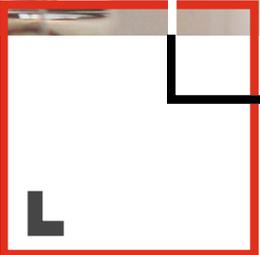
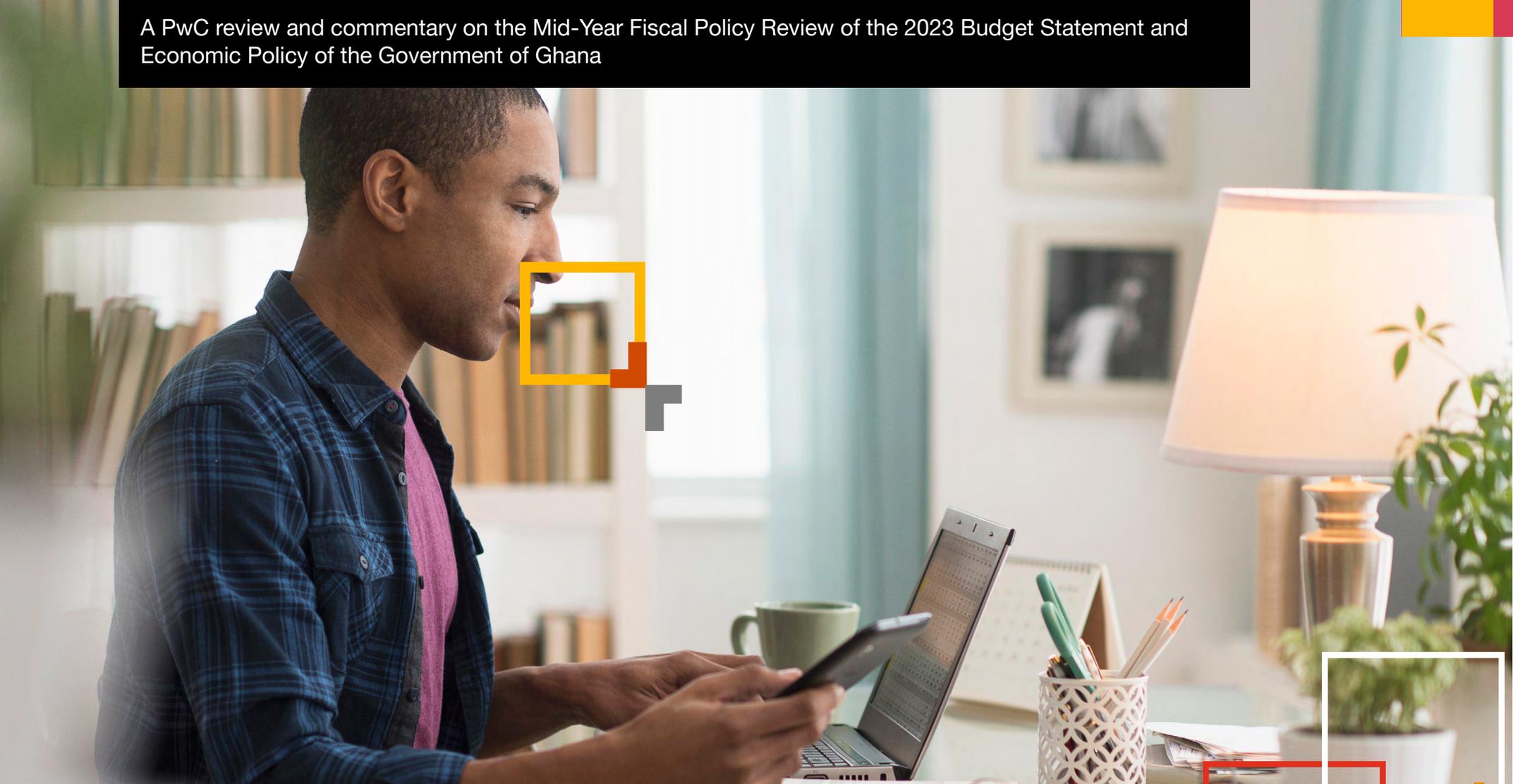


2023 Mid-Year Budget Digest

A PwC review and commentary on the Mid-Year Fiscal Policy Review of the 2023 Budget Statement and Economic Policy of the Government of Ghana

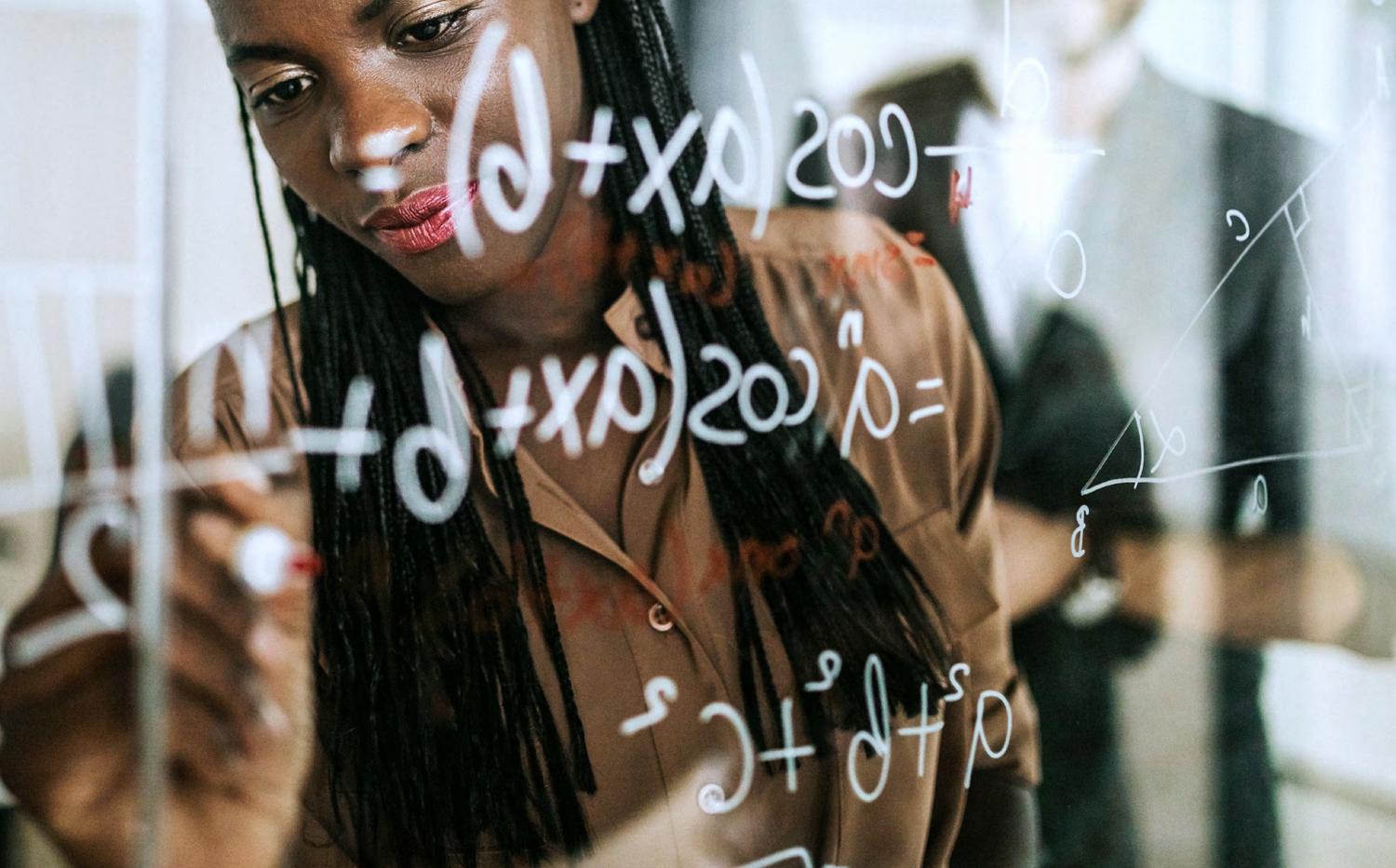


Contents



1	Commentary	03
2	At a glance	08
3	Tax matters	14





1

Commentary

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Ghana's economy urgently needs a reset - perhaps, more urgently than many might have thought. Our overall sense is that the mid-year budget review indicates that, as a country, we have more pain to endure before things get better. Our starting assumptions for 2023 were ambitious, the reality has turned out a little worse than we had anticipated; oil prices have not held up, expenditure, especially public sector pay, is higher than we budgeted, revenues have not come in as expected, etc. So, overall, it signals that we have a longer road to contend with before we get back on track. It is, therefore, no surprise that all the indicators have been revised downwards. Arguably, the revised targets are more reasonable. However, in our view, these revisions still highlight that the economy remains vulnerable and urgently needs the structural adjustment (i.e., the reset) that we have long spoken about. We must point out that businesses and households should continue to expect to tighten their belts before things get better.

The levers available to us as a country to reset our economy broadly include:

- Revenue maximisation,
- Expenditure rationalisation and optimisation, and
- Deep-seated structural reforms in our real economic sectors.

We acknowledge that none of these levers offers Government simple, easy-to-implement options. Lever choices will be influenced by a myriad of factors. These include: concerns for our society's vulnerable; obligations to our creditors; the demands and expectations of the investor community; the need to secure the support of the public sector workforce to avoid a crippling of the delivery of public services; external geopolitical and economic conditions; climate change imperatives; and, of course, political considerations.

Some of these lever choices will generate quick results and might have populist appeal. However, as quickly, such results could unravel and we will find ourselves back at the start line.

At PwC, we would like to believe that, in making its lever choices in the mid-year budget review, Government has been guided by the goal of

achieving a sustainable, medium-to-long term, multi-year macroeconomic stability. Such a long-term, stable macroeconomic outlook will send positive signals to the investor community and encourage them to return much needed capital to our economy to facilitate the exploitation of domestic opportunities in the real sectors, leading to meaningful jobs and wealth creation.

Indeed, Government's assertion that [its] "plans and programmes should soon lead to a sustained increase in domestic production, including manufacturing and farming, replacing many of the products that we are used to importing"¹ aligns with our own expectations of economic results, if Government makes the right lever choices. Ultimately, (i.e., in the medium-to-long term), such lever choices will lead to a much healthier and stronger economy capable of internally generating the level of domestic revenues required for financing critical public expenditure and facilitate further economic expansion and deepening.

What does the mid-year budget review promise?

The Hon. Minister for Finance asserts that Government has made solid progress towards

establishing a stable macroeconomic environment. As he noted in his presentation, "Mr Speaker, we have turned the corner..." The Minister added further that "the mid-year fiscal policy review... not asked for additional funding... not asked for new tax measures... committed to stay within appropriation... more efficient in mobilising resources and managing expenditure."

Armed with additional data received since the 2023 Budget Statement and Economic Policy that was presented in November 2022, and better informed by developments in the first half of 2023, Government has moderated some of the original macroeconomic targets included in the initial, full-year budget to align with the targets documented in the IMF Country Report No. 23/168². For instance:

- Overall real GDP growth has been revised from the original target of 2.8% to 1.5%
- Period-end headline inflation has also been pegged at 31.3% compared to 18.9%
- Gross International Reserves (GIR) target has also been revised from 3.3 months of import cover to a thin 0.8 months³

¹ 2023 Mid-Year Budget Review (Page 3; para 14)

² The IMF Report was issued in May 2023 following the Executive Board's approval of the three-year USD3 billion ECF.

³ The BOG definition of GIR includes oil funds, and encumbered and pledged assets. The [IMF's ECF's] programme definition excludes oil funds, and encumbered and pledged assets.





Government has used the mid-year budget review to confirm its resolution to implement its **Post-COVID-19 Programme for Economic Growth (i.e., PC-PEG)**. This programme has been endorsed by the IMF. In a press release carried as part of the earlier referenced IMF Country Report, the IMF noted that “the [ECF⁴] program is based on Government’s PC-PEG, which aims to restore macroeconomic stability and debt sustainability, and includes wide-ranging reforms to build resilience and lay the foundation for stronger and more inclusive growth”.⁵

A key intervention planned as part of the PC-PEG is “large and frontloaded fiscal consolidation to bring public finances back on a sustainable path”. This effort is expected to result in a cumulative fiscal adjustment equivalent to 5.1% of GDP over the period from 2023 - 2026, with a fiscal effort of 3.8% planned for 2023 alone. The achievement of this ambitious fiscal consolidation is predicated on Government successfully mobilising more domestic revenue and improving efficiency of spending. In line with the IMF’s expectations,

Government plans to reduce the primary balance on a commitment basis from 4.3% of 2022 GDP to 0.5% of 2023 GDP. 2022 overall budget deficit (on commitment basis) amounted to 11.8% of 2022 GDP compared to a target of 6.3% of GDP.

Government’s reported fiscal performance in the first half of 2023, based on provisional data, estimates that the overall budget deficit on commitment basis ended at 0.8% of GDP compared to a mid-year target of 3.5%. The corresponding primary balance (on commitment basis) surplus amounted to 1.1% of GDP. While we note that these results look positive, we make a note that Government had been under severe liquidity constraints in the lead-up to the approval of the IMF facility and, as a result, was constrained in its expenditure.

In our view, Government’s end of year targets for primary balance and overall budget deficit may be ambitious. We agree that, being under an IMF programme, Government is more likely to be circumspect in its expenditure. We would encourage Government to steer off any inclinations towards interventions that could derail them from meeting the objectives of the PC-PEG. With regards to the targets for primary balance and overall budget deficit, both on commitment basis, we believe that implementation/ adoption of GIFMIS⁶ throughout the entirety of Government, i.e. including state owned enterprises (SOEs)/ specified entities and the local



government machinery is key. We acknowledge that key challenges remain, but successful implementation will go a long way to achieve fiscal and financial discipline. We urge Government to engage relevant stakeholders to manage expectations and also secure their cooperation to ensure that planned interventions related to GIFMIS are executed on a timely basis.

Following a strong revenue-led fiscal consolidation path

Indeed, it was this need to demonstrate serious commitment to the “large and front loaded fiscal consolidation”, that led Parliament to work through a crunch session on 31 March 2023 to enact several revenue mobilisation bills⁷. This had been set as a Prior Action in the IMF Staff Level Agreement reached with Government in December 2022, and was necessary to secure the IMF Executive Board’s approval of Ghana’s application for support. Collectively, Government estimates that these three revenue laws would generate in excess of GHS4 billion annually. Indeed, Government’s revenue-led policy interventions aim to grow the revenue base that would support the fiscal consolidation and growth agenda to about 1.35% of GDP.

These revenue measures have remained significantly unpopular among both businesses and households. Businesses protest that these additional taxes have made them hugely uncompetitive, resulting in the collapse of many enterprises. Additionally, consumption demand is expected to be dampened by the additional taxes households would be faced with. It is in light of these concerns that we advise that Government closely monitors revenues generated from these handles to be sure that they deliver against the PC-PEG in the manner it had originally envisaged. Lessons should be drawn from the e-Levy experience.

⁴ Extended Credit Facility

⁵ Reference the IMF Press Release (No. PR23/151), dated 17 May 2023

⁶ Ghana Integrated Financial Management Information System

⁷ These legislation include Excise Duty (Amendment) Act, 2023 (Act 1093) , the Income Tax (Amendment) Act, 2023 (Act 1094), and the Growth and Sustainability Levy Act, 2023 (Act 1095) .

While Government, in the mid-year review, has noted that it would not require additional funding or ask for new tax measures, it has reported that revenue performance in the first half of 2023 has been below target. Total revenue and grants for this period amounted to 7.4% of GDP compared to the targeted 8.1% of GDP, resulting in a shortfall of the target by 8.4%. Lower-than-programmed oil receipts was given as the main reason.

With the tall order that Government has set itself to raise the revenue base by 1.35% of GDP in a low growth macroeconomic environment, it is important that efficiency is prioritised. We take note of Government's assertion of the close working arrangements between the Ministry of Finance (MoF) and Ghana Revenue Authority (GRA) to realise the full yield of revenue-led policy interventions: the key planks in that arrangement include enhanced collection efforts; governance, including in relation with SOEs; and E-VAT implementation. Government should give the GRA some very aggressive performance measures and targets, as well as all the support it needs to deliver on those targets. That said, taxpayers' rights should be protected despite the revenue targets set.

Targeting expenditure to maximise contributions to a medium-to-long term growth agenda

The Hon. Minister for Finance, in the mid-year budget review, reiterates the significance of Government's flagship programmes, including the One District, One Factory (1D1F), Planting for Food and Jobs (PFJ), Strategic Anchor Industries, Infrastructure for Poverty Eradication Programme (IPEP), GhanaCARES, YouStart, Agenda 111, etc. In the IMF-backed PC-PEG, these interventions are expected to contribute to promoting growth and medium-term fiscal consolidation.

We agree with the general concept that Government's flagship programmes, if properly conceptualised and dispassionately implemented, could serve as the key to ignite economic growth, which subsequently crowds in private sector investments, permitting the beginnings of such economic growth to open full throttle and deliver maximum results.

Our challenge with successive governments in Ghana has been that the conceptualisation of such flagship programmes has been inadequate and lacked rigorous debate and consideration that would have been made possible if stakeholder consultations had been sufficiently broad. Historically, parties in government have sought to pitch them as brainchilds of one political ideology, presenting them as a "better manifesto" relative to other political ideologies.

As a result, such concepts had not taken a "national character" and secured broad- and multi-based buy-in. Additionally, implementation of such flagship programmes has been fraught with political allegiances and other parochial considerations, which have served to limit the full impact such flagship programmes deliver to our socio-economic development journey. It is our hope that Government will avoid getting drawn into "business as usual" and place Country above Party.

Ghana Mutual Prosperity Dialogue Framework

The Hon. Minister for Finance stated that Government has "initiated the Mutual Prosperity Dialogue to crowd in domestic and external private investment to underpin our growth strategy"⁸. Government's plan for the success of this initiative is anchored on facilitating the ease of doing business for the private sector. The expectation is that the private sector would be led to make investments in targeted segments of the economy, including agriculture and food processing, pharmaceutical, automotive, technology, housing, etc.

In our view, this is a good initiative. However, Government's expectations may be rather ambitious. The macro uncertainties and the outstanding debt restructuring efforts make it unlikely that the private sector will come to the table fully and willingly at this stage. Businesses remain concerned about the direction of the economy, protesting that they do not have clarity. Private capital shies away from uncertainty that does not permit it to reasonably calculate risks. It is our view that crowding-in the private sector would most likely take longer and Government would have to consider a wide range of incentives in its bid to "aggressively encourage" the private sector to participate in the Mutual Prosperity Dialogue framework.



Our conclusion and overall point of view

It is refreshing to note the Hon. Minister admitted: “Whilst most countries are still going through difficulties due to what is happening globally, our economic crisis also emanates from fundamental and systemic weaknesses that we must boldly confront.”⁹ These weaknesses have been listed in the mid-year budget review as follows:

- Low revenue to GDP ratio;
- High demand and dependence on imports, including food products that can easily be produced here;
- Inefficient power management;
- Lack of robust expenditure and commitment control systems to secure us efficient public service delivery;
- The numerous statutory funds with expenditure and economic governance issues; and
- Weak SOE governance.

Without doubt, admission of the existence of a problem is the first step to its correction. In that light, this is good. However, it should be acknowledged that correcting these structural bottlenecks will involve significant pain - not just for businesses and households, but for Government too. It will require resolute leadership that will also model expected behaviours to clearly and convincingly communicate the vision and long-term benefits that would accrue to the country and citizens in general.

In the keenly competitive and increasingly divisive political environment that Ghana finds itself, where the “winner takes all” culture dominates our political discourse and practices, such leadership has been lacking. It would be good to continue to have conversations - as the media and Civil Society Organisations (CSOs) have been having - about our current and evolving political/ democratic culture, intertwining such discourse with dispassionate, apolitical discussions about our socio-economic performance and development with the hope that we can find a solution that works for our country. Inviting external perspectives, such as from our bilateral and multilateral partners, is good, but ultimately - just like the PC-PEG, it must be a home-grown solution.

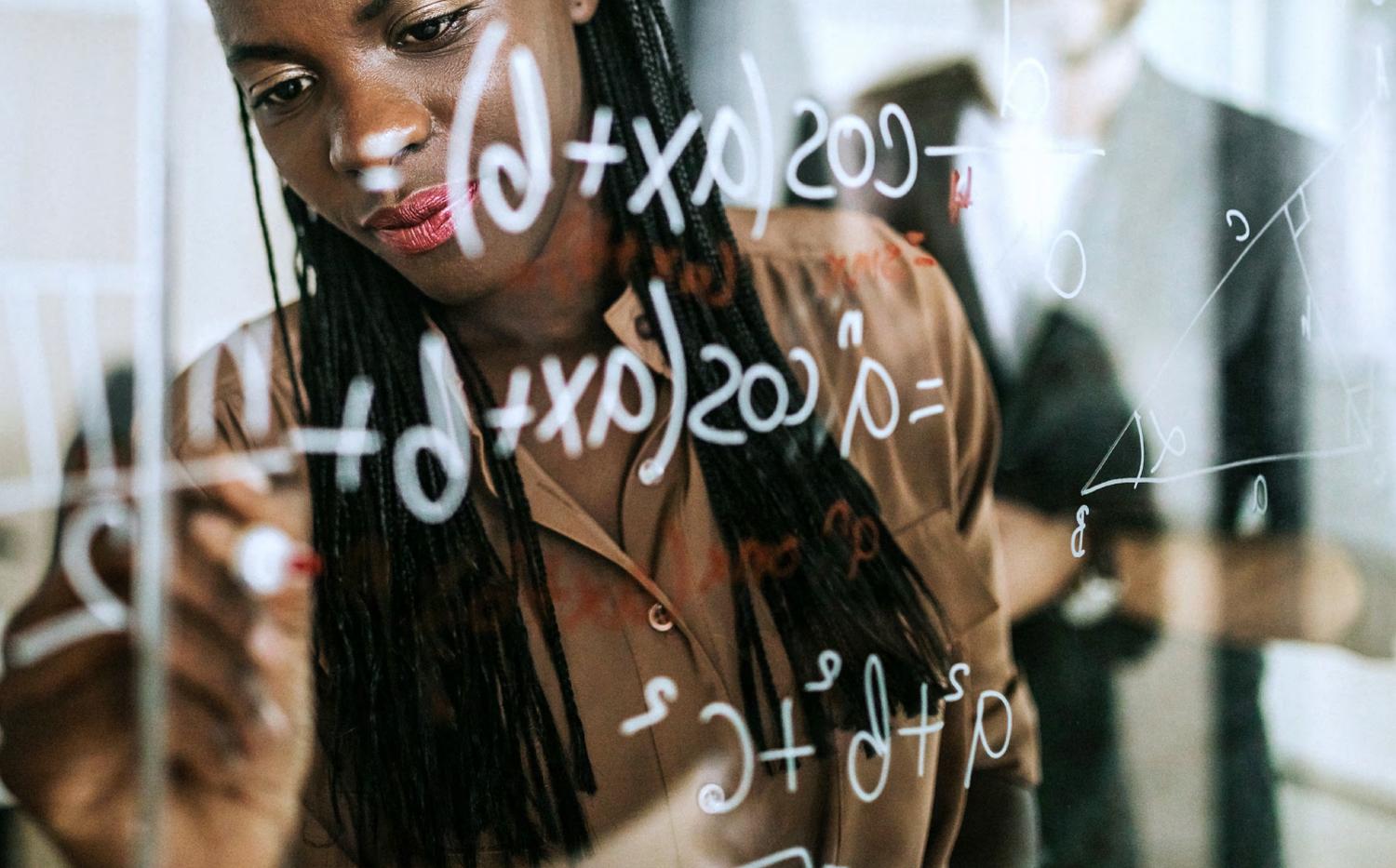
⁹ 2023 Mid-Year Budget Review (Page 32; para 165)



At PwC, we hold the view that Government is embarking on an ambitious journey with some major bumps ahead: second round of Domestic Debt Exchange Programme (DDEP); negotiating bilateral debt in a manner that would support long-term debt sustainability; expenditure management and commitment control in a public sector environment that is fraught with weak internal controls in spite of the existence of a multiplicity of legislation to deal with malfeasance, reduced real incomes due to high currency depreciation and high inflation; rapidly escalating cost of living; a belligerent, below-the-line informal sector that is not used to paying taxes; etc. The list is long.

To help fix our predicament, we recommend (and commend Government for having started) broad consultations with various constituents, especially the private sector that is deemed to be a key driver of socio-economic development. Continuous and effective communication by the managers of our economy and transparency and timely sharing of credible relevant data with all interested parties, as well as sincere burden-sharing by the political class, will help to ease the effort and optimise the support required for the journey. We trust that such measures will, at a minimum, help to rally the private sector and get them to participate a lot more easily in the Ghana Mutual Prosperity Dialogue being championed by the MoF.

As a professional services firm with a global footprint, and true to our purpose to build trust in society and solve important problems, PwC stands ready to support Government and the country to achieve the long-term development aspirations.



2

At a glance

Maxwell Darkwa

Assurance Partner

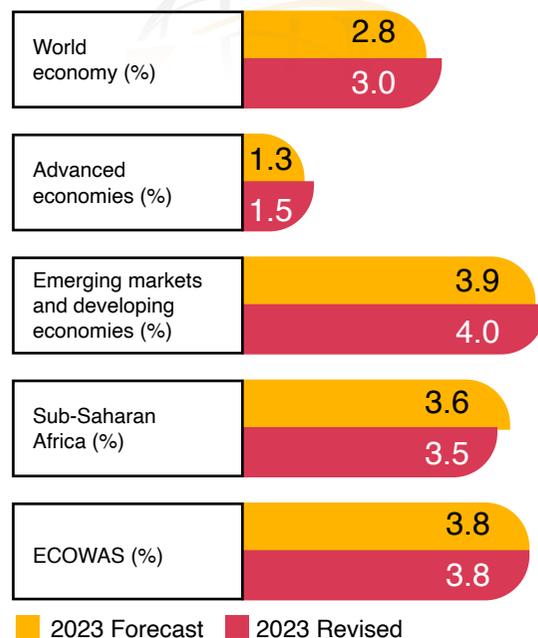
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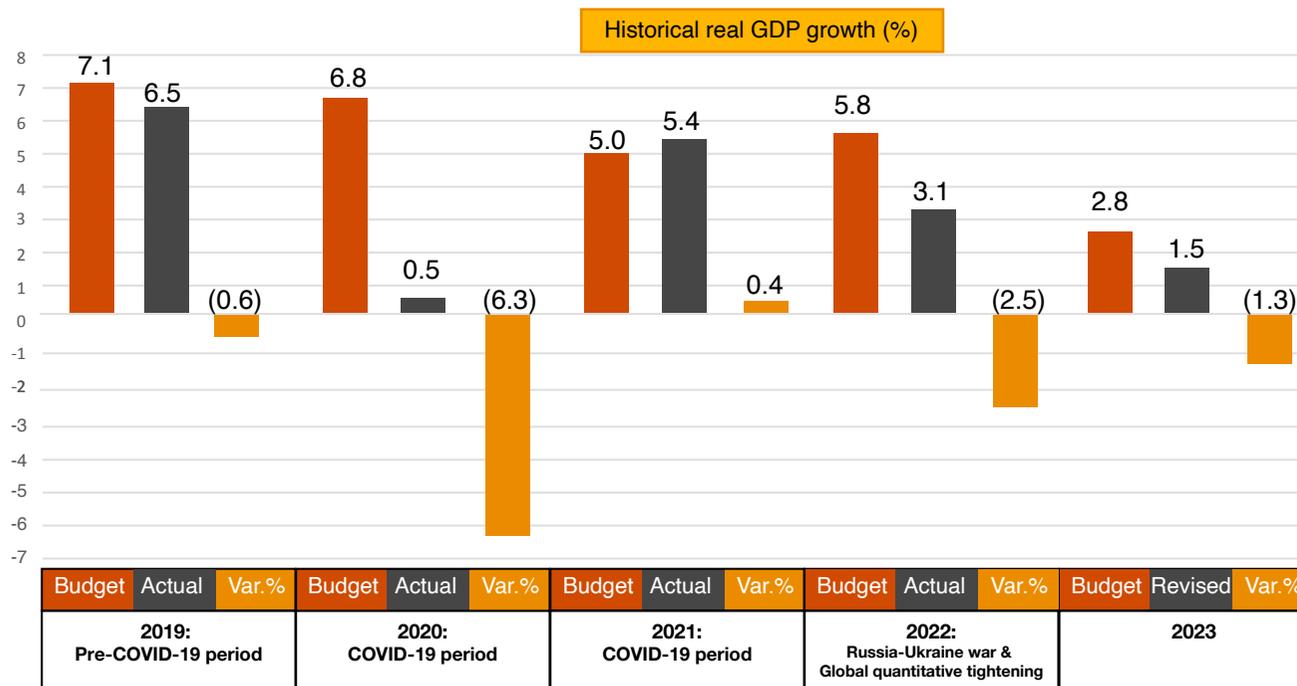
9 Macroeconomic performance and outlook

Global GDP growth

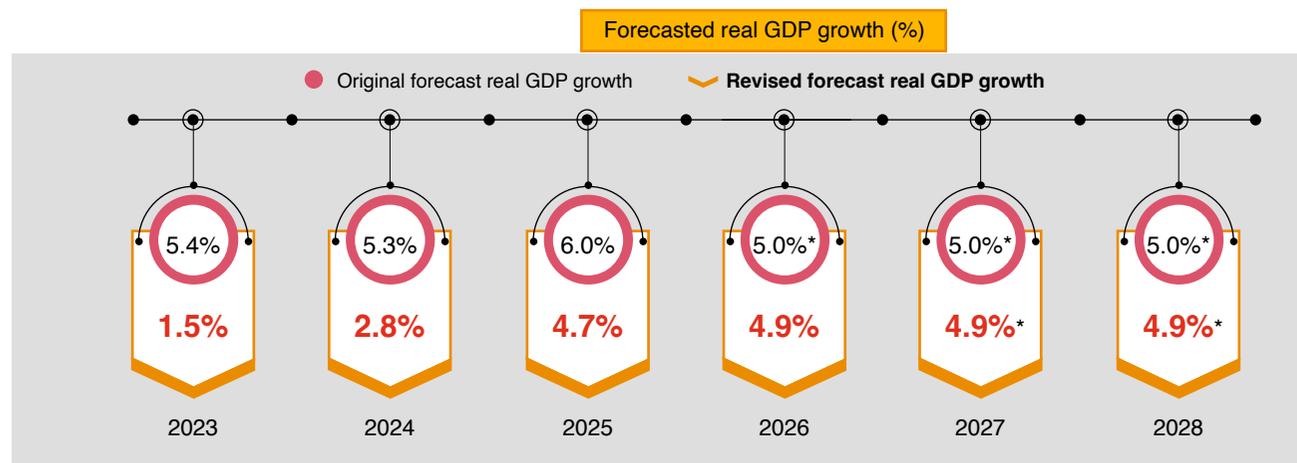


Source: Mid-year Budget Statement 2023, World Bank and IMF

Domestic growth



Source: Budget Statement 2022 & Mid-year Budget Statement 2023



*IMF forecast
Source: Mid-year Budget Statement 2023 and IMF

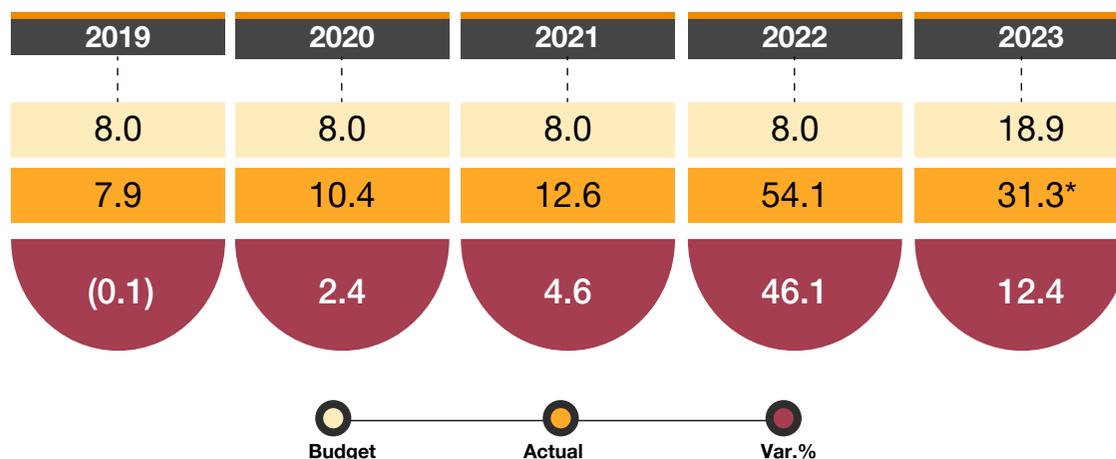
10 Macroeconomic performance and outlook

Sectoral growth rates

	2019			2020			2021			2022			2023		
	Budget	Actual	Var. (%)	Budget	Revised	Var. (%)									
 Agriculture (%)	7.3	4.7	(2.6)	5.1	7.4	2.3	4.0	8.5	4.5	5.3	4.2	(1.1)	2.6	1.8	(0.8)
 Industry (%)	9.7	6.4	(3.3)	8.6	(3.6)	(12.2)	4.8	(0.5)	(4.3)	6.3	0.9	(5.4)	3.9	1.4	(2.5)
 Services (%)	6.1	7.6	1.5	5.8	1.5	(4.3)	5.6	9.4	3.8	5.6	5.5	(0.1)	1.7	1.4	(0.3)

Source: Budget Statement 2022 & Mid-year Budget Statement 2023

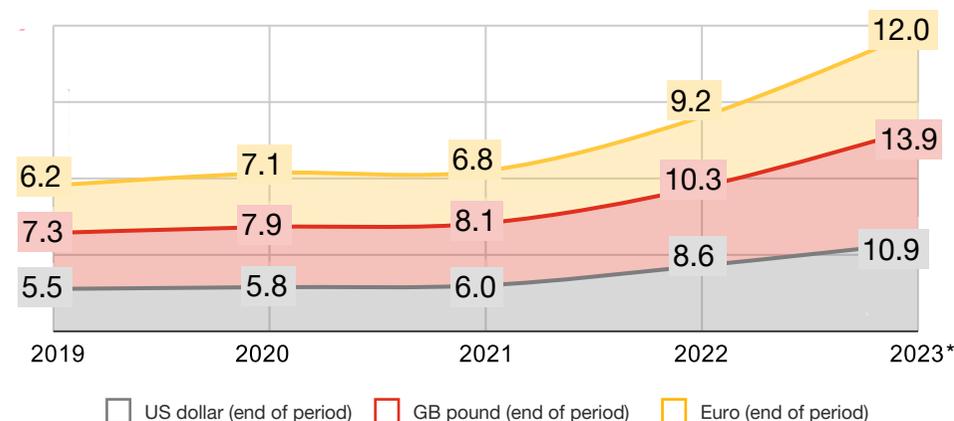
Inflation (%)



*Revised target 2023

Source: BOG economic data & 2023 Mid-year Budget Statement

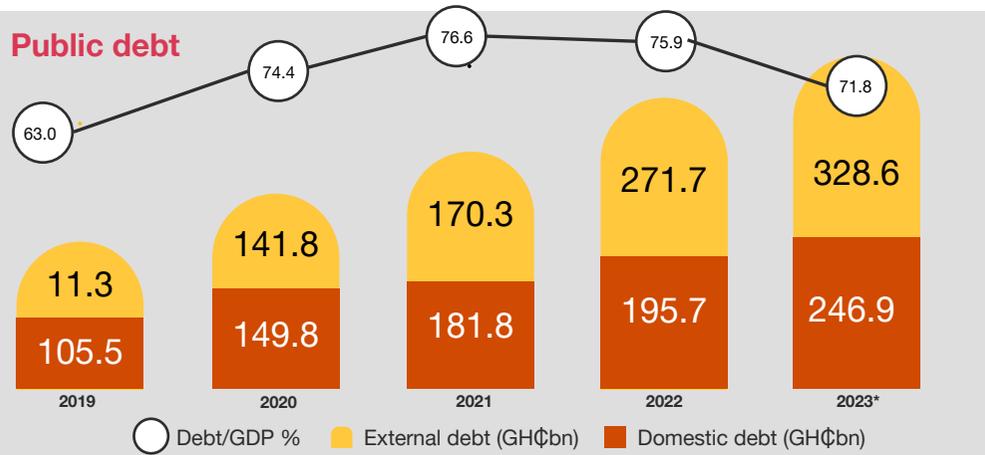
Exchange Rate



*As at June 2023

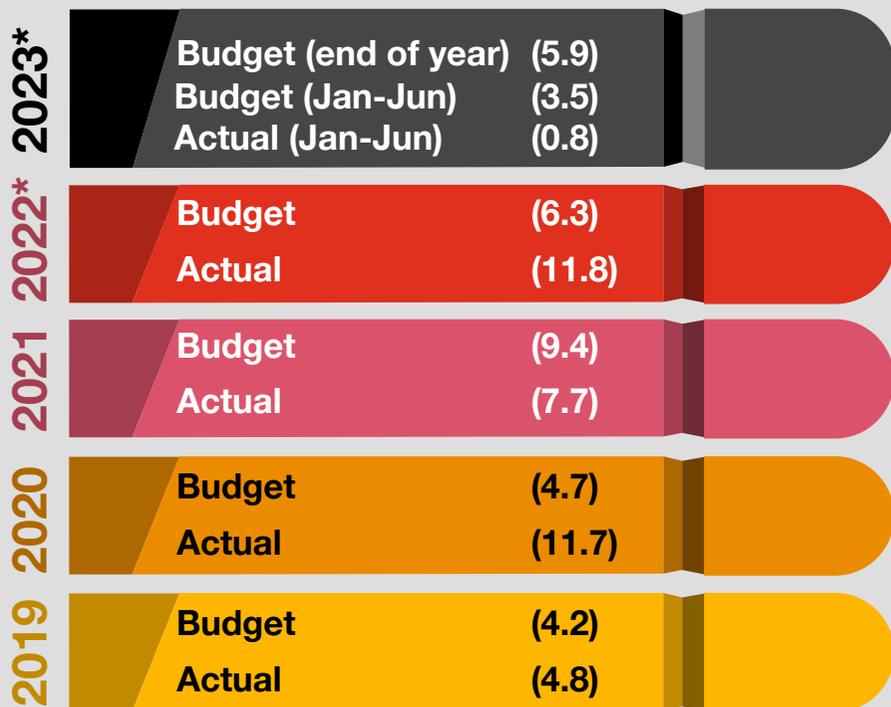
Source: Bank of Ghana monthly exchange rate indicators

Fiscal and monetary performance



Data is as at June 2023. Provisional public debt is estimated at GH¢613.6 billion if potential liabilities from SPVs, IPPs-PPAs, and the financial sector are included. This is estimated to be equivalent to 76.6% of GDP*.

Fiscal surplus/ (deficit) - (% of GDP)



*Fiscal performance data computed on a commitment bases
Source: Budget Statement 2022 & Mid-year Budget Statement 2023

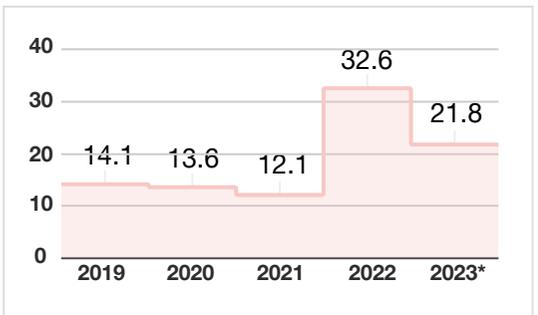
Interest rates and Gross International Reserves (GIR)



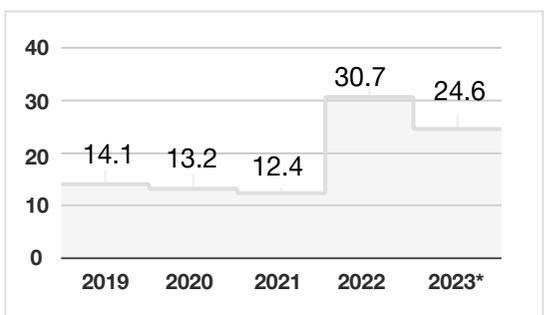
BOG policy rate (%)



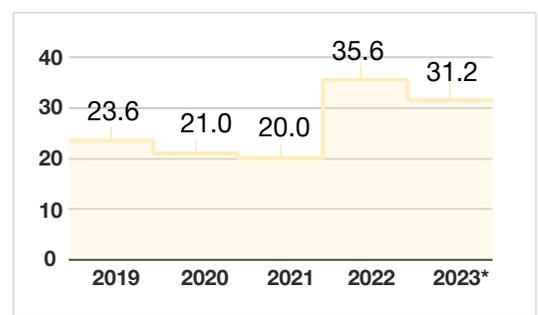
91-day Treasury bill (%)



182-day Treasury bill (%)

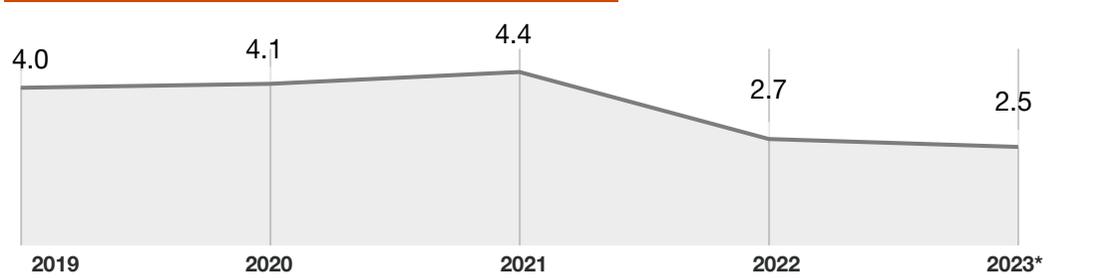


Commercial banks' average lending rate (%)



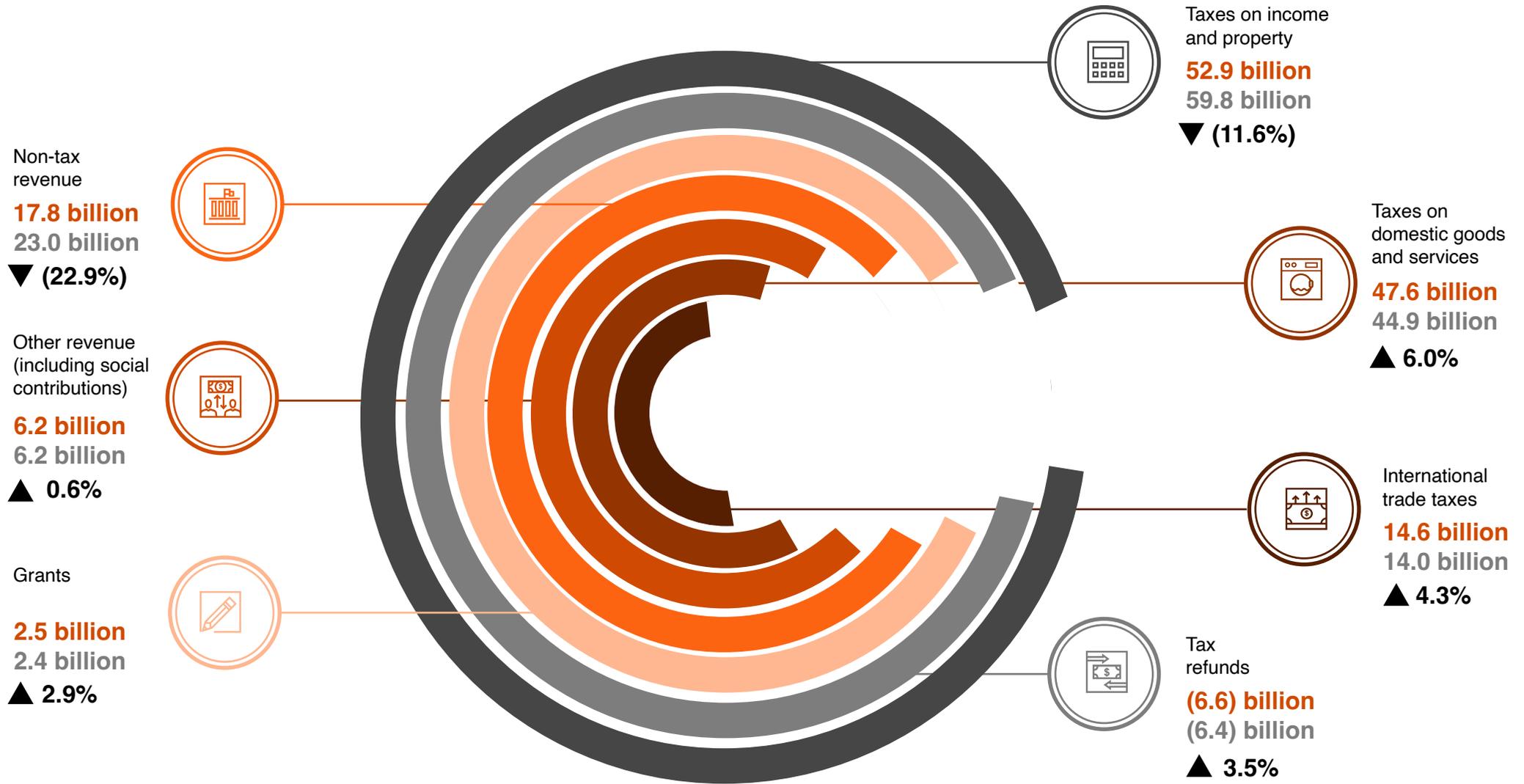
*As at June 2023
Source: Bank of Ghana Monthly Interest Rates

Gross International Reserves (Months of import cover)



*As at June 2023
Source: Monetary Policy Committee (MPC) reports

Where is the money coming from?



 Revised budget (GH¢)
 2023 initial budget (GH¢)
 Variance (%)

Total 2023 initial budget (GH¢)
GH¢143.9 billion
 ▼ (6.3%)

Total revised budget (GH¢)
GH¢134.9 billion

Source: Mid-year Budget Statement 2023, PwC analysis

Where is the money going?

Key expenditure areas (GH¢)



51.4 billion
45.5 billion
Compensation of employees

▲ 12.8%



8.6 billion
8.6 billion
Goods and services

▲ 0.0%



44.9 billion
52.6 billion
Interest payment

▼ (14.6%)



0.4 billion
0.4 billion
Subsidies

▲ 0.0%



31 billion
30.1 billion
Grants to other Government units

▲ 3.1%



0.6 billion
0.6 billion
Social benefits

▲ 0.0%



26.7 billion
26.7 billion
Other expenditure

▲ 0.0%



20.4 billion
26.6 billion
Capital expenditure

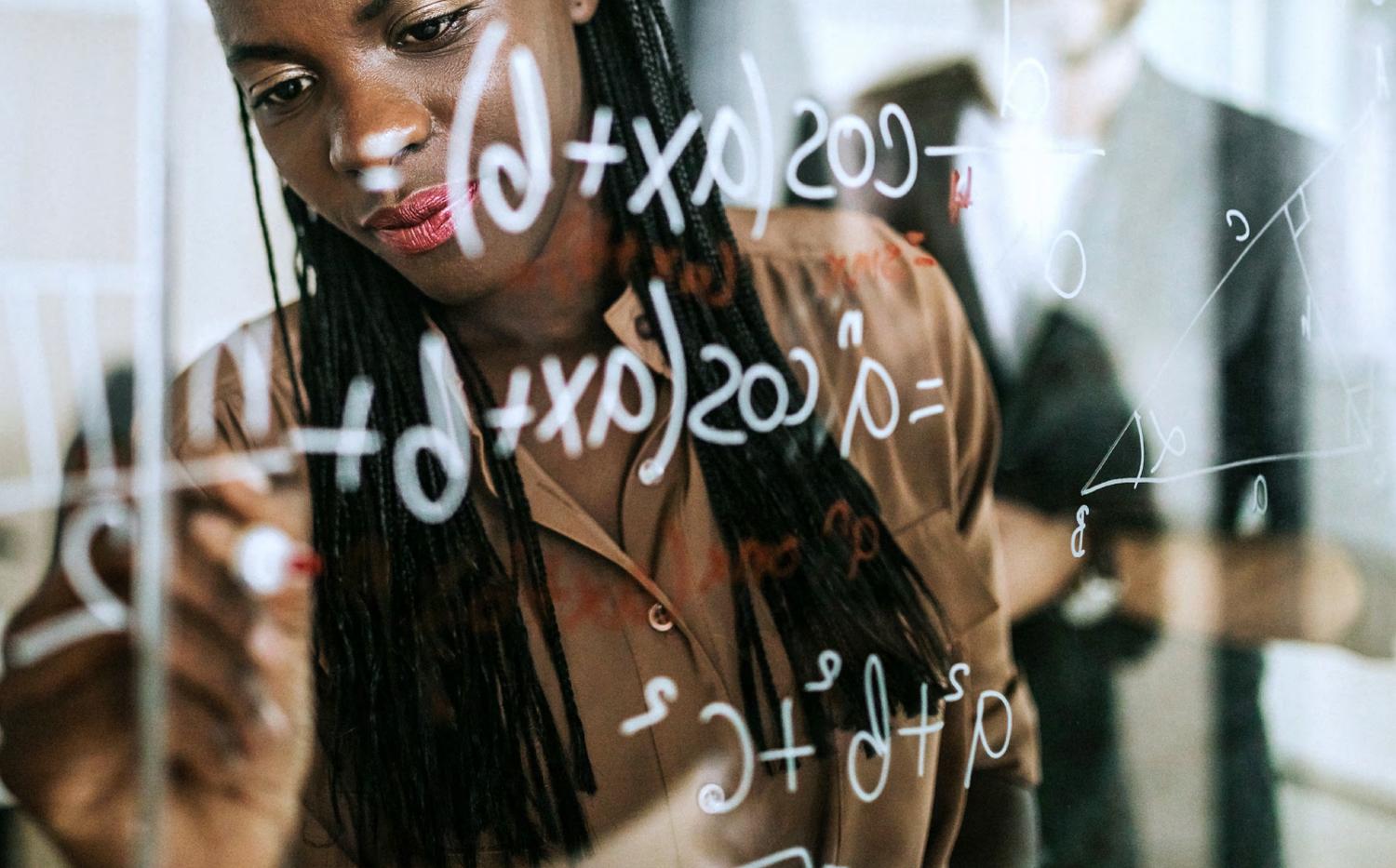
▼ (23.0%)

▶ Revised budget (GH¢) ▶ 2023 initial budget (GH¢) ▲ Variance (%)

Σ **GH¢190.9 billion**

Σ **GH¢183.86 billion**

▼ **(3.7%)**



3

Tax measures

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Overview

Government did not introduce new tax measures for the second-half of 2023. However, Government intends to achieve its revised revenue numbers by strengthening the existing revenue measures such as improving e-VAT invoicing system as well as VAT monitoring.

Commentary

In the 2023 mid-year budget review, Government revised the total revenue and grants budget downward from GH¢143.95bn to GH¢134.91bn. This represents a 6.3% decrease in the 2023 budgeted total revenue and it is largely due to the underperformance in taxes on income and property, non-tax revenue, and an increase in tax refund claims. The projected 6.3% shortfall in total revenues would have been more but for the upshot in taxes on domestic goods and services, import duties, grants and others.

While, Government projected revenues of GH¢64.72bn for the first-half of 2023, the provisional outturn shows a revenue shortfall of GH¢5.42bn, representing an 8.4% deficit on the mid-year projected revenues. The deficit is largely due to the poor performance of company taxes and royalties on oil and other taxes. Of the GH¢5.42bn deficit, company taxes on oil and royalties alone accounted for GH¢3.6bn representing 66.7% of the overall variance for the first-half of the year. The lower-than-expected oil receipts can be attributed to the negative variance of realised exchange rate to expected exchange rate and the lower realised average oil price of US\$80.4bbl compared to expected price of US\$88.55bbl.

On the National Fiscal Stabilisation Levy/Growth and Sustainability Levy (“NFSL”)/ (“GSL”), Government expected revenue of GH¢0.67bn for the first-half of the year but only GH¢0.29bn provisional revenue was achieved. Government therefore revised its revenue target from NFSL/GSL to GH¢1.11bn from the initial budget of GH¢2.22bn. The shortfall could be attributed to the late passage of the Growth and Sustainability Levy Act, 2023 (Act 1095).

Despite the reduction in the e-levy rate from 1.5% to 1%, Government only achieved GH¢0.45bn out of the targeted amount of GH¢0.98bn in the first-half and this represents less than 50% of the mid-year target. Considering that since the introduction of the e-levy, Government has never realised amounts close to those projected to be coming from this e-Levy; could it be time for Government to reconsider the e-Levy?

Notwithstanding the underperformance of domestic revenue mobilisation, there is a positive performance of personal and corporate taxes which are contributing a positive variance of GH¢1.11bn and GH¢1.43bn respectively. This can be attributed to the passage of the Income Tax (Amendment) Act 2023, (Act 1094) in 2023 which saw the upward revision of the personal income tax rate from 30% to 35% and the non-deductibility of unrealised foreign exchange losses amongst others.

Additionally, revenues generated from VAT are expected to exceed initial expectations by GH¢0.32bn. This could be attributed to measures such as the increment in the VAT rate from 12.5% to 15%, withdrawal of the benchmark discount policy, improvement in tax administration procedures such as VAT monitoring (mystery shopping, etc.) and the electronic invoicing system (e-VAT).



Mid-year proposed administrative measures: Budget extract and PwC commentary

1

Full roll-out of taxation of Gross Gaming Revenue (GGR) and withholding tax on winnings.



Government has rolled out an administrative guideline effective 1 May 2023 to fully operationalise the provisions around the taxation of gaming revenue and withholding tax on winnings from betting and gaming. Government intends to roll out processes and returns in the second-half of 2023 to facilitate the full implementation of this revenue measure that was introduced earlier in the year.

2

Implementation of VAT upfront non-registration penalty at importation



In the second-half of 2023, Government intends to actively pursue the roll-out of the VAT upfront penalty on importation of taxable goods by unregistered importers. A compliance team has also been instituted for monitoring activities of newly registered VAT taxpayers to shore up and recover outstanding revenue.



Mid-year proposed administrative measures: Budget extract and PwC commentary

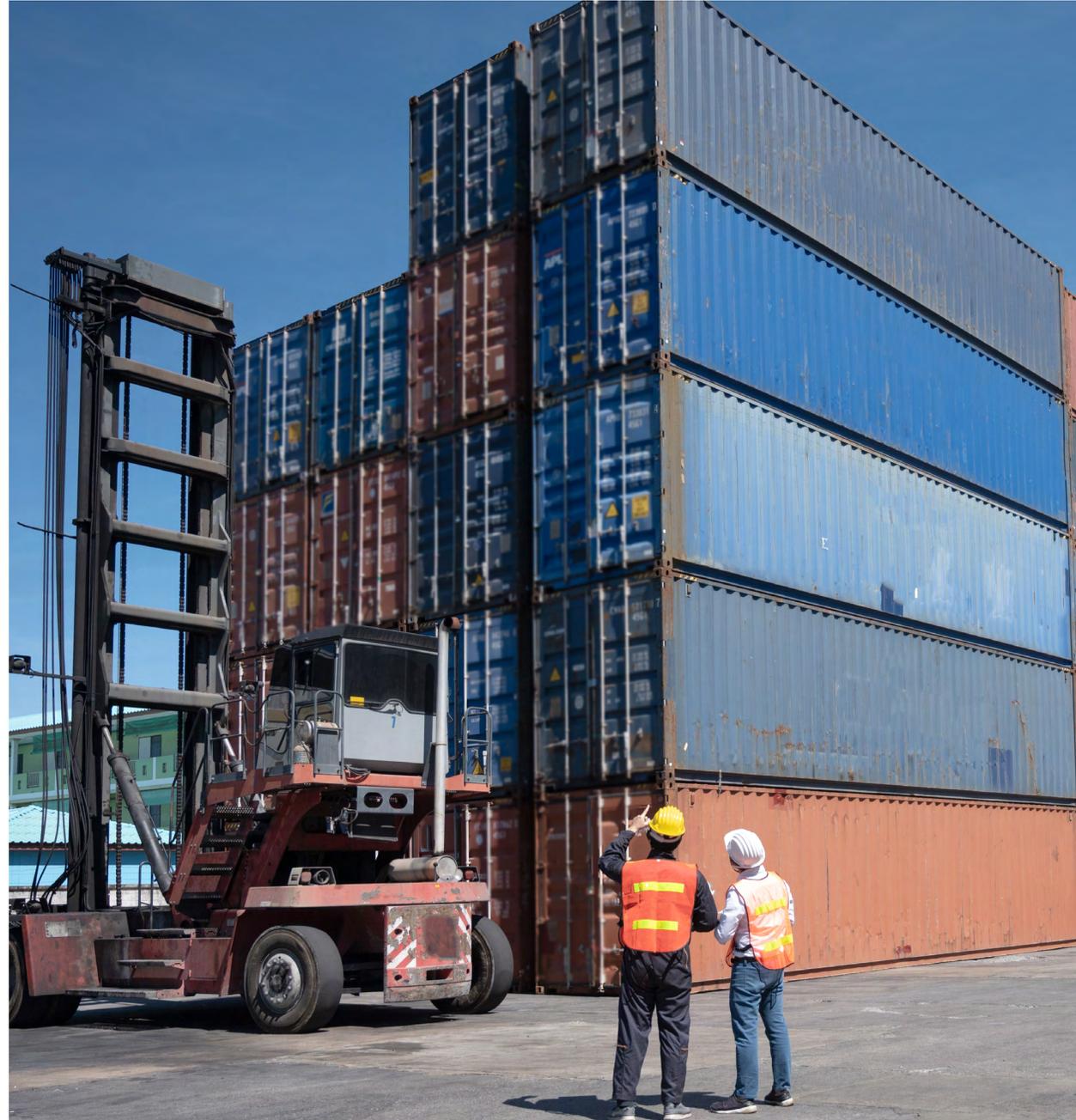
3

Review of classification and values used in the ICUMS and enhanced customs operations



To enhance revenue generation in the second-half of the year, Government plans to fully review and enhance the classification and valuation processes used in the Integrated Customs Management System (ICUMS) to ensure that goods (especially raw materials and intermediate goods) are properly classified for payment of the correct import duties and taxes.

Government also plans to enhance preventive operations and control suspense regimes including undertaking special Free Zone audits in order to reduce revenue loss while also improving revenue inflows.



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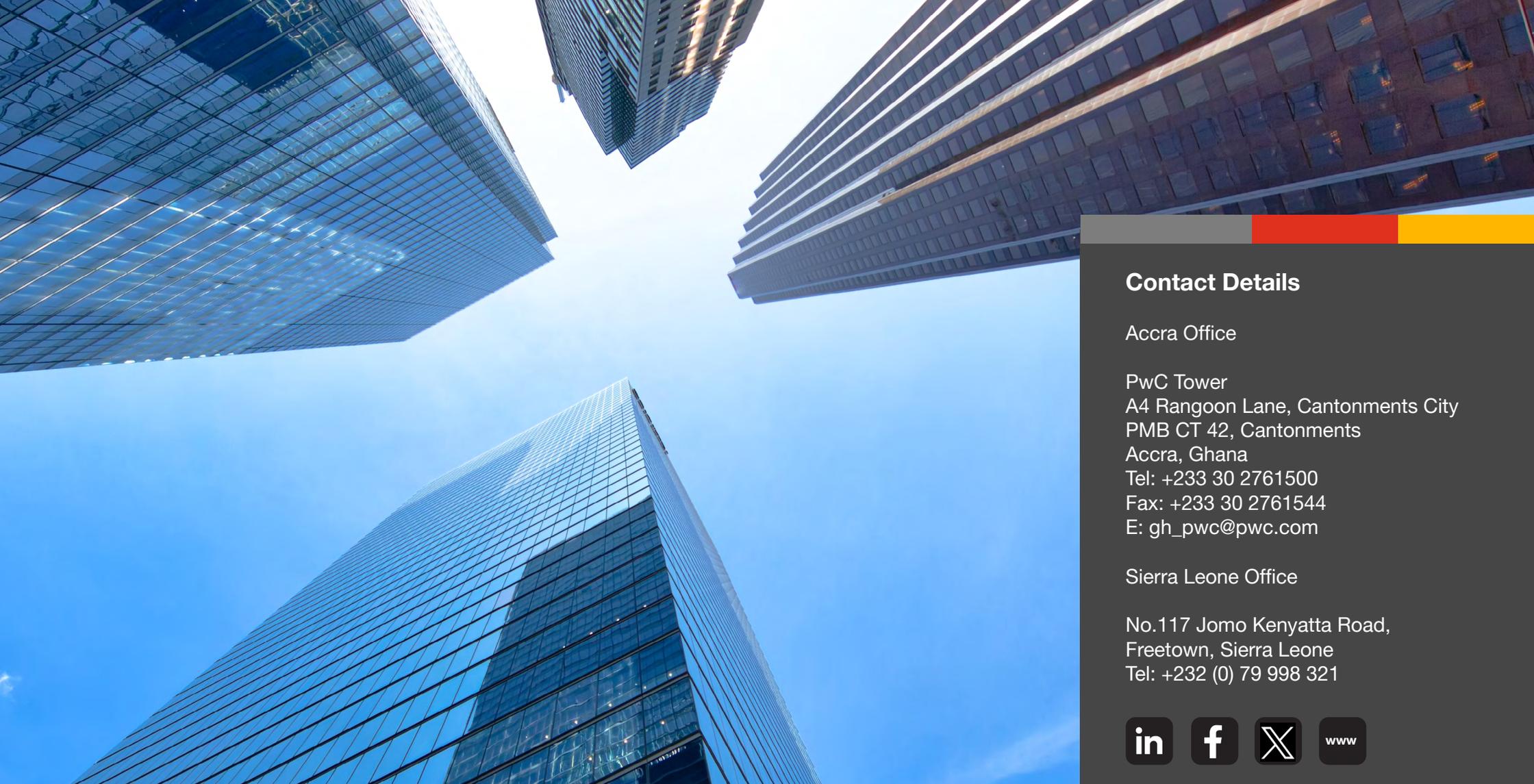
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Please note that the Budget measures may be subject to amendments during debates in Parliament.

We therefore recommend that you seek professional advice before taking decisions based on these measures.

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