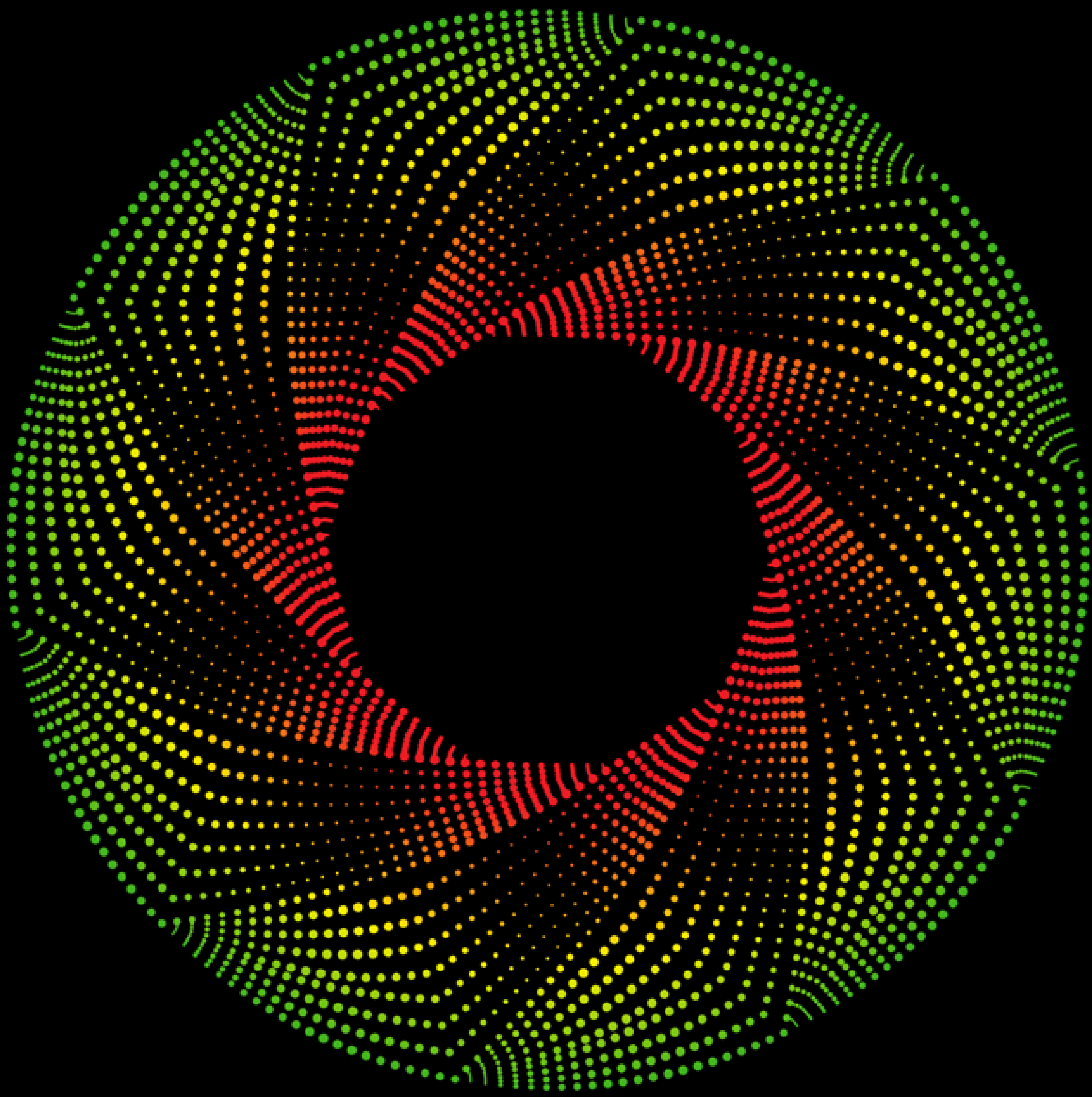
Deloitte.



2021 Mid-Year Budget Review Statement

Summary of budget statement & Deloitte views

August 2021

MAKING AN IMPACT THAT MATTERS since 1845

Introduction

The Minister of Finance, on 29 July 2021 presented the Mid-Year Budget Statement for the 2021 (the "2021 Mid-Year Budget") to the Parliament of Ghana. This is in accordance with the provisions of Article 179 (8) of the 1992 Constitution of Ghana, Standing Order 143 of Parliament of Ghana and Section 28 of the Public Financial Management Act, 2016 (Act 921).

The 2021 Mid-Year Budget focused on the continuation, consolidation and continuity of the economic plans the Government of Ghana put into place in 2020 to alleviate the impact of the COVID-19 pandemic on the economy. The 2021 Mid-Year Budget also focused on ensuring the sustained recovery of the Ghanaian economy from the effects of the COVID-19 pandemic in 2021 and beyond.

"I stand before this august House today to assure the nation that our transformational agenda is very much on course. However, with COVID-19 still with us, it is important to stress that this recovery is only the beginning".

"..., in view of the devastating effects of the pandemic, policy priorities need to be reassessed to ensure Ghana's transformation to a more resilient and inclusive economy. Key policy response should be focused on mitigating household and firm liquidity constraints, as well as financial and banking distress. Policy priorities should also focus on support for the health sector, expanding social safety nets, addressing increasing poverty and intensifying digitalisation."

Minister of Finance, Mid-Year Review of the Budget Statement and Economic Policy of the Government of Ghana, July 2021.

Content

Economy of Ghana

Overall Real GDP Growth

4.9%
June 2020

8.9%
June 2021

Target
5%
2021

Read GDP growth in the second quarter of 2021 was 8.9%, which compared higher than the GDP growth of 4.9% recorded in the same period in 2020. The Government of Ghana ("GoG" or the "Government") has targeted a 5% GDP growth in 2021 mainly driven by Government initiatives such as the Ghana CARES "Obaatan Pa" programme, which is expected to aid in the recovery of the economy post COVID and expected increase in business activity.

End-Period Inflation

11.2%
June 2020

7.8%
June 2021

Target
8%
2021

Inflation was down at 7.8%in June 2021 compared to 11.2% in June 2020. The significant reduction in inflation was mainly attributed to pandemic-induced food price shocks in 2020 and relative stability of the Cedi. GOG has set a target inflation of 8% +/- 2% in 2021.

Deloitte Comments

The Economist Intelligence Unit (EIU) has projected a 4.8% GDP growth at the end of the year 2021, which is marginally lower than Government's projection. The expected increase in international trade, following the easing of restrictions in most economies, is expected to drive demand for commodities, which is favourable for commodity exporting countries like Ghana. This, coupled with the general increase in economic activity in 2021 is expected to help achieve the targeted growth. However, a critical success factor is how well we handle the rising COVID-19 cases. A strict enforcement of COVID protocols as well as an effective roll out of COVID vaccination will sustain the economic recovery process.

Government's inflation target for 2021 is 8% +/- 2%. Based on previous performance, we expect the Government to maintain inflation within the targeted band by the end of 2021.

Budget Deficit

6.4%
June 2020

5.1%
June 2021

Target
9.4%
2021

Budget deficit as of June 2020 was 6.4% of GDP mainly driven by an increase in Government expenditure in response to the COVID pandemic. The budget deficit improved in June 2021 to 5.1% of GDP as a result of much more controlled Government expenditure. Government has projected a budget deficit of 9.5% of GDP at the end of the year.

Foreign Direct Investment (FDI)

US$627.52m
June 2020

US$954.2m
June 2021

Target
US$3bn
2021

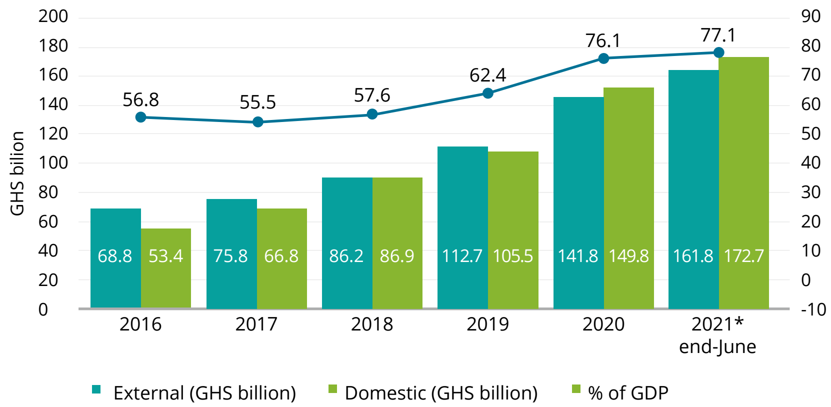
FDI was recorded at US$ 627.52m at the end of June 2020 displaying strength amidst the Covid-19 pandemic. The country's FDI further improved to US$ 954.2m over the same period in 2021. This performance is attributed to the easing of lockdown restrictions set in place to contain the Covid-19 virus, increase in investor confidence and initiatives and incentives by the Government to protect businesses and the economy.

Deloitte Comments

The EIU projects an 8.2% budget deficit to GDP by the end of 2021 which reflects a better budget deficit performance compared to Government's projection. Based on the half year performance, Government's 9.4% budget deficit projection is achievable. However, Government must ensure it operates a controlled budget expenditure and work towards achieving planned revenue targets.The Ghana Investment Promotion Centre (GIPC) has projected an FDI target of US$3 bn by the end of 2021. Comparing its half year performance of less than a billion, achieving a US$ 3bn target might seem like a tall order, however not impossible. In particular, Government's ability to implement some of the major initiatives related to infrastructure development and reducing cost of doing business in Ghana can be major catalysts for improving FDI inflows. In addition, the roll out of the 10-year Capital Markets Master Plan by the Securities and Exchanges Commission (SEC) is expected to impact favorably on FDIs.

Public debt analysis

Public debt developments from 2016 - June 2021



Source: Mid-Year Fiscal Policy Review of the 2021 Budget Statement and Economic Policy of the Government of Ghana and Deloitte analysis

Domestic Debt

¢122.1bn
(June 2020)

¢172.7bn
(June 2021)

41.5%

External Debt

¢136.3bn
(June 2020)

¢161.8bn
(June 2021)

18.7%

Debt analysis and Ghana's Credit Ratings for 2021

As part of it's financing strategy on the domestic front, Government seeks to build benchmark bonds by issuing or reopening medium-to-long-term bonds to improve liquidity and secondary market trading. The improvement in liquidity is expected to help bridge the gap between revenue collection and short-term expenditure commitments. Similarly, on the external front, Government plans to issue sovereign bonds on the International Capital Market (ICM) if market conditions are favourable to finance the 2021 budget and carry out liability management operations on the public debt portfolio. Government plans to embark on cheaper sources of funding for liability management on the existing debt stock to lower the cost of financing and reduce the risk on the debt portfolio.

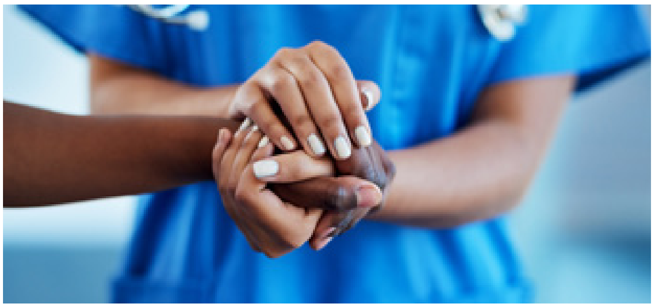
Fitch Ratings revised Ghana's Long-term Foreign-Currency Issuer Default Rating from stable to negative mainly as a result of slow rate of fiscal consolidation and public finance challenges emanating from the COVID-19 pandemic, low revenue base, high public debt levels and a lack of a clear majority in Parliament. Despite the downgrade, Government has indicated that it will continue to take practical actions and policies to strengthen the economy in the post COVID-19 era.This will be done through the implementation of the fiscal measures sure as the Ghana CARES Programme to restore growth to the pre-pandemic levels.

Deloitte Comments

The rising domestic debt indicates that Government is increasingly competing with the private sector for funds available in the debt or capital market and this threat is likely to increase the cost of borrowing and reduce available funds for the private sector. Considering the relatively lower risk associated with lending to the Government, Commercial banks are more attracted to lending to the Government than to the private sector. This ultimately reduces lendable funds available to the private sector and tends to increase the cost of borrowing to the private sector to compensate for the associated default risk.

The credit downgrade by Fitch has implication on access to credits by businesses as the rating of the credit has an effect on the rating for businesses that operate in the country. Government should adopt a comprehensive debt management strategy which focuses on accessing concessionary loan facilities and reducing our reliance on commercial loans which are relatively more expensive.

Highlights of key initiatives



GhanaCARES

A GHS 100 billion programme launched in 2020 to mitigate the negative impact of the COVID-19 pandemic on the Ghanaian economy. The Government expects to source about GH¢70 billion of the required funds from the private sector. The Government is currently implementing Phase 2 of the programme which is focused on the revitalization and transformation of the economy and runs from 2021-2023 when the programme ends. Phase I was the stabilization phase which focused on immediate life saving measures the Government undertook in response to the pandemic. Some of the expected benefits of the GhanaCARES programme are job creation for the youth, import substitution, increased exports and fast-tracked industrialization.

Development Bank of Ghana

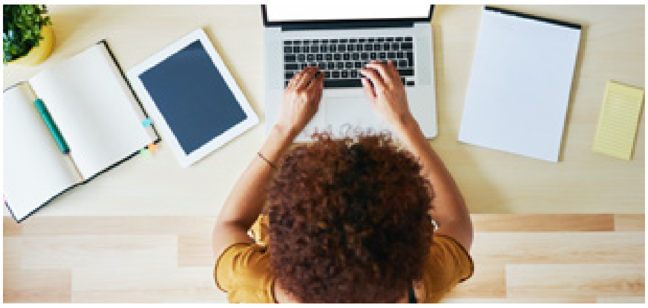
The Development Bank of Ghana is anticipated to help address the lack of adequate and long-term funding to key productive economic sectors by providing long-term finance, credit guarantees and other services to the agriculture and manufacturing sectors. The Ministry of Finance secured a 170 million euros loan from the European Investment Bank at an interest rate of 0.5% in May 2021 to support the establishment of the Bank. The loan will be repaid in 15 years.

EUR 170M From European Investment Bank (EIB) to finance its creation

National Homeownership Fund

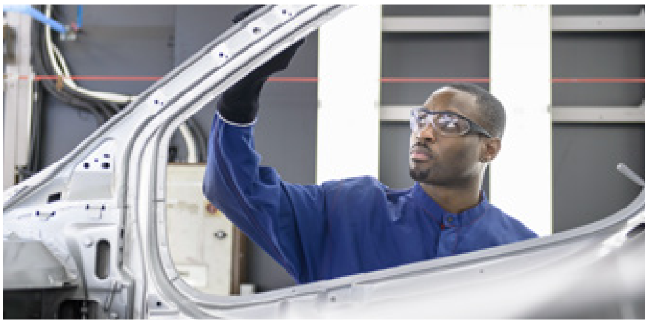
This fund, which will be matched by participating financial institutions, aims to provide sustainable and affordable housing. This intervention intends to promote home ownership while boosting the domestic construction sector to provide more jobs.

11%-12% Low mortgage interest rate compared to the current market rates between 25%-26%



Enterprise and Youth Support Fund (EYSF)

The EYSF intends to set up a “Youth banc” with the aim of financing youth-led start-up businesses across the country and an online investment hub will be established to enable youth across Ghana to access information for establishing businesses This fund will be managed by the Venture Capital Trust Fund (VCTF).. The government estimates that over 100,000 jobs will be created under this initiative.



One Million Jobs Initiative

This initiative will promote small and medium enterprises (SMEs) growth, stimulation of innovation and start ups in Ghana and support new ventures with the intention of creating one million jobs within the next 3 years. The Ministries of Employment and Labour Relations (MELR), Lands and Natural Resources (MLNR) as well as Youth and Sports (MoYS) have been charged to implement an Inter-Ministerial Strategy for Jobs to achieve the desired one million jobs.

Sustainable bonds

The Government is planning to issue green and social bonds of up to USD 2 billion by November 2021 to fund social and environmental projects and pay for educational and health programmes.

USD 2bn
Green and Social bonds

Deloitte Comments

The Government has made progress with its attempts to increase the productive capacity of the economy in the Agriculture and Manufacturing sectors. However, there is still work to be done regarding the formulation and implementation of policies that will lead to the creation of one million jobs within the next 3 years and increase the affordability of housing in Ghana if the economic recovery is to continue in the medium to long term.

Government should estimate the funding requirements for the National Homeownership Fund, Enterprise and Youth Support Fund (EYSF) and One Million Jobs Initiative Policies and assign budgeted amounts to them going forward. The USD 2bn sustainable bonds could be used to support some of these socio-economic initiatives.

The GhanaCARES and Development Bank of Ghana interventions are the policies most likely to enhance Ghana's economic recovery given their impact on sectors such as agriculture, manufacturing and micro, small and medium enterprises (MSMEs) and the fact that they have funding secured. Government should therefore put measures in place to allow for effective monitoring and evaluation of progress of these social intervention programs, as well as reducing wastage due to corruption and process inefficiencies usually associated with the implementation of such social intervention programs.

Revenue and expenditure

Government Revenue

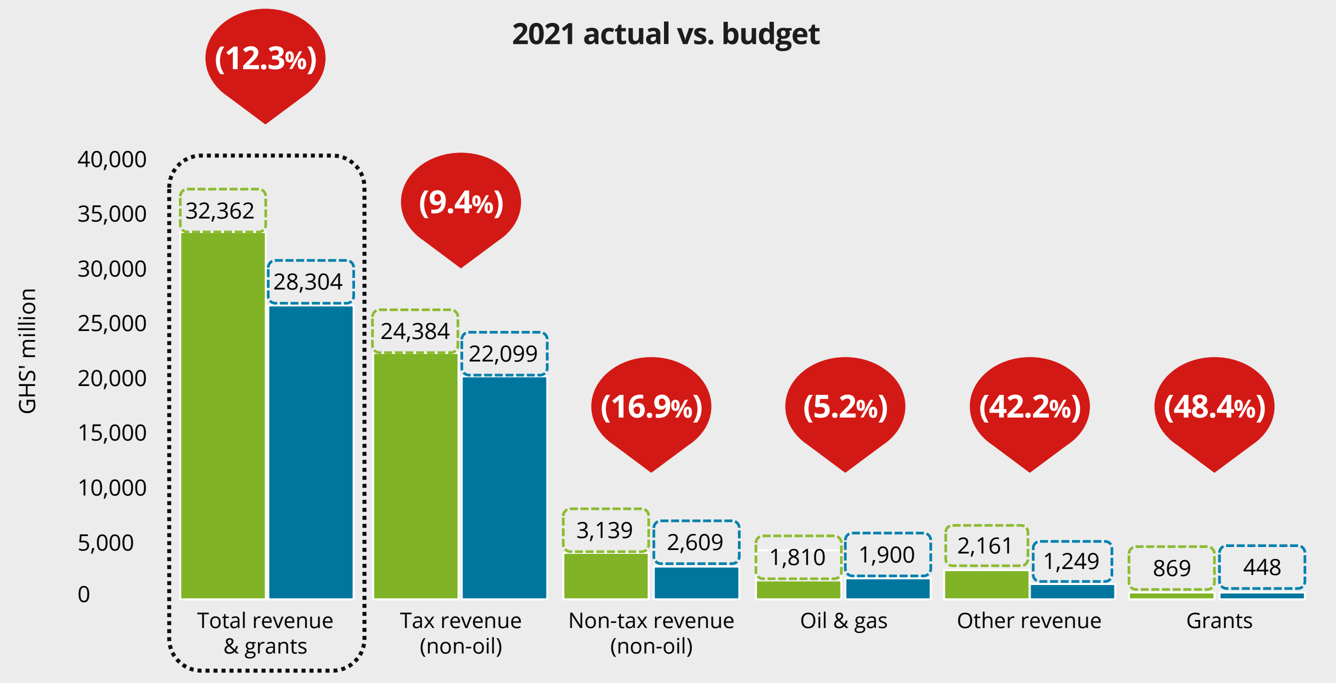
Government missed its revenue target over the first half of the year by GHS 3.9 billion representing a shortfall of 12.3%. The revenue deficit was largely due to shortfalls in revenue from non-oil tax revenue which fell short by GHS 2.3 billion representing 9.4% of target for the period. This was primarily attributable to lower than programmed performance of company taxes from the non-oil tax sector due to impact of COVID-19.

Government Expenditure

Total Government expenditure from January to June 2021 was GHS 50.6 billion which was GHS 4.4 billion lesser than the target expenditure of GHS 55.1 billion. Total expenditure for the first half of 2021 was 6% higher than expenditure for the same period last year.

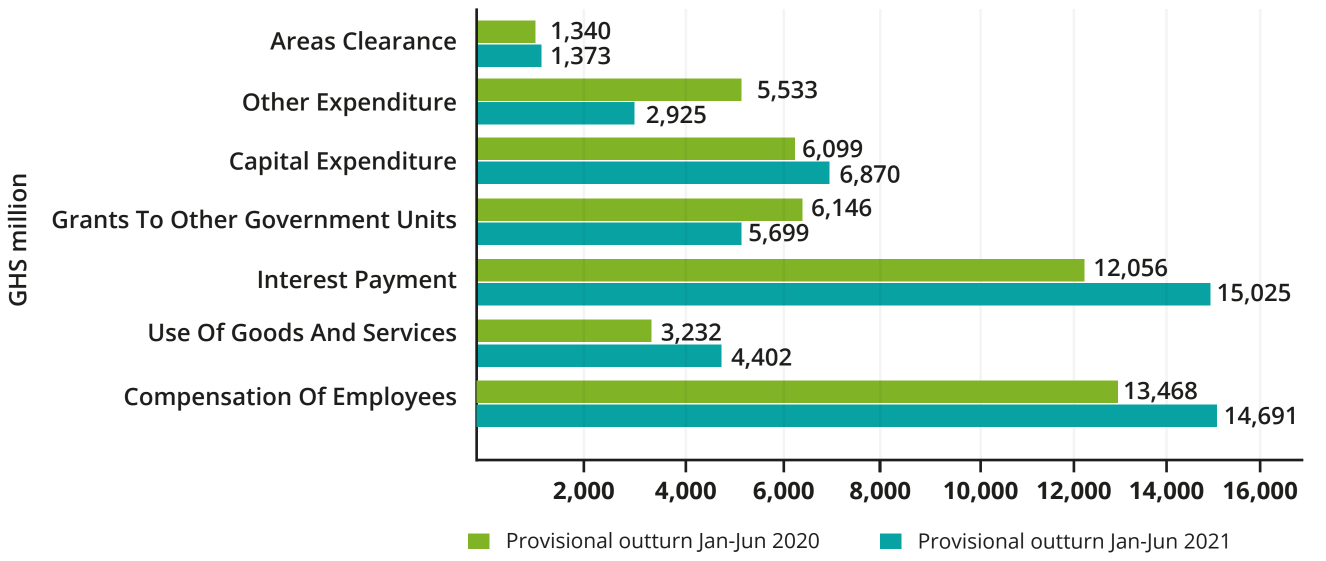
Interest payments and compensation of employees accounted for 58.3% of total expenditure and increased by 24.6% and 9.1% respectively from the same period last year. A total sum of GHS 1.8 billion was spent on COVID-19 related expenditures such as PPE and COVID-19 Vaccines.

Interest payment of GHS 15.2 billion was the highest component of expenditure for the period compared to Compensation of employees being the highest for the same period in 2020. Interest payments however fell below the target expenditure of GHS 17.9 billion



Source: 2021 Mid-Year Budget Review Statement and Deloitte analysis

Mid Year Expenditure 2021 and 2020



Source: 2021 Mid-Year Budget Review Statement and Deloitte analysis

Deloitte Comments

As the global economy recovers from Covid-19 pandemic, the Ghanaian economy is expected to bounce back mainly on account of expected increase in international trade as the restrictions in major trading economies eases in 2021 and demand for primary commodities recovers from the slump it experienced in 2020.

Revenue mobilisation continues to be a major challenge for the Government, a situation that was worsened by the pandemic in 2020. Government's initiative to replace the Tax Identification Numbers (TIN) with the Ghana Card and the merger of the National Identification Authority (NIA) numbers with the Social Security and National Insurance Trust (SSNIT) numbers of Ghanaians is expected to help widen the tax net. This will provide the means to properly tax the informal sector and increase the revenue generation capacity of the Country.

The 24% increase in interest payments is a reflection of the significant rise in our debt stock within a relatively short time largely due to funds borrowed for COVID-19 related expenses. It is critical for Government to be prudent with its debt management, given that concerns about our debt to GDP ratio and our debt sustainability has intensified in recent times

Infrastructure development

Roads

1 Tema Motorway Phase 1

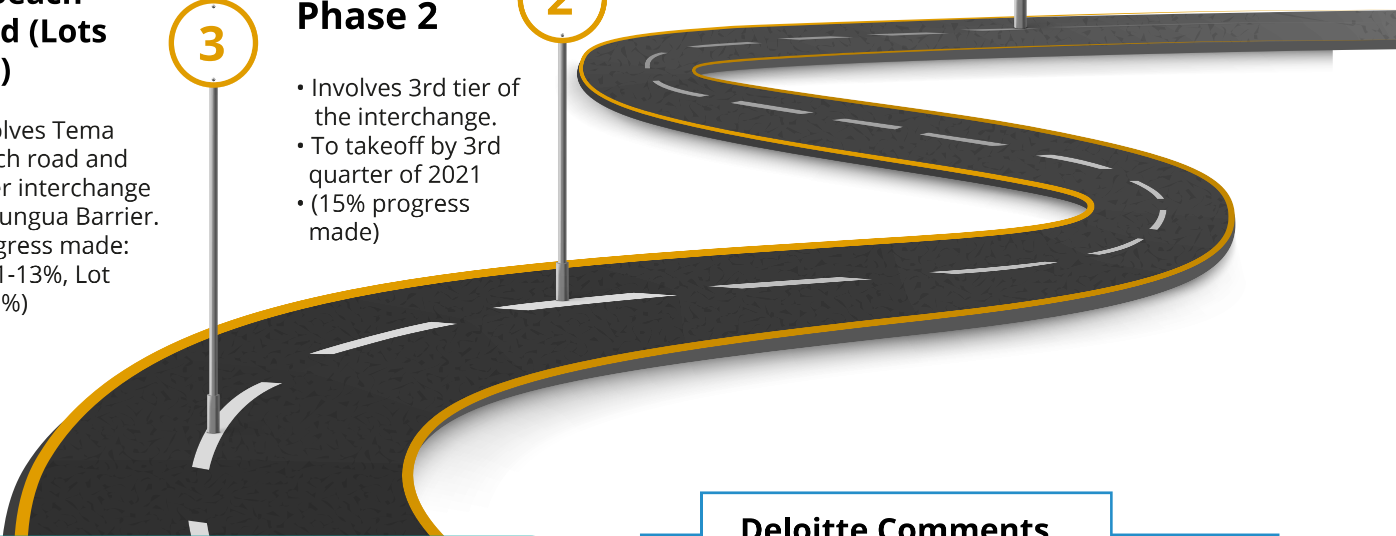
- Completed in June 2020
- Estimated Cost: USD 56 million

2 Tema Motorway Phase 2

- Involves 3rd tier of the interchange.
- To takeoff by 3rd quarter of 2021
- (15% progress made)

3 La Beach Road (Lots 1&2)

- Involves Tema Beach road and 3-tier interchange at Nungua Barrier.
- Progress made: Lot 1-13%, Lot 2-11%)



National Cathedral

Importance

- Sacred Space for formal State religious activities.
- Symbolises the importance of contribution of faith to nation building

Estimated Cost

USD 200 million

Expected Commissioning

6th March 2024

Deloitte Comments

Improving Ghana's infrastructure should be one of the pillars for driving economic growth as we recover from the COVID-19 pandemic. Government's planned infrastructure projects particularly those in transport and logistics are expected to drive economic activities and growth.

Whilst addressing our infrastructure shortfalls could not have been more appropriate at this time, the question is whether Government has the funds to complete these projects as scheduled considering the economy is only recovering from the COVID-19 onslaught, which materially reduced Government revenues. It will be appropriate for Government to set out a comprehensive plan on how it intends to fund some of the major infrastructure projects and avoid increasing the debt burden. It is therefore instructive that the National Cathedral is expected to be financed through solicitation of voluntary contribution of GHS100 from Ghanaians.

Ghana Infrastructure Investment Fund (GIIF) – New Mandates

Mandates in the Energy Sector

To restructure and refinance the high debt of the Independent Power Producers (IPPs) in the Energy sector

To take equity positions, where necessary, to help reduce the fiscal burden of overcapacity charges

Mandate towards Infrastructure

Driver of structural transformation under CARES through funding for key infrastructure

- Agenda 111
- ICT infrastructure
- Improved rail & road networks
- Quality and affordable housing

Construction of a Forward Operating Base (FOB) – (Steady Progress Made)

Project Commencement date :
16th December 2019

Benefit:
The FOB will improve the Navy's response time to the oil fields at the Western border.

Project Location:
Ezinlibo (Near the Western Border)

Project includes:
Acquisition of high-speed phantom boats and associated equipment

Reason:
To protect the country's Gas, Oil and Other natural resources

Deloitte Comments

GIIF's mandate to restructure debts in the energy sector and to take equity positions to reduce the fiscal burden of overcapacity charges is in the right direction. If properly strategized and implemented, this could contribute to easing the country's debt burden, which, compared to GDP, is fast approaching unsustainable levels, according to some financial analysts and economists. It however suffices to question whether GIIF will be able to secure the needed funding to complete the projects as scheduled considering the limited funding available for infrastructure projects.

Conclusion

Although the negative impact of the COVID-19 pandemic is still being felt in 2021 from a public health perspective, the global economy is forecasted to grow in 2021 due to supportive macroeconomic policies and increased access to COVID-19 vaccines both globally and in Ghana.

As the Government solicits for inputs for the 2022 Economic Policy and Budget Statement, there is a need to consider interventions aimed at managing the fiscal deficit, enhancing digitalization and continuing the economic recovery post COVID-19.

Government should monitor and effectively implement major initiatives such as the One-Million-Jobs initiative, Enterprise and Youth Support Fund (Youth Banc) and the Home Ownership Fund programmes to help maintain and increase investors' confidence in the Ghanaian economy.

Government incentives and interventions such as the GhanaCARES and the establishment of the Development Bank of Ghana have the potential to accelerate economic recovery and growth. Government should adopt strategies and measures to ensure effective monitoring and evaluation of progress of these intervention programs.

With a projected budget deficit of 9.5%, the Government must ensure it operates a controlled budget expenditure and work towards achieving planned revenue targets by ensuring setting a revenue mobilization target for the established Revenue Assurance and Compliance Enforcement (RACE).

The downgrade of Ghana's credit rating by Fitch has both short-term and long-term impact on accessing funds (credits) by businesses that operate within the country. The Government should therefore address some of the causes of the downgrade by reducing its reliance on domestic debts through the use of a comprehensive debt management strategy which includes accessing concessionary loan facilities.

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