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GHANA RESEARCH NOTE

# The 2020 Budget - Wishing on a Star

*As might have been anticipated given the minister's past form, this was* ***essentially a campaign document****, whose essence is captured in the following soap-box excerpt:*

> *"As a result of us introducing the necessary combination of focus, discipline, integrity, creativity, compassion and competence, in just 32 months in office, Mr. Speaker,* ***the Lord has blessed our efforts. The economy has seen a miraculous turnaround****, moving now in the right direction."* [Para. 15]

**1)** As presented, the **key figures are far from unconvincing** – particularly on the **Revenue** side.

- As at end-September, total fiscal revenues had **undershot their target by 13.2%**, and generated only GHS 36.25 billion.
- Yet the Budget statement projects a full-year total of GHS 54.57 billion. This will require **Q4 receipts of GHS 18.32 billion – an increase of almost 52%** on the average of GHS 12.08 billion achieved through end-September.
- Given the serial underperformance of revenues that has plagued the Akufo-Addo administration, the projection – and, by extension, **the projected fiscal deficit of 4.7% – seems less than credible**[1].

**2)** The Budget forecasts that the fiscal **deficit for 2020 will remain unchanged at 4.7%** of GDP.

- This figure is based on a total revenue assumption of GHS 67.07 billion, which would mark **a year-on-year increase of 23%** and, as such, **warrants more than a pinch of salt**.
- As an alternative, we propose the still generous assumption of **a 10% improvement** on the optimistic estimate for FY 2019. This **would produce a figure of GHS 60.02 billion**.
- Since total expenses are budgeted at GHS 85.95 billion, this **would imply an overall deficit equal to 6.52%** of GDP – overshooting by 152 b.p. the ceiling established in the fiscal responsibility law.

Needless to say, taking account of potential issues on the **Expense** side of the ledger produces **an even less palatable fiscal out-turn.** Here, in no particular order, are a few such areas of concern:

### 3) National airline

Although the budget is quite explicit about the establishment of a flag carrier[2] [Paras. 915], to commence operations in Q2/2020, the total appropriation for Aviation is a mere GHS 189 million[3].

- Within the last 24 hours, the aviation minister has signed provisional **orders to purchase 3 Boeing 787-9s and 6 Dash 8-400s**[4].
- Given the Government's stated intention to hold a 10% stake in the new venture, its **pro rata share of the capex** comes to USD 263.25 million – **equivalent to 0.40% of GDP**.

[1] As the Budget itself acknowledges, the additional revenue measures introduced under the Mid-Year Review are yet to bear fruit [Paras.123-125] .

[2] The The Republic's last attempt at operating a national airline ended with the 2010 collapse of Ghana International Airlines which had only been launched in 2004, shortly after the Ghana Airways (the legacy carrier established in 1958) went into administration.

[3] Most of this appears to be earmarked for upgrades/repairs to Ghana's airports.

[4] At a list price of USD 877.5 million and USD 32.5 million, respectively.

### 4) Bank recapitalization

After months of official obfuscation on the actual status of this exercise, the budget statement has provided some welcome clarity.

- Specifically, the minister has admitted that **NIB[5] faces a capital shortfall of GHS 2.2 billion** [Para. 222].
- In view of the conspicuous failure of the off-balance sheet GAT 'solution', the fiscus will almost certainly have to bear these **costs, equivalent to 0.55% of GDP**.

### 5) Potential bail-out of NBFI customers

Following the clean-up of the banking and S&L sectors, regulators have in recent months turned their attention to the non-bank financial institutions[6]. The **SEC has now revoked the licences of 53 such entities**[7], [para. 213] with aggregate liabilities to clients of GHS 8 billion.

- According to the budget, **protecting investors from this debacle will cost GHS 1.5 billion**, which amounts to a pay-out of less than 19 pesewas on the cedi.
- In the run-up to the elections, the authorities will find themselves under tremendous pressure to display greater generosity[8]. A pay-out at 35 pesewas on the cedi would entail **a fiscal cost equivalent to 0.70% of GDP**.

These three **Expense** items alone[9] would inflate our our already bearish deficit forecast by **an additional 1.66% of GDP**.  In other words, the stage seems to be **set for yet another election-year blow-out** - despite the minister's vociferous assurances to the contrary.

[5] I.e. the largest of the indigenous banks.
[6] Typically these loosely regulated asset-management firms have offered 'high-yield' investment products with limited to non-existent disclosure.
[7] For a variety of liquidity and solvency issues.
[8] For example, the products of one particular brokerage firm were reportedly very popular among Ghanaian soldiers returning from UN peace-keeping missions, with end-of-mission bonuses to invest.
[9] Issues one has not considered here include the prospective break costs of securing an amendment to the take-or-pay provisions in the various power-purchase and gas-supply agreements that the authorities have identified as an urgent priority [Paras. 92-98]. During the Mid-Year review, the finance minister pegged the annual fiscal burden arising from excess capacity in electricity and gas at USD 2.5 billion and ca. USD 750 million. [Paras 19-20]. Presumably, the costs to amend the relevant contracts would be correspondingly impressive.