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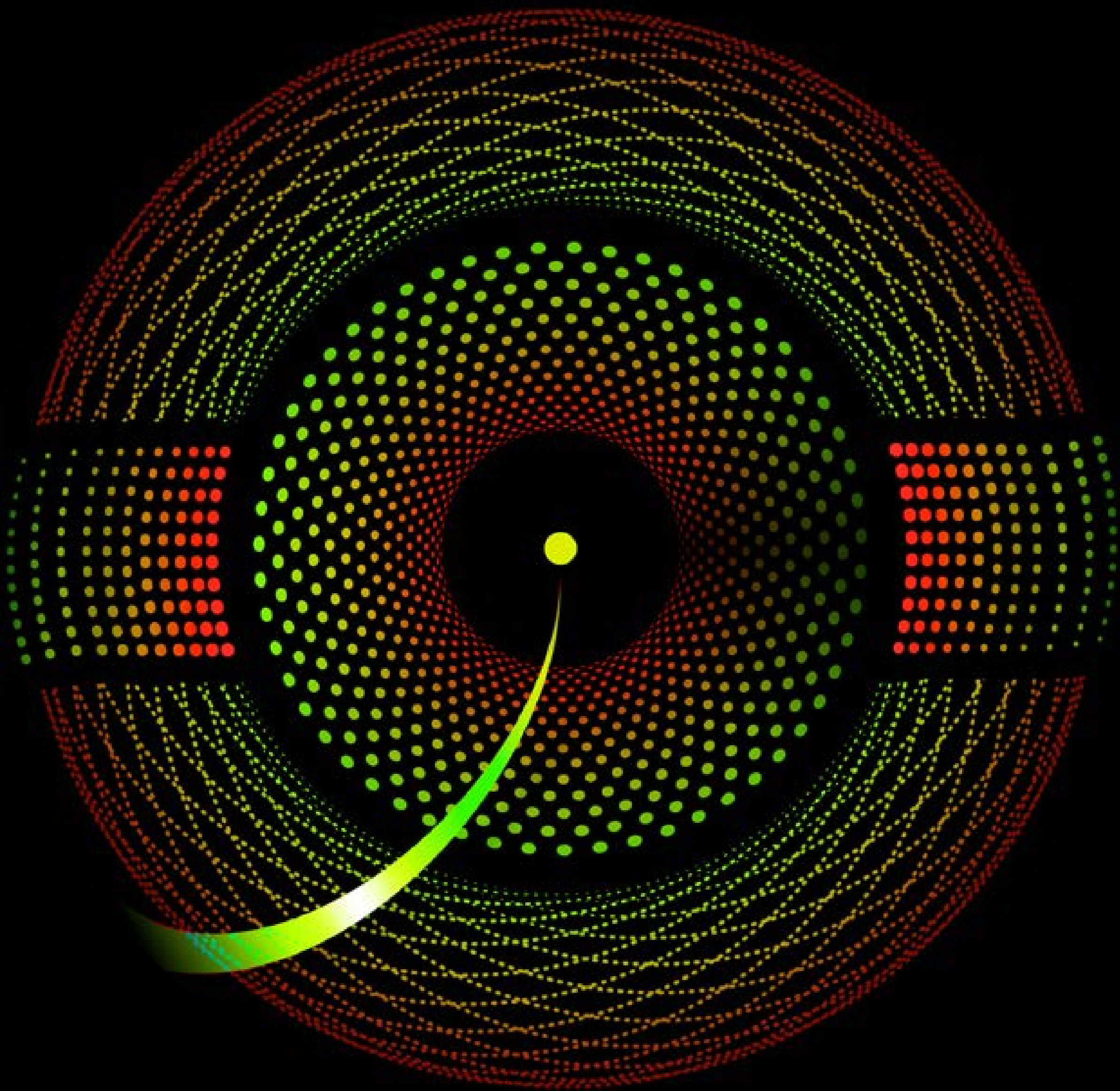


2023 Government Budget Statement and Economic Policy

Summary of budget statement & Deloitte views

December 2022

75 years of
MAKING AN IMPACT THAT MATTERS IN GHANA

Striving for economic stability and growth through strategic investment and domestication

The global economy over the last two years has been negatively impacted by the COVID-19 pandemic and the spillover effects of the Russia-Ukraine war. The post-COVID-19 economic recovery process has been hampered by other shocks that have resulted in significant global output contraction.

Ghana's peculiar economic challenges in the 2022 fiscal year necessitates deliberate policy choices to promote economic development and recovery. In pursuing these policies, it is imperative to advance structural reforms, regain investor confidence and open new funding sources to recover from the current economic challenges. There is also a need to radically increase and diversify domestic productive capacity to achieve a value-added export-driven economic regime.

The need to stabilize the Ghanaian economy through strategic investment and domestication cannot be overemphasized given the current economic situation. The Government of Ghana ("GoG" or "Government") must put in measures to increase domestic revenue mobilization without necessarily over-burdening the citizenry, cut down government expenditure, and make strategic investment decisions in certain aspects of the economy to stabilise the economy. The starting point will be to formulate and implement policies aimed at creating an enabling environment that encourages strategic investment for growth and domestic value creation.

The 2023 Budget Statement and Economic Policy of the Government ("Budget Statement") under the theme "Restoring and Sustaining Macroeconomic Stability, and Resilience through Inclusive Growth and Value Addition" seeks to restore macroeconomic stability and boost investors' confidence by increasing the domestic revenue base, reducing government expenditure and reviewing the tax laws to block leakages of tax revenue.

At Deloitte, we are purpose driven, and we express this through special initiatives for our planet and the people on it using our WorldClass program. We collaborate with our clients and stakeholders to create measurable impact that demonstrates our mantra, which is "purpose beyond profit".

This Budget Highlights document provides insights on key policies outlined in the 2023 Budget Statement intended to achieve the targets set by the Government. We also provide our analysis of how these policies could affect households, businesses and the economy at large. We believe that our analysis of the policy proposals in the 2023 Budget Statement will help inform decisions as we strive for economic stability and growth through strategic investment and domestication.

Daniel Kwadwo Owusu
Country Managing Partner
Deloitte Ghana

Content

2023 Budget at a Glance

Key Economic Indicators

GDP Growth (Overall)

Real GDP growth (including oil) is projected to decline to 2.8% in 2023 from a revised 2022 target of 3.7%.

Revenue

Total revenue for 2023 is projected at GHS 143.9 billion which is a 49% increase over the 2022 budget of GHS 96.8 billion.

GDP Growth (Non-Oil)

Real GDP growth (Non-oil) is projected to decline to 3.0% in 2023 from a 2022 target of 4.3%.

Expenditure

Total Expenditure (including arrears) for 2023 is projected at GHS 205 billion compared to a projected outturn of GHS 153 billion in 2022 representing a 34% increase.

Inflation

From a revised Inflation target of 28.5% at the end of year 2022, the 2023 budget targets an end of year inflation of 18.9%.

Budget Deficit

Fiscal deficit for 2023 is projected at 7.7% of GDP up from a target of 6.6% in 2022.

Exchange Rate

The Ghana Cedi recorded year-to-date September 2022 depreciation rates of 53.8%, 45.7% and 46.9% against the US Dollar (USD), British Pound (GBP) and the Euro (EUR) respectively.

Primary Balance

Primary balance for 2023 is projected at 0.7% as against a target of 0.4% in 2022.

Gross International Reserve

Gross International Reserve is projected at 3.3 months of import cover in 2023, which is a slight decline from the 3.5 months target for 2022.

Debt to GDP Ratio

Total public debt as at September 2022 stood at GHS 467.4 billion, representing 75.9% of GDP, up from 76.7% as of December 2021.

Key Tax Measures

Business Income

Introduction of a minimum chargeable income system

Introduction of tax return and WHT for capital gains tax

Introduction of tax return and withholding taxes for gains on realization of assets and liabilities.

Conversion of National Fiscal Stabilization Levy (NSFL) to Growth and Sustainability Levy (GSL)

which is to apply on profit before tax for all entities except extractive companies at 5% or 2.5% and at up to 1% of production for companies in the extractive sector.

Restriction on deduction of foreign exchange loss

to actual losses incurred and capitalization of exchange losses on capital assets.

Personal Income

Introduction of additional income tax band

of 35% for a specified level of income.

Revision of nominal quantification of vehicle benefit

for personal income tax purposes.

Tax waiver

on withdrawals from Tier 3 provident funds and personal pension schemes in 2023 due to permanent job or capital loss.

Revision of the optional tax rate

of 15% for gains on realization of investment assets by individuals.

Exemptions and Waivers

Increase in the concessional corporate tax rate from 1% to 5%

Freeze on tax waivers

for foreign companies and review of tax exemptions to Free Zones, Mining and Oil and Gas companies in 2023 financial year.

Unification of tax loss carry–forward rules for priority sectors and other sectors

Indirect Tax

Increase in standard VAT rate by 2.5% to 15%

Review of customs duties regime
Abolition of the Benchmark Discount Policy in 2023 and implementation of self-clearing Imports.

Reduction of the electronic transfer levy
from 1.5% to 1% on electronic transfer and removal of the daily threshold.

Revision of excise tax on tobacco products to align with ECOWAS protocols
Increase in excise tax on spirits and introduction of excise tax on electronic smoking devices and liquids.

Revision of duty rates
on products that can be sufficiently manufactured/produced in Ghana.

Other Tax Measures

Reinstatement of road tolls on specified public roads and highways

Full roll out of electronic Tax Clearance Certificate (TCC) issuance to replace manual process and expansion of services that requires TCC

Roll out of the Unified Common Platform (UCP)
for property rate administration from January 2023.

Revision of Vehicle Income Tax (VIT) and Income Tax Stamps rate in 2023

Review of tax for the betting and gaming industry
Introduction of tax on the gross gaming revenues of gaming companies to replace corporate tax and VAT in 2023.

Introduction of withholding tax
on winnings from gambling and other games of chance.

Key Insights and Economic Analysis

Key Economic Indicators

Indicators	2022 Target (Revised)	2022 Actual (September)	2023 Target (Projected)
GDP Growth	3.7%	3.5%*	2.8%
Inflation (End of Year)	28.5%	37.2%	18.9%
Fiscal Deficit	6.6%	7.4%	7.7%
Primary Balance	0.4%	-2.0%	0.7%

*Actual results as at June 2022

Source: 2023 Budget Statement and Economic Policy

Ghana's economy recorded a real GDP growth of 3.5% as at June 2022. Government revised its real GDP growth target to 3.7% by end of 2022. GoG has begun the implementation of its fiscal consolidation programme including pursuing Additional Oil Entitlement (AEO) in relation to the Jubilee Field, and a revised income tax. This is expected to take effect by the end 2022 as part of medium-term measures to improve the economy, restore investor confidence and promote debt sustainability.

GoG recorded a 37.2% inflation rate as at September 2022 compared to GoG's revised target of 28.5% by the end of 2022. This increase in inflation is mainly driven by high cost of food and energy, and transport fare hikes.

Deloitte Comments

Considering the overall real GDP growth of 3.5% recorded as at September 2022, the revised real GDP growth of 3.7% appears reasonable and achievable. GoG has targeted further decline in real GDP growth rate to 2.8% in 2023. Indications are that the decline in real GDP growth rate will be occasioned largely by a focus on debt restructuring and implementation of expenditure cutting measures in 2023. Typically, expenditure cutting measures will be expected to limit Government's ability to roll out some of its key policies and programs, which, in the short term, is likely to hamper economic growth, hence the projected decline in real GDP growth in 2023. The Economist Intelligence Unit (EIU) has projected a 1.9% GDP growth by the end of 2023 which is lower than Government's projection of 2.8%.

The 37.2% period-end inflation recorded as at September 2022 was largely occasioned by the rapid depreciation of the local currency against its major trading currencies. The BoG has estimated the depreciation of the local currency against the USD at 54.2% as of November 2022, relative to the beginning of the year. Considering that Ghana's economy is still largely import-dependent, the rapid depreciation of the local currency has translated directly into an increase in the cost of goods and services over the last few months. We expect the local currency to enjoy some stability in the last quarter of 2022 as evidenced by the largely stable exchange rates between October and November 2022. Based on this expectation, we consider the revised inflation target of 28.5% by end of 2022 as achievable.

Budget Deficit as a percentage of GDP as at September 2022 was 7.4%. This was driven by shortfalls in revenue performances relative to expenditures incurred. GoG revised its end of year budget deficit target to 6.6%.

GoG missed its primary balance deficit target as a percentage of GDP with an actual deficit of 2.0% as at September 2022. The Government has revised its primary balance deficit target as a percentage of GDP to 0.4% by the end of 2022, up from 0.1% set in the 2022 budget.

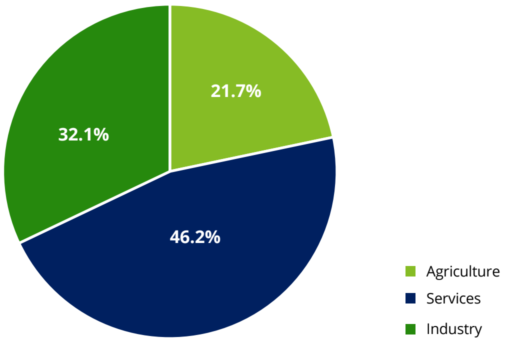
Deloitte Comments

Going forward, the target inflation of 18.9% should be achievable based on the expected outcome of current negotiations with the IMF, plus other measures intended to boost our international reserves and reduce FX-induced inflationary pressures in 2022. Whilst the credit support from IMF will result in FX inflows, other measures such as the 'Gold-for-oil' program and BoG's decision to cut FX support for importation of certain goods and services are also expected to strengthen our international reserves and reduce inflationary pressures.

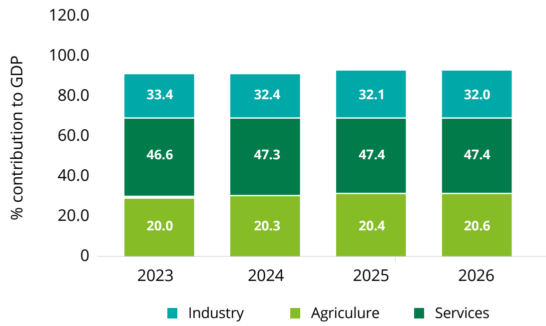
The budget deficit, since 2020, has remained above the 5% limit prescribed by the Fiscal Responsibility Act, with the main reason being COVID-19 related upsurge in expenditure and reduction in revenues, which persisted and left the deficit at about 12% of GDP as of 2021. Although the Government has managed to bring down the deficit to 7.4% of GDP as at September 2022, it is projected to remain above the 5% limit by end of 2022 and 2023, largely due to projected declines in GDP growth in 2022 and 2023, relative to previous years.

Lastly, the revised primary balance target of 0.4% surplus by end of 2022 may appear aggressive considering the deficit of 2.0% that was recorded as at September 2022. However, the target primary surplus of 0.7% in 2023 is achievable considering that the Government has been able to reduce the deficit of 4.0% in 2021 to a deficit of 2.0% as at September 2022 despite the very challenging economic conditions in 2022. To achieve, sustain and grow the primary surplus into the future, pursuing export promotion through the the African Continental Free Trade Area (AfCFTA) agreement and effective import substitution policies will be key for the Government.

Sectorial Contributions to GDP - H1 2022



Sectorial Contributions to GDP (2023-2026)



Source: 2022 Budget Statement and Deloitte analysis

Overall, the Services sector is expected to remain the dominant sector over the medium term with regards to its contribution to GDP, followed by the Industry and Agriculture sectors.

The Services sector accounted for an average share of 46.2% of GDP in the first half of 2022. The sector is projected to contribute an average of 47.2% to GDP over the short to medium term with the Trade, Repair of Vehicles, and Household Goods sub-sector projected to be the largest contributor to the Services sector GDP, averaging a contribution to the sector's GDP of 24% from 2023 to 2026.

The Agriculture sector's average share of GDP in the first half of 2022 was 21.7% and is expected to decline to 19.9% of GDP by the end of the year. The Agriculture Sector is expected to average 20.3% contribution to GDP over the period 2023-2026, with the Crop sub-sector expected to be the largest contributor to Agric GDP. The Crop subsector is expected to average a contribution to the sector's GDP of 77% over the period 2023 to 2026. In particular, Cocoa production is projected to increase by 24.3% from the 683,564 tonnes recorded in the 2021/2022 season to 850,000 tonnes in the 2022/2023 season as a result of effective crop protection methods and a favourable weather outlook.

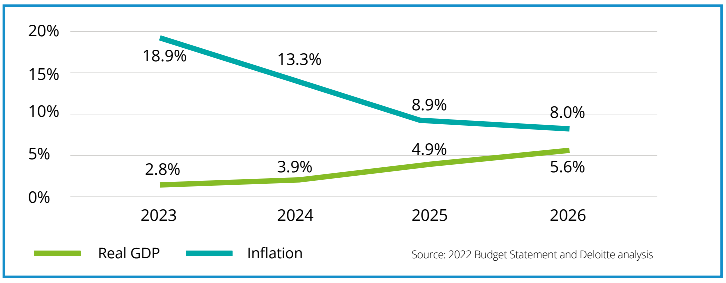
The Industry sector's contribution to GDP was recorded at 32.1% in the first half of 2022. This is expected to expand marginally to 33.2% of GDP by the end of the year. Over the period 2023 to 2026, the Industry Sector is expected to average 32.5% contribution to GDP. The Mining and Quarrying sub-sector is expected to be the largest contributor to Industry sector GDP, averaging contribution to the sector's GDP of 40% from 2023 to 2026.

Deloitte Comments

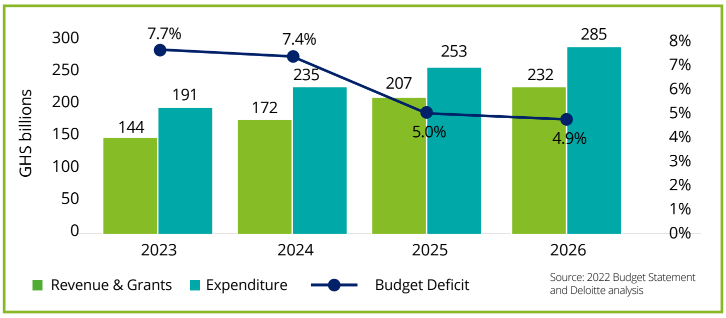
We expect GoG's Post-Covid-19 Programme for Economic Growth (PC-PEG) agenda to enhance Ghana's domestic productive capacity. The key interventions outlined in the budget should contribute to sectorial growth and should have a positive effect on employment generating activities going forward, especially for the Agriculture and Industry sectors, which tend to generate more employment opportunities than the Services sector.

In addition, we encourage GoG to intensify the implementation of other policies and programs in the areas of agriculture modernisation and industrialisation in order to expand the productive capacity of the economy and for job creation.

Medium term targets-real GDP, average inflation and estimated budget deficit



Revenue, Expenditure and budget deficit (% of GDP)



Ghana's real GDP growth is projected to decline to 2.8% in 2023, down from 3.5% in 2022. The expected decrease in real GDP growth will be mainly driven by the impact of expected expenditure cuts in 2023 in support of a fiscal adjustment programme.

Inflation was 37.2% as at September 2022 compared to the revised inflation target of 28.5% by end of 2022 resulting from high costs of food and energy, and transport fare hikes. Inflation is projected to decline to 18.9% in 2023 and to further decline year-on-year to reach 8% in 2026, which is consistent with the long-term target band of 8%+/-2%. This is anticipated to be driven by medium-term strategies (boosting local productive capacity, promoting and diversifying exports, import substitution etc.) aimed at restoring and maintaining price stability to create conditions for sustainable growth.

The economy is anticipated to bounce back in 2024 and grow steadily in the medium-term, averaging a 4.8% growth over the period 2024-2026. This will be mainly driven by GoG's plans to significantly enhance revenues, cut down the cost of running Government activities and expand local production. GoG also plans to invest more to protect poor and vulnerable citizens, continue expanding access to good roads and provide quality education and healthcare.

GoG recorded a budget deficit of GHS 44.0 billion in September 2022 (7.4% of GDP) as against a set target of GHS 36.7 billion (6.2% of GDP) as at September 2022. This is mainly attributable to the payment of outstanding payables carried forward from 2021 and additional expenses in the current year. Budget deficit is further expected to decline year-on-year to reach 4.9% by end of 2026, which is within the fiscal stabilization limit of 5%.

Deloitte Comments

Whilst economic conditions in 2022 have been largely unfavourable to businesses and individuals alike, Government's resolve to engage the International Monetary Fund (IMF) to provide credit support appear to have created a positive outlook for the economy as the IMF programme is also expected to provide policy credibility and inject some confidence amongst international investors. Government will be expected to leverage this policy credibility and investor confidence to return to the international capital market to raise funds for its programs and projects and support its planned sectoral growth.

In addition to the above, Government's pursuit of expanding the productive capacity of the economy with a focus on import substitution and export diversification are expected to drive growth and reduce import-induced inflation in the medium to long term. Government has also hinted of measures targeted at boosting our international reserves and reducing inflationary pressures. These include the 'Gold-for-Oil' Programme and BoG's decision to cut FX support for the importation of some goods. These are still at very early stages of their development and will require thorough assessments to ascertain the net impact these may have on the economy going forward.

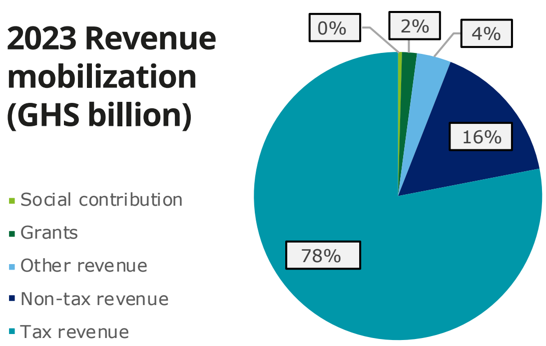
In terms of the budget deficit, GoG intends to introduce a number of tax policies primarily aimed at boosting revenue generation and reducing the deficit going forward. Whilst this may be seen as a 'necessary evil' required to improve revenue generation and reduce reliance on external borrowing, the overall impact on businesses and potential heightening of inflationary pressures must be considered ahead of implementation.

Government Revenue

Total revenue for 2023 is projected at GHS 143.9 billion compared to a revised revenue budget of GHS 96.8 billion in 2022 representing a 49% increase in projected revenue and 47% increase in 2022 projected outturn. The projected revenue increase in 2023 is expected to be largely driven by Government's plan to increase VAT by 2.5% from 12.5% to 15%, income tax reforms to introduce an additional income tax bracket of 35%, excise tax reforms on taxation of cigarettes and tobacco products, as well as the introduction of a growth and sustainability levy.

Government also intends to enhance tax compliance through digitalization of tax records, administrative processes and taxpayer experience, undertake sale of 5G electromagnetic spectrum, and pursue Additional Oil Entitlement (AOE) in relation to the Jubilee Field.

2023 Revenue mobilization (GHS billion)



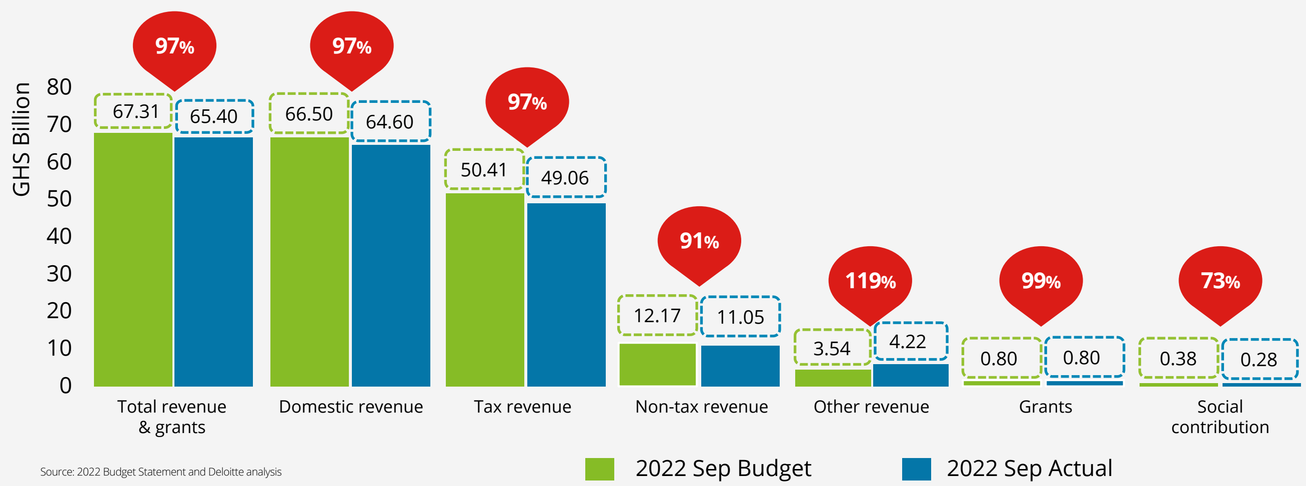
Deloitte Comments

Government's major revenue policies for 2023 include increase in VAT rate, excise tax reforms, and restoration of benchmark values on imports. These polices will generate extra revenue but will likely lead to worsening inflation conditions as it will lead to further increase in cost of goods and services to final consumers.

Government's domestic revenue estimates for 2023 (48% above 2022 revised budget) remains ambitious as a further increment of taxes on business may result in overburdening of corporate entities amidst increased operating cost of businesses. This may hamper the growth of businesses and ultimately that of the economy if not well managed.

Government's ability to implement innovative tax compliance policies will be key to reaching revenue goals for 2023. There must be enhanced efforts to implement Electronic VAT Invoicing systems together with digitalization of tax records, administrative processes and taxpayer experience to reduce leakages and inefficiencies in the revenue mobilization efforts.

2022 September budget (Q1-Q3) vs. 2022 September Actual



Source: 2022 Budget Statement and Deloitte analysis

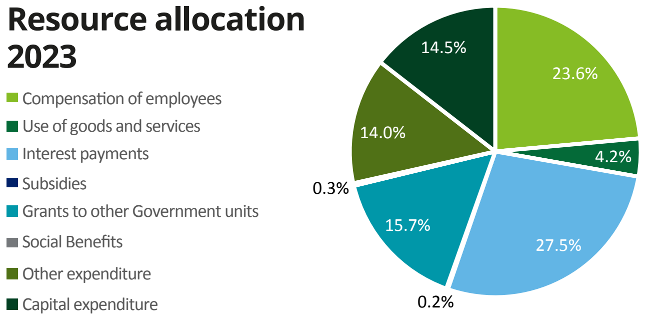
Government Expenditure

The total estimated expenditure for 2023 is GHS 191.0 billion, 39.5% higher than the projected expenditure outturn for 2022. The main drivers of the increase in budgeted expenditure are compensation of employees, interest payments, and grants to other government units.

The projected expenditure outturn for 2022 is expected to be 2.3% above the revised budgeted expenditure for 2022 (GHS 133.8 billion).The difference in the projected outturn and the revised budgeted expenditure is mainly due to higher expenses on capital expenditure (14.8% above the revised budget), interest payment (6.4% above the revised budget) and compensation of employees (1.4% above the revised budget).

Q1-Q3 2022 Expenditure Budget	Q1-Q3 2022 Expenditure Actual
GHS 103.99 billion	**GHS 109.43 billion**

Resource allocation 2023

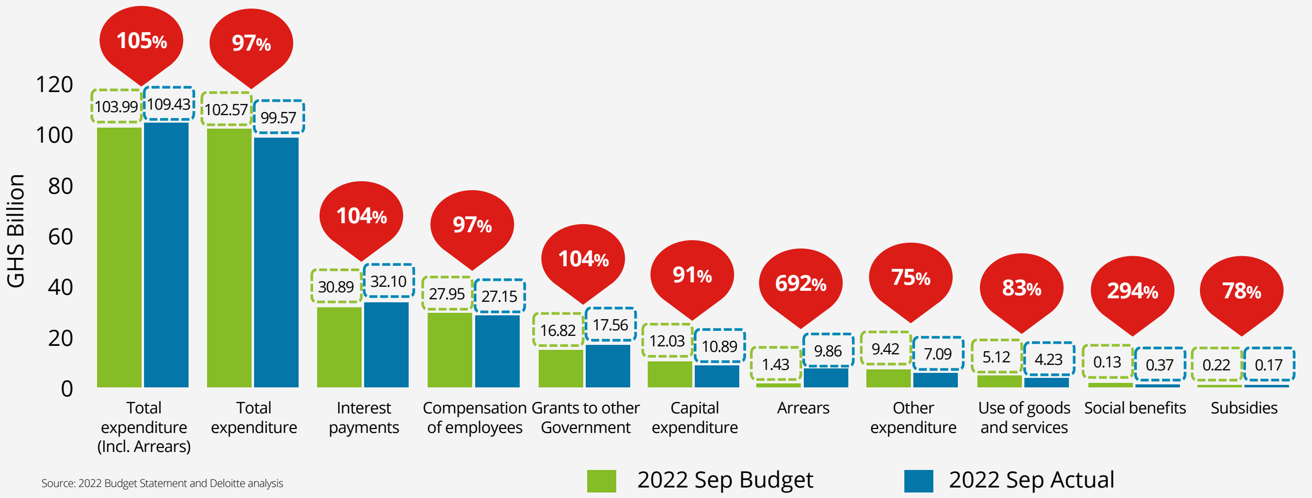


Deloitte Comments

Interest payments continue to take a significant toll on Government expenditure as it is projected to constitute the highest component (27.5%) of the 2023 budgeted expenditure. Government plans to implement a debt restructuring program that is expected to reduce its cost of debt in 2023 and beyond. The debt restructuring together with the IMF program will create the needed fiscal space to implement key government programs to revitalize and transform the economy.

Compensation of employees remains a significant outlay (23.6% of total expenditure) despite government measures to curb cost with a freeze on employment. The rising inflationary factors coupled with labour agitation remains a risk to keeping the allocation within budget.

2022 September budget vs. 2022 September Actual



Source: 2022 Budget Statement and Deloitte analysis

Public Debt Analysis

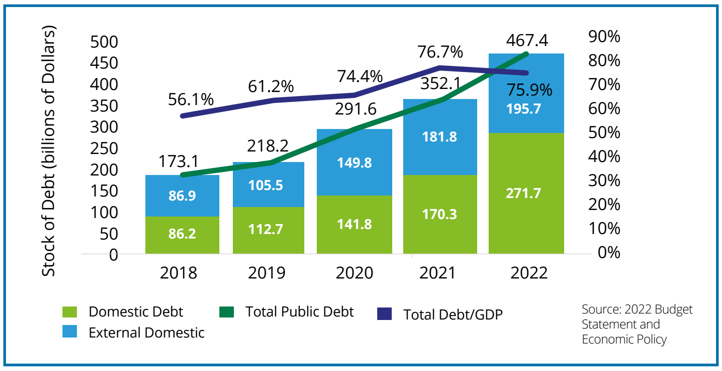
Capital Market Initiatives

- In 2023, the Ghana Fixed Income Market (GFIM) will launch a commercial paper market to facilitate the issuance and trading of commercial papers.
- The Ghana Stock Exchange (GSE) will assist State-Owned Enterprises (SOEs) to access long-term capital through listing shares of SOEs on any of the GSE's three markets.
- The GSE and the Minerals Commission will work together on the new local content regulations that would require mining businesses with a specified minimum capital expenditure to list on the GSE.
- The GSE will be admitting sustainability-themed bonds onto the market. Sustainability-themed bonds market rules embedded in GFIM rules was approved by the SEC in April 2022.

Debt Management Strategies

- Government will embark on a collaborative stakeholder engagement with the Ghanaian public, investor community and development partners to ensure that debt sustainability is restored.
- Government will actively engage bilateral and multilateral development partners to raise concessional financing to directly support the budget and finance key projects.
- Imposing limits on non-concessionary financing for critical transformative projects.
- Government will raise financing from the domestic debt market for 2023 by consolidating existing bonds to build benchmark bonds, thereby, facilitating trading on the secondary market.
- Treasury bills will be issued mainly for the purposes of cash and liquidity management.
- Ghana to commence a Domestic Debt Exchange program from January 2023 (see details of this on the next page)

Trends in Ghana's Public Debt (2018 - Sept 2022)



Deloitte Comments

Ghana's public debt has increased by 32.7% from December 2021 to September 2022. As at September 2022, external debt constituted 58.1% of total debt, up from 48.4% in December 2021, with the increase largely attributable to the depreciation of the Ghana cedi in 2022. It is important to note that, for each of the historical period between 2018 and 2021, domestic debt constituted the larger portion of our total public debt, which further explains the impact of the rapid depreciation of the local currency on our external debt stock in 2022.

Whilst Government, since 2017, has focused more on the international capital market to raise borrowed funds, the domestic component of the public debt has also trended upwards. It is important to note that the increasing domestic debt limits the amount of credit available to private businesses as banks tend to lend more to the Government, which is considered much lower in terms of risk profile as compared to the private sector. This ultimately results in higher lending rates for private sector businesses to compensate for their higher default risk. To address this challenge, Government should further reduce its reliance on the domestic debt market by pursuing innovative revenue generation policies whilst adopting effective measures to boost our FX reserves and stabilize exchange rates in a bid to reduce the external debt accumulation resulting from depreciation. Commercial banks should also be incentivized to increase lending to the private sector.

In the medium to long term, the Government should focus on reducing the total debt to GDP ratio to below 60%, which is considered the threshold for sustainable debt levels.

Ghana's Domestic Debt Exchange

The Minister of Finance on 4th December 2022 announced a Domestic Debt Exchange program in line with negotiations with the IMF to restore macroeconomic stability. The key take-outs from the Minister's announcements are as follows:

- As part of the program, Domestic bondholders as at 1st December 2022 will be asked to exchange their bond instruments for new ones with a variation of coupons terms and tenure of bonds to a standard 5-year, 7-year, 10-year and a 15-year bonds with semi-annual coupon payments. The annual coupons on all these new bonds will be set at 0% in 2023, 5% in 2024 and 10% from 2025 until maturity in 2037.
- The Domestic Debt Exchange program exempts treasury bill instruments, small investors, individuals, and other vulnerable groups.
- Financial sector regulators, including National Pensions Regulatory Authority (NPRA), Bank of Ghana (BoG), National Insurance Commission (NIC) and Securities and Exchange Commission (SEC) have been engaged to put in place appropriate measures and safeguards to minimize the potential impact of this program on the financial sector players.
- In addition, Government will set-up a Financial Stability Fund (FSF) to provide liquidity support to banks, pension funds, insurance companies, fund managers, and collective investment schemes to ensure that they are able to meet their obligations.

Deloitte Comments

Whilst, as at the time of preparing this report, Government was yet to provide the fine details of the proposed Domestic Debt Exchange, the key components of the program, as provided in the Minister's announcement, indicates a plan to defer payments on maturing investments by replacing same with new bond instruments with maturities ranging between 5 to 15 years from December 2022. This program, if successful, will result in some cash retention for Government as Government would have primarily deferred the commitment to settle maturing investments within the short term. Governmentt may therefore be able to channel the cash retained through this deferral to other planned initiatives intended to expand the productive capacity of the economy.

Secondly, it is quite clear that the new bonds will be set at annual coupon rates that are considerably lower than the previous coupon rates contracted. In addition, the new rates are set to be graduated from 0% in 2023 to 5% in 2024 and further up to 10% from 2025 onwards. This suggests that, If successfully implemented under these terms, the Domestic Debt Exchange program will result in reduction in interest expense for Government and also lead to improved cash flows, particularly within the short to medium term. Overall, this will contribute to moderating Government expenditure and improving the budget deficit.

Also, Government's plan to set up a Financial Stability Fund (FSF) to provide liquidity support to key players in the financial sector in a bid to ensure they are able to meet their obligations is a laudable idea. This should serve as a good back-up plan to absorb any unforeseen liquidity shocks that may result from the Domestic Debt Exchange program, particularly in the short term.

Whilst the Domestic Debt Exchange program may provide some positive outcome to the Government, particularly in terms of the potential reduction in interest expense and improvement in cash flows, its announcement is not expected to be received as an exciting piece of news by the investor community as, primarily, it is an admission that Government is unable to meet the terms of its existing domestic bonds. In addition, considering that the value of one's investments is also a function of the contracted tenure and coupon rates, altering the tenure and lowering the coupon rates on these existing bonds indicates some inherent haircuts, contrary to Government's indication that there will be no haircuts on investments. We however expect the fine details and the exact impact of this program on existing investments to become clearer in the coming weeks as the conversations around it evolves.

H1-2022 Credit Rating Actions

Rating Agency	Date of Publication	Prior Rating	Rating Outcome	Outlook
FitchRatings	14th January 2022	'B'	Downgrade – 'B-'	Negative
S&P Global Ratings	4th February 2022	'B-'	Affirmed – 'B-'	Stable
Moody's Investors Service	4th February 2022	'B3'	Downgrade – 'Caa1'	Stable

H2-2022 Credit Rating Actions

Rating Agency	Date of Publication	Prior Rating	Rating Outcome	Outlook
FitchRatings	10th August 2022 23rd September 2022	'B-' 'CCC'	Downgrade -'CCC' Downgrade -'CC'	N/A* N/A*
S&P Global Ratings	5th August 2022	'B-'	Downgrade - 'CCC+'	Negative
Moody's Investors Service	30th September 2022 29th November 2022	'Caa1 'Caa2'	Downgrade – 'Caa2' Downgrade – 'Ca'	Stable Stable

Deloitte Comments

Ghana's credit rating was downgraded due to deteriorating macroeconomic conditions and increased liquidity and debt sustainability difficulties for the Government, which have led to an increased default risk for Ghana sovereign bonds. The Sovereign downgrades impact Ghana's economy adversely through increased costs of borrowing for the Government and the private sector. The higher return that investors may now require for investing in Ghana could make some projects appear unattractive. Furthermore, the increased risk indicated in the credit downgrade will likely lead to reduced interest in Ghana's sovereign bonds and Foreign Direct Investment (FDI).

The Sovereign downgrades also affect local corporates, especially banks, seeking to raise funds through foreign investors and lenders. The downgrades may minimize the interest of foreign investors and lenders in funding local banks due to their perceived higher credit risk.

Given the expected benefit of policy credibility and the boost in investor confidence that is associated with the IMF Programme, it has become even more critical for Government to fast-track and conclude negotiations with the Fund in a bid to sign on to the Programme. This will send the right signals to the international capital market and potentially lead to upgrades of the economy by the Credit Rating Agencies and ultimately, a reversal of the challenges that have been occasioned by the Sovereign downgrades.

Government Policies & Initiatives

Measures for growth and value addition

IMF Programme

In July 2022, Government commenced engagement with the IMF in a bid to secure funding and support to alleviate the current economic challenges the country is facing. The Government has since held two rounds of negotiations with the IMF and the third round of negotiations is expected to be held before the end of the year. A summary of key discussion points are as follows

1st round

- a preliminary fiscal adjustment path
- debt strategy; and
- financing required for the programme in line with Post- COVID-19 Programme for Economic Growth (PC-PEG).

2nd round

- fiscal consolidation path
- Debt Sustainability Analysis (DSA); and
- debt management strategy.

3rd round

- structural reform benchmarks
- prior actions
- performance criteria on key macro-fiscal indicators; and
- the finalization of the Memorandum of Economic and Financial Policies (MEFP) to enable Ghana reach Staff Level Agreement (SLA) which will pave the way for the IMF Executive Board to finally consider and approve Ghana's request for IMF-supported programme.

The IMF Programme will prioritise social protection programmes (including the Livelihood Empowerment Against Poverty (LEAP) and School Feeding Programme), to ensure that the impact of the adjustment on the vulnerable and poor is minimised.

Deloitte Comments

Ghana's return to the IMF is expected to improve Government's fiscal situation and re-instill investor confidence. Based on history, the fund may require Government to improve revenue which may be in the form of new taxes, which is likely to worsen the plight of Ghanaians especially within this current economic climate. Some conditionalities may require Government to implement expenditure cutting measures including halting new employment and ongoing & new capital projects in the public sector. This has the effect of curtailing Government's ability to create jobs, which will further worsen the plight of the theming unemployed youth, if not properly managed.

The IMF Programme is expected to increase our foreign currency reserves and help stabilize the value of the local currency, thereby reducing imported inflation. In addition, the policy credibility and the boost in investor confidence associated with the Programme is likely to reopen the international capital market to Ghana under more favourable conditions going forward.

Socio-Economic Intervention Policies

GhanaCARES

GhanaCARES was launched in 2020 to mitigate the impact of the COVID-19 pandemic to facilitate the post-pandemic economic recovery and transformation. The 2023 budget focuses on Phase 2 of the programme which seeks to support the private sector in targeted sectors to accelerate competitive import substitution and export expansion. A key initiative under the GhanaCARES is the conclusion of the partnership agreement with MasterCard to provide financial and technical support for the development of an Economic Enclave anchored on commercial farming, to expand productive capacity in rice, tomato, maize, vegetables and poultry. Other initiatives include; working with Development Bank of Ghana to provide funding to interested farmers, provision of interest rate subsidies and direct financing through the ARB Apex Bank and its network of banks amongst others.

YouStart

As part of Government's effort to reduce the rate of youth unemployment, YouStart was introduced in March 2022 to create one million jobs over the period (2022–2025) through the provision of soft loans for the setting-up of youth-led enterprises. The programme was piloted with GHS1.98 million disbursed to 70 beneficiaries. The programme is targeting the following groups of entrepreneurs

- **District Entrepreneurship Programme (DEP) -** budding micro businesses with micro loans and starter pack products of up to GHS50,000 and self-employed businesses with up to GHS100,000;
- **Commercial programme -** medium-sized businesses with a standardised loan product of up to GHS500,000 at a concessionary interest rate; and
- **YouStart Grace -** unemployed youth, especially the vulnerable, women, and rural entrepreneurs through faith-based organisations across the country.

It is important to note that Government signed an MoU with the Ghana Association of Banks (GAB) and subsequently an agreement with 11 commercial banks for the implementation of the commercial programme.

One District, One Factory (1D1F)

Under the 1D1F, 296 projects are at various stages of implementation, with 126 currently operational, 143 under construction, and 27 pipeline projects. In 2023, Government intends to intensify support to existing and new manufacturing enterprises with technical assistance, credit facilitation, and access to electricity and other infrastructure.

Import Substitution and Export Orientation

Ghana is heavily dependent on imports with an average annual import bill in excess of US$10 billion. It is however estimated that Ghana has the capacity to produce about 45% of the value of our annual imports locally through the production of goods such as rice, fish, sugar, poultry, cement and pharmaceuticals amongst others, The Government will target these products for import substitution by supporting the private sector to increase local production.

Others

Some other socio-economic interventions include Automotive Assembly Programme, Agriculture and Food Security, Investment Promotion and Export Promotion amongst others.

Deloitte Comments

The President of Ghana, H.E. Nana Addo Dankwa Akufo-Addo announced during his "Address to the Nation on the Economy" speech on 30 October 2022 stating that the Bank of Ghana (BoG) would stop providing foreign exchange (FX) to banks and other financial institutions to fund the importation of rice, poultry, vegetables and ceramics, among others as part of efforts to maximise the country's reserves while encouraging domestic production and the consumption of local substitutes.

This directive coupled with the various initiatives directed at boosting local production within the agricultural sector provide an opportunity for growth within the sector. It is however important to ensure that the quality of the local produce can match those imported as well as the existence of proper storage methods in order to prevent food shortages. In the long term, Government should consider leveraging the African Continental Free Trade Area (AfCFTA) agreement and other initiatives to promote the exportation of local produce on a large scale.

Programmes and Initiative

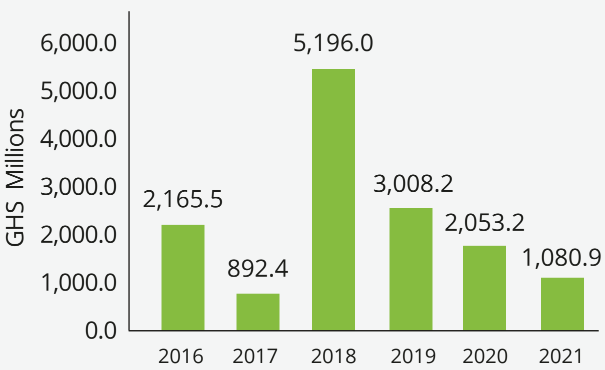
Public Financial Management Reforms

According to the Ministry of Finance, the impact of financial irregularities reported by the Auditor General for 2021 stood at GHS 1.1 billion. Public Financial Management reforms have led to the improvement of the impact of financial irregularities within covered entities since 2018 from GHS 5.2 billion to GHS 1.1 billion. Aside improvements in submission rates for entities, the MOF reports that almost 93% of recommendations from audits were either completely implemented or at various stages of implementation.

Among Government measures to improve revenue generation is the need to accurately assess tax liability and to streamline the collection of taxes through digital channels. Some of the major reforms such as the move to restructure the operations of the Internal Audit Agency will improve independence and transparency among covered entities.

The reforms also feature a newly introduced Electronic Procurement system which provides a platform to manage and track expenditures of Ministries, Department and Agencies (MDAs). This is expected to increase transparency, budget commitment control and enhance accountability.

Financial Impact of Irregularities



Deloitte Comments

Improvement in the implementation status of audit recommendations is commendable. This is especially helpful given the need to manage expenditure and improve revenues in the rather very tight fiscal space we find ourselves. The introduction of an independent audit committee will help improve controls and further enforce the implementation of recommendations in subsequent audits for MDAs;

The introduction of the Ghana Integrated Financial Management Information System (GITMIS) provides a one-stop online platform for management of payments across public institutions. This development will help streamline cash movement for improved transparency and accountability.

Special Programmes and Initiative

Development Bank Ghana (DBG)

The MoF outlines the function of the Development Bank Ghana (DBG) as a resource for accelerating support to the private sector. Among the roles of the DBG include the improvement and streamlining of the agriculture ecosystem. This is expected to be done in collaboration with the Ghana Incentive-based Risk-sharing System for Agricultural Lending (GIRSAL) and the Ghana Commodity Exchange (GCX) with the aim of improving food security.

According to the MoF, the DBG has fully on-boarded four Participating Financial Institutions (PFIs) and has disbursed a total of GHS 245.322 million to SMEs. Among the packages to be rolled out by the bank is a GHS 500 million approved special credit facility (DBG Emergency Economic Programme) for agribusiness players in specific sectors over a five-year period.

According to MoF, the DBG is in the process of establishing a generalist private equity fund to provide support for the SMEs. The GHS 400 million fund is expected to be established by end of year 2022 with the potential of raising additional funding in the coming years.

Climate Change

The MoF has outlined measures to build a climate-proof resilience into the economy, which will better equip the country to handle future shocks and protect existing infrastructure, property, lives and livelihoods. The Government seeks to build capacity towards the implementation of the Nationally Determined Contributions. This is expected to be driven by private sector investments through private capital and PPPs for climate resilient infrastructure projects, as well as for the voluntary and compliance carbon markets and will be supported by the Green Climate Fund (GCF) Readiness and Preparatory Support Programme.

Recent developments also had Ghana participate in the establishment of a Loss and Damage Fund which aims at providing financial support for climate vulnerable countries in times of disasters. Additionally, the Green Finance Initiative which was approved in the first quarter is expected to support the building of resilience and adaptive capacity of rural communities and farmer-based organisations by allowing beneficiaries to access credit lines for green agricultural investments

Ghana Agricultural Insurance Pool

The MoF indicates that the National Insurance Commission is in the process of establishing agriculture insurance and index-based weather insurance packages through the Ghana Agricultural Insurance Pool (GAIP) for commercial and small holder farmers. An estimated US$400 million in agricultural insurance will be extended to eligible farmers in 2023.

Deloitte Comments

The establishment of the private equity fund comes at the right time given the urgent need of patient capital by SMEs which have gone through turbulent times with economic developments over the past two years. Additionally, the employment of digital platforms for disbursing credit will help reach the mass informal sector.

The agriculture sector stands to benefit from various financing schemes to be pursued by the Government. A total of GHS 1.6 billion is expected to be invested into the agricultural sector under the GAIP, Development Bank Ghana and Ghana Incentive-based Risk Sharing for Agricultural Lending Programmes. Aside direct public sector funding and guarantees for the agriculture sector, the introduction of agriculture insurance will significantly mitigate the risk of lending to the agriculture sector and crowd-in some more funding for the sector. This will also seek to cushion farmers from the impact of lower-than-expected yields which affect incomes and livelihood.

Ghana is set to take advantage of the rising concerns by investors for sustainability and climate action. Exploring options of sustainability-linked debt and green bonds may favour Ghana's capital market campaigns especially in recent times where debt sustainability has been brought under surveillance.

Tax Policy Proposals

Personal income

Introduction of additional income tax band of 35%

The Minister of Finance announced the introduction of an additional income tax band of 35% for specified income levels for resident individuals. This will introduce a new top marginal tax rate of 35% above the current rate of 30% on chargeable monthly income exceeding GHS 20,000 for resident individuals.

Deloitte Comments

Government, in August 2018, introduced the top marginal rate of 35% but reversed it shortly afterwards to the current 30% for specified levels of income for individuals. With personal income tax (PIT) being the third largest source of tax revenue for Government, we expect the increase in PIT rate to help Government mobilize additional revenue.

For resident individual employees within the specified income band, the tax rate hike will, all things being equal, mean a reduction in their net salaries and disposable income. Self-employed individuals whose chargeable income fall within the specified income tax band will also see an increase in their tax costs resulting in lower net profit after tax.

Although the Budget Statement does not indicate an increase in the PIT rate for non-resident individuals (currently at 25%), there could be a corresponding increase for non-residents as has traditionally been the case.

Employers with high-income local or foreign employees may also see an increase in employment costs. There will be the need to make payroll adjustments including hypothetical taxes for tax equalized assignees on assignments in Ghana when the proposal becomes effective.

Revision of limits for quantification of vehicle benefit for PIT purposes

The Budget Statement announced a review of the upper limits for quantification of vehicle benefits for PIT purposes.

Deloitte Comments

For tax purposes, a nominal amount is included in the monthly taxable income of employees who are provided with vehicle and/or fuel benefits. This amount which is included for tax purposes is currently capped at GHS250 for vehicle or fuel only benefits, GHS500 for both vehicle and fuel benefits and GHS600 for vehicle with a driver and fuel benefit.

We expect the implementation of this proposal to generate additional revenue for the Government. Employees enjoying such benefits are likely going to pay additional taxes on any upward revision and therefore will have a reduction in their disposable income.

Tax waiver on withdrawals from Tier 3 provident funds and personal pension schemes

The Government has proposed a tax waiver on early withdrawals from Tier 3 provident funds or any personal pension schemes in 2023 for individuals who lose their jobs permanently or their capital due to the current economic crisis.

Deloitte Comments

Ordinarily, early withdrawals of benefits under a Tier 3 provident fund or personal pension scheme attract income tax at the rate of 15%. In 2020, the Government provided a waiver of tax for withdrawals made by individuals on their Tier 3 provident funds or personal pension schemes before retirement due to the COVID-19 pandemic job losses.

We expect the implementation of the current policy proposal to be similar to the tax waiver granted in 2020. Also, we expect the National Pensions Regulatory Authority to provide the procedures for applying for such benefits. Given the current economic difficulties, this proposal is a welcomed support to households facing permanent job losses or entrepreneurs losing capital in the ongoing economic crises.

Revision of 15% tax on gains earned by individuals

The Minister indicated Government will review the optional 15% tax rate applied on gains derived by individuals from disposal of investment assets.

Deloitte Comments

Under the current tax legislation, resident individuals with gains from disposal of investment assets may opt to pay tax at a rate of 15% instead of at the graduated tax rates with top marginal rate of 30%.

Although the nature of the proposed revision is not stated in the Budget Statement, it is our view that the options available to the Government could be either to increase the optional rate or elimination of the option for such gains to the taxed at a separate rate.

We propose that Government considers reviewing the optional rate to a rate lower than the proposed top marginal rate of 35%.

A significant increase in the tax rate on gains derived by individuals may have the potential of disincentivizing individual investments.

Business income tax

Introduction of a minimum chargeable income system

The Minister of Finance has announced the introduction of a minimum chargeable income for businesses from 2023.

Deloitte Comments

Details on this intended policy introduction is limited in the Budget Statement. However, a minimum chargeable income system operates to deem a minimum amount as taxable income of a company with no taxable profits. This minimum amount could be based on turnover or another base aside profitability. We recommend that implementation of this policy should be carefully crafted to avoid additional cost burden on businesses making losses due to the economic challenges. Sectors such as agriculture, manufacturing and technology start-ups should be exempted from the minimum chargeable income regime to serve as incentives for investments into these sectors.

Introduction of tax return and withholding tax for gains

The Minister hinted of introduction of a tax return and withholding taxes on gains arising on the realization of assets and liabilities.

Deloitte Comments

Entities are currently allowed to include gains derived from disposal of assets and liabilities in the computation of income from business or investment and taxed at their corporate tax rate with no requirement for a separate return.

We anticipate this proposed policy to mean that taxpayers will be required to separately account for tax at a rate to be specified on such gains. Thus, the gains will be reported and taxed separately from business or investment income. The intention from Government is to rake in additional tax revenue from such transactions, but for businesses and investors, this is an additional administrative burden that is likely going to result in a higher tax burden on gains where there are no deductions or set-offs available against such gains.

The introduction of withholding tax on payment for capital assets will result in upfront tax revenue to the Government on such transactions. It will also help provide data to the Ghana Revenue Authority (GRA) on taxpayers who realize certain assets and liabilities to drive compliance and monitoring of taxable disposals.

Conversion of National Fiscal Stabilization Levy (NFSL) to Growth and Sustainability Levy (GSL)

The Government proposes to convert the current NFSL regime which is restricted to eight (8) specified sectors to a GSL payable by all entities across sectors. The Minister indicated that Government intends to group all entities into three categories (A, B, and C) paying GSL as follows:

Categories	Entities	Applicable GSL rate
Category A	Banks and non-bank financial institutions (except community/rural banks), insurance companies, telecommunication companies, breweries, inspection and valuation companies, mining support service companies, shipping lines, maritime and airport terminals, and six (6) additional sectors.	5.0% on Profit Before Tax
Category B	All other entities except entities in the extractive sector	2.5% on Profit Before Tax
Category C	Entities operating in the extractive sector	up to 1.0% of production

Deloitte Comments

The NFSL regime, introduced to help raise revenue for fiscal stabilization, was expected to be phased out in 2024 after several extensions since its introduction. The decision to convert this regime to a GSL regime and expand the entities covered reflects the current urgent need to grow Government revenue base for fiscal stabilization. Although there is no indication at this stage as to whether the Government will remain committed to maintain the expiry period of 2024, we expect the amendment Act to provide clarity on expiration of the proposed GSL.

A major area of concern we foresee is in the case of companies in the extractive sector who mostly have fiscal stability clauses in their investment agreements with the Government that stabilize the fiscal framework for these companies for a period. It is therefore unclear how the Government intends to exert this proposal for the extractive sector. We expect government to hold stakeholder engagements with entities in the extractive sector on how to design and implement this proposal.

Overall, the extension to all sectors means an additional tax handle that will result in additional corporate tax burden for businesses. The increased tax burden may also affect further investments needed for business growth especially for the extractive sector. Given that businesses are facing difficulties in the current economic crisis, it is our hope that this measure will only be temporary and phased out over time to lessen the tax burden on businesses.

To help mitigate the impact of the additional cost to businesses, we propose that Government considers attaching some benefits to payment of the GSL such as allowing the levy to be a deductible expense.

Restriction on deduction of foreign exchange loss

The Minister of Finance announced that as part of the reforms to the income tax regime in Ghana, there will be restriction on the deductibility of foreign exchange losses to actual losses incurred. Foreign exchange losses incurred on capital assets will be capitalized as part of the asset cost and deductions claimed through capital allowance.

Deloitte Comments

Foreign exchange losses, whether realized or unrealized, are currently deductible for tax purposes, subject to certain conditions. The proposed change will limit the amount of foreign exchange loss deduction available to businesses against their taxable income.

With the current rate of fluctuation in the value of the Ghana Cedi, businesses with significant exposure to foreign exchange may face sharp increases in taxable profits due to non-deductible foreign exchange losses and upfront cash outflow for taxes. It will therefore be imperative for companies to properly track and account for the realized and unrealized portions of foreign exchange losses once this measure becomes effective. We also recommend that the amendment Act provides for a restriciton on the taxation of foreign exchange gains to actual gains realised.

Unification of operating loss carry-forward rules

The Minister indicated that the Government will unify the treatment of unrelieved operating losses for all entities.

Deloitte Comments

Currently, companies engaged in minerals and mining operations, petroleum operations, energy and power business, manufacturing business, farming business, agro-processing business, tourism business and information and communication technology business are regarded as "priority sectors" and can carry forward tax losses for 5 years. All other sectors are allowed to carry forward losses for 3 years.

The specific details of the nature of this unification are yet to be published by the Government. We expect the Amendment Bill for this proposal to provide clarity once Government submits same to Parliament. A change that results in a shorter period for carrying forward losses will however be unfavorable to businesses in a period of economic crises where businesses are still recovering from the effects of the pandemic. The potential effect of this policy on business investment decisions should therefore be extensively evaluated before the final measure is introduced.

Indirect tax

Increase in standard value added tax (VAT) rate

The rate for standard VAT has been announced to increase by 2.5% from 12.5% to 15% to mobilize revenue for road infrastructure development and Government's digitalization agenda.

The VAT registration threshold, which is currently GHS200,000 and VAT exemption regime have been mentioned for review in 2023.

Deloitte Comments

The current standard VAT rate of 12.5% is charged on the value of the supply plus total levies of 6%. This results in an effective VAT rate of 19.25%. An increase of the standard VAT rate to 15% will result in an effective VAT rate of 21.90%. Although the Government may achieve the aim of increasing domestic revenue from the implementation of this proposal, the impact on the general price levels might prevent Government from achieving inflationary target of 18.9% at year-end 2023.

Overall, the current standard VAT rate and levies is already considered to be one of the highest within the sub-region hence the proposed increase will not only have an impact on consumers but also on businesses in terms of increase in operating costs and reduction in business profits if the tax hikes are not passed on fully to consumers.

Furthermore, a key metric for assessing the ease of doing business is the frequency of tax law changes. Ghana's VAT regime has seen frequent changes in the last 5 years from the introduction of the VAT flat rate scheme, the decoupling of the VAT related levies and the introduction of the COVID-19 Levy. The frequent changes in the VAT regime affects the ability of the businesses to plan over a period.

We therefore recommend that instead of increasing the VAT rate further, the Government should consider pursuing its E-VAT invoicing policy to ensure full compliance and reform the VAT regime to allow deduction of levies incurred for taxable supplies. Full implementation of the E-VAT invoicing should reduce non-compliance and increase revenue intake without amending the VAT rate.

On the VAT threshold and exemption review, the Budget Statement did not give an indication of the nature of review being considered hence we expect details to be known once the proposed Amendment Bill is laid before Parliament.

Reduction of the electronic transfer levy (e-levy)

The rate for e-levy on electronic transfers will be reduced from the current 1.5% to 1% of the transfer value. Also, the Minister announced that the daily threshold will be removed. The current daily threshold is GHS100 for electronic money transfer and GHS20,000 for bank transfers through instant pay digital platforms.

Deloitte Comments

Since its implementation, the e-levy regime has received disapproval from various sections of the country which resulted in the Government's inability to achieve the set revenue targets. The decision to reduce the rate to 1% is likely borne out of the need to reverse the significant reduction in the use of electronic money transfer services and consequent non-performance of the tax handle since its introduction.

Also, the indication to remove the minimum threshold effectively means that the safety net to protect lower income earners will be removed. It is unclear whether the threshold removal will be in respect of the GHS100 for mobile money transfers only or extend to the GHS20,000 minimum daily threshold on bank transfers by individuals.

We recommend that Government maintains the threshold for transactions to encourage use of electronic money transfer services for small transactions and protect lower income earners as initially intended.

Excise tax

The Budget Statement has also announced reforms to the current excise duty regime. The proposed reforms will cover the following:

- Revision of excise tax on cigarettes and tobacco products to align with ECOWAS protocols.

Deloitte Comments

The ECOWAS protocols on taxation of cigarettes and tobacco recommend that member states using the ad valorem system charge excise tax at a rate of 50% or more on the ex-factory selling price or output price excluding VAT and excise duty. Member states using specific tax rate are to charge excise tax at a rate of US$0.02 per stick of cigarette, cigar, and cigarillos or US$20 per net kilogram of all other tobacco products.

Ghana's excise tax rate on tobacco products is currently 175% of ex-factory price. This, in our view, is in line with the recommended rate in the ECOWAS protocols for ad valorem excise duty rate hence it is not clear what the announced revision of excise tax will be in this regard.

However, a report by the International Centre for Tax and Development on the taxation of tobacco in Ghana highlighted that Ghana's excise tax on tobacco products as a percentage of the retail price of tobacco products is 16.1%. This falls short of the World Health Organization's benchmark of 70% of retail price. The reason for this shortfall per the report is the fact that excise tax rate is charged on the producer price (ex-factory price) which is quite low.

Based on the above, we expect that the Government may opt to increase the excise tax rate, given the need for the Government to raise tax revenue, or change the tax base on which the excise tax rate is applied from ex-factory price to retail price. The impact will be to make these products more expensive to the final consumers.

- Introduction of excise tax on electronic smoking devices and liquids.

Deloitte Comments

Electronic smoking devices and liquids are used as substitutes for tobacco or nicotine. Coupled with the proposal to review the excise tax on cigarettes and tobacco products, we are of the view that the Government's proposal to introduce excise tax on electronic smoking devices and liquids appears to be an action to discourage the consumption of these products while also helping Government to rake in the much-needed tax revenue.

- Increase in the excise tax on spirits.

Deloitte Comments

The current excise tax rate on spirits ranges from 0% to 25% with that of beer ranging from 10% to 47.5%. Given the Minister's statement that the policy will seek to increase the excise tax above that of beers, we expect that the implementation of this policy may result in a revision of the band for spirits to rates above 47.5%.

Currently, spirits that attract 0% excise duty include spirits solely used in a laboratory or in the compounding of drugs. Thus, an increase in the minimum band will result in an increase in the input cost of the pharmaceutical industry and effectively the price of such products to consumers. This will affect the competitiveness of local pharmaceutical companies.

Thus, we recommend that Government maintains the 0% band for spirits used in laboratory or in the compounding of drugs to prevent its negative impact on the level of competitiveness of the local pharmaceutical industry and impact on final consumers.

Review of customs regime

As part of the tax policy proposals in the 2023 Budget Statement, the Government intends to review the customs regime in Ghana. Specifically, the Minister of Finance indicated that the Government, in the 2023 fiscal year, will:

- Phase out of the benchmark discount policy.

Deloitte Comments

The benchmark discount policy has been met with mixed reactions from importers on one side and local manufacturing industry on the other side. The Government instituted this policy in 2019 with the aim of making the Ghanaian ports competitive and in the long run increase Government's revenue. In November 2021, the Government declared its intention to scrap the policy altogether but was met with stiff opposition from some trade associations in the country.

In our view, the policy has not achieved the expected outcomes and a decision to scrap it may not come as a surprise to many. The Government's decision to reduce the discount offered from 50% (30% for vehicles) to 30% (10% for vehicles) in 2022 may have contributed to the rising inflation in the country. Hence, a complete removal of the benchmark policy is likely to result in an upward movement in the rate of inflation in 2023 as traders will seek to recover any additional cost by passing it down to final consumers.

- Amend the Customs Regulations, 2016 (L.I. 2248) to allow for self-clearing of goods by importers at the ports of entry.

Deloitte Comments

Businesses outsource this function to Customs House Agents because they want to focus on their core business activities and would prefer someone (with proven know-how) to handle their import clearance processes. Also, the Customs processes can be cumbersome and may require simplification and sensitization before the Government can achieve its objective of getting individuals to self-clear goods. We anticipate that post clearance audit of individuals would be difficult in practice as individuals may not keep good records and without proper measures in place most individuals may abuse this policy.

- Revision of duty rates to protect local production.

Deloitte Comments

The Minister hinted of Government's intention to revise the duty rates on products that can be produced sufficiently in Ghana. The President of Ghana, in his address to the nation on 30 October 2022, also indicated Government's intention to review the provision of foreign exchange (forex) and standards required for importing rice, poultry, vegetable oil, toothpicks, pasta, fruit juice, bottled water and ceramic tiles into Ghana. We therefore expect that the duty rate revision proposed in the 2023 Budget Statement might target the products indicated in the President's address. Although the Budget Statement does not specifically mention what form the revision will take, we expect the Government to increase the import duty rate on these products to discourage their importation. An increase in the rate, together with the withdrawal of forex support, will effectively increase the prices of such imported goods relative to the locally manufactured substitutes.

We recommend that the Government implements this policy in phases to allow for enough time for the country to build its capacity in the production of these products. Also, the Government should assess the responsiveness of the consuming public to changes in the prices of the earmarked goods over time before rolling out the policy fully.

Tax Exemptions and Waivers

Increase in the concessional corporate tax rate

The Minister, in his presentation of the 2023 Budget Statement, mentioned that Government intends to increase the concessional tax rate applicable to specified companies from 1% to 5%.

Deloitte Comments

The Sixth Schedule of the Income Tax Act, 2015 (Act 896) provides for temporary concession on corporate tax for persons engaged in agriculture, rural banking, waste processing, residential premises, unit trusts, mutual funds, venture capital, young entrepreneurs in specified industries, and free zones enterprises. These persons, other than the young entrepreneurs in specified industries and free zones enterprises, pay income tax at the rate of 1% during the concession period. The proposed review will increase the concessionary corporate income tax rate to 5% of chargeable income during their period of concession. In our view, this policy change will help accrue tax revenue to the Government while still maintaining a competitive concession corporate tax rate of 5% compared to the general corporate tax rate of 25%.

Freeze on tax waivers and review of tax exemptions

The Minister of Finance announced Government's intention to freeze the grant of tax waivers to foreign companies in 2023 as part of efforts to manage tax expenditure. Also, Government will review tax exemptions to free zones, mining and oil and gas companies in 2023 financial year.

Deloitte Comments

Tax expenditures in the form of tax incentives to businesses and lower rates for income from specified goods and services is costly to governments. Implementation of this policy will help minimize Government's tax expenditure over the fiscal year.

Also, we are of the view that the review of tax exemptions to free zones, mining and oil and gas companies in 2023 will reduce the tax expenditure and effectively result in an increase in Government revenue. The 2023 Budget Statement did not provide details on the specific options being considered by the Government. The fact that companies in the mining and oil and gas sectors typically have fiscal stability means that implementation will be more nuanced than a simple blanket review of tax waiver regimes. We recommend that the Government engages with stakeholders within these sectors to align on the modalities of this policy to ensure that implementation achieves the intended objectives.

Other tax measures

Review of tax for betting and gaming industry

To improve revenue mobilization and enhance tax administration in the betting and gaming industry, the Government has proposed to introduce tax on the gross revenue of betting and gaming companies to replace corporate tax and VAT in 2023. Also, the Government intends to introduce withholding taxes on winnings from betting, gambling, and other games of chance.

Deloitte Comments

The betting and gaming industry remains an untapped area for tax revenue for Government. Given the significant involvement of players in the betting and gaming industry, a simplification of the tax regime is appropriate, but the rates introduced should not be prohibitive to investment in the sector. Introduction of withholding tax on winnings is also commendable as a means of generating tax income from individuals who are unlikely to declare winnings in tax returns.

Revision of Vehicle Income Tax (VIT) and income tax stamps rates

Government has proposed to review the VIT and income tax stamp rates in 2023. The Minister indicated that the VIT rates and tax stamp rates have not been reviewed since 2013 and therefore requires revision to bring them to be in line with current market values.

Deloitte Comments

Mobilizing taxes from businesses and individuals in the informal sector has been one of the biggest challenges of Ghana's tax system. The review of the VITs and income tax stamps, although long overdue, is a step in the right direction towards raking in additional tax revenue from the informal sector.

From a broader perspective however, we recommend that the GRA collaborate with the local government authorities to drive a higher level of compliance with the income tax stamp system and informal sector taxation in general. Quarterly VIT and income tax stamp payments were suspended in 2021 and 2022 with a condition for taxpayers to be registered with the GRA to enjoy the suspension. Although data is not yet available, we expect the implementation of the tax suspension regime should have resulted in significant new registrants within this category and GRA can rely on this data to improve compliance.

Re-introduction of road tolls

The Minister mentioned that Government intends to reintroduce road tolls on specified public roads and highways. Government, through the 2022 Budget Statement, removed tolls charged on all public roads and bridges to help reduce vehicular traffic and carbon emissions while enhancing productivity from reduced travel time

The 2023 Budget Statement provides that Government intends to reintroduce road tolls while leveraging technology in the collection to address inefficiencies characterized by the previous toll collection regime.

Deloitte Comments

Given the need for the Government to mobilize more revenue domestically, the reintroduction of the tolling system on public roads and highways is a laudable initiative. This will help the Government to increase its revenue generated within the fiscal year. With the focus on utilizing technology in the collection of the tolls, the Government can track the revenue generated from road tolls without congestions on these roads and highways. It is imperative for the Government to learn from the success stories of countries like United States of America, Canada, Poland, the Philippines, South Africa, among others in the deployment of the automated toll collection system to ensure that the intended efficiencies are derived.

Roll out of electronic Tax Clearance Certificate (TCC)

Government will pursue a full roll out of the electronic TCC system and expand the requirement for TCCs to cover additional services. This, the Minister indicated, will enhance efficiency and expedite the current manual process for acquiring a TCC and ultimately improve tax compliance.

Deloitte Comments

The GRA, as part of its digitalization agenda, piloted the electronic issuance of TCCs in October 2022. This is aimed at improving the efficiency of the services provided by the GRA. The indication of a full roll out of the electronic TCC system in 2023 comes as good news for taxpayers as this is expected to make the TCC application process relatively easier and faster. Also, the expansion of services that require TCCs should help enforce tax compliance and increase the tax base.

We however recommend that the GRA takes steps to address initial challenges or gaps identified at the piloting stage of the process to ensure that the intended benefits are achieved.

Roll out of Unified Common Platform (UCP) for property rate

As part of Government's efforts to enhance administration of the property rate system, the Minister of Finance mentioned that Government intends to fully roll out the UCP for property rate administration from January 2023 after a successful piloting stage. GRA will assist the Metropolitan, Municipal and District Assemblies (MMDAs) in assessment and collection of property rates.

Also, the Minister indicated that Government, through GRA, will put in measures to enhance rent tax compliance in 2023.

Deloitte Comments

Due to several inefficiencies in the current property rate regime, it has been determined that most MMDAs struggle with the assessment, collection, and accountability of property rates. With Government's intention to fully roll out the UCP, there is an expectation of improvement in property rate administration at the local government level from the 2023 fiscal year.

With GRA's expertise in revenue mobilization, we are of the view that this policy will help increase the revenue of the local government. We expect collaboration between the MMDAs and GRA on implementation of the UCP to provide a comprehensive database for proper administration of property rates going forward. Information provided will also help the GRA to review rent tax compliance of taxpayers and take relevant actions against non-compliance.

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