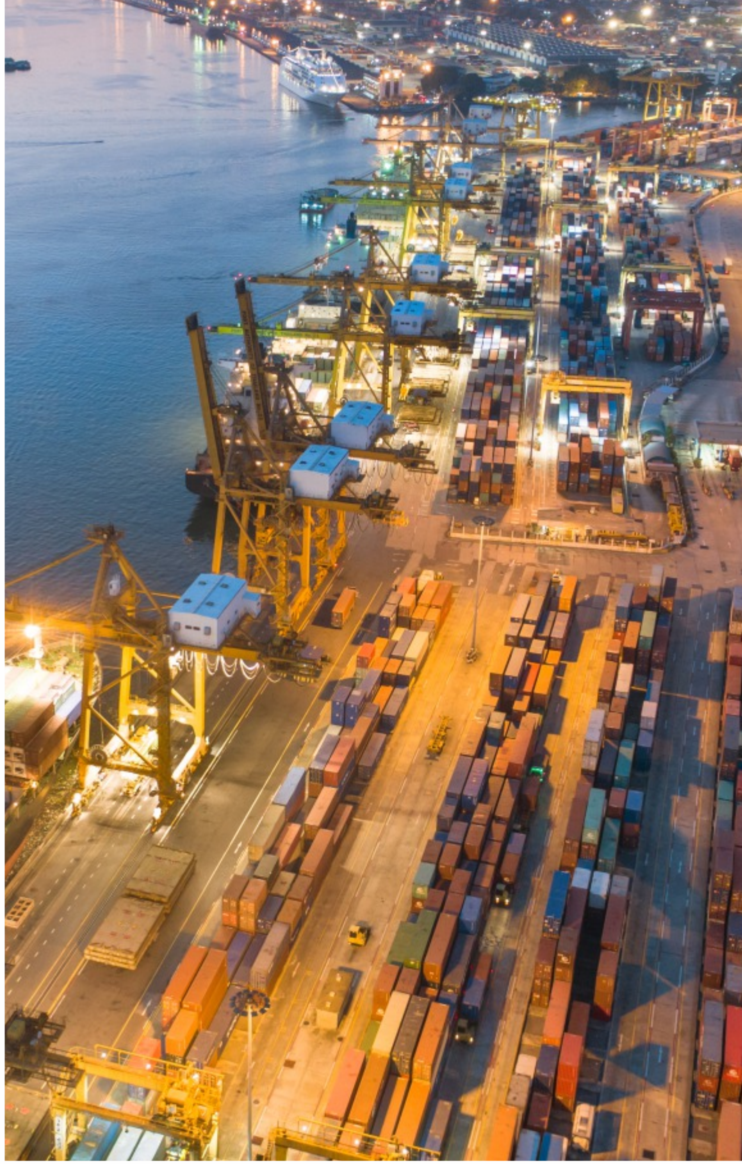
2020 Revised Budget

Highlights of Mid Year Review and Supplementary Estimate



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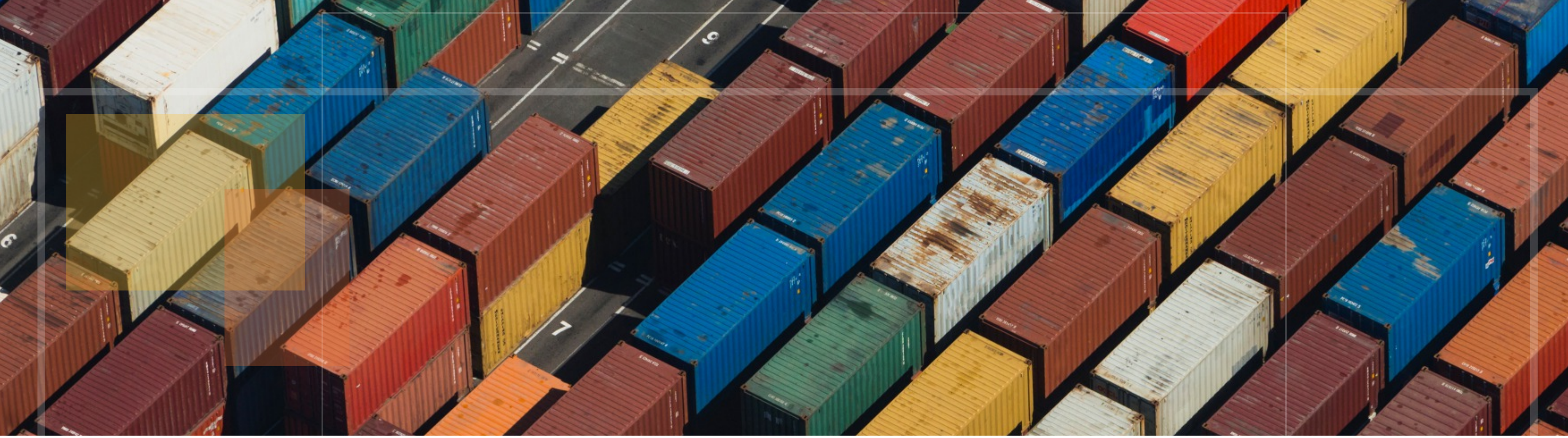

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Commentary

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The mid-year review of the Budget Statement and Supplementary Estimate for the 2020 financial year was presented by the Honourable Minister of Finance, Ken Ofori-Atta, to Parliament on 23 July 2020. This mid-year review has been more eagerly anticipated than most, as it gave the first real indication of the extent to which Ghana's economy has been impacted by the ongoing COVID-19 pandemic, the cost of the government's ongoing and planned response, and what that means for the economy's medium-term outlook.

The 2020 Budget Statement was delivered by the Honourable Minister of Finance in November 2019, long before the emergence and spread of COVID-19 in Ghana and perhaps other parts of the world. At that time, no one could have foreseen the pandemic or its severity in terms of the impact on Ghana's economy, that of its global trading partners and other stakeholders. It was clear therefore that as has happened in other parts of the world, Ghana's economic policy and financial plans for the short to medium term would need to change, a key question was “by how much”? That question has now been answered by the mid-year review of the 2020 Budget and it makes for sober reflection while also offering a few positive indications of how the economy and businesses may seek to be repositioned over the medium term.

Over the last few years, government pursued a broad policy aimed at restoring macroeconomic stability and had made good progress against targets that it had set for the economy over that period. The theme for the 2020 Budget was therefore **“Consolidating the Gains for Growth, Jobs and Prosperity for all”**. The medium-term direction of the 2020 Budget focused on the following eight strategic pillars: (1) Domestic Revenue Mobilisation, (2) Business Regulatory Reforms, (3) Intensified Drive for Foreign Direct Investment, (4) Digitisation, (5) Accelerated Infrastructure Development, (6) International Financial Services Centre, (7) Enhanced Financial Support to Local Enterprises, and (8) Science and Technology.

The mid year review and supplementary estimate for 2020 indicate that, notwithstanding the pandemic, government is forging ahead with these medium term strategic initiatives, albeit under significantly more difficult economic conditions that have arisen due the COVID-19 pandemic. In particular, government revenues for 2020 are projected to decline sharply from an estimated GH¢67.1 bn in the 2020 Budget to a projected GH¢53.7 bn (20% decrease) as set out in the supplementary estimate. Expenditure on the other hand is projected to rise by about GH¢11.8 bn, from an estimated GH¢84.5 bn (13.7% increase) in the 2020 Budget to GH¢96.3 bn as set out in the supplementary estimates. This increase is largely due to measures that have been introduced to mitigate the impact of the pandemic, with little changes by way of cost rationalisation or realignment of previously budgeted items.

This fall in revenue is perhaps no big surprise given the adverse impact that the pandemic has had and continues to have on businesses and economic activity generally, thereby reducing tax revenues. It is not all bad news though. The significant growth in the volume of electronic communications, also driven largely by the pandemic, fits well with government's digitisation initiative and has allowed room for the Communications Service Tax (“CST”) rate to be dropped from 9% to 5%, effective September 2020, without any projected adverse impact on government revenues from this item. Indeed, the increased volumes will more than offset the reduced tax rate to allow additional revenue to be earned from this tax item with an expected revenue increase of GH¢99 m. We are also happy to note that government proposes to seek legislative backing for some of the previously announced measures such as the implementation of revised transfer pricing regulations and the passage of the Exemptions Bill. The requirement to charge VAT (and allied levies) on commercial property transactions and enforcement of the requirement to report on gains from realisation of assets and liabilities will help minimise revenue leakages and enhance taxpayer compliance, as a means of further shoring up government revenue streams.

The significant increase in expenditure is driven by various initiatives that government has put in place to support businesses and the citizenry in general to mitigate the social and economic difficulties that have also arisen as a result of the pandemic. These initiatives are not cheap but will be welcomed by many, if not all, as businesses and individuals adapt to a new environment that has brought sudden change to their lives. There will no doubt be robust debate as to whether or not the cost of these social and other initiatives that government has put forward can be borne by the economy and/or whether other expenditure items should have been rationalised to accommodate some of this additional cost in order that the overall cost burden on the economy is more contained. There can be little doubt however that with the significant impact of the pandemic on the economy and on individual lives, it was right for government to step in with as much support as it could muster under the circumstances.

Commentary

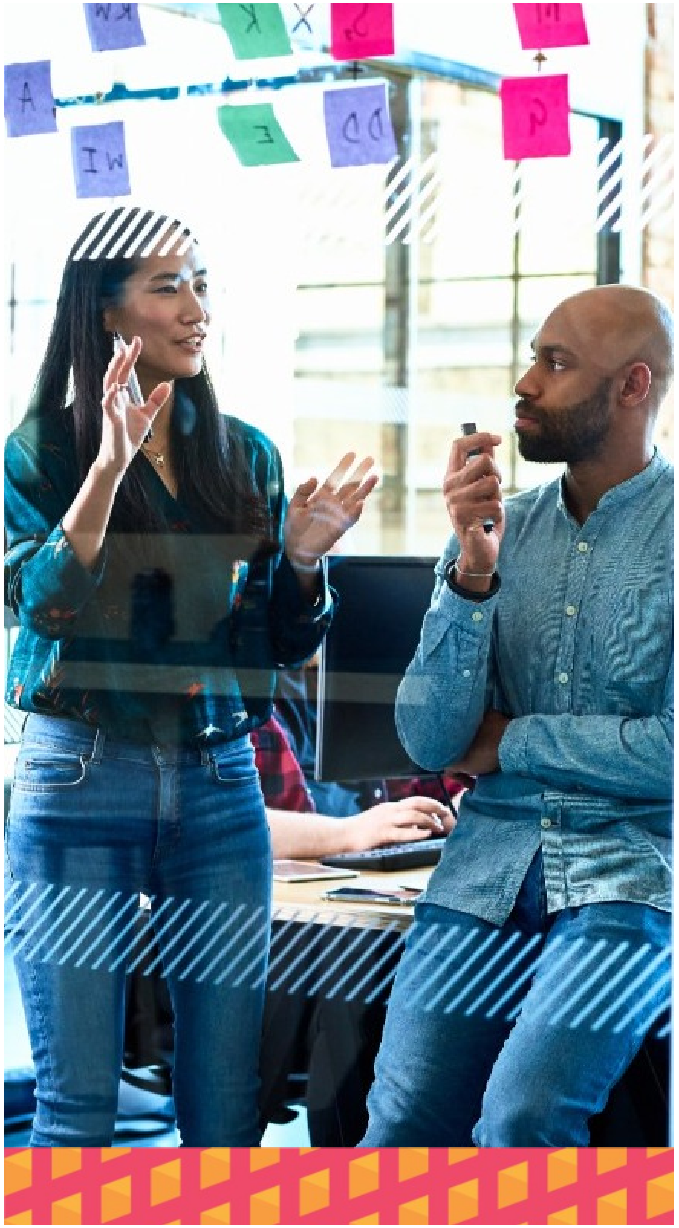
The supplementary estimate for 2020 indicates that the economy will grow by 0.9% in 2020 compared to a projected 6.8% growth in GDP at the time of the 2020 Budget. While the reduction in growth is significant, it is at least a positive indication that the economy is not expected to contract in 2020, as is the expectation in many other economies across the world.

The overall impact on the economy of the reduced revenue and increased expenditure is a significantly increased fiscal deficit that is projected at 11.4% of GDP for 2020 compared to the 4.7% of GDP that was estimated in the 2020 Budget. Naturally this deficit has to be funded, which in turn means additional debt at a time that our debt stock as a country had already increased as we borrowed to fund the restructuring of the energy and financial sectors, also necessary interventions that were undertaken over the last few years and which have served us well in the light of the pandemic. The mid year review indicates a debt stock of GH¢258.73 bn as at June 2020, representing 67% of GDP. This compares to GH¢217.99 bn, equivalent to 62.4% of GDP at end of 2019.

In our commentary on the 2020 Budget, in relation to the 5% cap on fiscal deficit in any given year that is imposed by the Fiscal Responsibility Act, 2018, (Act 982), we stated that *"We are therefore confident that the government will adhere to this cap and other fiscal policy frameworks such as the Public Financial Management Act, 2016, (Act 921) and the Fiscal Responsibility Advisory Council. We are hopeful, that Ghana will overcome the perennial challenge of the political business cycle which tends to derail the drive towards fiscal consolidation, lead to the accumulation of a costly debt burden and threaten macroeconomic stability"*. Little did we know then that events beyond anyone's control would necessitate a return to a double digit fiscal deficit with its attendant long term risks to the economy.

The effects of the pandemic and the measures that government has taken to mitigate its impact will linger on with us for the medium term. More significant levels of growth are expected to return over the next four years and the fiscal deficit is expected to narrow over the same period of time, reaching 3.8% of GDP by 2024. Clearly, barring any unforeseen windfalls in the short to medium term, it will be a long hard road to recapture the gains made over the last few years that have been wiped out by the impact of the pandemic. The next few years will therefore require a concerted effort by both public and private sector operators to rebuild what has been lost in the short term. Businesses and individuals should plan to continue to tighten their belts, re-strategise and adjust in order to survive and hopefully thrive, notwithstanding the pandemic. It is not all bad news, in that the rebuilding effort offers another opportunity for economic policy makers, the managers of the economy, businesses and individuals to introduce new thinking and innovation into the rebuilding process such that our economy and businesses emerge from this pandemic in a more resilient and more diversified manner. Already, we have seen local manufacturers rise to the challenge by switching part of their production capacity to manufacture sorely needed items such as Personal Protective Equipment ("PPE") and sanitisers. This is a clear and encouraging demonstration of the innovation and capacity that exists locally and what is perhaps one positive outcome of the pandemic.

In keeping with our purpose to build trust in society and solve important problems, we look forward to working with Government and all other stakeholders to build the robust and resilient economy that we all desire, which will in turn move us closer to the ultimate goal of growth and shared prosperity as a people.



2020 Revised Budget At a Glance

	2020 Budget	2020 Revised
World economy	3.4%	-4.9%
Advanced Economies	1.7%	-8.0%
*EMDEs	4.6%	-3.0%
Sub-Saharan Africa (SSA)	3.6%	-3.0%
World Trade Volume	3.2%	-11.9%

Source: IMF World Economic Outlook (WEO), October 2019; IMF WEO Update, June 2020

* Emerging Markets and Developing Economies

2020 Revised Budget At a Glance

Domestic economy

Real GDP growth

Q1, 2020: growth of **4.9%**

Q1, 2019: growth of **6.7%**

2020 (Budget): growth of **6.8%**

2020 (Revised): growth of **0.9%**

Forecasts GDP growth

4.7%	5.8%	5.4%	5.4%
2021	2022	2023	2024

2020 Revised vs. 2020 Budget sectoral growths

Agriculture: **3.7% vs. 5.1%**

Industry: **0.8% vs. 8.6%**

Services: **-0.8% vs. 5.8%**

Headline inflation

Spurred on by panic buying to peak at 15.1% in May. Trended down; 11.2% at end June 2020. Projected at 11.1% at end of year 2020

Fiscal deficit

Overall fiscal deficit at half-year stood at GH¢24.35bn, i.e. 6.3% of GDP vs. period target of 3.1% of GDP. Projected at 11.4% of GDP at end of year 2020

Public debt

At mid-year, stood at GH¢258.37bn, i.e. 67% of GDP. 52.7% financed by external sources.

Gross reserves

Q1 2020 BOP surplus of USD1.48bn. Also, BOG reserves of USD9.17bn, equivalent to 4.3 months of imports. Projected at >4 months of imports at end of year 2020

2020 Revised Budget At a Glance

Where is the money coming from?

Grants
Revised budget - GH¢1.2 billion
Initial Budget - GH¢1.2 billion

Non - Tax Revenue
Revised budget - GH¢6.7 billion
Initial Budget - GH¢13.1 billion

Others
Revised budget - GH¢3.4 billion
Initial Budget - GH¢3.5 billion

Taxes on Income and Property
Revised budget - GH¢23.8 billion
Initial Budget - GH¢26.6 billion

Taxes on Domestic Goods and Services
Revised budget - GH¢15.9 billion
Initial Budget - GH¢19.1 billion

Refunds
Revised budget - GH¢2.1 billion
Initial Budget - GH¢2.3 billion

Taxes on International Trade
Revised budget - GH¢4.7 billion
Initial Budget - GH¢5.8 billion

Revised budget GH¢53.7 billion
Intitial Budget - GH¢67.1 billion

Taxation

Direct tax measures

- Enforce submission of returns for gains from realisation of assets and liabilities
- Implement the revised transfer pricing regulations

Indirect tax measures

- Reduce the Communications Service Tax rate from 9% to 5%
- Enforce the requirement to charge VAT on commercial properties

General administrative measures

- Ensure the passage of the Tax Exemptions Bill
- Minimise revenue leakage through simplified filing, frequent audits and prosecution of offenders

2020 Revised Budget At a Glance

Where is the money going to ?

Key expenditure areas

Total expenditure
(excluding arrears and amortisation)

GH¢96.3 billion

In response to the COVID-19 pandemic in Ghana, Government's expenditure is projected to rise by about GH¢11.8 billion (i.e. about 13.7%), from an estimated GH¢84.5 billion in the 2020 Budget to GH¢96.3 billion in the 2020 Revised Budget.

	2020 Revised Budget	2020 Initial Budget
Compensation to employees	GH¢27.1bn	GH¢26.5bn
Interest payment	GH¢26.3bn	GH¢21.7bn
Grants to other Gov't units	GH¢11.8bn	GH¢15.6bn
Capital expenditure	Gh¢9.3bn	GH¢9.3bn
Goods & Services	GH¢7.7bn	GH¢8.3bn
COVID-19 Expenditure	GH¢11.2bn	zero
Others	GH¢4.7bn	GH¢5.2bn

Sectoral allocations

Sectoral Allocations

Key COVID-19 interventions include

- Relief for payment of Water Bills and Relief for payment of Electricity Bills
- COVID-19 Preparedness Plan 1 & 2
- Stimulus through accelerated payments of outstanding claims
- Soft loans for Micro, Small and Medium Sized Businesses
- Health Infrastructure (Agenda 111 District and Regional Hospitals)
- Fumigation of schools, procurement of PPEs for Education
- Governance and security issues
- Allowance of 50% of basic salary for frontline health workers

Economy

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The world economy

The IMF, in its June 2020 World Economic Outlook (WEO) Report, forecasts a more sombre outturn of the world economy in 2020: world output is forecast to decline by 4.9% instead of the original growth forecast of 3.4%, with Advanced Economies leading this contraction; the economy of Sub-Saharan Africa (SSA) is projected to contract by 3.2%; and world trade volume is expected to shrink by 11.9%. In the Fund's optimism, the world is expected to return to a modest growth of 5.4% in 2021.

Domestic growth and sectoral analysis

According to the Ghana Statistical Service (GSS), overall real GDP growth for the first quarter (Q1) was lower than the corresponding quarter of prior year at 4.9% compared to 6.7%. Q1 results for sectoral growth (in comparison with the prior year's corresponding period) were also as follows: 1.5% for Industry (8.4%); 9.5% for Services (7.2%); and 2.8% for Agriculture (2.2%).

The reported Q1 real GDP and sectoral growth performances were impacted by the COVID-19 pandemic, particularly in the industry sub sector as global oil prices declined significantly over the period. Although the lockdown and other restrictions only took place locally in the latter part of Q1 the effect of the pandemic on the global economy had already taken a toll on the local economy.

Inflation rate, and monetary and capital markets performances

Panic buying, sparked by consumer uncertainty and anxiety over the duration of the lockdown, caused food inflation to rise to 15.1% in May, with a 600 basis point-spike in April alone. The speculative effect on food inflation had eased sufficiently by the end of June 2020. This helped to bring headline inflation down marginally to 11.2% from 11.3% in May 2020, even as non-food inflation appeared to inch up steadily from March (7.4%) through April (8.4%) to June (9.2%).

Interventions by the Bank of Ghana (BOG) to bolster economic activity through the banking sector included, the Monetary Policy Rate (MPR) being reduced by 150 basis points to 14.5% in March, the Cash Reserve Requirement (CRR) of deposit mobilisation banks (DMBs) being reduced by 200 basis points to 8%. Interbank rates fell in the trail of the MPR drop to 13.82% by the end of June 2020. Rates on government securities and on bank (personal and non-personal) loans had all experienced falls by the end of June 2020.

Robust activity and good liquidity was observed on the bonds and fixed income secondary markets - total trade volume recorded on the Ghana Fixed Income Market (GIFM) was 160% higher than the same period in 2019. Similar brisk trading activity was reported for the Ghana Stock Exchange (GSE), where over 262 million shares were traded for a value of GH¢194 million compared to over 98 million shares traded at GH¢101 million for the same period in 2019.

External trade and reserves

The country recorded reduced exports and imports trade in the first five months of the year, a situation that has been attributed to the pandemic. The slowdown in domestic economic activity has weakened the demand for imports; the converse holds for exports. At the end of Q1 2020, overall balance of payments (BOP) amounted to a surplus of USD1.48bn, which is about 49% of the BOP surplus reported for Q1 2019.

On the currency market, the Ghana Cedi's performance was comparatively better than the performance reported for first half of 2019. The Ghana Cedi is reported to have depreciated, on a year-to-date basis, by 2.4% against the US Dollar and the Euro, and appreciated by 4.5% against the British Pound Sterling.

At end of June 2020, Ghana's Gross International Reserves is reported to be USD9.17bn, which is equivalent to 4.3 months of import cover. This represents about 9% increase over the reserves as reported at the end of December 2019.

Fiscal developments

Provisional estimates for revenue and grants for the first half of the year amounted to GH¢22.01bn. This was short of the programmed target by 26%. On the other hand, total expenditures of GH¢46.35bn (which include arrears retirement and COVID-19 related spend) overshot the mid-year target by 11.5%. The result is an overall fiscal deficit of 6.3% of GDP, compared to the targeted 3.1% at the end of June 2020. At the end of June 2020, the primary balance stood at a deficit of GH¢12.71bn, i.e. (3.3% of GDP.) Financing of the fiscal deficit of GH¢24.35bn (equivalent to 5.7% of GDP) has been mainly via domestic sources mainly (i.e. 89.5% of total).

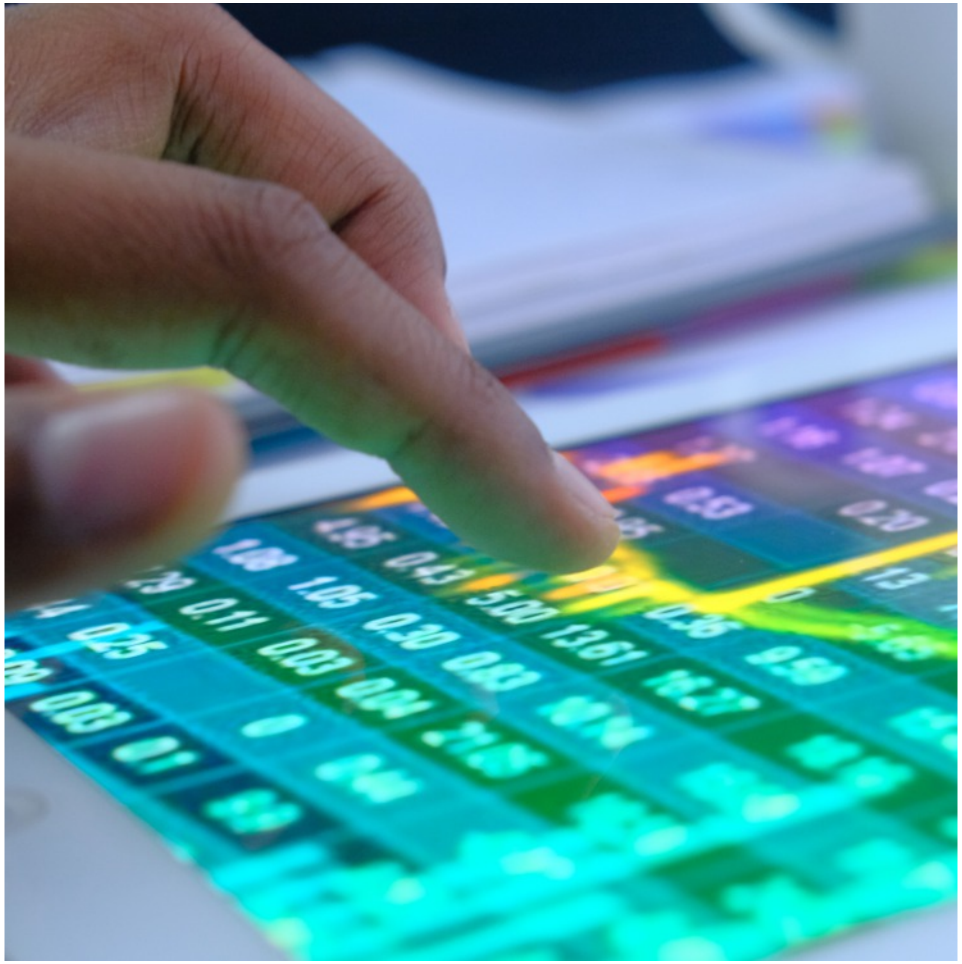
The revenue and expenditure developments attributed to the pandemic are expected to create a fiscal deficit of 11.4% of GDP by the end of 2020. This is more than double the 5% limit allowed by the Fiscal Responsibility Act, 2018 (Act 982), which, indeed, also makes provision for this limit to be suspended in the face of a public health epidemic or severe economic shock.

We note that, originally, the Government's 2020 budget had programmed to reduce domestic financing of the fiscal deficit by GH¢3.3bn; instead, use foreign sources of GH¢15.1bn (3.9% of GDP) to finance the deficit. The provisional estimates reported seem to show a significant reversal of these expectations. Potentially, the reason for this outturn is the tightening that has been experienced on international financial markets, as even richer countries look inwards to see how they can mitigate the recessionary risks posed by the pandemic to their own economies.

Public debt and medium-term debt management strategy

For the first half year of 2020, the country's debt stock provisionally stood at GH¢258.37bn, the equivalent of i.e. USD45.57bn. This amounts to 67% of GDP. This is attributed to the successful Eurobond issuance in February 2020, COVID-19 impact, government expenditure frontloading, and currency weakness. 52.7% of the provisional total debt stock constituted external debt and amounted to GH¢136.29bn (35.4% of GDP). The balance is accounted for as domestic debt.

Revisions to macro-fiscal targets for 2020 requires Government to revise its 2020 Medium-Term Debt Strategy. Additionally, the Debt Sustainability Analysis (DSA) conducted in 2019 has been reviewed to account for the impact of COVID-19 on revenues, expenditures, and medium-to-long term financing. Ghana's debt distress from external and domestic sources was not significantly different from the results of the 2019 DSA. Crude price falls and trade contraction – fallouts of the pandemic – are expected to deepen the current account and fiscal deficits and create comparatively higher debt levels in relation to pre-COVID-19 DSA.



Key plans for the rest of the fiscal year and revised targets

Generally, it would seem the Government plans to, as much as possible, stick to its original key initiatives plan, as outlined in the 2020 Budget presented in November 2019. The Minister notes that "COVID-19… has also exposed new vulnerabilities and the need to scale up some programmes and introduced new interventions". Existing flagship initiatives related to agriculture, industrialisation, infrastructure, cities, private sector support, the social sectors, etc. would continue.

In addition to the above, the Government seeks funding for a GH¢100bn two-phased COVID-19 Alleviation and Revitalisation of Enterprises Support (CARES) programme. The first phase (July to December 2020) aims to mitigate the impact of the pandemic on Ghanaian lives and livelihoods and a rapid emergence into a stronger and more resilient economy. The second phase is planned to accelerate the country's achievement of the Ghana Beyond Aid economic transformation agenda.

We agree with the Government on our need – as a country – to leverage the scourge of COVID-19 as an opportunity to redirect our course to a fundamental restructuring of our economy. CARES comes across as an elaborate, ambitious programme and "execution, execution and execution" most likely will be a key driver for success. It would be comforting if steps are taken to insulate this programme, in substance, against any political risks to ensure its full and disciplined execution irrespective of who is in government.

Tax

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Direct Taxes

In the 2020 Budget, Government planned to raise income and property taxes ("direct taxes") of GH¢26.60 billion. This compares to a 2019 provisional outturn of GH¢22.68 billion. To achieve this expected increase in revenues, Government introduced the following new measures to supplement existing measures. These measures included:

- Renewal and extension of National Fiscal Stabilisation Levy;
- Increase in the tax-free band for resident individuals;
- Increase in personal reliefs; and
- Requirement for taxpayers to disclose their aggressive tax planning arrangements.

Except for the requirement for taxpayers to disclose their aggressive tax planning arrangements, there is publicly available information that all the proposed measures mentioned above have been implemented as of the time of presenting the 2020 Mid-Year Fiscal Policy Review and Supplementary Estimate to Parliament.

As a result of several factors including the COVID-19 pandemic, the Mid-Year Review expects a drop in direct tax revenues from GH¢26.60 billion to GH¢23.77 billion. To shore up revenues, Government has signaled an intention to enforce the following additional measures:

Submission of returns on gains from realisation of assets and liabilities

Submission of returns on gains from realisation of assets and liabilities

The Ghana Revenue Authority ("GRA") will enforce the submission of returns on gains from realisation of assets and liabilities.

Under the repealed Internal Revenue Act, 2000 (Act 592), gains realised from certain capital assets were subject to capital gains tax, separate and distinct from income tax. In addition, a person who derived such gains was required to file a Capital Gains Tax Return within 30 days of realising qualifying assets. With the introduction of the Income Tax Act, 2015 (Act 896), capital gains tax has been abolished as a separate tax requiring the filing of a separate tax return. Instead, gains derived from the realisation of assets and liabilities are to be included in income and taxed unless exempt. So, unless the current income tax law is amended, it is possible that the GRA will focus on the completeness and accuracy of returns filed to ensure that assets and liabilities realised are properly reported on the tax returns.

Implementation of revised Transfer Pricing Regulations

Implementation of revised Transfer Pricing ("TP") Regulations

The implementation of the revised Transfer Pricing Regulations will boost domestic revenue mobilisation in the medium-term.

In an era of increased focus of tax administrators on cross-border related party transactions, base erosion and profit shifting and focus on tax evasion and avoidance, Ghana's new TP Regulations could not be implemented at a better time. This new law is expected to provide a more robust TP framework for Ghana in line with international best practice whilst ensuring revenue leakages arising from transfer mis-pricing is reduced to the barest minimum.

Indirect Taxes

In the 2020 Budget, Government planned to raise domestic supplies and international trade taxes (“indirect taxes”) of GH¢24.91 billion. This compares to a 2019 provisional outturn of GH¢ 22.56 billion. To achieve this expected increase in revenues, Government introduced the following new measures to supplement existing measures:

- Renewal and extension of the Special Import Levy for five years;
- Abolish VAT on management fees charged by Private Equity, Venture Capital and Mutual Fund companies; and
- Review and strengthen current legislation and regulatory framework for taxation of e-services and the digital economy.

With the exception of the proposal on strengthening the current legislation on the digital economy for which there are still no clear public guidelines or policy directives, the first two proposals have been implemented as of the time of the reading of the 2020 Mid-Year Review.

As a result of several factors including the COVID-19 pandemic, the Mid-Year Review expects a drop in indirect tax revenues from GH¢24.91 billion to GH¢20.62 billion. To shore up revenues, Government has signaled an intention to enforce the following measures:

Reduction in Communications Service Tax Rate

Reduction in Communications Service Tax (“CST”) rate from 9% to 5%

It is proposed that the Communications Service Tax rate be reduced from 9% to 5%, effective September 2020.

The Communications Service Tax Act, 2008 (Act 754), imposed a rate of 6% when the tax was introduced over a decade ago. The rate remained at 6% until August 2019 when the rate was increased to 9% after the introduction of the Communications Service Tax (Amendment) Act, 2019 (Act 998). This increase in rate was met with a lot of resistance. Almost a year down the line, amid the COVID-19 pandemic, this reduction in the CST rate from 9% to 5% should be a welcome change to the public. The expected 2020 CST revenue is projected at GH¢ 535.80 million, higher than the initial target of GH¢ 436.54 million and the 2019 provisional outturn of GH¢ 412.34 million.

We do not expect a reversal of the rate soon because the reduced rate is aimed at supporting digitalisation, a major policy intervention in the Ghana COVID Alleviation and Revitalisation of Enterprises Support (CARES) Programme meant to catalyse economic activities and promote growth.

Enforcement of VAT on commercial properties

Enforcement of VAT on commercial properties

To shore up revenue, VAT on commercial properties will be enforced.

The Value Added Tax Act, 2013 (Act 870), mandates a person who is registered or registrable for VAT to charge and account for VAT on non-exempt supplies of goods and services made in Ghana. As a result, sale or lease of commercial properties by VAT registered persons is expected to attract VAT. By extension, the Ghana Education Trust Fund Levy and National Health Insurance Levy are likely to apply on such transactions.

Since this is an existing provision in Act 870, we do not expect amendments to the laws but rather an increased focus by the GRA on owners and managers of commercial properties to ensure that, where appropriate, VAT and allied levies are accounted for on commercial rental charges.

Tax

Administrative measures

In the 2020 Budget, Government planned to raise tax revenue of GH¢49.25 billion. This compares to a 2019 provisional outturn of GH¢42.77 billion. To achieve this expected increase in revenues, Government introduced various tax measures. From the administrative perspective the following were proposed:

- Restructuring the tax system and developing a comprehensive revenue policy and strategy;
- Reforming the GRA for efficiency and productivity; and
- Passing the Revenue Administration Regulations and Transfer Pricing Regulations.

Based on publicly available information, the above measures are work in progress. So in the 2020 Mid-Year Review, Government revised the 2020 budget tax revenue to GH¢42.3 billion from a previous budget of GH¢49.2 billion, gave an update on the 2020 measures and indicated plans to deal with tax revenue leakages. Measures that will attract attention for the rest of the year include:

Passage of Tax Exemptions Bill

Passage of Tax Exemptions Bill

The passage of the Tax Exemptions Bill will boost domestic revenue mobilisation in the medium-term.

In the first quarter of 2019, the Exemptions Bill was laid before Parliament. After over a year, the Bill is yet to be passed into law. The Bill seeks to consolidate and streamline the applicable exemptions in different laws and improve transparency and certainty in dealing with tax exemptions. We hope our Parliament will give the Exemption Bill the attention it deserves during such uncertain times.

Administrative measures

Revenue leakage minimisation through simplified filing, frequent audits and prosecution of offenders

Revenue leakage minimisation through simplified filing, frequent audits and prosecution of offenders

Government proposes to minimise revenue leakages through simplified filing processes, frequent tax audits and prosecution of offenders.

Simplified filing processes

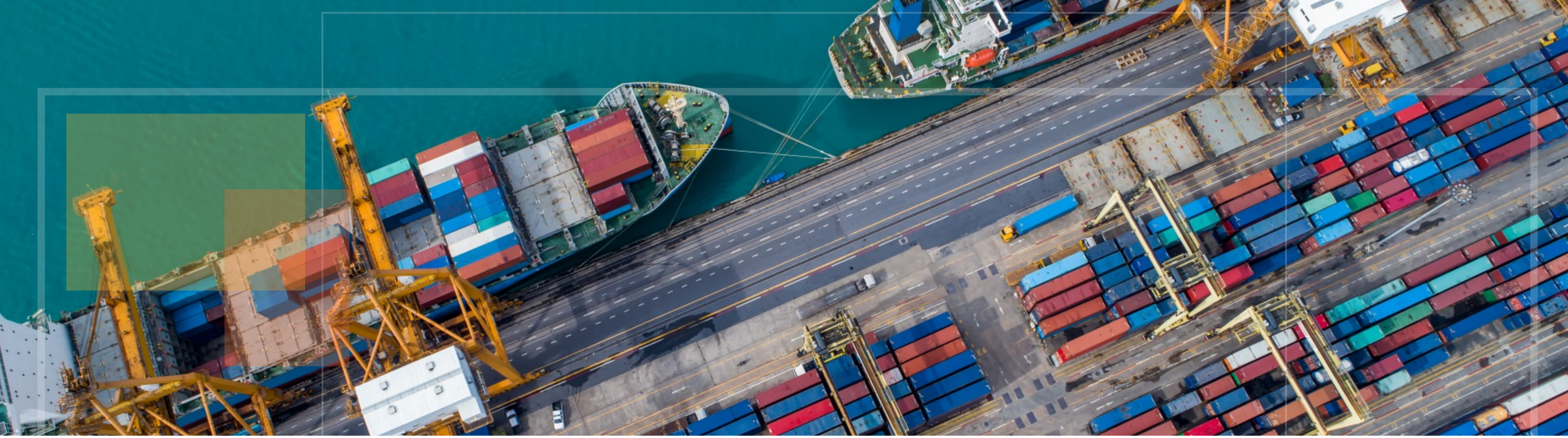
In the 2020 Budget, Government stated that the GRA will be transformed through three main themes of People, Technology and Service. One of the efficient ways of simplifying the filing process is through the use of technology. In recent years, the GRA has introduced a number of technology-backed innovations such as the Integrated Tax Application and Preparation System App ("ITAPs") and e-filings to simplify the filing process. The use of these innovations are however yet to be optimised due to some limitations. The GRA in 2017 hinted of plans to allow taxpayers to pay their taxes through mobile money but this is yet to be fully rolled out. We expect GRA to enhance and facilitate the use of some of these technology tools.

Frequent tax audits

Over the last few years, the GRA has conducted several tax audits on companies. These frequent tax audits seem to be focussed on the few known taxpayers who have expressed some frustration. While we welcome frequent tax audits, we recommend that the audits are evenly spread out and done diligently. We expect that the newly constituted Tax Audit and Quality Assurance Unit of the GRA will adhere to its mandate of ensuring quality audits and protecting taxpayers from abuse.

Prosecution of offenders

The prosecution policy of the GRA provides guidelines on instances where the Authority will prosecute an offender. In the prosecution policy, the GRA has to consider a number of factors such as cost of prosecution, whether an administrative response will be appropriate, for instance, before deciding to prosecute. Although the GRA is yet to begin the prosecution of offenders, we recommend that the administrative process available to the GRA is exhausted before embarking on any prosecution.



Government Expenditure

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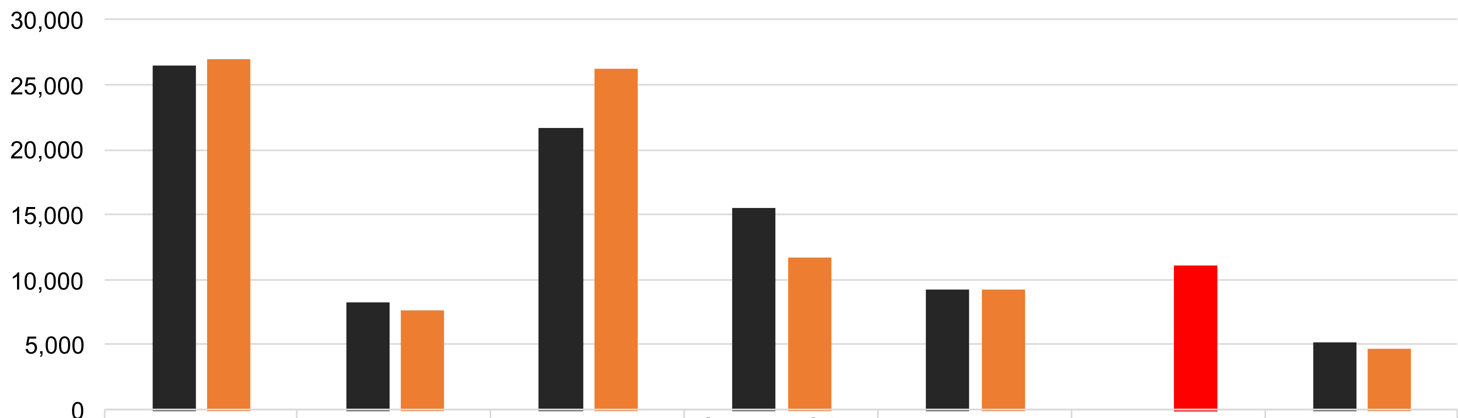
Government Expenditure

In response to the COVID-19 pandemic in Ghana, Government's expenditure is projected to rise by about GH¢11.8 billion (i.e. about 13.7%), from an estimated GH¢84.5 billion in the 2020 Budget to GH¢96.3 billion in the 2020 Revised Budget. The upward revision in expenditures is largely influenced by provision for additional spending for COVID-19 programmes and activities of about GH¢11.2 billion.

The graph below shows the comparison between the 2020 Budget and the 2020 Revised Budget.

Government Expenditure (in GH¢ million) - (2020 Budget versus 2020 Revised Budget)



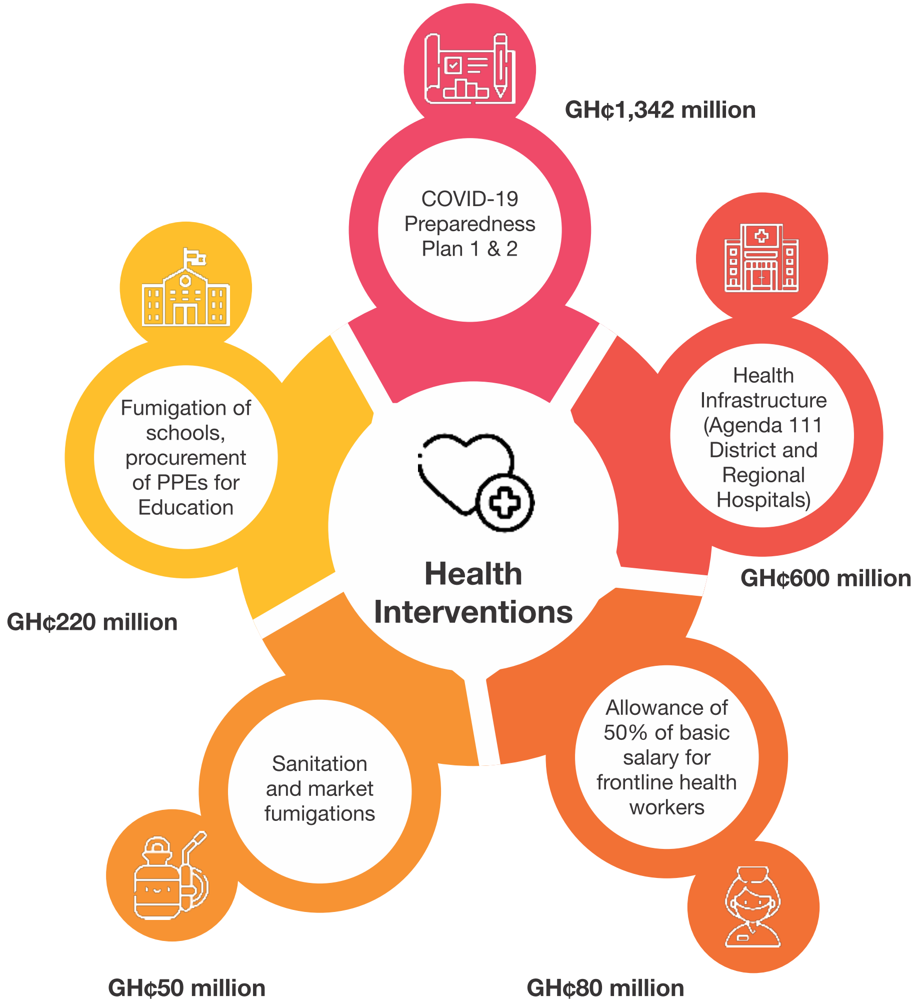
	Compensation of Employees	Use of Goods and Services	Interest Payments	Grants to Other Government Units	Capital Expenditures	COVID-19 Expenditure	Other Expenditure
2020 Budget	26,565	8,331	21,691	15,635	9,260	0	5,226
2020 Revised Budget	27,062	7,744	26,268	11,805	9,327	11,162	4,685

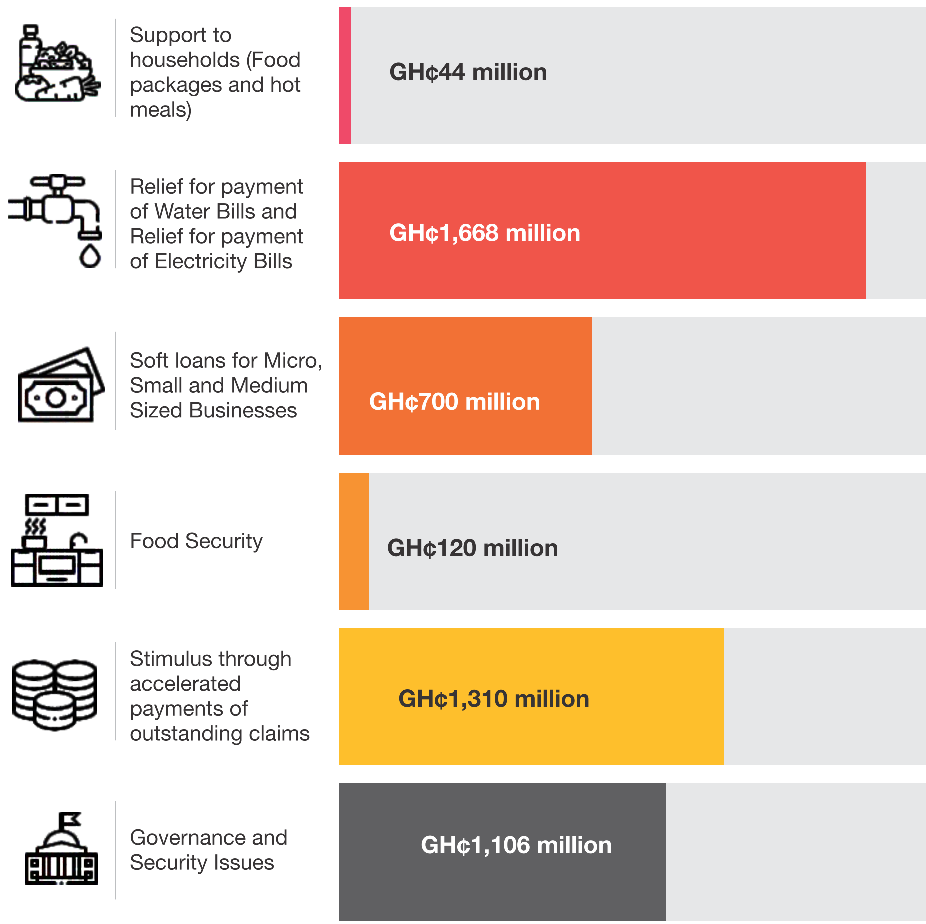
From the graph above, Interest Payments have been revised upwards by nearly 21.1% from GH¢21.7 billion to GH¢26.3 billion while Capital Expenditures are expected to remain relatively unchanged at GH¢9.3 billion.

The original provision for Ministries, Departments and Agencies (MDAs) for Goods and Services and Domestic Capex was revised downwards by GH¢738.4 million through re-prioritisation to create fiscal space to accommodate more critical expenditures induced by the pandemic.

Government Expenditure

Government's key interventions





Government's key interventions

Socio-Economic related interventions

- Continue the provision of free water supply for another three months
- Continue free electricity supply for those on the lifeline tariff for three additional months

Government's plan to provide relief and support to Ghanaians is noteworthy to ease some of the financial and economic burden of the underprivilege in society

Business related interventions

- Increase the funding to the CAP Business Support Scheme (CAP-BuSS) Programme being run by National Board for Small Scale Industries (NBSSI) to micro, small, and medium-size enterprises (MSMEs) sector
- Help businesses meet the challenges of COVID-19 by paying Government's outstanding obligations to contractors and suppliers
- Provide support to large businesses (i.e. over 100 employees) to help them adjust to the COVID-19 Social Interventions.
- Establish a Guarantee Scheme of up to GH¢2.0 billion to enable businesses to borrow from banks at more affordable rates and at longer tenor.

These interventions would inject liquidity into the system, help businesses grow, protect workers from losing their jobs and revitalise the economy. Government should ensure that the implementation of these initiatives is executed in a more transparent and efficient manner.

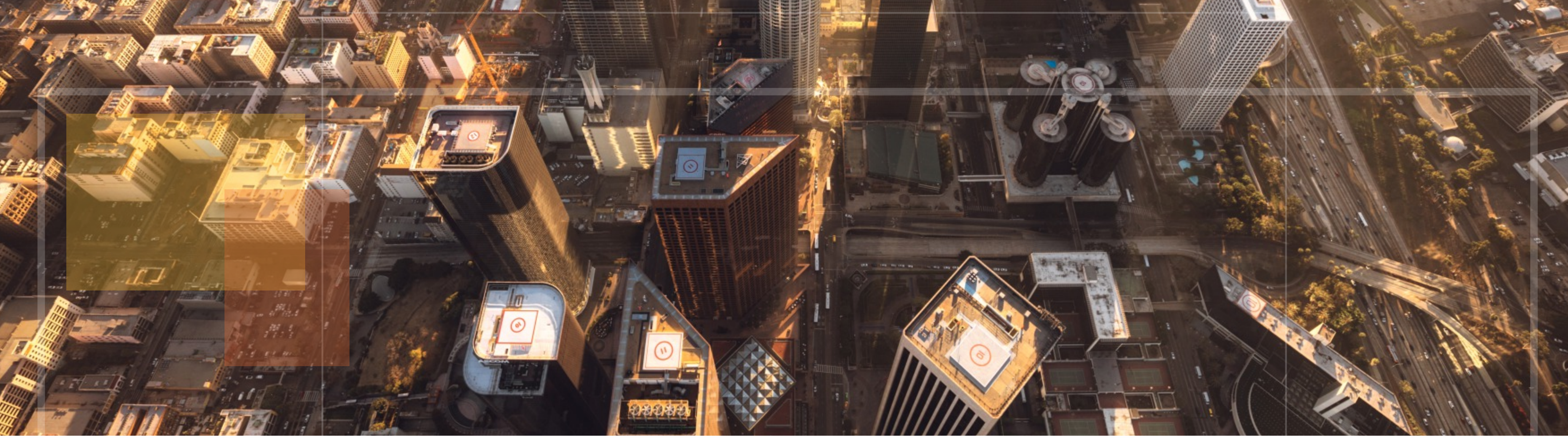
Health related interventions

- Follow up with the Emergency Preparedness and Response Plan II to COVID-19 (i.e. Testing, Tracing and Treatment)
- Ramp up local production and supply of PPEs to create business opportunities for the local textile and garments industry
- Ensure that each district/region in the nation has a decent district hospital (i.e. Agenda 111, district and regional hospitals)

The Government's plan in strengthening the health system to fight COVID-19 will depend on their ability to ensure continued investment towards these measures. Also, the Government should secure funding for these projects and partner with the private sector, local contractors, and businesses in the delivery of these interventions. This will help create jobs in the manufacturing and construction industries and reduce the impact of job losses caused by the pandemic.

Other interventions

- Ensure food security by intensifying support for farmers and provide financial support to the National Buffer Stock Company to enable them store food
- Provide a seed-fund for a retraining programme to help workers who are laid off
- Source from the pharmaceuticals and textile & garment sectors and expand procurement from local producers for its goods and services as far as practicable
- Establishment of a Development Bank, Ghana with a focus on mobilising medium to long-term funds.
- Pass a number of legislative bills that will provide a strong framework for accessing funds and attracting the investments



Appendix

5

Summary of Central Government Revenue 2019-2020 (GH¢ 'million)

	2019 Revised Budget (A)	2019 Projected Outturn (B)	2020 Budget (C)	2020 Revised Budget (D)	Variance (E=D-B)	Variance (F=D-C)	Variance (G=B-A)
TAX REVENUE	**45,639.40**	**42,774.60**	**49,247.70**	**42,331.69**	**-442.91**	**-6,916.01**	**-2,864.80**
TAXES ON INCOME & PROPERTY	**22,674.41**	**22,683.11**	**26,603.39**	**23,769.77**	**1,086.66**	-2,833.62	**8.70**
Personal	7,544.15	7,313.11	8,312.38	8,651.43	1,338.32	339.05	-231.04
Self Employed	440.97	421.06	481.39	360.92	-60.14	-120.47	-19.91
Companies	10,071.71	10,567.41	11,169.95	11,113.29	545.88	-56.66	495.70
Company Taxes on Oil	1,363.67	925.65	2,812.09	777.59	-148.06	-2,034.50	-438.02
Others	3,253.92	3,455.88	3,827.58	2,866.54	-589.34	-961.04	201.96
Other Direct Taxes	2,393.72	2,594.49	2,851.24	2,256.41	-338.08	-594.83	200.77
o/w Royalties from Oil	1,177.76	1,251.72	1,449.85	838.54	-413.18	-611.31	73.96
o/w Mineral Royalties	803.96	1,056.66	1,052.21	1,003.63	-53.03	-48.58	252.70
National Fiscal Stabilisation Levy	290.90	340.05	420.11	296.01	-44.04	-124.10	49.15
Airport Tax	569.30	521.34	556.23	314.12	-207.22	-242.11	-47.96
TAXES ON DOMESTIC GOODS AND SERVICES	**18,639.90**	**17,151.66**	**19,102.34**	**15,901.65**	**-1,250.01**	**-3,200.69**	**-1,488.24**
Excises	**4,232.89**	**3,919.20**	**4,488.87**	**3,838.18**	**-81.02**	**-650.69**	**-313.69**
Excise Duty	554.57	387.20	425.42	333.51	-53.69	-91.91	-167.37
Petroleum Tax	3,678.31	3,532.00	4,063.45	3,504.67	-27.33	-558.78	-146.31
o/w Energy Fund Levy	40.35	38.62	41.49	41.48	2.86	-0.01	-1.73
o/w Road Fund Levy	1,599.72	1,540.88	1,659.52	1,659.52	118.64	0.00	-58.84
VAT	**9,916.12**	**9,330.10**	**10,158.30**	**8,287.16**	**-1,042.94**	**-1,871.14**	**-586.02**
Domestic	5,176.81	5,208.72	6,022.09	5,043.35	-165.37	-978.74	31.91
External	4,739.31	4,121.38	4,136.21	3,243.81	-877.57	-892.40	-617.93
National Health Insurance Levy (NHIL)	**1,983.22**	**1,745.21**	**2,009.31**	**1,610.42**	**-134.79**	**-398.89**	**-238.01**
Customs Collection	947.86	714.71	806.91	619.25	-95.46	-187.66	-233.15
Domestic Collection	1,035.36	1,030.50	1,202.40	991.17	-39.33	-211.23	-4.86
GETFund Levy	**1,983.22**	**1,744.81**	**2,009.31**	**1,630.09**	**-114.72**	**-379.22**	**-238.41**
Customs Collection	947.86	714.31	806.91	638.92	-75.39	-167.99	-233.55
Domestic Collection	1,035.36	1,030.50	1,202.40	991.17	-39.33	-211.23	-4.86
Communication Service Tax	**524.45**	**412.34**	**436.54**	**535.80**	**123.46**	**99.26**	-112.11

TAXES ON INTERNATIONAL TRADE	**6,355.89**	**5,410.01**	**5,810.16**	**4,714.21**	**-695.80**	**-1,095.95**	**-945.88**
Imports	**6,355.89**	**5,410.01**	**5,810.16**	**4,714.21**	**-695.80**	**-1,095.95**	**-945.88**
Import Duty	6,355.89	5,410.01	5,810.16	4,714.21	-695.80	-1,095.95	-945.88
Exports	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
o/w Cocoa	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tax Refund	**-2,030.79**	**-2,470.18**	**-2,268.19**	**-2,052.93**	**417.25**	**215.26**	**-439.39**
SOCIAL CONTRIBUTIONS	**494.17**	**153.25**	**572.94**	**595.29**	**442.04**	**22.35**	**-340.92**
SSNIT Contributions to NHIL	494.17	153.25	572.94	595.29	442.04	22.35	-340.92
NON-TAX REVENUE	**9,021.65**	**7,567.57**	**13,134.34**	**6,735.55**	**-832.02**	**-6,398.79**	**-1,454.08**
Retention	4,326.71	3,952.69	4,990.17	2,858.99	-1,093.70	-2,131.18	-374.02
Lodgement	4,694.93	3,614.88	8,144.17	3,876.56	261.68	-4,267.61	-1,080.05
Fees & Charges	624.21	622.98	1,087.86	437.27	-185.71	-650.59	-1.23
Dividend/Interest & Profits (Others)	85.07	105.87	290.94	90.94	-14.93	-200.00	20.80
Dividend/Interest & Profits from Oil	3,127.43	2,691.14	4,661.19	2,204.35	-486.79	-2,456.84	-436.29
Surface Rentals from Oil/PHF Interest	5.89	19.47	9.04	7.83	-11.64	-1.21	13.58
Gas Receipts	0.00	0.00	0.00	0.00	0.00	0.00	0.00
NLA/ NCA (IITT Proceeds)	0.00	0.00	0.00	274.80	274.80	274.80	0.00
Licences	520.00	0.00	548.80	70.06	70.06	-478.74	-520.00
Environmental Levy	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Income	0.00	0.00	1,372.00	686.00	686.00	-686.00	0.00
Fees from Mineral Export	160.00	0.00	0.00	0.00	0.00	0.00	-160.00
Luxury Vehicle Levy	52.33	60.78	0.00	0.00	-60.78	0.00	8.45
Yield from Capping Policy	120.00	114.65	174.34	105.33	-9.32	-69.01	-5.35
OTHER REVENUE	**2,631.45**	**1,898.05**	**2,876.13**	**2,779.62**	**881.57**	**-96.51**	**-733.40**
ESLA Proceeds	2,631.45	1,898.05	2,876.13	2,779.62	881.57	-96.51	-733.40
Energy Debt Recovery Levy	1,710.67	1,664.91	1,874.49	1,777.98	113.07	-96.51	-45.76
Public Lighting Levy	247.66	63.29	260.04	260.04	196.75	0.00	-184.37
National Electrification Scheme Levy	160.25	44.48	168.26	168.26	123.78	0.00	-115.77
Price Stabilisation & Recovery Levy	512.86	125.38	573.33	573.33	447.95	0.00	-387.48
DOMESTIC REVENUE	**57,786.66**	**52,393.49**	**65,831.11**	**52,443.15**	**49.66**	**-13,387.96**	**-5,393.17**
GRANTS	**1,109.87**	**986.12**	**1,240.05**	**1,223.34**	**237.22**	**-16.71**	**-123.75**
Project Grants	1,052.15	986.12	1,139.10	719.34	-266.78	-419.76	-66.03
Programme Grants	57.72	0.00	100.95	504.00	504.00	403.05	-57.72

Appendix 2

EXPENDITURE	2019 Revised Budget (A)	2019 Projected Outturn (B)	2020 Budget (C)	2020 Revised Budget (D)	Variance (E=D-B)	Variance (F=D-C)	Variance (G=B-A)
Compensation of Employees	**22,837.99**	**22,219.03**	**26,565.15**	**27,061.79**	**4,842.76**	**496.64**	**-618.96**
Wages and Salaries	19,766.88	19,479.34	22,917.54	23,851.60	4,372.26	934.06	-287.54
Social Contributions	3,071.11	2,739.69	3,647.61	3,210.19	470.50	-437.42	-331.42
Pensions	1,063.42	1,037.63	1,103.76	1,232.57	194.94	128.81	-25.79
Gratuities	238.96	246.57	458.35	230.38	-16.19	-227.97	7.61
Social Security	1,768.73	1,455.48	2,085.50	1,747.23	291.75	-338.27	-313.25
Use of Goods and Services	**6,938.42**	**6,169.60**	**8,330.83**	**7,743.57**	**1,573.97**	**-587.26**	**-768.82**
o/w ABFA	748.93	573.77	1,300.86	496.86	-76.91	-804.00	-175.16
Interest Payments	**19,598.37**	**19,769.26**	**21,691.48**	**26,268.28**	**6,499.02**	**4,576.80**	**170.89**
Domestic	15,024.77	15,209.47	16,557.62	21,134.42	5,924.95	4,576.80	184.70
External (Due)	4,573.60	4,559.79	5,133.86	5,133.86	574.07	0.00	-13.81
Subsidies	**180.26**	**124.24**	**229.33**	**229.33**	**105.09**	**0.00**	**-56.02**
Subsidies to Utility Companies	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Subsidies on Petroleum Products	180.26	124.24	229.33	229.33	105.09	0.00	-56.02
Grants to Other Government Units	**14,034.25**	**11,423.60**	**15,635.17**	**11,805.14**	**381.54**	**-3,830.03**	**-2,610.65**
National Health Fund (NHF)	1,724.95	1,316.89	2,191.62	1,929.29	612.40	-262.33	-408.06
Education trust Fund	1,230.77	919.92	1,228.04	1,055.58	135.66	-172.46	-310.85
Road Fund	1,104.05	899.24	1,014.26	871.82	-27.42	-142.44	-204.81
Petroleum Related Funds	25.04	15.87	25.36	21.80	5.93	-3.56	-9.17
Dist. Ass. Common Fund	2,090.25	1,606.11	2,312.71	1,874.46	268.35	-438.25	-484.14
Retention of Internally Generated Funds (IGFs)	4,326.71	3,952.69	4,990.17	2,858.99	-1,093.70	-2,131.18	-374.02
Transfer to GNPC from Oil revenue	1,308.48	939.73	1,673.16	1,438.19	498.46	-234.97	-368.75
Other Earmarked Funds	2,223.99	1,773.15	2,199.85	1,755.01	-18.14	-444.84	-450.84

Appendix 2 cont'd

Social Benefits	**130.08**	**100.49**	**150.08**	**150.08**	**49.59**	**0.00**	**-29.59**
Lifeline Consumers of Electricity	130.08	100.49	150.08	150.08	49.59	0.00	-29.59
Transfers for Social Protection	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Expenditure	**2,451.19**	**1,898.05**	**2,646.80**	**13,712.29**	**11,814.24**	**11,065.49**	**-553.14**
ESLA Transfers	2,451.19	1,898.05	2,646.80	2,550.29	652.24	-96.51	-553.14
Covid-19 Related Expenditures	0.00	0.00	0.00	11,162.00	11,162.00	11,162.00	0.00
o/w CAP (Contingency Fund)	0.00	0.00	0.00	1,203.72	1,203.72	1,203.72	0.00
Capital expenditure	**7,711.15**	**6,151.84**	**9,260.04**	**9,326.67**	**3,174.83**	**66.63**	**-1,559.31**
Domestic Financed	**3,617.21**	**2,528.50**	**3,775.54**	**3,624.42**	**1,095.92**	**-151.12**	**-1,088.71**
o/w GIIF	0.00	0.00	0.00	0.00	0.00	0.00	0.00
o/w ABFA	1,747.50	414.18	3,035.33	1,159.33	745.15	-1,876.00	-1,333.32
Foreign financed	**4,093.94**	**3,623.33**	**5,484.50**	**5,702.26**	**2,078.93**	**217.76**	**-470.61**
Other Outstanding Expenditure Claims	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL EXPENDITURE	**73,881.71**	**67,856.11**	**84,508.86**	**96,297.14**	**28,441.03**	**11,788.28**	**-6,025.60**
APPROPRIATION	**85,142.19**	**79,828.80**	**98,036.69**	**109,933.17**	**30,104.37**	**11,896.48**	**-5,313.39**
Total Expenditure	73,881.71	67,856.11	84,508.86	96,297.14	28,441.03	11,788.28	-6,025.60
Arrears (net change)	730.00	730.00	1,443.23	1,443.23	713.23	0.00	0.00
Amortisation	10,530.48	11,242.69	12,084.60	12,192.80	950.11	108.20	712.21

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