grid through the construction of Ghana's first nuclear power plant
- Construct the country's first radioactive waste disposal facility
- Develop skills of welders and other professionals by establishing a National Professional Training Institute for welding and Non-Destructive Testing ("NDT")

Given the recent decline in cocoa prices, value addition is key to improving the outlook of the cocoa industry. The success of this policy would depend on Government's ability to roll out appropriate incentives and provide support to empower local agro-processing industries.

Furthermore, the development of a framework for a contributory pension scheme for cocoa farmers is also a commendable initiative which would result in an improvement in livelihood of cocoa farmers in the long term. We recommend that the scheme should be well structured to ensure that it derives the needed benefits.

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The initiative to provide both technical and financial support to viable existing local companies which are currently in distress will undoubtedly lead to the creation of jobs. In implementing these stimulus packages, Government should consider the strategic and economic locations as well as the Corporate Governance Structures of these entities.

The partnership with the private sector to implement the NEIP will help ensure sound business practices that will result in the successful implementation of the programme.

GoG's initiatives under MESTI such as recruiting and training youth across the country to implement environmental protection programs are likely to absorb a number of the unemployed through the NBCP.

- Implement environmental protection programs on Hazardous and Electronic Waste as well as operationalise standards on pesticides, industrial chemicals and the use of oxo-biodegradable additives

MESTI has been allocated a budget of GH¢361 million in 2018. The 4% increase from the 2017 budget of GH¢349 million can be attributed to expected investments in human capital under the Nation Builders Corps Programme ("NBCP").

Ministry of Lands and Natural Resources ("MLNR")

The key initiatives GoG intends to undertake under the Ministry of Lands and Natural Resources include:

- Creation of jobs in mining communities through the alternative livelihood project by distributing oil palm seedlings within the communities
- Maximise revenue collection from the gold mining sector through the usage of the independent assay and bullion reference laboratory at the Kotoka International Airport
- Continue to implement the local content procurement policy by increasing the number of Goods and Services procured locally by mining companies from 19 to 21
- Pursue processes leading to the enactment of the Land Bill and implementation of the Land Act in order to ensure an effective and efficient land administration

The Ministry of Lands and Natural Resources has been allocated a budget of GH¢347 million in 2018 representing 13% of the entire budget for the Economic Sector.

Others

The other Ministries include Ministry of Fisheries and Aquaculture Development, Ministry of Tourism, Culture and Creative Arts Employment and Labour Relations, Youth and Sports, National Labour Commission, National Commission for Civic Education and Chieftaincy and Religious Affairs

Key Government initiatives which will be implemented under these other sub Economic sectors include:

- Invest in Aquaculture Development Programme in order to "increase domestic fish production to offset fish imports and eventually make Ghana a net exporter of fish by 2030"
- Roll out of Fisheries Nucleus-Outgrower Scheme and commissioning of the Anomabo Fisheries College to increase Aquaculture production and to prevent the spread of fish diseases
- Set-up a fully functional Creative Arts Secretariat and commence a feasibility study to set up a Creative Arts Fund

The 2018 budget allocation to the MLNR highlights Government's commitment to curbing the menace of illegal mining and the associated effects on the environment, addressing unemployment in mining communities and strengthening the current land tenure arrangement.

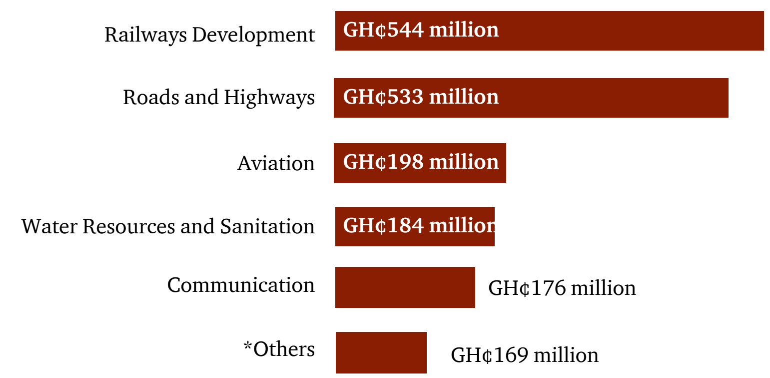
To achieve the objective of the Land Bill, Government should devote resources for the resolution of land issues including conflicts within land-owning groups or between these groups and the State.

Sectoral Outlook

INFRASTRUCTURE SECTOR –KEY MINISTRIES

Budget Allocation

GH¢1,804 Million



* Others include: Ministry of Works and Housing (GH¢91 million) and Ministry of Transport (GH¢77 million)

Overall, Government intends to reduce its infrastructure budgetary allocation in 2018 to GH¢1,804 million from GH¢2,625 million in 2017, representing a 31% decrease. Whilst this is expected to make funds available for some selected policy initiatives, the cut in infrastructure budget could stifle growth in certain sectors of the economy.

Ministry of Railways Development

The Ministry's key initiatives for 2018 are to:

- Continue construction of the 340km Kojokrom-Kumasi Western railway line
- Continue construction of the 85km Tema-Akosombo railway line, which will facilitate the transfer of cargo to and from Tema Port
- Procure strategic investors for the development of the Eastern railway line and the Boankra Inland Port
- Review the Ministry's Railway Master Plan and the Ghana Railway Act, 2008 (Act 779)

Government has allocated a total of GH¢544 million to this Ministry in 2018 compared to GH¢518 million in 2017, representing a 5% increase. The marginal increase comes as a result of work-in-progress that is expected to continue into 2018, in addition to additional railway projects scheduled to commence in 2018.

Ministry of Roads and Highways

The Ministry's key initiatives for 2018 are to:

- Rehabilitate and maintain 40,900km of trunk, feeder and urban roads in 2018 as compared to the total of 28,129km undertaken in 2017, representing a 45% increase

Completion of the Western and Eastern railway lines is expected to facilitate transportation of bulk cargo, containers, minerals and passengers. The plan to extend the railway line to Paga would facilitate trade with neighbouring countries, and help drive policy initiatives such as "One District One Factory". GoG expects to develop railways by partnering the private sector through PPP arrangements to reduce the financial burden on the state whilst benefiting from private sector finance and expertise.

- Undertake periodic maintenance of road networks in 2018 to cover 936km of roads as compared to the 669km undertaken in 2017, which represents 40% increase
- Increase minor rehabilitation works from 386km in 2017 to 460km in 2018, representing a 19% increase
- Construct 35 major roads and 99 bridges
- Implement electronic road tolling systems to generate revenue for the maintenance of various road networks in the country

GoG has allocated GH¢533 million to the Ministry of Roads and Highways as opposed to allocation of GH¢871 million in 2017 representing a 39% decrease. The Ministry is engaging private investors as a partnership to deliver major road projects such as the Accra-Takoradi road and Accra-Tema motorway.

The expansion of road network and bridges will help facilitate the movement of goods and people across all sectors of the economy. The selected roads and bridges appear to be strategic in supporting GoG's agricultural initiatives as well as the One District One Factory program. While Government builds new roads, existing construction works in progress which have been suspended should not be ignored. As a priority, GoG must insist on value for money not only for roads in cocoa areas as indicated in the budget statement, but across the country to ensure long term benefits from durable roads.

Ministry of Aviation

GoG intends to implement the following key programmes in 2018:

- Complete construction of a new terminal which is currently about 57% complete to handle up to five million passengers per annum
- Complete construction of greenfield airports and rehabilitation of existing airports
- Commence construction of a new terminal building, extension of the existing runway and other ancillary facilities at the Kumasi Airport
- Commence Phase II works of the Tamale Airport which involves construction of a modern airport terminal building and other ancillary facilities

Budgetary allocation for the Aviation Ministry is GH¢198 million, representing 234% increase over 2017 budgetary allocation. GoG expects funding of GH¢192 million from DPs.

The proposed new terminal building and other ancillary facilities at the Kumasi and Tamale Airports will enhance accessibility to the middle and upper areas of the country for growth in economic activity and tourism. The construction will lead to job creation and position Ghana as a preferred Aviation Gateway in West Africa. However the success of these programmes depends on significant funding from Development Partners.

Ministry of Water Resources and Sanitation

Key initiatives for 2018 are as follows:

- Ensure continuous implementation and enforcement of buffer zone policies to protect, conserve and sustain fresh water resources
- Implement Phase 2 of the STRABAG Project (Five District Water Supply Scheme); construction of about 50 small town water pipe schemes and over 300 boreholes
- Expand capacity of selected water supply projects in the country
- Provide 200,000 household toilets and 20,000 institutional latrines through the 'Toilet for All' agenda

Sectoral Outlook

GoG has budgeted GH¢184 million for 2018 compared to GH¢256 million in 2017 representing 28% decrease in budgetary allocation. The decrease raises questions on the adequacy of funding to support key initiatives under the Ministry due to the capital intensive nature of the stated projects.

Based on a UNICEF publication in 2016, one in seven Ghanaians do not have access to a household toilet and this poses serious health risks. Therefore, the supply of 220,000 toilets and latrines is expected to considerably improve the health of many Ghanaians. Also, construction of over 300 boreholes is a step in the right direction towards meeting the UN Sustainable Development Goal ("SDG") 6 (Clean Water and Sanitation).

Ministry of Communication

Key GoG initiatives for 2018 are as follows:

- Continue with the implementation of the National Digital Addressing System to develop postal codes to feed into the National ID system
- Construct Information and Communications Technology ("ICT") Park to promote Research and Development and entrepreneurship among the youth
- Ensure the smooth process of migration from analogue to digital television transmission.
- Establish the National Cyber Security Centre and also facilitate the re-delegation of the Ghana Domain Name Registry
- Pursue the implementation of the digital for inclusion ("D4I") programme in 50 districts
- Complete the commercialisation of 50% of the 780km eastern corridor fibre optic project to raise revenue
- Extend mobile network services to all areas where access is currently unavailable

An initiative aimed at digitising our daily activities should be embraced. Technology is a strong backbone in the modern era for development and can support Government's agenda for rapid progress in improving the livelihood of its people. Also, the extension of mobile network services to unreached areas in the country would support GoG's industrialisation efforts and further deepen financial inclusion.

Expenditure allocation to the Ministry of Communications is expected to decline by 52% from GH¢367 million in 2017 to GH¢176 million in 2018 and this could potentially affect the Ministry's prospects for the year.

Others

The other Ministries consist of Ministries of Works and Housing, and Transport. The key initiatives intended for 2018 in respect of the two Ministries are:

- Commence the construction of Sea Defence Projects in various coastal areas in Ghana
- Construct reinforced concrete drains in selected flood prone areas across the country
- Execute 10,000 housing units of various types in all the regional capitals of the country
- Complete construction of dry bulk jetty at Takoradi port and a new container terminal at Tema port
- Complete a one-stop referral Medical Centre of excellence with 130 bed capacity to serve the Tema community

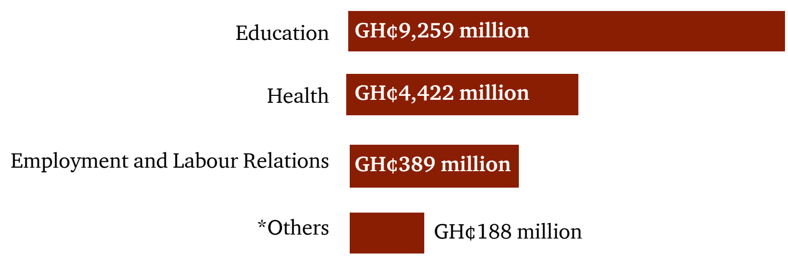
We expect the construction of 10,000 housing units to create a number of jobs across the building and construction value chain whilst reducing the housing deficit which currently stands at 1.7 million

Budgetary allocation for Ministries of Works and Housing, and Transport for 2018 is GH¢169 million compared to GH¢553 million in 2017 representing 68% decline.

SOCIAL SECTOR- KEY MINISTRIES

Budget Allocation

GH¢14,258 Million



* Others include: National Labour Commission (GH¢6 million), Ministry of Youth and Sports (GH¢33 million), Ministry of Chieftaincy and Religious Affairs (GH¢40 million), National Commission for Civic Education (GH¢48 million), Ministry of Gender, Children and Social Protection (GH¢61 million)

Ministry of Education ("MoE")

Key Government initiatives under this Ministry include:

- Continue the implementation of the Free Senior High School ("SHS") policy and set up a Voluntary Education Fund
- Grant relief from corporate income tax paid by privately-owned and managed universities
- Absorb 100% Basic Education Certificate Examination ("BECE") registration fees for registered candidates from public Junior High schools
- Upgrade of 42 public Senior High Schools into model schools and the construction of 180 Canteen Blocks in existing Day Senior High Schools
- Alignment of public Technical and Vocational Education and Training ("TVET") institutions under the Ministry of Education and construction of 20 modern TVET schools and 10 Regional Science, Technology, Engineering and Math ("STEM") centres

The 2018 budget allocation to MoE of GH¢9,259 million has increased by 11% compared to GH¢8,330 million in 2017.

Ministry of Health

Key initiatives include the following:

- Improve efficiency in governance and management of the health system
- Develop a clear sustainability plan for vaccines and antiretroviral medicines in anticipation of the Gavi graduation
- Explore the possibility of granting financial autonomy to some selected agencies of the Ministry

The re-allocation of the funding for Free SHS to the OGM demonstrates GoG's commitment and intention to fully implement and improve the Free SHS and attain the UN SDG 4 (Universal Quality Education for All). However long term financing and adequate school infrastructure are critical to the success of the program and needs to be addressed. The structure and modalities for setting up a Voluntary Fund for education to address possible funding gaps should be clearly defined to better align Government's education priorities and ensure accountability.

The relief granted by Government to privately owned and managed universities will help expand existing facilities and increase access in the short to medium term due to possible increases in student enrolment from the implementation of the Free SHS policy.

Sectoral Outlook

- Work with relevant stakeholders to explore other funding sources to increase revenue and ensure sustainability of the National Health Insurance Scheme
- Develop the medical tourism policy framework and other relevant standards of operations in collaboration with other stakeholders
- Commence phase two of the Bolgatanga Regional Hospital
- Continue ongoing construction of district and regional hospitals and polyclinics

The budget for the Ministry increased from GH¢4,226 million in 2017 to GH¢4,422 million in 2018, an increase of 5%. The health sector budget represents 7% of the total budget for 2018. DPs' support to the Ministry is expected to decline from GH¢719 million in 2017 to a projected GH¢414 million, representing a decrease of 42%.

Funding support from DPs to the health sector has been declining over the past few years largely due to Ghana's lower middle income status. This places a responsibility on Government to look for other alternative funding sources to make up for the shortfall. The proposed initiative of granting financial autonomy to selected health agencies could reduce Government's expenditure burden and redirect the funds to critical areas of the country's health care delivery.

Ministry of Employment & Labour Relations ("MoELR")

The key initiatives under the Ministry for 2018 are to:

- Hire 100,000 graduates through the Nation Builders Corps Programme ("NBCP") to be engaged as graduate teachers, trained health workers, trained agriculture extension officers, sanitation inspectors, among others, providing jobs for about 462 graduates per district
- Approval of Second National Plan of Action ("NPA II 2017 – 2021") to be done by parliament
- Develop National Labour Migration Policy to facilitate labour migration and protect Ghanaians embarking on work-related foreign travels
- Pass the Cooperatives Bill into law in 2018, having 1,200 cooperative societies with an estimated membership of 24,000 to undergo registration
- Generate 65,000 jobs through programmes and projects to be developed in the areas of industrial parks, green jobs, agribusiness, business incubation, ICT, Apprenticeship and Skills Development
- Establish National Occupational Safety and Health Authority ("NOSHA") for the harmonisation of all workplace safety and health issues

The Ministry's 2018 budget allocation of GH¢389 million (i.e. 3% of the Social Sector budget) has increased fivefold compared to 2017 (GH¢61 million). GH¢300 million (77%) of the 2018 budget under the Ministry is allocated to the NBCP as a special initiative under the Office of The President and funded by GoG.

Government's initiatives under MoELR are mainly aimed at development of talent and skills of the youth in the vocational and technical disciplines. Job creation is in line with Government's strategic objective for sustaining economic growth. This initiative resonates with the budget theme and seeks to equip the youth to support national development.

Ministry of Gender, Children and Social Protection

The Ministry's key initiatives for 2018 are to:

- Use sensitisation and awareness creation programmes and building the conflict resolution capacity of women to ensure peace during and after District Assembly Elections

- Launch "He-For-She" Ambassadorial Campaign to encourage the involvement of men in the promotion of gender equality and empowerment
- Use calendar event days to create awareness on emerging child protection issues
- Enrol the 93,000 beneficiary households which have been targeted onto the e-zwich platform for the Livelihood Empowerment Against Poverty ("LEAP") Programme
- Roll out activities aimed at fully implementing the National Strategic Framework on End Child Marriage

GoG has allocated a total of GH¢61 million to this Ministry in 2018 compared to GH¢255 million in 2017, representing a 76% decrease. This significant reduction is due to a much lower allocation for the Ministry's spend on goods and services.

Others

Other Ministries Departments and Agencies are:

- Ministry of Youth and Sports
- National Labour Commission
- National Commission for Civic Education
- Ministry of Chieftaincy and Religious Affairs

Key Government initiatives which will be implemented under these other Ministries under the social sector include:

- Pass the Legislative Instruments of the National Youth and Sports Act, pursue the enactment of the draft National Sports College Bill and create a Sports Fund to improve sports development.
- Facilitating the establishment of Districts, Regional and National Youth Parliaments as well as the organisation of the annual Youth Patriotism Lectures

Given the child protection issues and matters pertaining to the vulnerable within society funding may not be sufficient. It appears that to meet its goals the ministry's programs will be supported by charitable organisations. GoG should increase its allocation to this Ministry to enable it undertake more impactful programmes.

Sectoral Outlook

PUBLIC SAFETY – KEY MINISTRIES

Budget Allocation

GH¢4,200 Million

*Others include: Ministry of Defence (GH¢1,006 million), Ministry of National Security (GH¢416 million), Judicial Service (GH¢375 million), Ministry of Justice and Attorney General's Department (GH¢110 million), CHRAJ (GH¢33 million)

Ministry of Interior

Key initiatives for this Ministry include:

- Improve the police-people ratio by recruiting an additional 4,000 personnel into the Ghana Police Service
- Facilitate the speedy passage of the Non-Custodial Sentence Bill into law to help in the decongestion of the prisons
- Establish a Research Library and Database Management Unit for the coordination of information on public policies and legislation on fire as well as create an Intelligence Gathering Unit for speedy detection and prevention of fires and other disasters
- Construct an ultramodern Fire College and standard fire stations in districts
- Facilitate the passage of the Narcotics Control Bill, conduct export profiling, airports and seaports interdiction and conduct precursor field monitoring
- Procure and deploy border surveillance systems, identify other border posts to restructure the sector system and revamp the Border Patrol Unit ("BPU")

The Ministry's allocation increased by 44% from GH¢1,572 million in 2017 to GH¢2,261 million. The current year's allocation represents 54% of the total Public Safety sector budget, up from 49% in 2017. GH¢2,109 million representing 93% of the budget allocation is towards employee compensation.

The budget reflects Government initiatives such as expanded police workforce, expansion of community policing programme and setting up of additional courts aimed at enhancing public safety. It is our hope that addressing key issues such as the increasing acts of vigilantism, illegal mining and the "land guard" menace that threaten national peace and stability will be at the centre of these initiatives.

Others:

To highlight its commitment to public safety, GoG is committed to:

- Operationalise the office of the Special Prosecutor, review all agreements for MDAs and MMDAs and secure successful convictions in 75% of cases referred to the Office by the Police
- Facilitate the establishment of Special Forces Units within the Ghana Armed Forces to counter terrorism and ensure a high state of combat readiness
- Enhance communication network stations in the 10 regions to improve response time to network
- Open new missions and expand the operations of the existing ones as well as acquire gadgets to fight terrorism and e-Crime
- Entrench the principles of Alternative Dispute Resolution (“ADR”) to reduce the backlog of cases in the courts
- Open three new courts and extend the “Justice for all Programme to cover more prison houses

The passage of the Office of the Special Prosecutor Act is a significant stride in the fight against corruption. The objectivity and independence of the Office should be maintained at all times by ensuring the Office is sufficiently funded and equipped to undertake its tasks.

Appendix 1

Summary of Central Government Revenue 2016-2018

Government Revenue Millions of Ghana Cedis	2017 (A) Budget	2017 Prov Outturn (B)	2018 Budget (C)	Variance (F=C-A)	Variance (G=B-A)
TAX REVENUE	34,382	22,135.57	39,881.58	5,499.53	(12,246.48)
TAXES ON INCOME & PROPERTY	13,447	8,871.21	16,278.91	2,832.33	(4,575.37)
Personal	4,558	3,322.40	6,012.69	1,455.10	(1,235.19)
Self Employed	351.28	226.29	489.41	138.13	(124.99)
Companies	6,460	3,649.72	6,856.33	395.87	(2,810.74)
Company Taxes on Oil	-	212.11	-	-	212.11
Others	2,077.25	1,460.70	9,422.58	7,345.33	(616.55)
Other Direct Taxes	1,542.77	1,057.24	2,154.65	611.88	(485.53)
o/w Royalties from Oil	616.76	332.91	879.70	262.94	(283.85)
o/w Mineral Royalties	626.45	479.38	766.37	139.92	(147.07)
National Fiscal Stabilisation Levy	217.20	114.01	263.22	46.02	(103.19)
Airport Tax	317.28	289.44	502.61	185.33	(27.84)
TAXES ON DOMESTIC GOODS AND SERVICES	13,863.08	9,708.09	16,889.75	3,026.67	(4,154.99)
Excises	3,263.89	2,318.55	3,836.54	572.65	(945.34)
Excise Duty	385.89	245.85	544.94	159.05	(140.04)
Petroleum Tax	2,878.00	2,072.70	3,291.60	413.60	(805.30)
o/w Energy Fund Levy	31.41	22.06	33.30	1.89	(9.35)
o/w Road Fund Levy	1,331.42	819.29	1,411.31	79.89	(512.13)
VAT	8,833.15	6,175.54	10,834.34	2,001.19	(2,657.61)
Domestic	3,785.29	2,525.08	4,506.86	721.57	(1,260.21)
External	5,047.86	3,650.46	6,327.48	1,279.62	(1,397.40)
National Health Insurance Levy (NHIL)	1,438.12	971.89	1,814.85	376.73	(466.23)
Customs Collection	791.67	551.39	1,011.43	219.76	(240.28)
Domestic Collection	646.45	420.50	803.42	156.97	(225.95)
Communication Service Tax	327.92	242.11	404.02	76.10	(85.81)
TAXES ON INTERNATIONAL TRADE	7,072.40	3,556.27	6,712.92	(359.48)	(3,516.13)
Imports	6,741.30	3,556.27	6,712.92	(28.38)	(3,185.03)
Import Duty	6,741.30	3,556.27	6,712.92	(28.38)	(3,185.03)
Exports	331.10	-	-	(331.10)	(331.10)
o/w Cocoa	331.10	-	-	(331.10)	(331.10)
SOCIAL CONTRIBUTIONS	296.33	296.25	419.06	122.73	(0.08)
SSNIT Contributions to NHIL	296.33	296.25	419.06	122.73	(0.08)

Appendix 1

Summary of Central Government Revenue 2017-2018

Government Revenue Millions of Ghana Cedis	2017 (A) Budget	2017 Prov Outturn (B)	2018 Budget (C)	Variance (F=C-A)	Variance (G=B-A)
NON-TAX REVENUE	6,670.04	3,832.69	8,047.24	1,377.20	(2,837.35)
Retention	3,361.62	2,204.68	3,761.24	399.62	(1,156.94)
Lodgement	3,308.41	1,628.01	4,286.00	977.59	(1,680.40)
Fees & Charges	723.37	396.06	577.36	(146.01)	(327.31)
Dividend/Interest & Profit from Oil	1,734.58	904.50	1,636.11	(98.47)	(830.08)
Surface Rentals from Oil/PHF Interest	6.84	2.23	7.63	0.79	(4.61)
Gas Receipts from on-lent Facilities	-	-	683.69	683.69	-
Licences	-	-	699.49	699.49	-
Sale of Shares	500.00	-		(500.00)	(500.00)
OTHER REVENUE	2,081.69	1,216.59	2,104.48	22.79	(865.10)
ESLA Proceeds	2,081.69	1,216.59	2,104.48	22.79	(865.10)
Energy Debt Recovery Levy	1,666.35	948.56	1,364.01	(302.34)	(717.79)
o/w Public Lighting Levy	123.01	-	204.04	81.03	(123.01)
o/w National Electrification Scheme Levy	185.28	-	134.68	(50.60)	(185.28)
Price Stabilisation & Recovery Levy	415.34	268.02	401.75	(13.59)	(147.32)
DOMESTIC REVENUE	43,430.12	27,481.10	50,452.35	7,022.23	(15,949.02)
				-	-
GRANTS	1,531.52	948.12	586.77	(944.75)	(583.40)
Project Grants	1,515.19	948.12	586.77	(928.42)	(567.07)
Programme Grants	16.33	-	-	(16.33)	(16.33)
TOTAL REVENUE & GRANTS	44,961.64	28,429.22	51,039.12	6,077.48	(16,532.42)

Appendix 2

Summary of Central Government Expenditure 2017-2018

II EXPENDITURE	-	-	-	-	-
Compensation of Employees	16,005.52	12,512.10	19,595.13	3,589.61	(3,493.42)
Wages and Salaries	14,047.43	10,696.68	16,762.30	2,714.87	(3,350.75)
Social Contributions	1,958.09	1,815.42	2,832.83	874.74	(142.67)
Pensions	767.99	677.73	1,005.74	237.75	(90.26)
Gratuities	262.87	196.39	385.53	122.66	(66.48)
Social Security	927.23	941.31	1,441.56	514.33	14.08
Use of Goods and Services	3,518.50	1,832.52	3,532.48	13.98	(1,685.98)
o/w ABFA	238.89	129.68	463.91	225.02	(109.21)
Interest Payments	13,940.52	9,710.34	14,909.85	969.33	(4,230.18)
Domestic	11,228.17	7,562.76	12,165.24	937.07	(3,665.41)
External (Due)	2,712.35	2,147.58	2,744.61	32.26	(564.77)
Subsidies	50.00	-	171.98	121.98	(50.00)
Domestic	-	-	-	-	-
Subsidies to Utility Companies	-	-	-	-	-
Subsidies on Petroleum Products	50.00	-	171.98	121.98	(50.00)
Grants to Other Government Units	9,730.83	6,501.69	12,046.04	2,315.21	(3,229.14)
National Health Fund (NHF)	1,734.45	736.11	1,814.54	80.09	(998.34)
Education trust Fund	790.22	349.20	924.80	134.58	(441.02)
Road Fund	873.25	661.46	881.42	8.17	(211.79)
Petroleum Related Funds	20.60	17.00	20.80	0.20	(3.60)
Dist. Ass. Common Fund	1,575.94	683.96	1,840.60	264.66	(891.98)
Retention of Internally Generated Funds (IGFs)	2,204.81	2,204.68	3,761.24	1,556.43	(0.13)
Transfer to GNPC from Oil revenue	1,220.59	536.35	998.02	(222.57)	(684.24)
Other Earmarked Funds	1,310.98	1,312.93	1,804.62	493.64	1.95
				-	-
Social Benefits	241.18	22.92	257.49	16.31	(218.26)
Lifeline Consumers of Electricity	83.47	22.92	89.12	5.65	(60.55)
Transfers for Social Protection	157.71	-	168.37	10.66	(157.71)
Other Expenditure	2,429.92	1,047.52	2,104.48	(325.44)	(1,382.40)
ESLA Transfers	2,081.69	1,047.52	2,104.48	22.79	(1,034.17)

Appendix 2

Summary of Central Government Expenditure 2017-2018

Reallocation to Priority Programmes	348.23	-	-	(348.23)	(348.23)
VAT Refunds	1,350.61	1,099.51	1,638.08	287.47	(251.10)
Capital expenditure	7,127.71	3,696.42	6,896.30	(231.41)	(3,431.29)
Domestic Financed	2,779.69	407.30	3,339.11	559.42	(2,372.39)
o/w/ GIIF	-	-	-	-	-
o/w ABFA	557.42	-	1,082.46	525.04	(557.42)
Foreign financed	4,348.02	3,289.12	3,557.19	(790.83)	(1,058.90)
Other Outstanding Expenditure Claims	-	-	-	-	-
Compensation of Employees	-	-	19,595.13	19,595.13	-
Goods and Services	-	-	3,532.48	3,532.48	-
Capital Expenditure	-	-	6,896.30	6,896.30	-
Grants to Other Government Units	-	-	12,046.04	12,046.04	-
TOTAL EXPENDITURE	54,394.79	36,423.01	61,151.81	6,757.02	(17,971.78)
APPROPRIATION	65,467.40	39,631.13	67,279.96	1,812.56	(25,836.27)
Total Expenditure	54,394.79	36,423.01	61,151.81	6,757.02	(17,971.78)
Arrears (net change)	3,742.56	619.51	858.46	(2,884.10)	(3,123.05)
Tax Refunds	1,350.61	1,099.51	1,638.08	287.47	(251.10)
Amortisation	5,979.44	2,588.60	5,269.69	(709.75)	(3,390.84)

Glossary

Abbreviation	Meaning
AAPET	Akufo-Addo Program for Economic Transformation
ABFA	Annual Budget Funding Amount
AGOA	African Growth Opportunities Act
AMSECs	Agriculture Mechanisation Service Enterprise Centres
BoG	Bank of Ghana
BPO	Business Process Out-sourcing
BPU	Border Patrol Unit
CDA	Coastal Development Authority
CEMS	Central Electronic Monitoring Systems
CET	Common External Tariff
C-G	Commissioner - General
CHPS	Community Health Planning and Services
CHRAJ	Commission on Human Rights and Administrative
COCOBOD	Ghana Cocoa Board
CWE	China International Water & Electric Corporation
D4I	digital for inclusion
DMBs	Deposit Money Banks
DSA	Debt Sustainability Analysis
DV	Domestic Violence
ECF	Extended Credit Facility
ECG	Electricity Company of Ghana
ECOWAS	Economic Community of West African States
EMDEs	Emerging Markets and Developing Economies
ESLA	Energy Sector Levy Act
FC	Fiscal Council
FED	Fiscal Electronic Device
FPSO	Floating Production Storage and Offloading
FSC	Financial Stability Council
FSR	Financial Stability Report
GCE	Ghana Commodity Exchange
GCX	Ghana Commodity Exchange
GDP	Gross Domestic Product
GES	Ghana Education Service
GIPC	Ghana Investment Promotion Centre
GIS	Geographic Information System
GITC	Ghana International Trade Commission
GoG	Government of Ghana
GRA	Ghana Revenue Authority
GRATIS	Ghana Regional Appropriate Technology Industrial Service
GSE	Ghana Stock Exchange
GSGDA	II Ghana Shared Growth and Development

Glossary

Abbreviation	Meaning
HOTCATT	Hotel Tourism and Catering Training Institute
ICT	Information and Communication Technology
IMF ECF	IMF's three-year Extended Credit Facility
IMF	International Monetary Fund
IPEP	Infrastructure for Poverty Eradication Programme
IPEP	Poverty Eradication Program
IT	Information Technology
LEAP	Livelihood Empowerment Against Poverty
M&E	Monitoring and Evaluation
MBDA	Middle Belt Development Authority
MDAs	Ministries, Departments and Agencies
MiDA	Millennium Development Authority
MLGRD	Ministry of Local Government and Rural
MLNR	Ministry of Lands and Natural Resources
MMDAs	Metropolitan, Municipal and District Assemblies
MMDCE	Metropolitan, Municipal and District Chief Executives
MMscf	One million cubic feet
MoBD	Ministry of Business Development
MoE	Ministry of Education
MoELR	Ministry of Employment & Labour Relations
MoF	Ministry of Finance
MoTI	Ministry of Trade and Industry
MPC	Monetary Policy Committee
MPR	Monetary Policy Rate
MT	Metric Tonnes
MTDS	Medium-Term Debt Strategy
MW	Megawatts
NACAP	National Anti-Corruption Action Plan
National	ID National Identification
NBCP	Nation Builders Corps Programme
NBSSI	National Board for Small Scale Industries
NDA	Net Domestic Assets
NDA	Northern Development Authority
NDPC	National Development Planning Commission
NDT	Non-Destructive Testing
NEIP	National Entrepreneurship and Innovation Plan
NFA	Net Foreign Assets
NFIS	National Financial Inclusion Strategy
NHIL	National Health Insurance Levy
NHIS	National Health Insurance Scheme
NIRP	National Industrial Revitalisation Programme

Glossary

Abbreviation	Meaning
NIS	National Identification System
NITA	National Information Technology Agency
NOSHA	National Occupational Safety and Health Authority
NPLs	Non-Performing Loans
NPLs	Non-Performing Loans
OECD	Organisation for Economic Co-operation and Development
OGM	Office of Government Machinery
OPEC	Organisation of Petroleum Exporting Countries
PAC	Passport Application Centres
PAYE	Pay As You Earn
PFMA	Public Financial Management Act
PIM	Public Investment Management
PMC	Performance Management Contract
PoS	Point of Sale
PPA	Public Procurement Act
PPP	Public Private Partnerships
PRMA	Petroleum Revenue Management Act
QMS	Quality Management System
REDD+	Reducing Emissions from Deforestation and Forest
SDGs	Sustainable Development Goals
SEC	Securities and Exchange Commission
SELA	Special Import Levy Act
SGN	Sankofa - Gye Nyame
SHS	Senior High School
SSNIT	Social Security and National Insurance Trust
STEM	Science, Technology, Engineering and Math
TEN	Tweneboa, Enyera, Ntomme
TIN	Taxpayer Identification Number
TMU	Treasury Management Unit
TP	Transfer Pricing
TSA	Treasury Single Account
TVAET	Technical Vocational and Agricultural Education and
TVET	Technical and Vocational Education and Training
USA	United States of America
VAT	Value Added Tax
VCTF	Venture Capital Trust Fund
VDP	Voluntary Disclosure Procedures
WEO	World Economic Outlook
y-o-y	Year-On-Year

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