Highlights of the 2021 Mid-Year Budget Review

August 2021

Global economic review

Global Economic Developments & Outlook

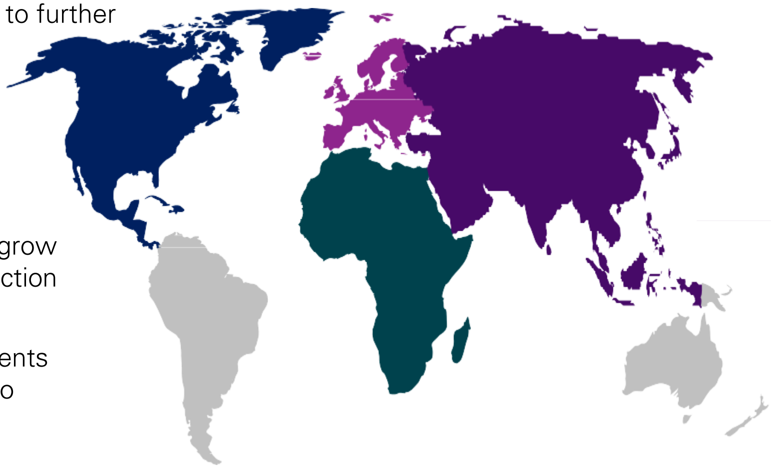
"Vaccine access has emerged as the principal fault line along which the global recovery splits into two blocs: those that can look forward to further normalisation of activity and those that will still face resurgent infections and rising COVID death tolls. The recovery, however, is not assured even in countries where infections are currently very low so long as the virus circulates elsewhere".

NORTH AMERICA

- Growth in the United States is revised to 7.0% in 2021, reflecting the strong investment and fiscal support legislated at the end of 2020.
- The American family and jobs plans proposed by the Biden administration is expected to further strengthen the recovery.

AFRICA

- Sub-Saharan Africa is projected to grow at 3.4% in 2021, reversing a contraction of 1.9% experienced in 2020.
- The worsening pandemic developments in sub-Saharan Africa are expected to weigh on the region's recovery



EUROPE

- The Euro Zone is expected to grow at 4.6% in 2021, with renewed lockdowns leading to downside surprises.
- Growth in the area is expected to result from supportive macroeconomic policies and access to vaccines to combat the COVID-19 disease.

MIDDLE EAST & ASIA

- Growth in the Middle East and Central Asia is revised to 4.0% in 2021, up from the decline of 2.9% experienced in 2020.
- Growth in East Asia and Pacific is projected to accelerate to 7.7% in 2021, largely reflecting a strong rebound in China. China's growth is forecasted to pick up to 8.4% this year.
- Revised projections are as a result of improved projections in non-oil growth in some economies within the area

- **The global economy is projected to grow 6.0 percent in 2021 and 4.9 percent in 2022.**
- **The 2021 growth estimate reflects an expected positive turnaround on account of COVID-19 vaccine-powered economic activity and strong policy support from advanced countries.**
- **Amid the strengthening global recovery, oil prices are expected to rise close to 60 percent above their low base in 2020.**

Source: World Economic Outlook (IMF) and World Bank

Ghana macroeconomic context

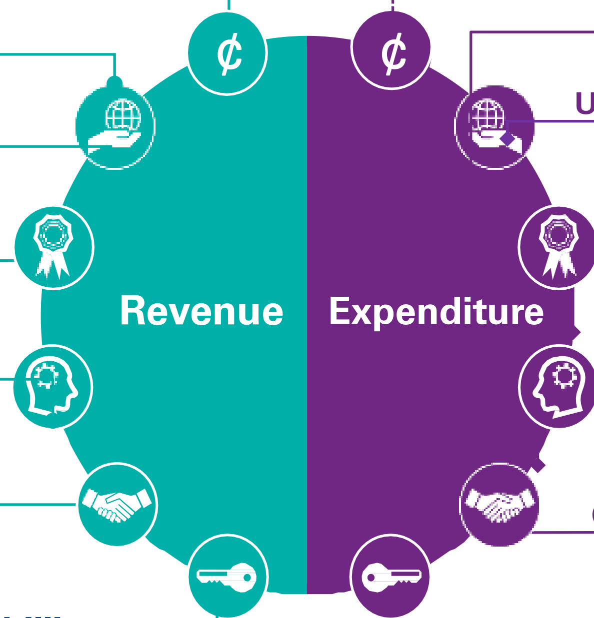
Macro Economic Snapshot: 2020 - 2021

Macroeconomic Performance	2020 Prov. Outturn	2021 Initial Targets	2021 Rev.Target	2021 End June Outturn
Overall GDP Growth Rate	0.4%	5.0%	5.1%	3.1%**
Non Oil GDP Growth Rate	0.9%	6.7%	7.0%	4.6%**
End Period Inflation Rate	10.4%	8.0%	8.0%	7.8%
Fiscal Deficit (% of GDP)	11.7%	9.5%	9.4%	5.1%
Primary Balance (% of GDP)	(5.3)%	(1.3)%	(2.0)%	(1.7)%
Import Cover (Number of months cover)	4.1	4.0	4.0	5.0

***As at end of March 2021*

Ghana Macroeconomic Context

Fiscal Developments for the First Half of 2021.



Non-oil Tax Revenue– GH¢ 22.1billion
---- *This represents 5.1% of GDP*

New Revenue Measures– GH¢ 0.2 billion
— *This is compared to a target of GH¢ 0.3 billion*

Non-oil Non Tax Revenue– GH¢ 2.6 billion
— *This represents 0.6% of GDP*

Oil & Gas Receipt– GH¢ 1.9 billion
— *This represents 0.4% of GDP.*

Other Revenue – GH¢ 1.2 billion
— *This represents 0.3% of GDP.*

Grants – GH¢0.4 billion
— *This represents 0.1% of GDP.*

Total Revenue & Grants – GH¢ 28.3 billion

Compensation of Employees – GH¢ 14.7 billion
— *This represents 3.4% of GDP.*

Capital Expenditure – GH¢ 6.9 billion
— *This represents 1.6% of GDP.*

Use of Goods and Services – GH¢ 4.4 billion
— *This represents 1.0% of GDP.*

Interest Payments – GH¢15.0 billion
— *This represents 3.5% of GDP.*

Other expenditure. – GH¢ 2.9 billion
— *GH¢ 1.02 billion* for ESLA
— *GH¢ 1.8 billion* for COVID-related

Grants to other Gov't units. – GH¢ 5.7 billion
— *This represents 1.3% of GDP.*

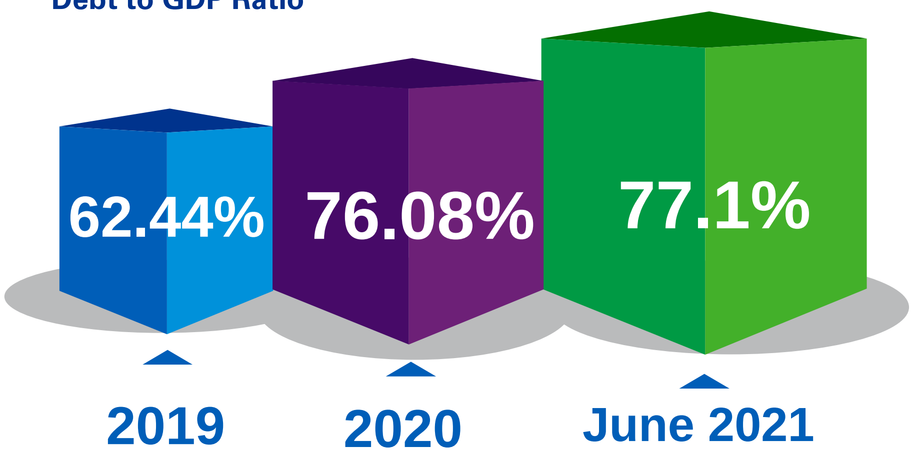
Total Expenditure *(excl. arrears)* **– GH¢ 50.6 billion**

- Total government revenue and grants of **GH¢ 28.3 billion** represents **6.5%** of GDP for the first half of 2021. This is driven mainly by non-oil tax revenue (~78% of total revenue and grants).
- Total expenditure for the same period was **GH¢ 50.6 billion** which represents **11.7%** of GDP.
- An overall budget deficit of **GH¢22.3billion (5.1% of GDP)** was the outturn for the first half of 2021.

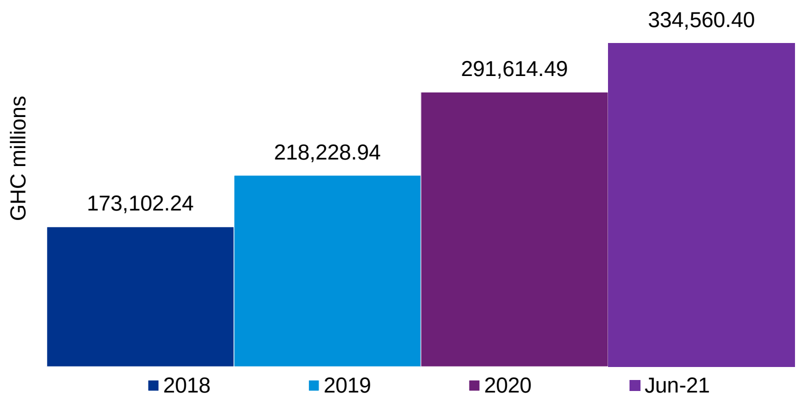
Source: 2021 Mid-year budget statement

Public Debt

Debt to GDP Ratio



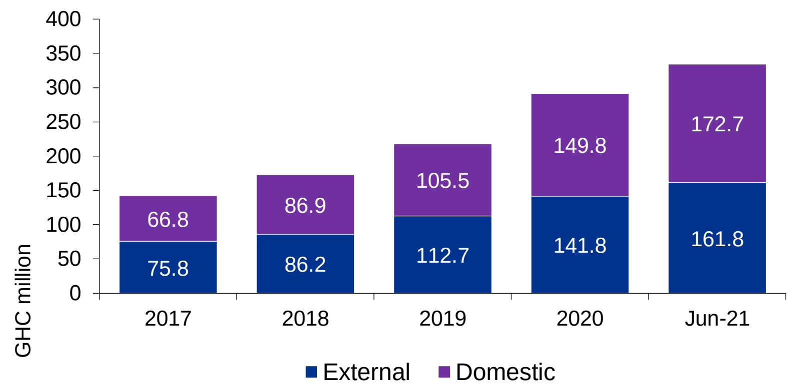
Total Debt



Public Debt Dynamics

- The provisional nominal debt stock as at end-June 2021 stood at GH¢334,560.4 million (US$58,041.1 million), representing 77.1 percent of GDP. This was up from GH¢291.6 billion (US$50.8 billion) at the end of December 2020. Excluding the Financial Sector Bailout, the nominal debt stock as percentage of GDP falls to 72.9 percent.
- The increase in the debt stock was mainly because of the Eurobond issuance in April 2021, COVID-19 pandemic effect, contingent liabilities, and front loading of financing to meet cash flow requirements for the first half of the year.
- External and domestic debt represented 48.4% and 51.6% of total debt, respectively.

Public Debt Development (2017- June 2021)



Ghana Macroeconomic Context

Real Sector Performance

Sectoral growth rates Q2-2021

4.3%

Agriculture

4.0%

Services

1.3%

Industry

- Although the agricultural sector maintained its mark as the sector with the highest growth rate, its growth rate fell to 4.2% from 10.2% in Q2-2020.
- The Crops and Livestock sub-sectors specifically drove growth in the agricultural sector.
- The Services sector recorded the second highest growth rate of 4.0%. The growth was mainly driven by the Information and Communication sub-sector.
- The industry sector recorded a growth rate of 1.3%, the least growth rate amongst all three sectors. It slightly declined from 1.4% from the same period last year. Its growth was spearheaded by the Construction and Manufacturing sub-sectors.

Bank of Ghana's Composite Index of Economic Activity (CIEA) data backs the restoration of economic activity at an appreciable level. It indicates an annual growth of 33.1% in May 2021 compared to 10.2% at the same period in 2020. Improvement in industrial production, domestic consumption, import activities, construction activities and air-passenger travels have propelled economic activity.

Monetary policy and price stability trends

- Inflation largely declined from 10.4% in December 2020 to 7.8% in June 2021. Base-drift effects from the waning of pandemic-induced food price shocks and stability on the exchange rate front accounted for the decline.
- The Monetary Policy Rate (MPR) was reduced by 100bps to 13.5% at the May Monetary Policy Committee meeting. This is expected to transmit to money markets, soften financing conditions, and give further boost to credit and stimulate growth.
- Improved liquidity conditions led to a reduction in the average bank lending rate to **20.61**% in June 2021 from 21.95% as at June 2020.
- For the first time in the Fourth Republic, the exchange rate did not see a spike after an election year. As at the second quarter of 2021, the exchange rate has depreciated by 0.6% against the US Dollar whilst appreciating by 3.6% against the Euro. It is expected that this stability will continue throughout the year.

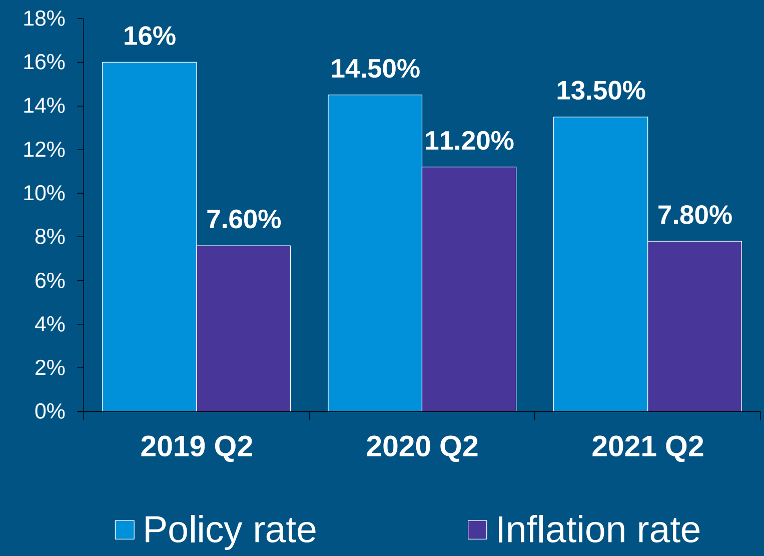
Interbank Weighted Average Rate

12.88% ↓

Average Lending Rates of Banks

20.61% ↓

Inflation and Monetary Policy Rates



Sources: 2021 Mid Year Budget Review, BoG MPC Release
**As at 30 June 2021*

COVID-19

Impact of COVID-19

Health Impact

- The reported steady decline in weekly average infections, which stood at 379 by the week of 5th March, 2021, was sustained and reached 60 cases by the week of 20th June, 2021.
- However, the detection and spread of the delta variant of the virus has largely driven up reported cases. As of 25th July, 2021, overall COVID-19 infections since the first confirmed case on 12th March, 2020 has reached 103,019.

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Economic Impact

- **Financial Services:** The COVID-19-related regulatory reliefs and policy measures introduced by the Bank of Ghana continued to promote bank lending activities. In the first half of 2021, new advances reached GH¢16.0 billion, marginally above the advances of GH¢15.8 billion during the same period in 2020. It is expected that as economic activities recover and lending rates drop further, private sector credit will pick up.
- **Tourism & Hospitality:** The re-opening of the Kotoka International Airport in September 2020 resulted in an increased arrival of international tourists. As at the end of the first half of 2021, cumulative arrivals had reached 231,000 which represents 65% of the full year arrivals in 2020.
- **Technology:** There have also been positive trends from the pandemic, as digital technology is assuming a more significant role in the operations of businesses. Almost 90% of firms in Ghana are now leveraging digital platforms to market their products. Similarly, mobile money, door-to-door delivery via courier services and internet usage for business operations also increased by 77%.

Source: 2021 Mid-year budget statement

Updates on Government's Mitigating Measures to the Pandemic

Health-related measures

- 1,271,393 doses of COVID-19 vaccines administered.
- Since Ghana recorded its first two cases on 12th March, 2020, the Ghana Health Service has conducted 1,416,952 tests as of 25th July, 2021, with a cumulative positivity rate of 7.3 percent.

Economic measures

- **Coronavirus Alleviation Programme Business Support Scheme**: May 2020 and June 2021 a total amount of GH¢520,111,918.67 had been disbursed to 299,490 beneficiaries, with 31 percent of them being males and 69 percent females.
- As at end-June 2021, a total of GH¢52,293,093.00 had been disbursed to 29,698 beneficiaries within the creative arts industry. Additionally, 5,410 private schools, universities, and associations received a total of GH¢41,211,577.

Social interventions

- **Electricity subsidies**: 4,772,512 customers benefitted from the electricity reliefs from April 2020 to March 2021. For the months of January to June 2021, the cost of implementing the policy was GH¢116,795,704.00.
- **Water subsidies:** Currently, a total of over 2.30 million urban domestic dwellers benefiting from the programme. The cost of the programme to date is GH¢836.82 million.

COVID-19 National Trust Fund

- As at 30th June, 2021 the COVID-19 National Trust Fund had received a total amount of GH¢57.15 million in cash donations. These donations were received between the period April 2020 and March 2021, with about GH¢54.00 million (94 percent) having been received between April and June 2020.
- As at 30th June, 2021 the Fund had disbursed, for various programmes as well as procurement of items, an amount of GH¢52,501,540.44 representing 92 percent of the cash contributions received.

Source: 2021 Mid-year budget statement

Ghana Cares & Economic Recovery

Ghana Cares & Economic Recovery

Phase I (July - December 2020)

Government launched the GHS100 billion COVID-19 Alleviation and Revitalization of Enterprises Support (Ghana CARES) 'Obaatanpa' Programme in November 2020. This first phase also known as the stabilisation phase helped alleviate the immediate impact of the pandemic on the economy. The major activities in this phase focused on the health and safety of Ghanaians, economic recovery and re-capturing the lost gains.

Substantially subsidized water and electricity costs

Passage of urgent legislation to enforce COVID-19 safety protocols

Increased allocation for CAPBuSS to support MSMEs

GHS 2 billion Guarantee Scheme to support large business

Ghana Cares & Economic Recovery

Phase II (2021 - 2023)

This phase known as the Revitalisation and Transformation Phase seeks to alleviate the impact on targeted sectors to enable expansion of businesses and job creation. Implementation of this phase has kicked off. Some initiatives have been accomplished while others are in progress. A snapshot of the status of initiatives are indicated below.

Operationalisation of Development Bank Ghana (DBG) in the third quarter of this year

Support GIRSAL to strengthen its operations.

Support Ghana Commodity Exchange (GCX) to strengthen its operations

Expansion of Ghana's light manufacturing

Provide funds to the National Housing and Mortgage Fund (NHMF)

Launch GEA to promote development of Ghanaian MSMEs

Modernisation of the agricultural sector

Provide financial resources for development of venture capital financing for (SMEs) in priority sectors

Source: 2021 Mid-year budget statement

accomplished ongoing

Tax Initiatives

Tax Initiatives - Revenue Optimisation Measures

1 Establishment of Revenue Assurance and Compliance Enforcement (RACE)

Initiative proposed per 2021 Mid-Year Budget

The RACE initiative to be launched in August 2021 in order to complement the efforts of the Ghana Revenue Authority in enforcing compliance and eliminating leakages in the revenue mobilisation.

RACE shall play an oversight role and serve as the last line of defence in the protection of the public purse

Impact of proposed initiative

With the implementation of this initiative there is expected increase in the number of tax audit conducted and prosecution of taxpayers found culpable of any tax offences.

2 Taxation of the Digital Economy

Initiatives proposed per 2021 Mid-Year Budget

Ghana Revenue Authority to launch an e-commerce platform in third quarter of 2021 to facilitate the registration of individuals and businesses in the e-commence sector.

Impact of proposed initiative

The registration of individuals and businesses engaged in e-commerce will improve the taxation of the digital economy (including online gambling). This is expected to expand the tax net and augment revenue generation.

3 Full Activation of Tax Prosecution Unit

Initiatives proposed per 2021 Mid-Year Budget

The Ghana Revenue Authority to fully activate the tax prosecution unit in order to bring in line recalcitrant taxpayers and other persons who infringe the revenue laws.

Impact of proposed initiative

The effective activation of the tax prosecution processes will enhance tax compliance and revenue mobilisation.

4 Extending the use of the Ghana.Gov

Initiatives proposed per 2021 Mid-Year Budget

The use of the Ghana.Gov will be extended to all Ministries Departments and Agencies (MDAs) and Metropolitan, Municipal and District Assemblies (MMDAs) that are yet to be enrolled by December 2021

Impact of proposed initiativ

This initiative is expected to enhance the ease of making payments for rates and taxes and generally reduce the cost of collecting these payments..

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