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GHANA FLASH NOTE [REV]

The Mid-year Budget Review - a preliminary assessment

*Since the mid-year review was presented on Monday, attention has focused on the radical amendments to the various power-purchase and gas supply agreements in force in Ghana. Although timely, **the measures proposed will by no means resolve the imbalances apparent in the H1/2019 results** that show revenues falling short of their target by 15.5% and a fiscal deficit[1] equal to 3.3% of GDP.*

1) Given the scandalous provisions involved in the relevant PPAs and GSAs, the revisions announced are a welcome development. However, the proposed amendments[2] **will do no more than reduce the fiscal costs** created by the excess capacity fostered by the existing take-or-pay arrangements.

Meanwhile the sector will continue to struggle under **two additional constraints**:

- At GHp 30.2493 / kWh, Ghana's current **tariff rate for bulk power is well below cost-recovery** level.
- The GHp 20/litre increase in the **energy-sector levies** will do little more than **improve the debt-service capacity of ESLA PLC**[3].

2) In the interim, however, evidence has emerged that Power Distribution Systems is in breach of a major clause in its **concession agreement with the ECG**, which has been **suspended with immediate effect**[4]. Occurring a mere five months after the concession agreement took effect, this crisis means that ECG will have to resume its traditional role as a loss-making power distributor – with **predictably adverse fiscal consequences**.

3) In view of the significant revenue shortfall relative to the H1/2019 target, the **additional revenue measures proposed** *"to ensure that the revenue target for 2019 is not compromised"* strike one as **less than adequate**, viz:

- **communications service tax** increased from 6% to 9%[5];
- prospective **sale of electromagnetic spectrum**[6];
- **telco licenses** renewal[7];
- gains from the **sale of assets and mineral rights**[8];
- enhanced **customs compliance** at the ports[9].

This deficiency takes on added significance in the context of the **31% shortfall in *Receipts from upstream oil and gas***. There is reason to believe that much of this shortfall is attributable to the technical difficulties Tullow continues to confront with its **TEN project[10], on which the operator has just lowered its 2019 output forecast** - for the second time in three months.

[1] I.e. excluding a range of ostensibly one-off costs, as discussed below.
[2] It should also be noted that no guidance has been provided as to the 'break' costs associated with the revisions in question.
[3] I.e. without addressing the elephant in the room: the net sector arrears of GHC 14.04 billion.
[4] The crisis calls into question the due diligence conducted by the authorities – especially since the controversial guarantees were only produced more than six months after the deadline stipulated in the concession award. In addition, since the partial privatization of the distribution function was one of the key conditions of the Ghana Power Compact, the agreement with the U.S. Millennium Challenge Corporation might also be jeopardized.
[5] The budget outturn for 2018 indicates that this item contributed a mere 0.90% of Domestic Revenues, less than any other tax on domestic goods and services. As such, the impact of a 50% increase in the levy will be *de minimis*.
[6] No estimate of expected proceeds or relevant time-frame. | [7] Ditto.
[8] No details as to assets in question, and estimate of expected proceeds or relevant time-frame.
[9] The same Hail-Mary 'solution' was rolled out as part of the Mid-year review for 2018.
[10] I.e. the contiguous offshore fields Tweneboa, Enyenra and Ntomme, located 30 km. west of the Jubilee field. There have been repeated delays in bringing the Enyenra field onstream.

4) On the **Expenditure side**, meanwhile, the **Review has pushed below the bottom line** such material items as:

- the **GHC 5.5 billion** incremental outlay **on financial sector clean-up**[11], equivalent to 1.6% of GDP;
- the **GHC 3.14 billion spent** during H1/2019 **on the energy sector**[12], equivalent to 0.91% of GDP;
- the **USD 360 million living-income differential** for cocoa producers[13], equivalent to 0.56% of GDP.

5) In view of the foregoing, **we are not convinced that**, ***"The fiscal outlook for the remaining half of the year remains sound even in the midst of strong domestic headwinds."***[14] Indeed, our concern is that **the deficit could well pierce the 5% ceiling**[15]**,** which would indicate that Ghana's quadrennial fiscal curse remains unbroken.

[11] N.B. this World Bank estimate relates only to the micro-finance and the S&L sector and so excludes costs relating to the five banks that were to have been of recapitalized under the ill-fated GAT scheme. The finance ministry recently admitted having disbursed GHC 800 million, which implies a residual capital shortfall of at least GHC 820 million to be funded by the taxpayer.

[12] As acknowledged in Para. 145 of the Mid-year Review.

[13] The minister's claim, in Para. 119, that *"the buyers have agreed to pay (the premium)"* flies in the face of the available evidence. See *"Choc tactics: Ghana and Ivory Coast plot 'Opec for cocoa' "* by Financial Times, Jul. 19, 2019.

[14] See Para. 126, *"Mid-year Fiscal Policy Review of the 2019 Budget"*, Jul. 29, 2019.

[15] I.e. as established under the Fiscal Responsibility Act (2019).