LIMA PARTNERS

2023 BUDGET REVIEW

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INTRODUCTION

The 2023 Budget reading was arguably the most anticipated economic event in our recent history as the country battled high inflation, high interest rates and a crippling general economic outlook by rating agencies worldwide.

Cost of living has skyrocketed due to inflation caused by a foreign exchange decline primarily because the country relies heavily on imports. This led to a run for forex, causing the Ghana Cedi to depreciate by more than 50% to the dollar as at December 2022. Other factors like the COVID pandemic and the Russian-Ukraine conflict remain a lead cause of shortage of food and related items resulting in heightened inflationary levels.

EXECUTIVE SUMMARY

The year 2022 will go down as one of the most difficult years in the economic history of the Republic of Ghana. The year started with a disagreement over the passing of fiscal and economic policy of government in Parliament, that led to a loss of investor-confidence leading to credit rating downgrades that resulted in the lack of Government's access to international capital markets.

Ghana has over the years also enjoyed significant foreign participation in the form of Foreign Direct Investments through its capital markets particularly from the United States. Recent increases of US interest rates aimed at strengthening the USD means that countries with any significant exposure to the US and its financial markets will be adversely affected. Ghana's external debt forms 67% of its debt stock, highlighting its vulnerability to higher US rates and a stronger USD. This has led to a GH¢93 billion increase in Ghana's debt stock due to depreciation of the cedi since the beginning of the year. This has also resulted in the increase of our import costs, key amongst them being fuel. The increases in fuel prices have led to price increment in most goods and services.

This has had a rippling effect that has triggered the tightening of domestic financing arrangements and increased the cost of borrowing. The Ghana Cedi saw a depreciation of 53.8%, the policy rate is at 27% and inflation at 40.4% as at October 2022.

To tackle this, on the 24th of November, 2022, the Minister of Finance, Mr. Ken Ofori-Atta presented the 2023 budget before the Parliament of Ghana with a 7-point agenda aimed at Macro-economic stability and accelerating Ghana's economic transformation as articulated in the post-COVID -19 program for Economic Growth (PC-PEG). The budget outlined measures aimed at increasing revenue, cutting down government overheads, significantly expanding local production, investing and protecting the poor and vulnerable while improving roads/infrastructure, healthcare and access to education for all Ghanaians.

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The focus of the 2023 budget is articulated in a seven-point agenda as follows;

- Aggressively mobilize domestic revenue;
- Streamline and rationalize expenditures;
- Boost local productive capacity;
- Promote and diversify exports;
- Protect the poor and vulnerable;
- Expand digital and climate-responsive physical infrastructure; and
- Implement structural and public sector reforms.

Key initiatives outlined to achieve the seven-point agenda include;

- Increment in standard VAT by 2.5%, thus increasing VAT charged on vatable amount to 15%. This increase will lead to a cumulative increase in taxes on goods and services to 21%, however the effective rate will be 21.9%. Mr. Ofori-Atta further indicated that the increase in VAT is expected to yield GH¢2.70 billion, which will be used to augment funding for road infrastructure development.
- Review the E-Levy Act, specifically lowering the headline rate from 1.5% to 1% on transaction value and eliminating the daily threshold according to Ken Ofori-Atta.
- A ban on civil servant employment beginning in January 2023; a hiring freeze for civil and public servants; no new government agencies shall be established in 2023.
- A freeze on new tax waivers for foreign companies and a review of tax exemptions for free zone, mining, oil and gas companies;
- A ban on the use of V8/V6 or its equivalent except for cross country travels; all government vehicles will be registered with GV number plates, effective January 2023.
- The purchase of new vehicles shall be restricted to locally assembled vehicles while the allocation of fuel coupons to political appointees and heads of MDAs, MMDAs and SOEs have been slashed by 50%. Government also plans to introduce policies for the protection of newly formed domestic industries to allow them make competitive goods and also support large-scale agriculture and agribusiness interventions.
- The Income tax regime to undergo reforms including the review of the upper limits for vehicle benefits and an introduction of an additional income tax bracket of 35%. *Details of the proposed Monthly and Annual Graduated Tax Rates for 2023 have been provided in the Appendix*
- Government is to fast-track the implementation of the unified property rate platform, introduced this year, to enhance property tax collection by the MMDAs for implementation in 2023.
- Reinstatement of road tolls on specific roads and highways;
- Government intends to enforce efficiency in its expenditures by implementing government directives on expenditure measures; integrate public procurement approval processes with GIFMIS to ensure that projects approved are aligned with budget allocations and ensuring value for money in its dealings.

While these initiatives are laudable, it remains to be seen if government can exhibit the needed commitment for implementation. It must be noted that the expected effects of the current measures will continue to result in a fiscal deficit which remains an annual worrying feature of the budget.

The challenges posed by external factors will also continue to be a major determinant of whether these initiatives will be successfully implemented.

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GLOBAL ECONOMIC DEVELOPMENTS AND OUTLOOK

The global environment is fragile and the outlook remains uncertain. Global economic activity in 2022 which has slowed down more broadly and sharply than anticipated, continues to face steep challenges posed by the lingering effects of three powerful forces, namely: the Russian invasion of Ukraine, a cost-of-living crisis caused by persistent and broadening inflation pressures and the economic slowdown in China.

The IMF projects that more than one-third of the world's economy will shrink in 2022 or 2023 whilst the slowdown in the world's three largest economies; the United States, the European Union and China will continue. As the IMF puts it, "the worst is yet to come and for many people 2023 will feel like a recession.

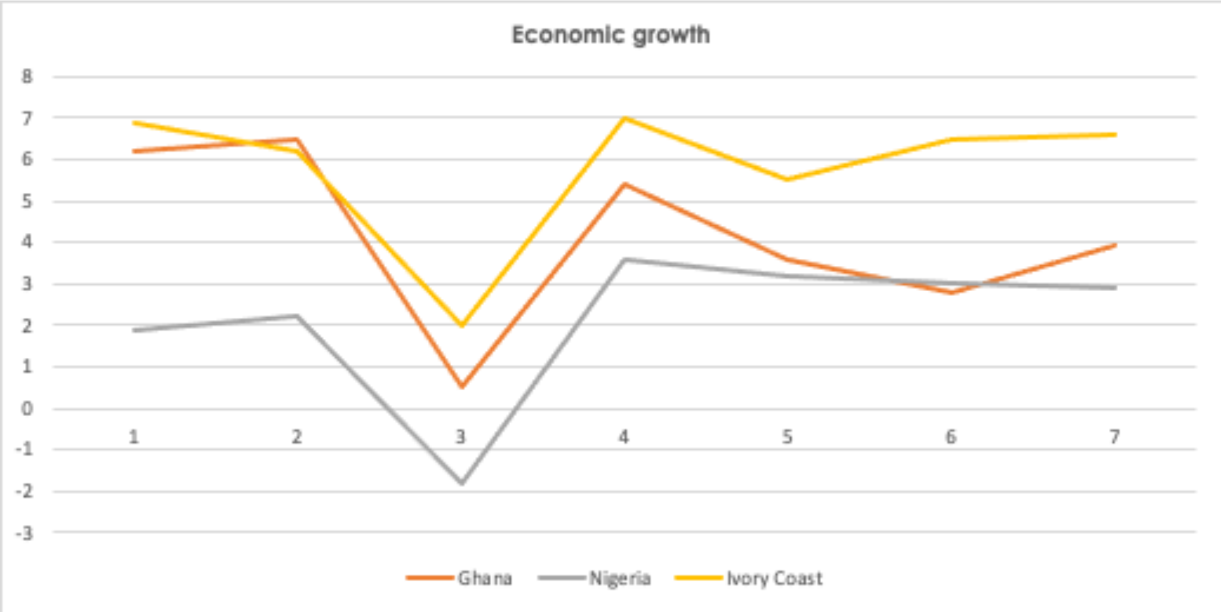
According to the IMF's October 2022 World Economic Outlook (WEO) as shown in Table 1 below, global economic growth will slow down from 6.0 percent in 2021 to 3.2 percent in 2022 and at most 2.7 percent in 2023. This is the weakest global growth profile since 2001 except for the periods of the global financial crisis and the acute phase of the COVID-19 pandemic.

Table 1 below shows the Global Economic Growth rates for selected countries in percentages.

Table 1 - Global Economic Growth rates for selected countries

S/N	REGION/ COUNTRY	2018	2019	2020	2021	2022	2023	2024
4.1	Ghana	6.2	6.5	0.5	5.4	3.6	2.8	3.9
4.2	Nigeria	1.9	2.2	-1.8	3.6	3.2	3.0	2.9
4.3	Ivory Coast	6.9	6.2	2.0	7.0	5.5	6.5	6.6

Fig 1– The Global Economic Growth rates for selected countries



Key : 2018-1, 2019-2, 2020-3, 2021-4, 2022-5, 2023-6, 2024-7

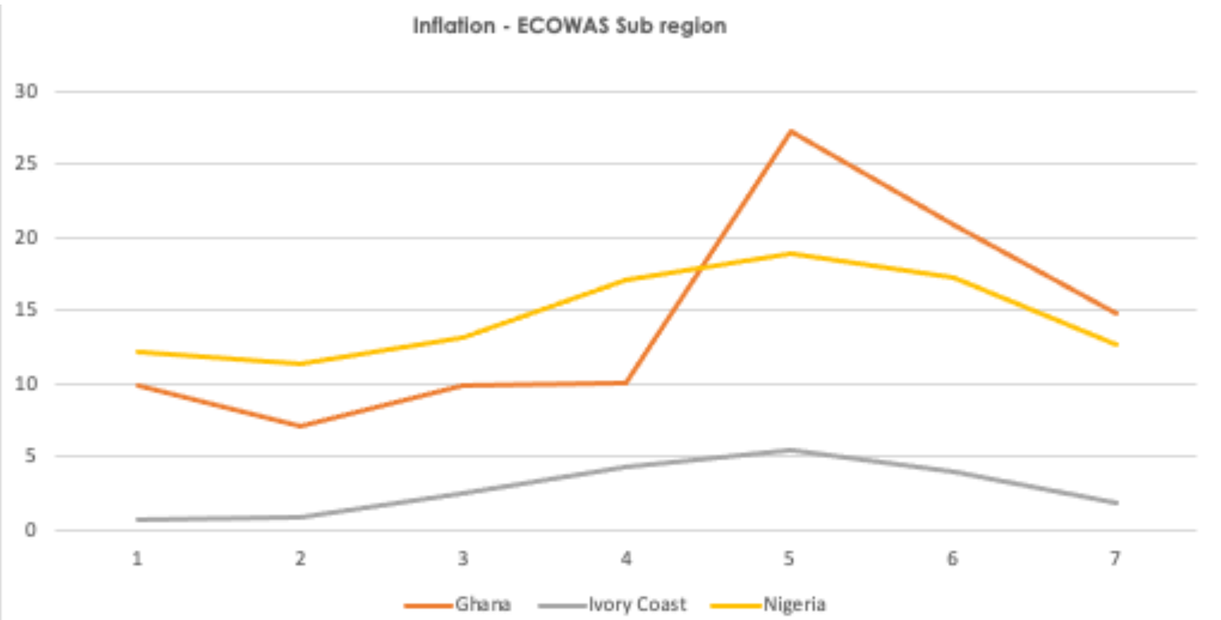
GLOBAL INFLATION

Global inflation has risen fueled by heightened inflationary pressures attributable largely to the Russian -Ukrainian war, and driven primarily by increases in energy-related and food prices. Global inflation is expected to increase from 4.7 percent in 2021 to 8.8 percent in 2022 before falling to 6.5 percent in 2023 and 4.1 percent in 2024 as shown in Table 2 below with Global CPI inflation for selected countries.

Table 2: Global CPI inflation for selected countries

S/N	Region/ Country	2018	2019	2020	2021	2022	2023	2024
5.1	Ghana	9.8	7.1	9.9	10.0	27.2	20.9	14.7
5.2	Ivory Coast	0.6	0.8	2.4	4.2	5.5	4.0	1.8
5.3	Nigeria	12.1	11.4	13.2	17.0	18.9	17.3	12.6

Fig 2 - Global CPI inflation for selected countries



Key : 2018-1, 2019-2, 2020-3, 2021-4, 2022-5, 2023-6, 2024-7

Table 3

Below are some Macroeconomic indicators and actuals achieved for the period under review

Indicator	Budget	Actual
Domestic Revenue	GH¢ 66.503 billion	GH¢ 64.601 billion
Total revenue and grants	GH¢ 67.307 billion	GH¢ 65.399 billion
Domestic revenue to GDP	11.2%	10.9%
Total Revenue and Grants to GDP	11.4%	11.0%
Employees compensation	GH¢ 27.947 billion	GH¢ 27.146 billion
Interest Payments	GH¢ 30.890 billion	GH¢ 32.101 billion
Total expenditure	GH¢ 103.992 billion	GH¢ 109.421 billion
Interest to GDP	5.2%	5.4%
Total Expenditure to GDP	17.6%	18.5%
Budget deficit	GH¢ 36.684 billion	GH¢ 41.699 billion
Primary Balance Deficit	1.0%	1.6%
Budget Deficit to GDP	6.2%	7%

WORLD COMMODITY PRICES

Commodity prices showed some fluctuating price increases as shown below for Gold, Cocoa and Crude Oil as shown below;

Table 4 – World Commodity Prices

Year	Gold US$	Cocoa Beans US$	Crude Oil US$
2017	1,257.56	2,029.41	54.39
2018	1,269.23	2,293.77	71.07
2019	1,392.5	2,340.82	64.03
2020	1,770.25	2,369.86	42.30
2021	1,799.63	2,426.53	70.44
2022	1,775.00	2,350.00	100.00
2023	1700.00	2300.00	92.00
2024	1650.00	2340.00	80.00

MACRO ECONOMIC PERFORMANCE

Real Sector

Real economic growth was generally broad based, with the industry, agricultural and services sectors each contributing 1.8 to 5.4 percentage points to real GDP growth for the first half of 2022, on average. Worth mentioning is the recovery of the industry sector from a contraction of 3.1% to an average growth of 1.8% in the period under review. Overall real GDP showed an average year on year growth of 4.0% compared to 3.9% growth rate in the corresponding period in 2021.

Agriculture

Agriculture grew by an average of 4.9% in the first half of the year 2022, compared to 8.9% over the same period in 2021. Despite the fact that the other subsectors generally underperformed as compared to the same review period in 2021, the Fishing subsector - representing the highest growth sector, reached an average growth of 15.9% in the first half of 2022 from an average contraction of 0.1% over the corresponding period in 2021. On the other hand, the Forestry and Logging subsector contracted by an average rate of 0.4% as against an average growth of 6.2%. The Agricultural sector accounted for 21.7% share of GDP for the first two quarters of 2022, up slightly by 0.1 percentage point compared to the same period in 2021.

Industry Sector

Ghana’s economy witnessed some recovery in the Industry sector from an average contraction rate of 3.1% in the first half of 2021 to an average positive growth rate of 1.8%, a relative growth change of circa 158%. The subsectors of the Industry sector generally recorded an average growth between 0.3% to 4.8%, except for the Construction sector which contracted at an average rate of 1.1% for the first half of 2022. The Industry sector accounted for 32.05% share of Nominal GDP for the first half of 2022 from a comparative contribution of 30.4% in 2021 in respect of the same review period.

Services Sector

The Services sector, as always, remained the largest contributor to GDP with a share of 46.2%, for the first half of 2022, although representing in a decline of 1.8 percentage points from 48% in the comparative period in 2021. It experienced an average growth rate of 5.4%, down from 8.0% over the same period in 2021. Likewise the performance of other sub sectoral units of the economy, the subsectors in the Services sector recorded an average growth rate between 2% to 20.3% except for Real Estate and Professional, Administrative and Support Services activities, contracting at a rate of 5% and 11.5% respectively over the first half of 2022

Monetary Sector

The lingering impacts of surging global financial and economic prices including high international crude and food prices, exchange rate pressures and resultant local currency depreciation, food constraints etc. contributed to the successive increments in food and non-food prices in the economy since the beginning of the year. With crude oil prices and local currency depreciation remaining as the main drivers of inflation, headline inflation increased by 27.8 percentage points (a relative change of 220.63%) to 40.4% in October 2022 from 12.6% in December 2021.

Having experienced a significantly dire fiscal situation, the Ghanaian Government instituted a number of interventions and policies envisaged to stabilize the economy in cognizance of the macroeconomic targets as set in the 2022 Mid-Year Fiscal Policy Review. To tighten liquidity conditions in the Banking system and reduce pressures on aggregate money demand, the Central Bank increased the Monetary Policy rate by a cumulative 1,000 basis points from 14.5% in December 2021 to 24.5% in October 2022 and consequently, informed various interest rate hikes generally spanning from interbank weighted average rate(from 12.66% to 23.98%) , bank lending rates (from 20.34% to 31.40%); Ghana Reference Rate (from 13.47 to 27.44%) to treasury bills and bonds rates, covering the period from October 2021 to October 2022. Additional measures adopted include the increase of cash reserve requirement from the uniform pre-pandemic level of 10% to 14% and 13% for domestic and foreign currency deposits liabilities of banks respectively, and the restoration of the 3% capital adequacy buffers previously suspended during the Covid-19 pandemic.

Ghana's Cedi depreciated by 53.8% against the US Dollar, 45.7% percent against the Pound Sterling and 46.9% against the Euro as at October 2022, significantly higher than same currency depreciation experienced in October 2021 (i.e., 2.4% and 2.6% against the US dollar and Pound Sterling respectively, and 3.5% appreciation against the Euro). The current unfavorable exchange rate situation has been attributed to a number of domestic and external headwinds including the tightened global financing conditions, lack of market access and sovereign downgrades, and increased demand pressures for foreign exchange notwithstanding the supply constraints.

Revenue and Expenditure Performance

Total receipts (revenue and budget support grants) amounted to GH¢ 65,399 million compared to GH¢ 49,108 million in the comparative period of 2021, and a budget target of GH¢ 67,307 million representing an approximate shortfall of 2% as against the budget estimate on account of less robust performance of the various revenue drivers for the period under review. On the other hand, total expenditure amounted to GH¢ 109,421 million, up slightly above the target of GH¢ 103,992 million by 5.2%. As such, Ghana recorded an overall budget deficit of GH¢ 44,022 million as against a target deficit of GH¢ 36,684 million for the period.

Fig 3 – Ghana's Revenue & Expenditure Performance (2022-2021)

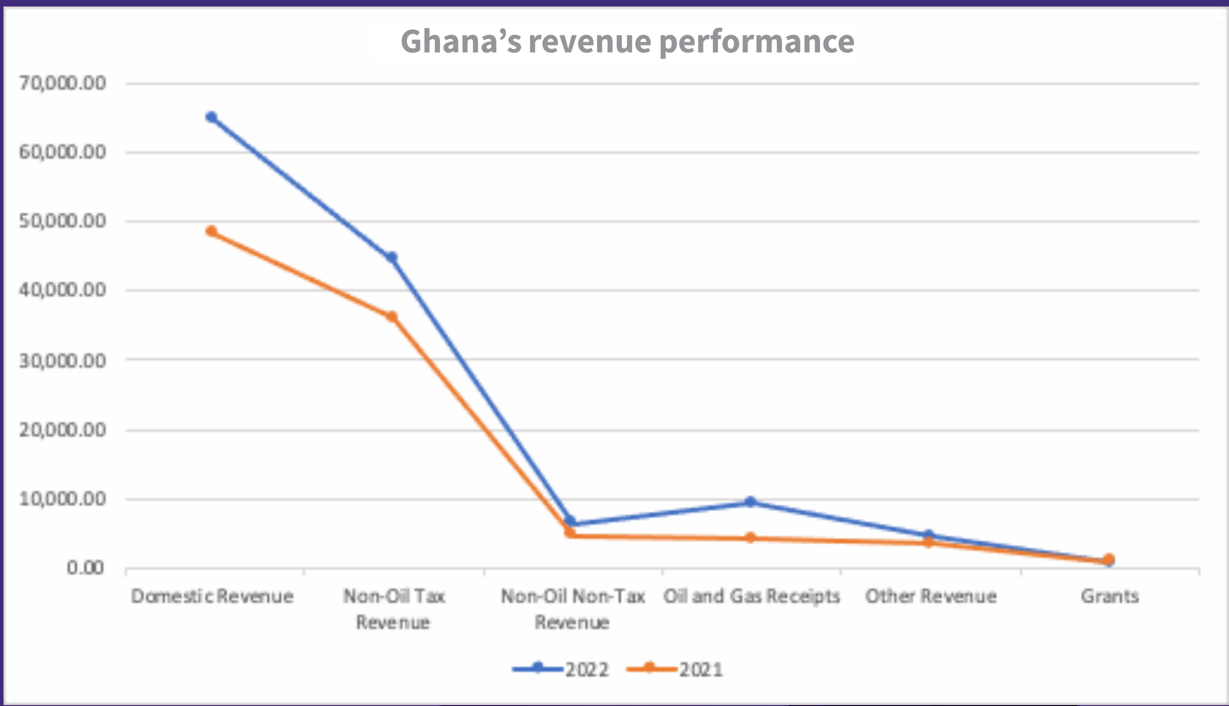
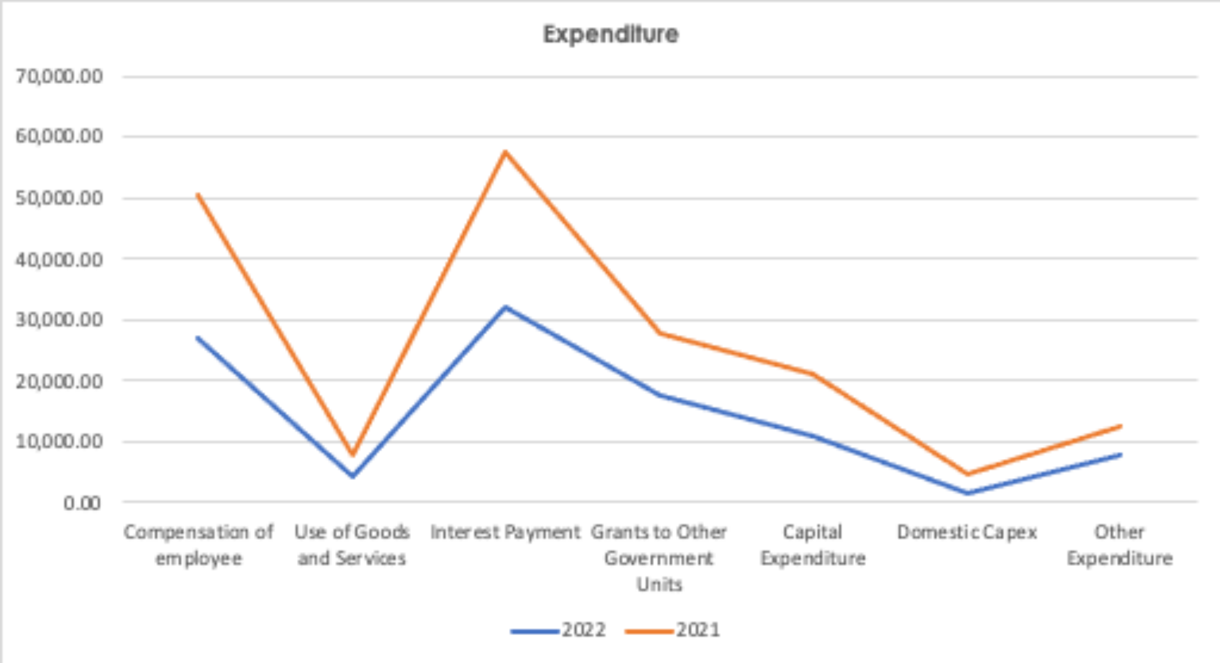


Fig 4 – Ghana's Expenditure Performance (2022-2021)



Public Debt Stock

Ghana's total public debt stock amounts to GH¢ 467,371.32 million, representing 75.9% of GDP as at the end of September, 2022 compared to GH¢ 352,086.98 million, representing 76.7% of GDP as at the end of December, 2021. The economy has seen a significant increase in the value of public debt due to a confluence of external factors exerting pressure on interests costs and local currency. Domestic and External public debt components amounted to GH¢ 195,657.61 million (31.77% of GDP) and GH¢ 271,713.71 (44.13% OF GDP) respectively. Generally speaking, Ghana's sovereign credit ratings have suffered a significant decline over the course of the review period, a fact which is evidenced from the downgrade credit assessment on Ghana by the three largest global rating agencies namely Fitch, Standard & Poor and Moody's. This rating has been necessitated on account of the compounding and spillover effects of the extreme global financial volatility, surging commodity prices, rising borrowing costs, significant currency depreciation etc.

Revenue Mobilization Measures

To aggressively mobilize domestic revenue,the government outlines the measures below in the budget.

Direct Tax Measures

1. An additional income tax bracket of 35 percent to be introduced. Taxing taxpayers who are already being taxed more increases the tax burden of these people owing to the fact that compliance of PAYE as a tax type is always high. More people not only in the informal sector but salary earners should also be brought into this tax net

2. Implementation of a minimum chargeable income for corporate entities.
3. The National Fiscal Stabilisation Levy (NFSL) will be converted into a Growth and Sustainability Levy (GSL) to cover all entities. Category A entities comprising those currently paying the NFSL and six additional sectors will have a rate of five percent on Profit-Before-Tax. Category B comprising all other entities (with the exception of the Extractive sector) will have a rate of two and a half percent. Category C comprising entities operating in the Extractive sector will contribute up to one percent of production to the Levy.
4. Unification of the existing Carry-Over of Tax Losses provisions in the Income Tax Act 2015, Act 896.
5. Revision of Income Tax deductibility rules to exclude unrealised exchange losses from deductions and ensure that realised exchange losses on capital assets are capitalised.
6. A tax on Gross Gaming Revenue, and a token withholding tax on winnings will be introduced.
7. Waiver of tax on withdrawals from 3rd Tier Provident Funds and personal pension schemes for persons who have permanently lost their jobs due to capital or jobs due to the current economic crisis.
8. Revision of the Vehicle Income Tax (VIT) and Income Tax Stamp rates in 2023.
9. The income tax regime will undergo reforms to review the upper limits for vehicle benefits.
10. The one percent concessional income tax rate will be increased to five percent.

Indirect Tax Measures

1. Value Added Tax (VAT) rate will be increased by two and a half percentage points from 12.5 percent to 15 percent, the VAT threshold reviewed and major reforms undertaken with respect to VAT exemptions.

   This increase will lead to a cumulative increase of taxes of goods and services to 21%, however the effective rate is 21.9%. Let's take GH¢100.00 worth of products. It will suffer GetFund, NHIL and COVID levy of 6% GH¢6.00(100*6%) making up the vatable amount of GH¢106.00.This GH¢106.00 will incur a charge of 15% = GH¢15.90, bringing the total cost of the product to GH¢121.90.

   We are of the opinion that the long-standing call for the levies to be made deductible instead of making it a straight levy should be looked at, as this will help businesses recover some of their costs whilst raising more revenue for government.
2. Government to review the existing VAT registration threshold of GH¢ 200,000 under VAT Act 870.
3. Review the E-Levy Act and more specifically, reduce the headline rate from 1.5% to one percent (1%) of the transaction value as well as the removal of the daily threshold.

   We believe that with other exclusions that will be reviewed, this tax can still stifle the financial inclusion and digitization agenda.
4. There will be Excise Tax reform which will include revision to the taxation of cigarettes and tobacco products to align with ECOWAS protocols. The reform will also target increase in the excise rate for spirits above that of beers. There will be taxation of products such as electronic smoking devices and liquids which are not currently taxed.
5. The VAT exemption regime will be reviewed following the passage of the Exemptions Act,2022 (Act 1083).
6. Implementation of the 2022 version of the Harmonized Commodity Description and Coding System (HS Code) on Customs Tariff to ensure uniformity of trade within the sub region.
7. The benchmark discount policy will be fully phased out in 2023.
8. Excise Tax Stamp on textiles to be fully implemented by end of first quarter 2023.

SUSTAINING MACROECONOMIC STABILITY

Developing Local Capacity for Production

The government intends to use import substitution and export orientation measures to curb Ghana's excessive dependence on imports. This places tremendous pressure on the Cedi, creating an unfavourable balance of payments position. On average, Ghana's import bill exceeds US$10 billion annually and is accounted for by a diverse range of items that include iron, steel, aluminum, sugar, rice, fish, poultry, palm oil, cement, fertilizers, pharmaceuticals, Toilet roll, toothpick, fruit juices, etc.

Government aims to target these products for import substitution by supporting the private sector through partnerships with existing and prospective businesses to expand, rehabilitate and establish manufacturing plants targeted at producing these selected schemes;

Import Substitution and Export Orientation

1	GhanaCARES "Obaatan pa"
	To bolster the productive and export capacity of the private sector. Phase II aims to support the private sector in targeted sectors to accelerate competitive import substitution and export expansion.
2	YouStart
	To create a minimum of one million jobs for the youth over the period 2022-2025, through the provision of soft loans for the setting-up of youth-led enterprises.
3	One District One Factory (1D1F)
	To expand the productive capacities of new and existing district enterprises
4	Automotive Assembly Programme
	To support the production and supply of components and spare parts for the automotive industry. This policy will be launched in 2023.
5	Regulation of Grain Exports
	The Ministry of Food and Agriculture, in collaboration with the Ministry of Trade and Industry, is regulating the export of major staples, especially grains, to avoid shortages of the commodities in the local markets. The measure requires grain exporters to acquire Export Permits.
6	Agriculture and Food Security
	Mainstream interventions such as the Planting for Food and Jobs (PFJ) programme will be complemented by the under-listed specialised interventions that will serve as direct and indirect responses to the current crisis. The Ministry of Food and Agriculture is intensifying efforts to promote the local production and use of organic fertilizers. Under the subsidy programme. The areas of focus are promotion of organic fertilizer, regulation of grain exports and fisheries and aqua development.
7	Tourism
	The Ghana Tourism Authority (GTA) will mount an aggressive awareness programme under its 'See Ghana, Eat Ghana, Wear Ghana, Feel Ghana' campaign to promote patronage of Made in Ghana products in the Tourism and Hospitality industry by partnering with hotels and restaurants.

8	Investment Promotion
	The areas of attention are Strategic investments to boost Foreign Direct inflows and African Continental Free Trade Area. Strategic investments are being pursued to achieve an FDI target of US$3.0 billion by the end of 2023 in line with the GhanaCARES programme, the 10-point industrialisation programme of the Ministry of Trade and Industry, and the SDGs. The Government will further continue to embark on efforts aimed at positioning our economy to take full advantage of the African Continental Free Trade Area (AfCFTA).

Export Promotion

Ghana Export Promotion Authority (GEPA) will enhance its coordination role by supporting key export-sector stakeholders. Selected priority products such as cocoa derivatives, cassava value chain products and fruits and vegetables will be developed for enhanced market access.

Private Sector Interventions

1 Development Bank Ghana and Ghana Incentive-based Risk Sharing for Agricultural Lending

- GH¢500 million special credit programme by the Development Bank Ghana to support agribusiness over the next five years to help build economic resilience.
- DBG is also in the process of establishing a private equity fund with initial capitalization of GH¢400 million (US$30 million).
- Four Participating Financial Institutions (PFIs) will engage with other institutions to expand the loan channels. Seven loans amounting to GH¢ 245.322 million was disbursed to SME's saving over 1,000 jobs.
- DBG is undertaking value chain analysis to address bottle necks to support food security, job creation, gender mainstreaming and equitable distribution of investments.
- Ghana Incentive-Based Risk-Sharing System for Agricultural Lending (GIRSAL) and the Ghana Commodity Exchange (GCX) will lead to the creation of about 100,000 jobs, over the next five years.

In 2023, the value of agriculture loans for which credit guarantees will be issued to financial institutions will be increased by GH¢300.7 million to help smoothen cost of doing business.

2 Ghana Agricultural Insurance Pool (GAIP)

GAIP provides traditional agricultural insurance and index-based weather insurance products to commercial farmers and small-holder farmers.

An estimated USD$400 million in agricultural insurance will be extended to eligible farmers in 2023.

3 Energy Security

To ensure power is affordable for industrial, commercial and residential use government has substantially completed the negotiation and restructuring exercise of Power Purchase Agreements (PPAs) with six operational Independent Power Producers ("IPPs"), namely, Karpower, Cenpower, Early Power, Twin City Energy (formerly Amandi), AKSA Energy and CENIT Energy.

Government pursued cost-cutting initiatives refinancing of expensive debt, profiling of tariffs and switching power plants from imported liquid fuel to locally produced natural gas as primary fuel. Government successfully achieved commercial agreement with each of the IPPs. These when finalized and executed are expected to offer estimated savings of more than US$4 billion (with a Net Present Value of approximately US$3.5 billion) over the next 5 years.

4 Climate Change

According to the Vulnerable Twenty (V20) Loss and Damage Report, Ghana lost US$15.20 billion from 2000 to 2019 to climate change. The October 2022 World Bank Group's Country Climate and Development Report (CCDR) for Ghana says at least one million more people could fall into poverty due to climate shocks, and incomes could reduce by up to 40 percent for poor households by 2050, if urgent climate actions are not taken.As part of efforts to mobilise more financing for our transition into a low carbon economy, Government will continue to engage the private sector to invest more private capital, through PPPs, for climate resilient infrastructure projects, as well as for the voluntary and compliance carbon markets.

SOCIAL PROTECTION

LIVELIHOOD EMPOWERMENT AGAINST POVERTY (LEAP)	Expanding coverage to all 2,500,000 extreme poor individuals as estimated by the Ghana Living Standards Survey (GLSS 7) by 2024. Government will, in 2023, increase the value of the LEAP grant from the average of GH¢41.75 per household to GH¢95.19 bi-monthly.
GHANA SCHOOL FEEDING PROGRAMME (GSFP)	As of December 2021, the program was feeding 3,448,065 pupils. In 2023 the grant will be increased to reflect the current cost of living and will also strengthen domestic production by sourcing locally produced food from the National Buffer Stock company.
CAPITATION GRANT	Government will continue to strengthen monitoring to address teething challenges in the implementation of the policy which include; timely release of the grant, proper use of funds, transparency and ensuring book keeping.
NATIONAL HEALTH INSURANCE SCHEME (NHIS)	Total enrolment as at September 2022 was 15.16 million out of the 2022 target population of 18.21 m. Enrolment is expected to increase to 20.30 million by end December 2023. The Authority is considering a revision of tarrifs to include childhood cancers and long term family planning services.

Expanding Infrastructure

Government will in 2023 maintain its commitment to improve road infrastructure with the following pipeline projects, construction of three major roads, two interchanges, dualization of three roads and the construction of a bridge over the Volta River at Volivo; Buipe, Yapei and Daboya Bridges; Adawso-Ekyi Amanfrom Bridge; and Dikpe, Iture and Ankobra Bridges.

Road Financing

Government is pursuing the tactical decision to procure the 27.7km of the Accra-Tema Motorway Extensions Project through the Ghana Infrastructure Investment Fund (GIIF). To facilitate its execution, a PPP Concession Agreement backed by an appropriate toll arrangement will be presented to Parliament for approval.

Provision has been made in the 2023 and Medium-Term Budgets for the Equity and Viability Gap Funding required by a GIIF Special Purpose Vehicle (SPV) to allow the project to begin in earnest in 2023. The project will be completed in stages.

The project when completed will be five lanes each on both sides of the Accra-Tema motorway and six lanes each on the Tetteh Quarshie – Apenkwa stretch of the road. The project will include the remodeling of Tetteh Quarshie Interchange, reconstruction of the Apenkwa Interchange and the construction of new interchanges at the Fiesta Royale cross roads and Neoplan area.

Debt Exchange Program

According to the current debt sustainability analysis, Ghana is now considered to be at high risk of debt distress. This has been due to the negative impact of exchange rate depreciation, particularly on external debt, as well as the crystallization of significant contingent liabilities, which has continuously impacted the sustainability of our debt.

In collaboration with all relevant stakeholders, including the Ghanaian public, investor community, and development partners, the government will implement a debt exchange program to address the challenges identified in the portfolio. Government will continue to strengthen its oversight of all SoEs potential fiscal risks from incidence of contingent liabilities. According to the Finance Minister, concessional loans will continue to be the preferred financing option for projects.

In line with the Debt Exchange program, the Ministry of Finance announced the below initiatives for restructuring of domestic securities issued by Government:

Treasury Bills

- Treasury Bills are completely exempted from any form of restructuring or 'hair cut' and ALL HOLDERS will be paid the full value of their investments on maturity.

Domestic Bonds

- Domestic bond holders will be required to exchange their existing instruments for new ones.

  Eligible Domestic bonds due in 2023 will be exchanged for a set of seven(7) new bonds maturing in 2033 and Eligible Domestic Bonds due after 2023 will be exchanged for a set oftwelve(12) new bonds maturing in 2038
- The annual coupon on all of these new bonds will be set at 0% in 2023,5% in 2024 and 9% from 2025 until maturity to be paid semi-annually
- There will be no hair cut on the principal of bonds
- Individual holders of bonds will be affected under the Amended and Restated Exchange Memorandum announced by GoG on 30 December, 2022.
- Institutional investors such as banks, Pension Funds, Insurance Companies, Fund Managers and Collective Investment Schemes will suffer hair-cuts under the proposed scheme taking into account the proposed Financial Stability Fund (FSF) being established by Government with the help of development partners to provide liquidity support

Treasury Notes

- Treasury Notes are likely to be affected by the Debt Restructuring Scheme even though not explicitly stated in the new initiatives announced by the Government of Ghana.

Foreign Bonds

- Government has also announced plans to negotiate with foreign bondholders on a proposed debt exchange program

OUTLOOK FOR 2023

The Medium-Term National Development Policy Framework (2022-2025) is being implemented through the Plans of Sector Ministries, Departments and Agencies, as well as District Assemblies. The Framework is informed by the Long-Term National Development Framework (Ghana@100), the Coordinated Programme of Economic and Social Development Policies (2017-2024), the Ghana Beyond Aid Agenda and Strategy, and the Ghana COVID-19 Alleviation and Revitalisation of Enterprises Support Programme (GhanaCARES), as stipulated in the National Development Planning Regulations, 2016 (L.I. 2232).

The Framework is also in line with the objectives and targets of the Sustainable Development Goals (SDGs) of UN Agenda 2030 and those of the African Union Agenda 2063. The performance is organised around the broad sectors of Administration, Economic, Infrastructure, Social and Public Safety, and some key Government initiatives.

Economic and Medium-Term Real Sector Outlook for 2023

The following macroeconomic targets are set for the 2023 Fiscal Year:

- OVERALL REAL GDP GROWTH OF 2.8% 01
- NON-OIL REAL GDP GROWTH OF 3.0% 02
- END-DECEMBER INFLATION RATE OF 18.9% 03
- PRIMARY BALANCE ON COMMITMENT BASIS OF 0.7% OF GDP 04
- GROSS INTERNATIONAL RESERVES TO COVER NOT LESS THAN 3.3 MONTHS OF IMPORTS 05

The current global economic challenges, coupled with high uncertainties, are expected to adversely affect economic performance in the current year and next year. This is expected to lead to a slowdown in growth, following a quick and sharp recovery in 2021 from the COVID-related slowdown in 2020.

Overall GDP is projected to grow at 3.5 percent and 2.8 percent in 2022 and 2023 respectively. The expected slowdown in growth in 2023 is mainly on the back of the perceived impact of fiscal adjustment and the implementation of a possible debt management strategy as part of measures to ensure fiscal and debt sustainability. However, the economy is expected to rebound from 2024 and grow steadily in the medium-term to record an average growth of 4.3 percent over the period 2023-2026.

Growth is projected at 3.9 percent, 4.9 percent, and 5.6 percent, in 2024, 2025, and 2026, respectively.

The 2023 Budget is anchored on a seven-point agenda aimed at restoring macro-economic stability and accelerating our economic transformation as articulated in the Post-COVID-19 Programme for Economic Growth (PC-PEG). These comprise an agenda to:

1	Aggressively mobilize domestic revenue;
2	Streamline and rationalise expenditures;
3	Boost local productive capacity;
4	Promote and diversify exports;
5	Protect the poor and vulnerable;
6	Expand digital and climate-responsive physical infrastructure
7	Implement structural and public sector reforms.

Expenditure Cuts

Fiscal and monetary policies affect the macroeconomic stability of a country. Monetary policy has to do with the balance of money supply and demand in order to affect inflation, interest rates, and foreign exchange fluctuations. This is controlled by the Central Bank of a country, in our case, Bank of Ghana. Fiscal policy however has to do with the interaction between Revenue and Expenditure, this is termed as balance of payment deficit/surplus. It is a surplus when the Revenue(the amount collected through Taxes and other inflow sources such as grants) is higher than the expenditure (including CAPEX and other expenditures such as expenditure need to maintain the government machinery), the reverse is right for a deficit as the revenue is less than the expenditure.

A budget deficit brings a situation where you have less money to fund your expenditure thus you will need to borrow to do certain expenditure the government sees as a priority. Note that every country in the world has a debt component, whether local or foreign debt. For example USA has a public debt in the trillions of dollars.

Implementation of Cabinet Directives on Expenditure Measures

In order to reduce public debt, the Cabinet has come out with some interventions to reduce expenditure. Below are the measures suggested by the cabinet,

1. Reduction in fuel allocations to every form of MDAs, MMDAs and SOEs by 50% of the 2022 budget allocation. IMAGE – reduction sign that looks like a thunderbolt and a fuel sign
2. Ban on the use of V8/V6 or its equivalent except for cross country travel by government officials and all government vehicles should have the green GV number plates. IMAGE-green number plate.
3. Limited budgetary allocation for purchase of new vehicles; only locally assembled vehicles will be purchased.
4. Only essential official foreign travel across the government including SOEs; All government institutions should submit their travel plan for 2023 to the Chief of Staff for approval.
5. Meetings and workshops should be held within official environment or government facilities and halt in government sponsored external training and staff development for 2023.
6. Reduction in expenditure on appointments including salary freezes and suspension of certain allowances such as housing, utilities, clothing etc.
7. A hiring freeze for civil and public servants.
8. No new government agencies in 2023.
9. No printing of promotional paraphernalia such as diaries, notepads, calenders by MDAs, MMDAs and SOEs.
10. All non-critical projects must be suspended for 2023.

ACTS AND BILLS

In pursuance of Government's revenue expectations and initiatives for the 2023 financial year as indicated in the 2023 budget, the following Acts and Bills have been introduced:

Acts

Electronic Transfer Levy (Amendment) Act, 2022 (Act 1089)

Act 1089 amends the Electronic Transfer levy rate from 1.5% to 1% applicable on the value of electronic transfers. However, the daily exemption thresholds of GHS 100 and GHS 20,000 for mobile money and bank transfers respectively shall continue to apply despite revision to the rate applicable. All charging entities are also required to file a return with the Commissioner General of the Ghana Revenue Authority within twenty-four hours after collecting/charging the levy on qualifying transfers.

Value Added Tax (Amendment) Act, 2022 (Act 1087)

Standard VAT applicable to taxable supply of goods and services has been increased to 15% from the previous charge of 12.5%. As a result, the new effective VAT rate (i.e., Standard VAT & GETFund/NHIL/Covid-19 levy) is 21.9%.

Exempt supplies under the VAT Act has been amended to include betting and/or gaming activities as a supply of service. On the other hand, imported textbooks and other printer matter (not specifically provided for) have been removed from the list of exempt supplies.

Act 1087 also imposes additional penalties on VAT-registered persons who fail to issue a prescribed tax invoice or a tax invoice through a Certified Invoicing System (CIS), tampers/manipulates/interferes with the proper functioning of the CIS or fail to integrate their CIS into the invoicing system of the Ghana Revenue Authority. The penalty shall not be more than GHS 50,000 or three times of the tax involved, whichever is higher.

Revenue Administration (Amendment) Act, 2022 (Act 1086)

Under this amendment, the Commissioner-General of the Ghana Revenue Authority is empowered to establish a monitoring mechanism to track and verify revenue collected by taxpayers as well as gain physical access to the infrastructure or system or physical network node of taxpayers. A person who fails to comply shall be liable to pay a penalty of five percent of the annual gross revenue of that person.

1. Ghana Revenue Authority (Amendment) Bill, 2022

This bill seeks to update recent tax legislations subject to the full administration of the GRA including the Covid-19 Health Recovery levy Act, 2021 (Act 1068), the Exemptions Act, 2022 (Act 1083), the Financial Sector Recovery Levy, 2021 (Act 1067), the Electronic Transfer Levy Act, 2022 (Act 1075), African Union Import Levy Act, 2017 (Act 952) etc.

2. Growth and Sustainability Levy Bill, 2022

As part of Government's effort to raise revenue in a bid to grapple with the significant financial and economic hit by the lingering impacts of the Covid-19 pandemic and the recent Russia-Ukraine conflict, the Growth and Sustainability Bill seeks to impose a special levy on the profits before tax (PBT) or the percentage of production of some specified companies and institutions listed under the Bill. The listed companies have been compartmentalized into three categories, with category A and C liable to the levy at 5% and 2.5% of profit before tax respectively. Category B includes mining and upstream oil and gas companies liable to the levy at 1% of gross production. The Growth and Sustainability Bill is intended to be transient seeing as the levy is applicable to profits before tax or production for 2023, 2024 and 2025 years of assessment.

3. Income Tax Bill, 2022

The Income Tax Bill contains a number of proposed amendments, including the introduction of withholding taxes on realisation of assets and liabilities, a minimum chargeable income regime, an additional tax bracket/band and revision of income tax rates for individuals, revision to the treatment of foreign exchange losses, unification of carryforward tax losses, etc.

- Additional tax band and revision of income tax rates for individuals: Individual income tax rates have been revised to align with the minimum daily wage set for 2023. Also, the proposed bill introduces an additional tax band, requiring income exceeding GHS 600,000 to be taxed at 35%, as part of Government's high net worth tax policy.

- Withholding taxes on realisation of assets and liabilities: The Income Tax Bill, 2022 imposes withholding taxes on consideration transferred upon realisation of assets and liabilities subsumed under either investment or business income. Withholding taxes shall be levied at 3% and 10% for resident and non-resident transferees respectively. Also, a person who realizes an asset or liability shall be required to file returns with the Commission-General within 30 days of realization.

- Minimum Chargeable Income (MCI): The proposed minimum chargeable income regime attempts to levy minimum taxes where taxpayers declare tax losses for the previous five years of assessment excluding losses incurred in the first 5 operational years, and taxpayers engaged in farming. The minimum chargeable income shall be determined/defined as 5% of gross turnover of taxpayers, and resultant taxes charged shall be in accordance standard rules under Income Tax Act, 2015 (for instance, the general 25% for corporate entities and graduated tax rates applicable to individuals).
- Winnings from Lottery: The Bill reintroduces withholding taxes on lottery winnings, at a rate of 10%, at the end of each lottery/gaming occasion. Taxes on lottery winnings by persons, other than business or professional gamblers, were previously scrapped off in 2017.
- Unification of Carry forward losses: Currently, taxpayers are entitled to carry forward tax losses for 3 or 5 years depending on the sector in which a taxpayer operates. The proposed Income Tax Bill aims to unify the eligible years, entitling taxpayers to carry forward tax losses, incurred during a year of assessment, for 5 subsequent years of assessment.

- Foreign Exchange Losses: The Income Tax bill attempts to bring clarity to the deductibility of foreign exchange losses incurred by taxpayers. As per the proposed Bill, the deductibility of foreign exchange losses against taxable income shall be limited to realized losses incurred on debt obligations or debt claims and foreign currency holdings of taxable persons. However, taxpayers may capitalize foreign exchange losses of a capital nature and claim capital allowance thereof under section 14 of the Income Tax Act.

- Income tax rate for persons under temporary concessions: Income tax rate applicable to taxpayers enjoying temporary concessions has been increased from 1% to 5% per the proposed Income Tax Bill.

- Tax Exemption on pension Tier 3 Withdrawals: As you well know, withdrawals from a private personal pension fund or provident fund (tier 3) before retirement is subject to income taxes where withdrawals occur within 10 and 5 years of contributions for persons in the formal and informal sector respectively. The proposed Bill purports to exempt taxes for 2023 on tier 3 withdrawals by employees due to loss of permanent employment or self-employed persons from the personal savings account created under section 109 of the National Pensions Act, all on account of the current economic hardship and/or the Covid-19 Pandemic.

- Increase in the preferential tax rate gains from realisation of investment assets and gifts: The preferential tax rate applicable on gains from the realization of investment assets and gifts received, other than in respect of business or employment, is to be increased from 15% to 25% with the passage of the Income Tax Bill.

- Revision to upper limits of motor vehicle benefits quantification: The Income Tax Bill proposes to increase the upper limit of motor vehicle benefits to GHS 1,500, GHS 1,250, GHS 625, and GHS 625 for Driver and Vehicle with fuel benefit, Vehicle with fuel benefit, Vehicle only benefit, and Fuel only benefit respectively.

CONCLUSION

According to the Minister of Finance Ken Ofori-Atta, the plan is to reset the economy.

By securing an agreement with the International Monetary Fund (IMF), the government hopes to execute the Debt Exchange program, improve the management of foreign exchange and support local productive capacity for food security.

The focus of the 2023 budget is to structurally transform the economy through seven ways as stated per the Programme for Economic Growth (PC-PEG).

APPENDIX

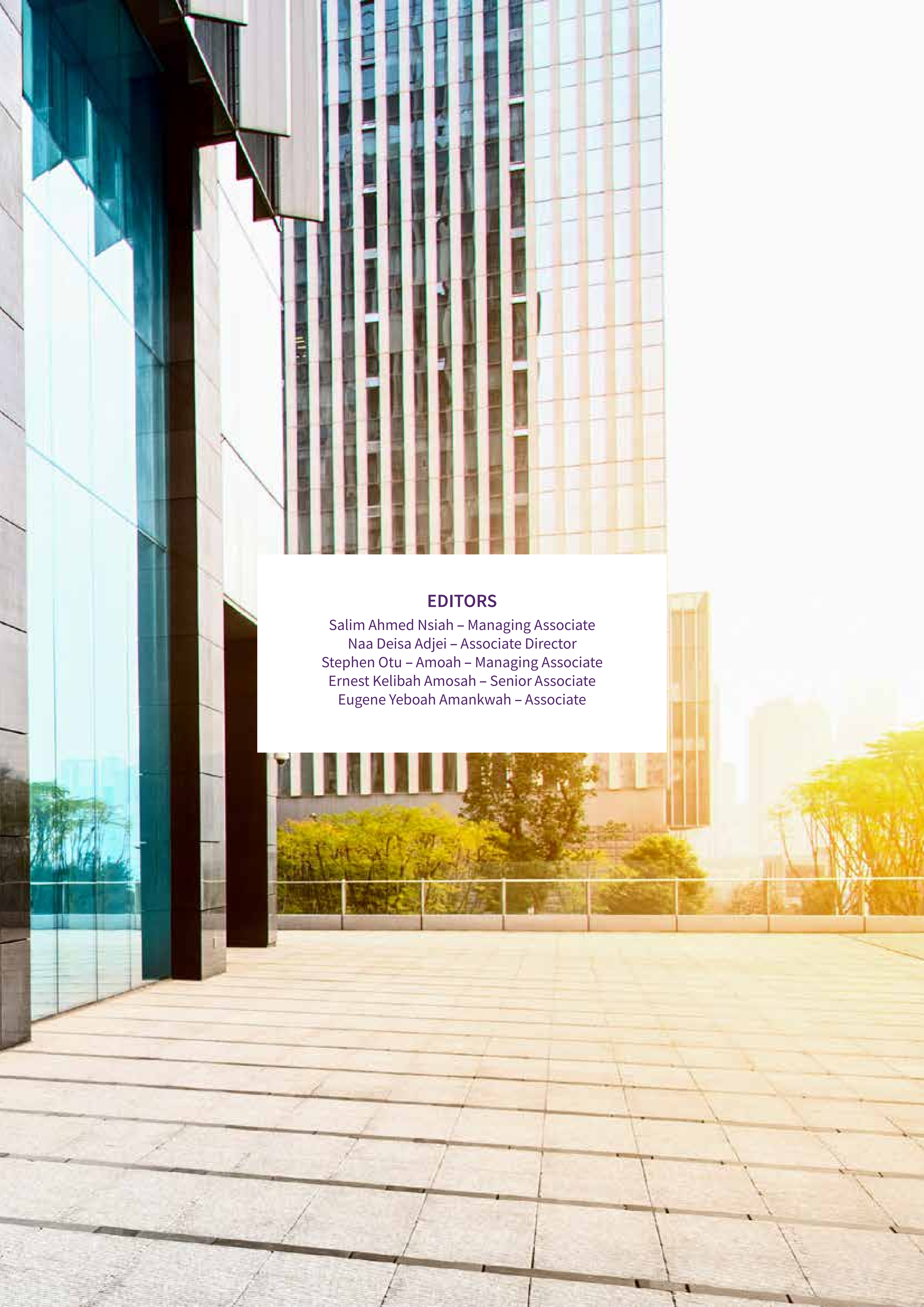
VAT	- Value Added Tax
SOE	- State Owned Organizations
AfCFTA	- African Continental Free Trade Area
DBG	- Development Bank Ghana
GIRSAL	- Ghana Incentive-Based Risk-Sharing System for Agricultural Lending
GCX	- Ghana Commodity Exchange
GAIP	- Ghana Agricultural Insurance Pool
MDA	- Ministries, Departments and Agencies
MMDAs	- Metropolitan, Municipal and District Assemblies
GIFMIS	- Government Integrated Financial Management System
GV	- Government vehicle

PROPOSED MONTHLY GRADUATED TAX RATES

	Y/A 2022	CHARGEABLE INCOME	TAX RATE	TAX PAYABLE	CUMMULATIVE CHARGEABLE INCOME	CUMMULATIVE TAX PAYABLE
1	First	402.00	free	nil	402.00	Nil
2	Next	110.00	5%	5.50	512.00	5.50
3	Next	130.00	10%	13.00	642.00	18.50
4	Next	3,000	17.5%	525.00	3,642.00	543.50
5	Next	16,395.00	25%	4,098.75	20,037.00	4,642.25
6	Next	29,963.00	30%	8,988.90	50,000.00	13,631.15
7	Exceeding	50,000.00	35%			

PROPOSED ANNUAL GRADUATED TAX RATES

No.	Y/A 2022	CHARGEABLE INCOME	TAX RATE	TAX PAYABLE	CUMMULATIVE CHARGEABLE INCOME	CUMMULATIVE TAX PAYABLE
1	First	4,824.00	free	nil	4,824.00	Nil
2	Next	1,320.00	5%	66.00	6,144.00	66.00
3	Next	1,560.00	10%	156.00	7,704.00	222.00
4	Next	36,000.00	17.5%	6,300.00	43,704.00	6,522.00
5	Next	196,740.00	25%	49,185.00	240,444.00	55,707.00
6	Next	359,556.00	30%	107,866.80	600,000.00	163,573.80
7	Exceeding	600,000.00	35%			



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