



Economic Impact of the Covid-19 Pandemic on the Economy of Ghana

Summary of Fiscal Measures and Deloitte views

April 2020



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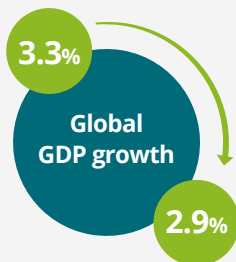
Economic impact of COVID-19 at a glance



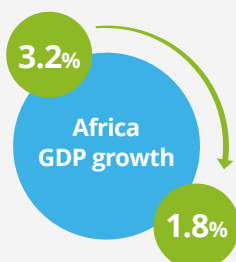
Impact on the Ghanaian economy

Impact on the Global and Africa economy

Global GDP growth of 3.3% for 2020 to slow to less than 2.9% due to Covid-19.

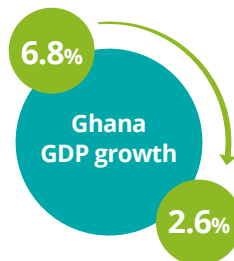


Africa's projected GDP growth of 3.2% for 2020 is now expected to slow to about 1.8%



Impact on GDP Growth

Ghana's estimated GDP growth is set to plummet from a target of 6.8% to about 2.6% in 2020



Initial cost of preparedness and response plan

Total amount dedicated by Government of Ghana (GoG) towards fight against Covid-19

GH¢572m

Total fiscal impact from revenue shortfall and cost of preparedness and response plan

GH¢9,505m

Estimated impact on petroleum receipts

Shortfall in the Ghana Stabilisation Fund

↓ GH¢1,058m

Shortfall in the Ghana Heritage Fund

↓ GH¢453m

Shortfall in Annual Budget Funding Amount (ABFA)

↓ GH¢3,526m

Shortfall in transfers to GNPC

↓ GH¢642m

Estimated impact on tax revenue

Shortfall in import duties

GH¢808m

Shortfall in other non-oil tax revenues

GH¢1,446m

Total shortfall in non-oil tax revenue

GH¢2,254m

Overview and Impact of COVID-19 on the economy

Outbreak and spread of the Coronavirus (Covid-19)

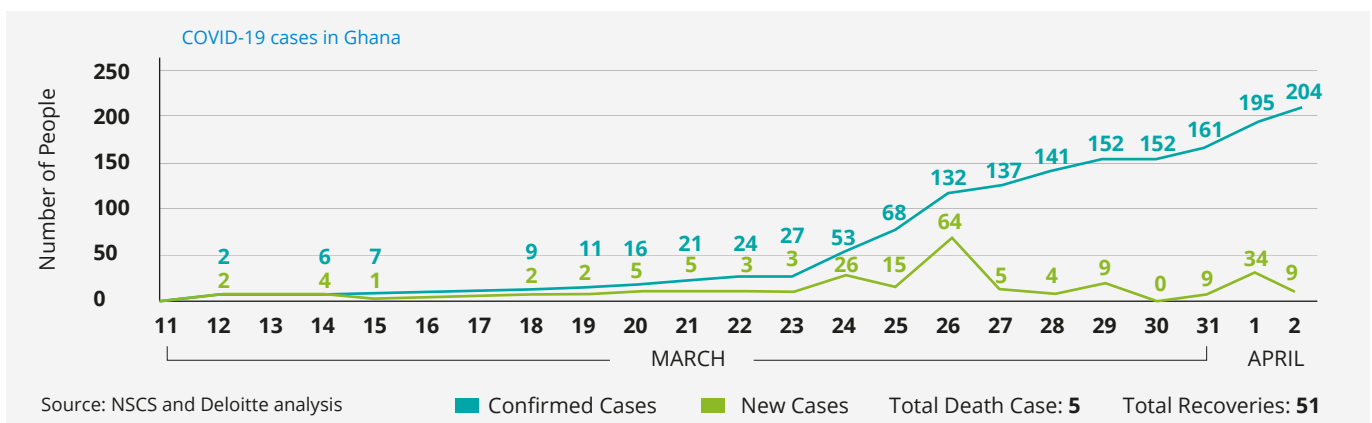
The global situation

The novel coronavirus (Covid-19) was reported to have emerged from Wuhan in China towards the end of December 2019, and has since spread across the world, affecting some 199 countries and territories as of March 2020.

As of end of March 2020, Covid-19 infections had risen to about 724,000 cases, out of which about 152,000 people had recovered with 34,000 deaths recorded. This works out to a recovery rate of about 21.0% and mortality rate of about 4.7%.

The situation in Ghana

The first two Covid-19 cases were reported in Ghana on 12 March 2020, and have since escalated to 204 cases, with 5 deaths and 51 recoveries as at the beginning of April 2020. This works out to a recovery rate of about 25.0% and mortality rate of about 2.5%.



Government of Ghana's response

Objectives of Government's response to Covid-19

The Government has set out five (5) key objectives to combat the pandemic in Ghana. These objectives are:

- Limit and stop the importation of the virus;
- Contain its spread
- Provide adequate care for the sick
- Limit the impact of the virus on social and economic life and;
- Inspire the expansion of our domestic capability and deepen our self-reliances

Government's response to the virus was largely informed by lessons learnt from countries earlier hit by the virus, especially in Asia and Europe. Given that countries such as Italy, Spain and USA have been reported to be severely impacted by the outbreak due to their initial slow response to the outbreak, the Government of Ghana has been widely commended for its response to the outbreak, although there are sections of the public that have suggested that some of these responses could have been initiated earlier. Key amongst the actions taken by Government are: closure of all borders, mandatory quarantine and testing of incoming travelers and more recently, partial lockdown of selected areas identified as hot spots.

If lessons from countries like China and South Korea are anything to go by, one can expect Government's response to yield some results and flatten the curve in the coming weeks, an achievement largely credited to lockdowns and other viral containment measures implemented in these jurisdictions.

Economic impact of Covid-19

The global situation

With about 65% of the global economy currently on some form of lockdown, the impact of Covid-19 is being felt globally in the following ways:

- Disruptions in global supply chains, with significant supply shortages and consequent price hikes
- Slowdown in investments and remittances and resulting job losses
- Volatility and collapse of stock markets due to uncertainties
- Decline in oil demand leading to decrease in oil prices and cut in revenue for oil exporting countries
- Decline in tourism and international travel and resulting job losses
- Unanticipated increase in health expenditure and resulting upsurge in public debt burden.
- Tighter global financing conditions despite interventions through monetary policy to cut interest rates

The situation in Ghana

Beyond the inevitable impact of the global Covid-19 disruptions on Ghana, Government's response to the outbreak, key amongst which include closure of all borders and partial lockdown of selected areas, is already having a toll on the economy. In Ghana, the economic impact of Covid-19 include the following:

- Hospitality industry adversely impacted due to closure of borders and general slowdown in tourism and demand for international travel
- Decline in trading volumes and values due to disruption in supply chain globally
- Contraction in Foreign Direct Investment (FDI) flows to Ghana due to uncertainties
- Agriculture value chain could be adversely impacted due to disruptions in global supply chain and slowdown in demand as countries adjust
- Mixed impact of Covid-19 on commodity prices, as well as contraction in trade volumes, are likely to result in net loss of revenue to Government
- Shortage in supply of FX due to investor capital flight and decrease in exports could be offset by reduced demand for FX due to decrease in imports, the net effect of which is yet to be assessed

Given that Ghana is an import-driven economy, Covid-19 is likely to have significant adverse impact on the country's international trade and reserves. If the Covid-19 situation persists longer than anticipated, the economy could suffer from significant decline in Government revenue and expenditure resulting in potential job losses. This could in turn erode the economic gains achieved in recent years and significantly slow down Ghana's economic development. In the light of current developments, the Government estimates a slump in projected GDP growth for 2020 at 2.6%, which is significantly lower than budgeted GDP growth of 6.8% for the year.

Also, additional borrowing and related expenses that will be incurred are likely to increase the country's debt risk. The unplanned increase in expenditure, particularly in the health sector, could adversely impact the fiscal deficit. Government estimates that events unfolding as a result of Covid-19, even with some mitigating measures, will result in a deficit of 6.6% of revised GDP, which is higher than the de facto fiscal rule of 5% established by the Fiscal Responsibility Law.

Mitigating measures

Response to Covid-19

Global response

Globally, response to the pandemic has been swift as Governments and multi-lateral institutions have responded with a mix of fiscal and monetary policies mainly to stimulate economic growth and cut down on economic losses. Notably, there has been cut in interest rates and provision of stimulus packages by Governments and provision of credit facilities by IMF (US\$14 bn) and the World Bank (US\$50 bn).

Most of the measures the Government is seeking to implement is targeted at stimulating economic growth considering that Covid-19 has already begun to slow down economic activities and the impact could get worse in the next couple of months. Aside the stimulating measures being adopted, Government is seeking to cut down on expenditure, including Capex. This suggests that, Government's initial plan to significantly uplift the country's infrastructure in 2020 is not likely to materialise.

The situation in Ghana

In line with the measures being adopted globally, Ghana is seeking to implement a mix of fiscal and monetary measures to mitigate the impact of Covid-19 on the economy. The key measures planned include:

- The establishment of a Coronavirus Alleviation Programme (CAP) to facilitate economic recovery
- Lowering of the cap on Ghana Stabilisation Fund (GSF) from the current US\$300 million to US\$100 million to allow for transfer of excess funds to the CAP
- Adjust expenditures on Goods & Services and Capex downwards by GHS1.2 bn
- Amend the Petroleum Revenue Management Act (PRMA) to allow for withdrawal from the Ghana Heritage Fund to aid in fighting Covid-19
- Reduction in the policy rate by 150 basis points to 14% and drop in regulatory reserve requirement from 10% to 8% to increase supply of credit to private sector
- Amendment of BoG Act to allow for GoG to borrow from BoG in excess of the stimulated threshold if need be
- Commercial banks engaged to provide syndicated facility of GHS3 bn to support key industries; to grant six-month moratorium on principal repayments for selected businesses; and to reduce interest rates by 200 basis points, also to increase credit supply to the private sector





Ghana's response- tax measures

The Government is also implementing the following tax measures to mitigate the impact of the pandemic on businesses and households:

- Extension of due dates for filling of tax returns from the standard 4 months to 6 months after end of the basis year;
- Grant of waiver of penalties on principal tax liabilities owed by taxpayers who redeem their outstanding liabilities by 30th June 2020;
- Waiver of VAT on donations of stock of equipment and goods for fighting the Covid-19 pandemic;
- Waiver of taxes on selected withdrawals from third-tier pension funds;
- Grant of deduction against income tax for private sector contributions and donations made towards addressing the COVID-19 pandemic; and
- Institution of an email filing and direct transfer payment system to allow taxpayers file and pay taxes with the various Ghana Revenue Authority (GRA) offices remotely.

Companies have been granted an automatic 2 month extension for filing tax returns normally due 4 months after end of their financial years. The returns covered for companies will be corporate income tax and transfer pricing returns. The extension may also cover individual annual tax returns filing that also normally at the end of April each year for the prior year.

The waiver of the penalties would also provide a window to taxpayers having outstanding tax obligations to avoid penalty charges although clarification will be needed on whether this waiver extends to the usually more significant interest on overdue taxes. Also, the tax deduction benefit for donations should encourage businesses and individuals alike to support the Government in the fight against the pandemic.

Overall, the tax measures are expectedly temporary, as the COVID-19 situation remains fluid globally. We expect more far-reaching tax measures in the future that aim at stimulating economic activities especially in the worst affected industries and revamping the country's tax revenue sources.

Contacts



Charles Larbi-Odam

Country Managing Executive
Deloitte Ghana
clarbi-odam@deloitte.com.gh
+233 307 086 330



George Ankomah

Partner, Deloitte Ghana
Tax & Regulatory
gankomah@deloitte.com.gh
+233 501 320 895



Yaw Appiah Lartey

Financial Advisory Leader
Deloitte Ghana
ylartey@deloitte.com.gh
+233 244 158 377



Deloitte Ghana



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