



2023 BUDGET HIGHLIGHTS

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INTRODUCTION

On November 24, 2022, Hon. Ken-Ofori-Atta, Minister of Finance, presented the government's budget statement and economic policy for the 2023 financial year.

The budget was delivered on the back of government's resolve to restore fiscal prudence and macroeconomic stability with focus on strategies to stabilize the macro-economy, build resilience, promote inclusive growth and value creation over the next financial year. The budget statement also includes several tax policy proposals focused on enhancing domestic revenue mobilization.

In this publication, Tesah Capital Limited provides a summary of the budget statement and economic policy for 2023, with highlights on the main fiscal and tax proposals.



Economy at a Glance



GDP Growth

Oil: 4.8% as at 1H 2022
Non-oil: 6.2% as at 1H 2022



Inflation

40.4% as at end
October 2022



Fiscal Deficit

6.3% of GDP
as at Q3 2022



Exchange rate

54.2% cumulative
depreciation of the cedi
against the USD as at Q3 2022



Public Debt

75.9% of GDP
as at Q3 2022



Primary Balance

1.6% of GDP as at Q3 2022



Gross International Reserves

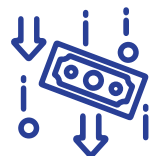
2.9 months of import cover
as at Q3 2022

2023 PROJECTIONS AND TARGETS

Overall real GDP Growth of 2.8% expected in 2023 (MOF)



Inflation
18.9%



Fiscal Deficit
6.6% of GDP



Gross International Reserves
Not less than 3.3 months of import cover

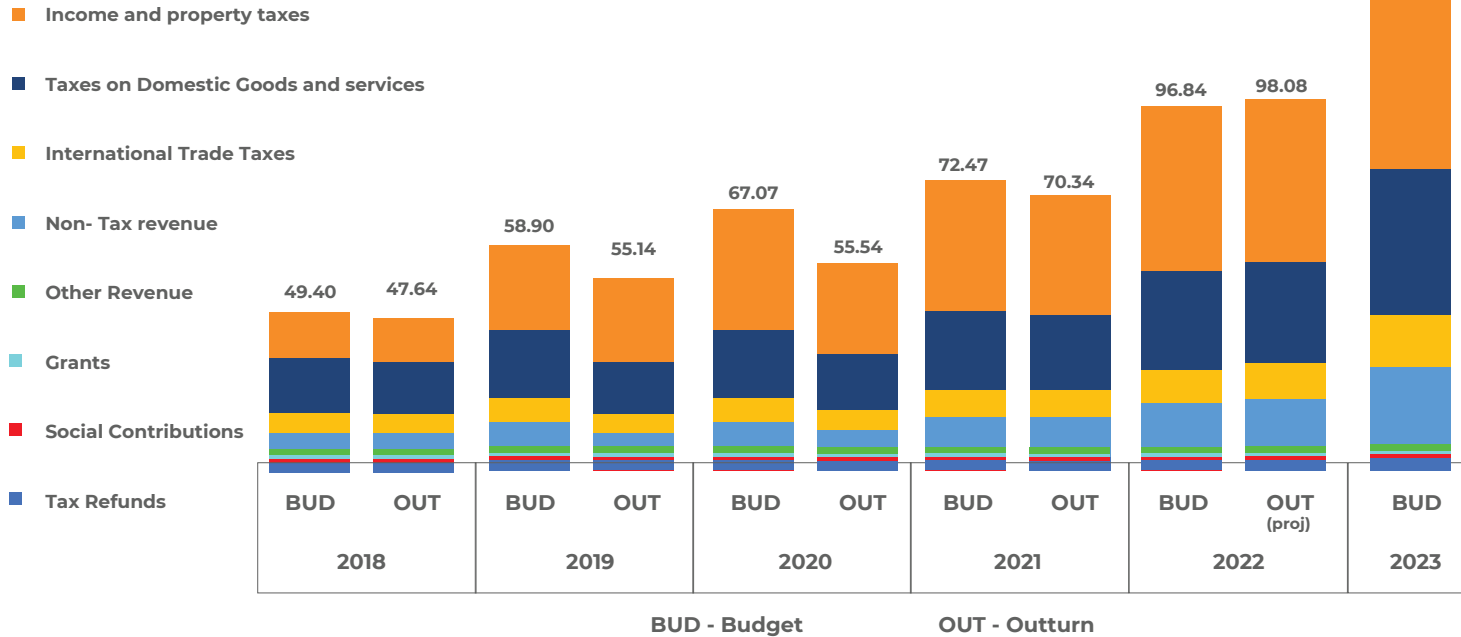


Primary Balance
0.7% of GDP

GOVERNMENT'S FISCAL OPERATIONS AND MEASURES

FISCAL MEASURES

Revenue in Billion GHS



Value Added Tax (VAT)

Increment in VAT rate by 2.5% to 15.0% in support of roads and digitalization agenda

Property Tax Rate

Implementation of the Unified Property Rate Platform programme in 2023

E-Levy

Review of e-levy act

- 0.5% reduction in current rate to 1%
- E-levy application on total transaction value
- Removal of GHS 100.00 daily threshold

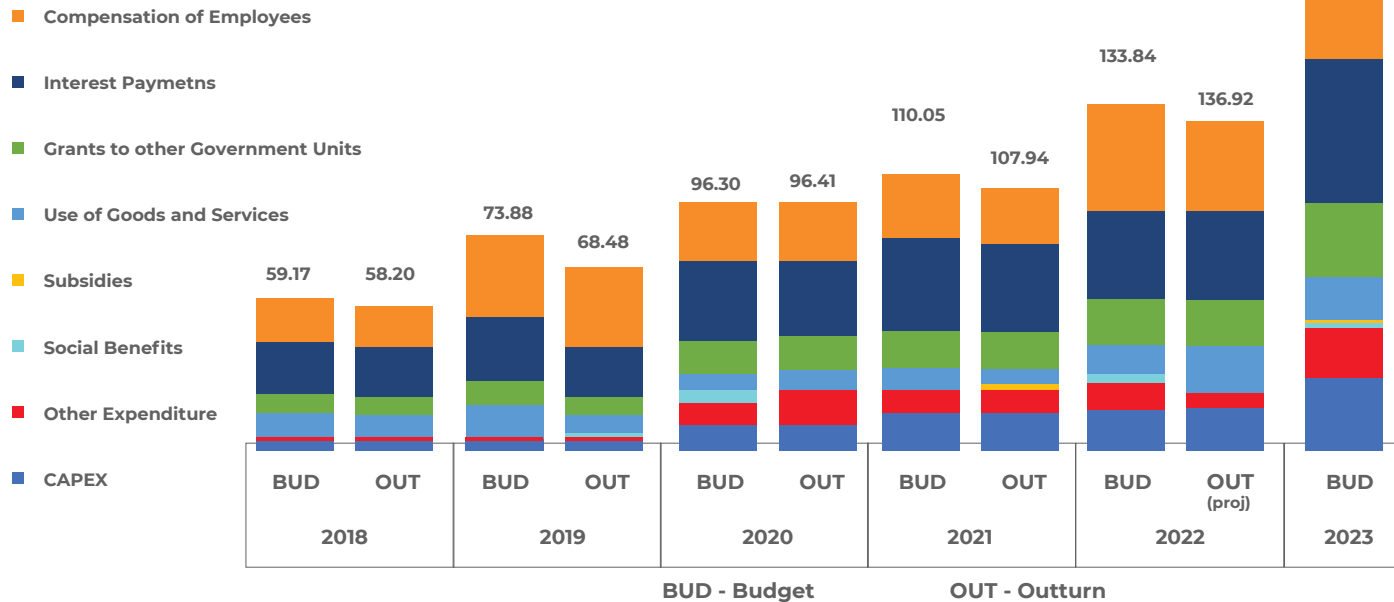
Tesah's Opinion

- Ghana faces a challenge of domestic revenue mobilization reflected in the revenue losses recorded from tax evasion, corruption, fraud, money laundering and illegal mining activities (galamsey).
- There must be efforts to strengthen tax compliance and administrative capabilities to reduce the leakages.
- The focus on revenue mobilisation from the informal sector creates avenues for tax evasion.
- Increasing VAT will lead to an increase in retail prices as suppliers have been known to pass on the cost to consumers.
- The government could achieve a lot of success by expanding the VAT scope to include more items.
- Reducing the e-levy rate from 1.5% to 1% will likely increase its compliance and increase the anticipated revenue from that tax vehicle.
- The downside of the e-levy is the removal of the daily threshold which will likely affect the low-income households.
- The increment in VAT rate and the removal of the daily threshold on e-levy, will increase the inequality gap due to their regressive effects on low-income households.

FISCAL MEASURES

Expenditure

in Billion GHS



Tesah's Opinion

- Government's wage bill and Interest payments are very high.
- The wage bill has averaged 31.0% of total expenditure over the past five years.
- It is expected to decline to 21.90% in 2023.
- Reforms aimed at reducing the wage bill of government machinery must include a reduction in the size of government.
- In order to project the savings from salary cuts, government must publicise the savings it made on the 30% salary cut in 2022.
- Reduction in the number of ministers and deputies and over 2000 presidential staffers is recommended.

Expenditure Policy Measures

Earmarked Funds

- Reduction in the threshold on earmarked funds from 25% to 17.5% of Tax Revenues.
- Migration of all earmarked funds onto the GIFMIS platform and ensuring its compliance for all revenue and expenditure transactions.

Salary Cuts and Adjustments

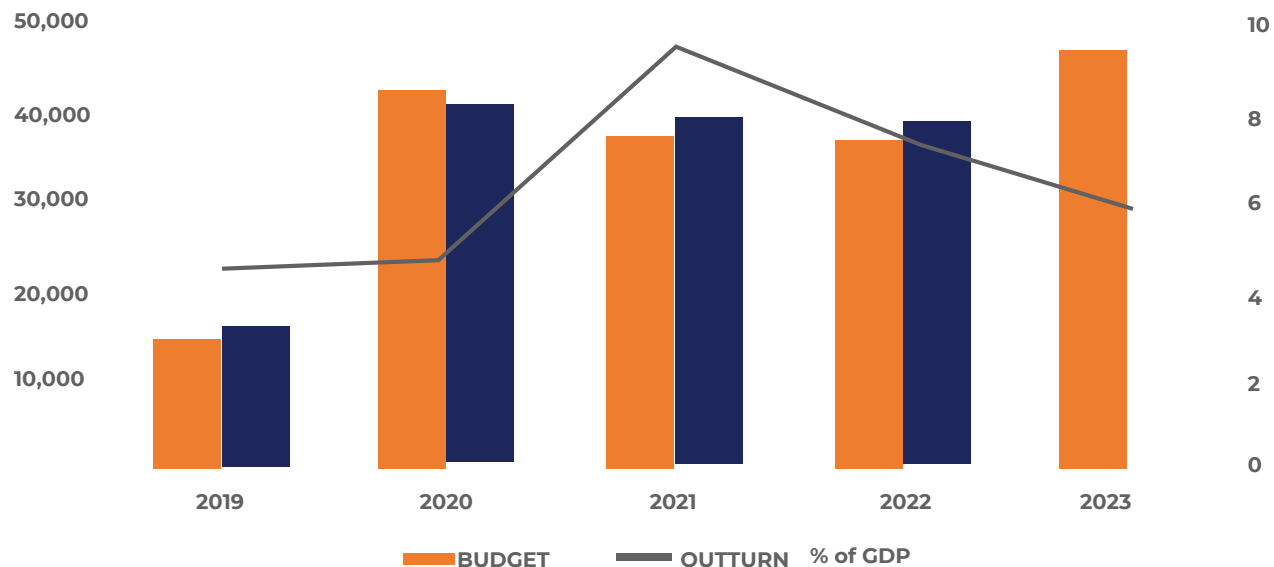
- 30% cut in the salaries of the President, Vice President, Ministers, Deputy Ministers, MMDCEs, and political office holders including those in State-Owned Enterprises.
- Cap on salary adjustment of SOEs to be lower than negotiated base pay increase on Single Spine Salary Structure for each year.

FISCAL DEFICIT

In a bid to reduce the widening fiscal deficit, there is the need to strengthen fiscal consolidation measures through enhanced revenue mobilisation and deep expenditure cut as the fiscal deficit together with rising inflation contributes towards the rising debt stock.

It will therefore be crucial for the Government to send a signal of its commitment towards fiscal and debt sustainability through the narrowing of its fiscal deficit.

Though the IMF-supported program will steer a certain degree of fiscal consolidation, there is the need to reduce further borrowings especially in the domestic market to ease the mounting pressure on the domestic financial markets. This will create the enabling environment for growth in private the sector to speed up the economic recovery.

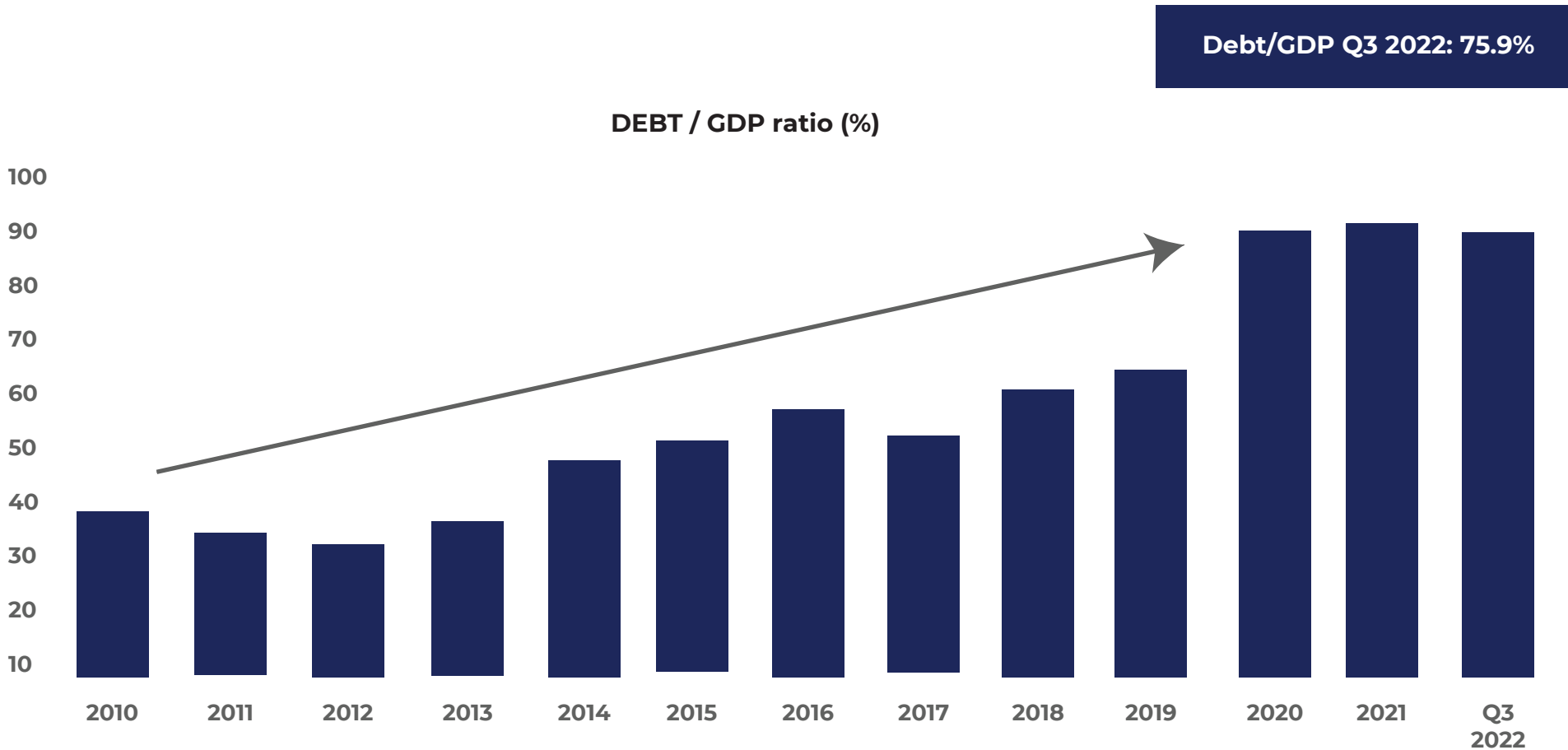


Deficit Financing

Foreign Financing	Domestic Financing	Other Financing Sources
GHS -0.86 billion (-0.1% of GDP)	GHS -1.95 billion (-0.2% of GDP)	GHS 64.3 billion (8.0% of GDP)

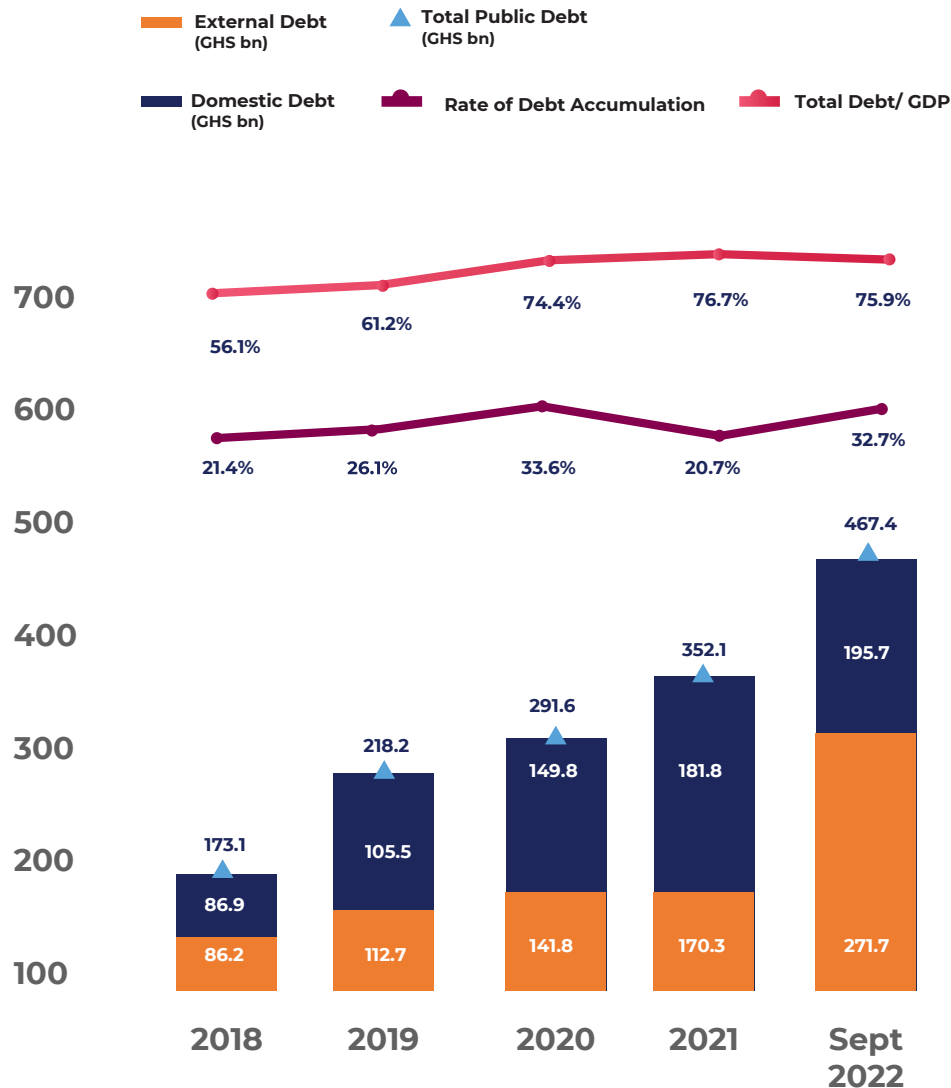
****Other financing sources include financing to be provided by multilateral and other international partners in the context of the Fund-supported programme.**

FISCAL MEASURES



Ghana's public debt stands at GH¢ 467,371.31 million (US\$ 48,871.34 million), representing 75.9% of GDP. It is expected to be more than 80% when other debts such as Sinohydro, Ghana Cocoa Board and debts from the banking sector clean up are added. The depreciation of the cedi further worsens the debt situation as value of external loans will increase in cedi terms even when no new debts have been added.

PUBLIC DEBT



Debt Sustainability

The debt situation has reached unsustainable levels, bringing to light the compounded effects of the budget deficits - continuous budget overruns.

Prior to the current debt distress situation which has been attributed to exogenous shocks, the writing was clear on the wall, that the country was heading towards a debt distress situation. In order to achieve debt sustainability or significant debt reductions, there is the need for the following

- i. Increased revenue
- ii. Economic Growth
- iii. Fiscal Consolidation
- iv. Debt restructuring

** Economic growth must be fueled by exogenous factors (new natural resource discovery, improved terms of trade with external partners and global economic boom)

Debt Exchange

The debt exchange being considered by Government with the aim of reducing the fiscal burden of its debt service can take the following forms

- i. Exchanging high-interest coupons for lower interest coupons.
- ii. Shorter maturity debts for longer maturity debts

The following considerations must be made

- i. The debt exchange must be done to offer investors positive real returns.
- ii. It must not reduce the nominal values of the debt securities held by investors.
- iii. It must focus more on liquidity than solvency.
- iv. It must seek to get high investor participation (not less than 99%).

GOVERNMENT'S SEVEN POINT AGENDA



SECTORAL INITIATIVES & OUTLOOK

INITIATIVES / OUTLOOK

AGRICULTURAL

PROJ GR. 2022 = 0.7%
PROJ GR. 2023 = 2.6%



Procure and distribute 36,360mt of improved seeds and 366,435mt of fertilizers.



Procure 2Million day old chicks and 8,000 improved pig breeds for out-grower farms.



Procure 40,000 litres and 6,000kg of insecticides for the control of Fall Army Worm (FAW) and other pests and diseases.



Address issues of climate change, co-management, small-scale fisheries, gear technology and gender and youth in the fisheries sector.



Reclamation of 1000ha of degraded lands and support plantation development and reforestation through nursing of economic trees (coconut, oil palm, citrus and mango) through The National Alternative Employment and Livelihood Programme (NAELP).

FINANCE

PROJ GR. 2022 = 0.7%
PROJ GR. 2023 = 2.6%



Review the Securities Industry Act, 2016 (Act 929) and draft a legal framework for the establishment of an Investor Protection Fund.



Implement a Benchmark Bond Programme Guidelines for the domestic debt market.



Waiver of taxes on early withdrawals of Tier 3 pensions in 2023 for persons who lose their jobs permanently or their capital due to the current economic crisis.

HEALTH

PROJ GR. 2022 = 1.5%
PROJ GR. 2023 = 1.2%



Introduction of malaria vaccines in 2023.



Implement the Network of Practice concept for the provision of quality health services at the lower levels.



Retooling, Rehabilitation and continuation of construction works on selected health facilities.



Scaling up enrolment on the National Health Insurance Authority (NHIS) using the Ghana Card.

INITIATIVES / OUTLOOK

EDUCATION

PROJ GR. 2022 = 0.7%
PROJ GR. 2023 = 2.6%



Continue the implementation of the Free SHS Programme.



Inspect and license 24,500 pre-tertiary private schools and conduct performance inspection in 2,381 basic schools.



Continuation of the School Performance Improvement Plans (SPIPs) under the Ghana Accountability for Learning Outcomes Project (GALOP).



Addition of three new libraries and renovation of five existing ones by the Ghana Library Authority.



Continuation of establishment of Twenty-one state-of-the art TVET Centres at different phases.

ENERGY



Implementation of the relocation of the 250MW Ameri Power Plant to Kumasi.



Finalisation of preparation of the Accra-Kumasi transmission line, and the Western Corridor Transmission Upgrade.



Institutionalise Ghana-focused roadshows in key global oil regions to promote the petroleum industry.



Distribution of 5,000 units of solar lanterns to rural and peri-urban communities at a subsidised price.



Completion of the Akoma and Eban oil discoveries.

TRANSPORTATION AND STORAGE

PROJ GR. 2022 = 2.1%
PROJ GR. 2023 = 1.1%



Reintroduction of tolls on selected public roads and highways leveraging on technology for the collections.



Introduction of Hyundai, Changan, and Isuzu to the local market through the Ghana Automotive Development Programme.



Intensify support to existing and new manufacturing enterprises under IDIF programme.



Support local companies to take advantage of opportunities available under AfCFTA.



Add 80,000mt to the national grain storage capacity.

UPDATE ON GOVERNMENT'S INITIATIVES/FLAGSHIP PROGRAMMES

FLAGSHIP PROGRAMMES

GhanaCARES “Obaatan pa” Programme

Work with DBG to provide funding to targeted farming.

Adopt and deploy the farmer registration database.

Provide interest rate subsidies and direct financing.

Establish a tech hub to improve knowledge in Technology and innovation by the youth.

YOUSTART

A total of 70 beneficiaries in 2022.

Disbursed GHS 1.98 million to support youth led SME's.

Signed MoU with Ghana Association of Bankers and 11 other commercial banks.

Launched the District Entrepreneurship Programme (DEP).

IDIF

296 projects at various stages of implementation

126 projects operational

143 under construction

27 pipeline projects

Government seeks to intensify support to existing and new manufacturing enterprises with technical assistance, credit facilitation, and access to electricity and other infrastructure.

Automotive Assembly Programme

Developed a new Components Manufacturing Policy which seeks to support the local production and supply of components and spare parts for the automotive industry.

Launch and commence implementation of the policy in 2023.

AfCFTA

Working with over 200 Ghanaian companies to facilitate their entry into the African market.

Launched Guided Trade Initiative (GTI) to start commercially meaningful trade.

Establishment of Export Trade Houses (ETHs) in selected markets to promote made-in-Ghana products brands.

Development Bank Ghana

7 loans, amounting to GH¢ 245 million disbursed to SME's.

Established a GH¢ 500 million special credit programme: the DBG Emergency Economic Programme (DEEP) to support businesses in the agribusiness value chain over the next 5 years.

Ghana Agricultural Insurance Pool (GAIP)

Development of agricultural insurance for farmers by the National Insurance Commission.

Estimated USD\$ 400 million in agricultural insurance to be extended to eligible farmers in 2023.

KEY TAKEAWAYS

	What we expected	What was in the budget	How we feel about it
1	Austerity Budget	<ul style="list-style-type: none"> - Unrestrained public spending. - Increase in total expenditure by 53.5%. - Include allocation to non-essential discretionary spending like the National cathedral project. 	Disappointed
2	A measured revenue expectation	<ul style="list-style-type: none"> - An ambitious revenue target. - Increase in total revenue to GHS 143 billion from GHS 98 billion in 2022. 	Hopeful but not confident
3	Realistic macroeconomic targets	<ul style="list-style-type: none"> - Overly optimistic macroeconomic target. - Inflation target is set at 18.9% and Gross International Reserve is set to cover not less than 3.3 months of imports. 	Unrealistic
4	Transparency	<ul style="list-style-type: none"> - The government officially admitted debt levels are unsustainable and have overall risk rating of "high debt distress". - The government gave some update on the 2022 medium-term debt management strategy. 	Encouraged and would like to see more of that
5	Sufficient domestic policies to balance the budget	<ul style="list-style-type: none"> - Heavily dependent on multilateral and other international partners. - The budget contains GHS 64.3 billion of funding from multilateral and other international partners (representing 104.6% of the deficit). 	Makes the economy very vulnerable
6	A budget that gave Bank of Ghana the opportunity to use monetary policy tools to pursue price stability mandate	<ul style="list-style-type: none"> - A budget that compromises Bank of Ghana's ability to maintain price stability. - The budget shows that out of the GHS 44.5 billion projected financing need in 2022, the Bank of Ghana financed GHS 41.9 billion representing 94% of the total financing need. 	A dire economic outlook for 2023 characterized by yet again elevated inflationary pressure and depreciation of the Ghana cedi.

CONCLUSION

- In conclusion, the presentation of the 2023 budget and economic policy presents an opportunity to test the government's resolve to address the economic challenges facing the country and advancing the welfare of the Ghanaian people.
- The budget was presented against a background of anxiety with the anticipated debt restructuring and a bail-out from the IMF.
- The 2022 economic and financial year had been characterized by worsening economic conditions coupled with rising inflation, depreciating and volatile exchange rate.
- The contributing factors of this worsening economic conditions have been rising and unsustainable debt, poor fiscal position and a low net international reserve position causing a sharp depreciation of the Ghana cedi.
- The successful signing of an IMF deal is important for the country as it sends a signal to the international community that the country is serious about its economic reform.
- The economic policy of the government will now be carried out with supervision by the IMF who will monitor the country's compliance with its agreed targets and benchmarks.



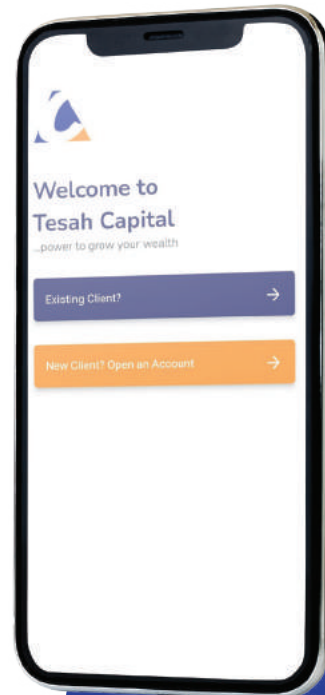
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