2024 MID-YEAR BUDGET REVIEW

A CRITICAL ASSESSMENT OF THE 2024 MID-YEAR BUDGET BY ISSER

1 INTRODUCTION

The 2024 mid-Year Budget was presented amidst high expectations regarding how the government is navigating its contours within the context of an IMF programme, debt rescheduling involving negotiations with commercial creditors, bondholders and bilateral creditors. Additionally, key stakeholders had high expectations for tax consolidation, a stable exchange rate, reduced inflation, and steps to create an enabling environment for the private sector to flourish. The following analysis presents a critical assessment of the 2024 mid-year budget.

2 HALF-YEAR 2024 PERFORMANCE

Economic Growth

Overall Real GDP growth was 4.7 percent for first quarter of 2024 compared to the revised target of 3.1 percent for the year. Non-Oil Real GDP growth was 3.3 percent compared to 3.8 percent in 2023. Due to improvements in macroeconomic indicators, both of these indicators have been revised upwards: Overall Real GDP Growth rate revised upwards from 2.8 percent to 3.1 percent and Non-Oil Real GDP Growth rate of revised upwards from 2.1 percent to 2.8 percent. For the first quarter of 2024, growth was led by the industrial sector, which saw a growth rate of 6.8 percent. In comparison, the industrial sector contracted by 2.2 percent in the first quarter of 2023.

Despite the positive economic outlook, anecdotal evidence from Afrobarometer surveys in the first quarter of 2024 indicates growing economic hardship due to increased food prices, skyrocketing transportation fares, and rising cement and fuel prices. Most Ghanaians expect economic growth to reduce youth unemployment rate and lower the general cost of living. Thus, merely comparing economic figures over time without considering their impact on the lives of ordinary Ghanaians is bittersweet. The subsequent sections of this review highlight the performance indicators of several sectors.

External sector performance:

The primary balance remained unchanged at the targeted surplus of 0.5% of GDP, in line with the IMF-supported PC-PEG objectives, compared to a provisional surplus of US$849.16 million (1.1% of GDP) in the first half of 2023. Ghana's gross international reserves improved, covering 3.1 months of imports by June

2024, up from 2.5 months the previous year. Ghana's Q2 2024 trade account recorded a surplus of USD 1.81 billion compared to the USD 1.60 billion surplus in Q2 2023. This surplus was driven by increased exports, which outweighed increased imports. A larger current account surplus of USD 1.28 billion (about 1.5% of GDP) was recorded in the first half of 2024, compared with the 2023 surplus of USD 863 million (1.1% of GDP). This improvement resulted from a better trade surplus, increased growth in remittances, and lower income payments due to the debt standstill agreement.

However, many discerning Ghanaians expected the trade surpluses to shore up the currency reserves and reduce the exchange rate rather than stabilize it. Thus, anything short of a declining exchange rate is detrimental for local small and medium-sized enterprises trading in imported goods. The export surpluses may also be due to many importers, such as those in spare parts and vehicles trades, longer being in business because of the high interbank foreign exchange rate.

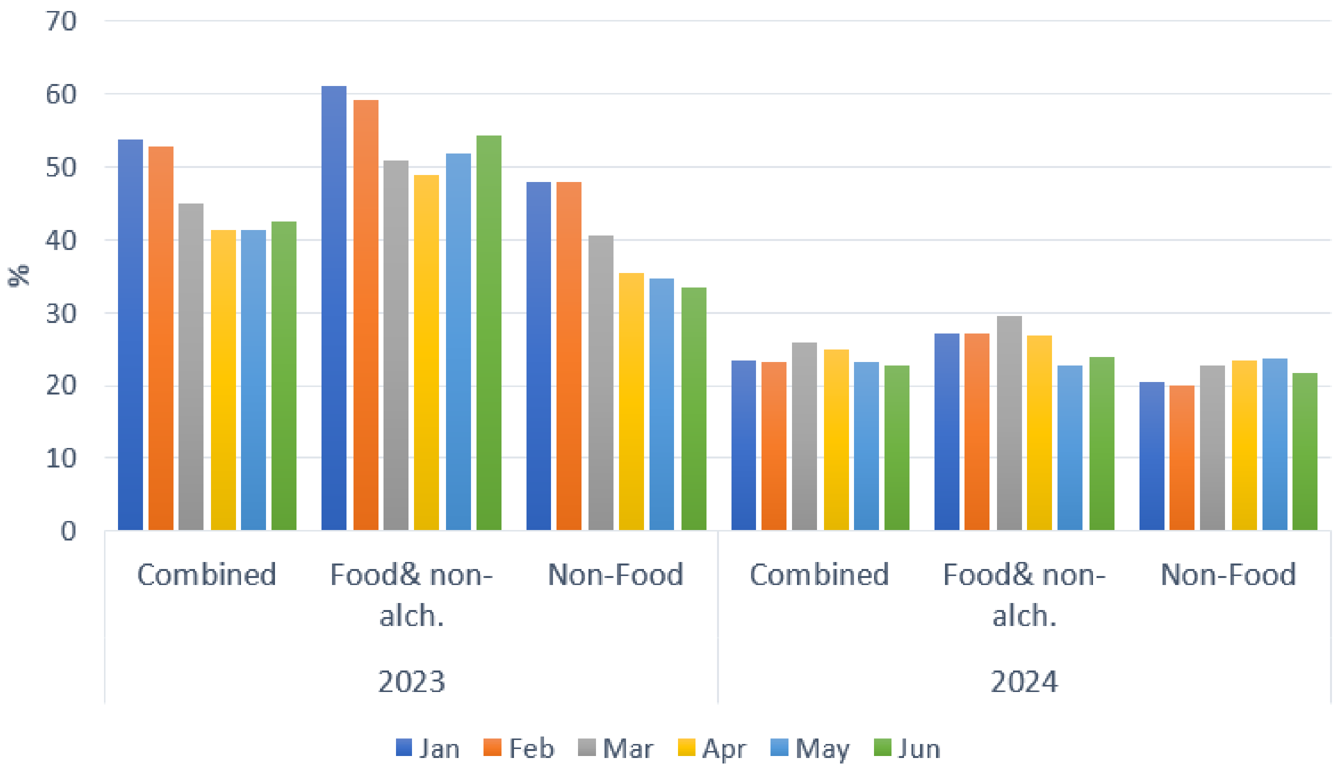
Monetary and Financial Sector Developments

Overall, the macroeconomic environment in 2024 has been favorable, as evidenced by various monetary and financial sector indicators compared to the same period in 2023. For example, we see relatively lower inflation rates i.e. average rate from January to June was 46.1% in 2023, compared to 23.9% in the first half of 2024. Additionally, the cumulative depreciation rates of the cedi were lower: For example:

- ¢ /$ (January – June) – 27.8% (2023) vs. 20.9% (2024)
- ¢ / £ (January – June) – 34.1% (2023) vs. 20.23% (2024)

There have been gains in Ghana Stock Exchange (GSE) market: the GSE Composite index grew by 2.8% from January to May 2023, compared to 19.9% growth in the same period in 2024. However, growth in total liquidity has slowed compared to the same period in 2023. Money supply saw slower growth relative to the same period in 2023: 34% in 2024 vs. 44.4% in 2023. This slowdown is mainly influenced by the relatively lower growth in Net Domestic Assets (NDA) in 2024 (22.5%) compared to same period 2023 (36.9%). Arguably, the positive development can be attributed to the IMF-ECF programme, which has compelled both the monetary and fiscal authorities to work within a certain fiscal and monetary space.

Figure 1: Inflation (Jan. – Jun 2023 & 2024)



Source: Compiled from Ghana Statistical Service

Inflation:

By June 2024, inflation was reported to have decreased to 22.8 percent, a significant drop from the peak of 54.6 percent, in December 2022.

However, compared to the inflation of 12.6 percent in December 2021, this figure is still high. This reduction has been attributed to tight monetary policies and fiscal consolidation efforts by the government. End-period headline inflation remains unchanged at 15 percent. Month-on-month inflation rates fluctuated in Q1 2024 but recorded consistent disinflation in Q2 2024. As in the preceding year, inflation continued to be driven by food inflation, averaging about 26%. This requires intensifying policies targeting supply-side factors. Achieving the end-period inflation target of 15% seems unlikely unless supply-side factors are adequately addressed, considering demand-side factors and given that this is an election year. Nonetheless, the medium-term target of 8% ± 2% in 2025 appears plausible.

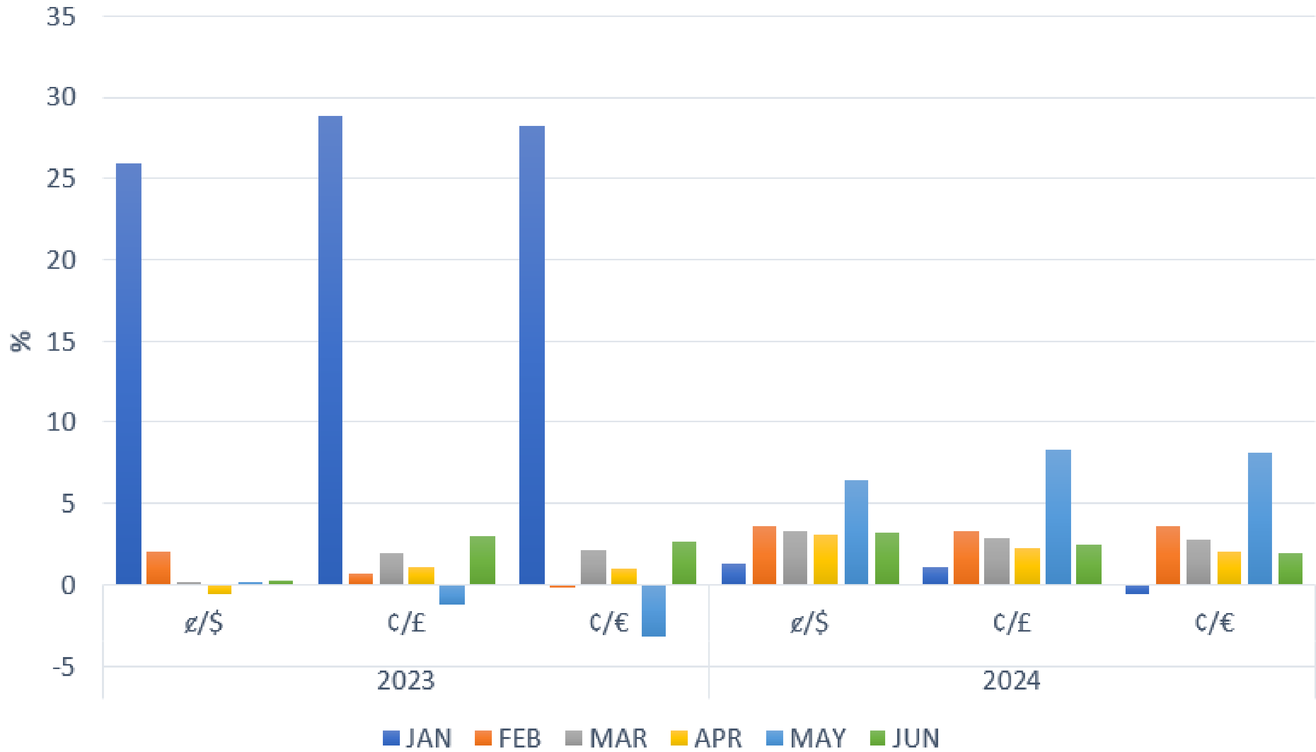
However, the government must examine the commodities driving inflation and commit to addressing the underlying factors. For instance, improving the road network in areas designated as the food basket of Ghana and reducing foreign exchange rates can help lower transportation costs and fuel costs, consequently reducing food and non-food inflation to single digits.

Exchange Rates:

In the first half of 2024, the Cedi depreciated by 18.6 percent, 17.9 percent and 16.0 percent against the US dollar, the Pound Sterling and the Euro, respectively In 2023, the Ghana Cedi depreciated by 27.8 percent, 31.9 percent, and 30.3 percent against the US dollar, the Pound Sterling, and the Euro, respectively. In 2022, the Ghana Cedi depreciated by 30.0 percent, 21.2 percent, and 25.3 percent against the US dollar, the Pound Sterling, and the Euro, respectively. This indicates some stabilization of the exchange rate over the past three years.

Aside from January, the Cedi was generally more volatile to the major foreign currencies (dollar, euro and pound) during the first half of 2024 compared to same period last year (see Figure 2). Even though the Cedi appeared to have been more volatile in 2024, the cumulative depreciation rates were relatively lower.

Figure 2: Interbank Exchange rate (Jan. – Jun.; 2023 & 2024)



> **It must be reiterated that the high exchange rate in Ghana has partly contributed to labour agitations, high cost of doing business and the collapse of some businesses while others relocated to more business-friendly countries.**
>
> **Going forward, the government must take steps to further reduce the rate of depreciation against the major trading currencies and simultaneously increase exports to reduce the demand for trade forex.**

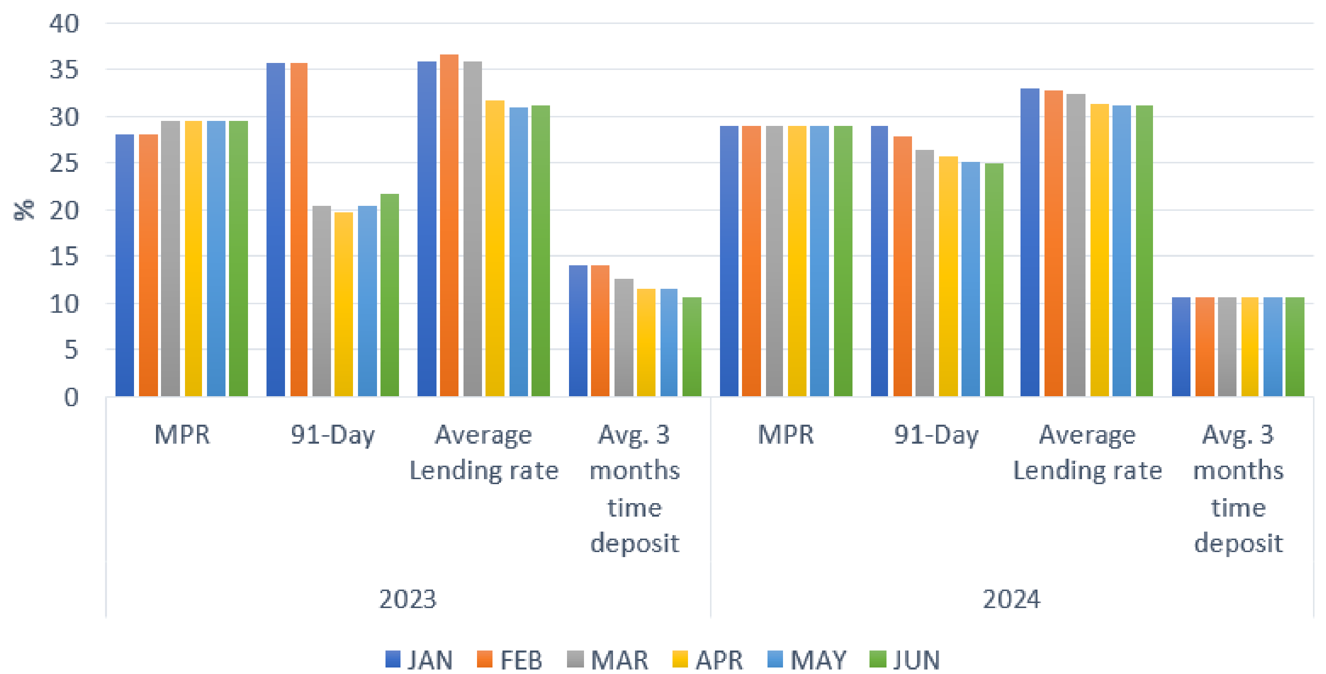
The recent policies by the central bank to enforce the forex regulations, in addition to having increased presence on the exchange rate market, should be intensified.

Interest rates

The monetary policy rate has remained stable at 29% throughout the year, following the Bank of Ghana's assessment of both global and domestic developments. There has been a consistent, albeit marginal, decline in the interest rate on 91-Day Treasury bills. However, there has been a slight rise in interest rates on long-term instruments, such as 4-year, 5-year and 15-year Government of Ghana Bonds.

The cost of doing business remains high, although the average lending rates during the reviewed period are marginally lower at around 32%, compared to approximately 34% for the same period in 2023. This has further repercussions on job creation and the survival of firms. The government's inability to honour interest payments on bonds in a timely manner and a possible lack of trust and confidence, especially due to the Domestic Debt Exchange Programme (DDEP), may be the underlying cause of the decline in subscriptions to Treasury bills in the first half of 2024. For instance, the haircut on domestic bondholders has eroded trust among many potential investors, who now prefer to keep their monies in personal savings account.

Figure 3: Interest rates



Fiscal operations

Total Revenue and Grants have been revised upward by 0.5 percent to GH¢177,220 million (17.4% of GDP) in 2024, from the 2024 Budget target of GH¢176,414 million (16.8% of GDP). This largely reflects an increase in Non-Oil Non-Tax Revenue which has been increased from GH¢14,837 million (1.4% of GDP) to GH¢15,638 million (1.5% of GDP) due to dividends from interest accrued in the ESLA accounts. Total Expenditure (commitment) has been revised downward by 2.1 percent, to GH¢219,749 million (21.5% of GDP) from the original budget projection of GH¢226,681 million (21.6% of GDP). However, total expenditure for the first half

of 2023 amounted to GH¢68,505 million (8.6% of GDP), 26.3 percent below the programmed expenditure of GH¢92,996 million (11.6% of GDP).
Despite a slight downward trend in expenditures, the significant increase in expenditure from 2023 is largely due to interest payments. The overall balance on commitment basis has been revised from a deficit of GH¢50,267 million (4.8% of GDP) to a deficit of GH¢42,529 million (4.2% of GDP). The primary balance on commitment basis is maintained at a surplus of 0.5% of GDP.

National Debt stock

At the end of December 2023, the provisional central government and guaranteed debt in nominal terms was GH¢608.4 billion, composed of ¢351.1billion in external debt and GH¢257.2billion in domestic debt. By the end of June 2024, the provisional total central government debt stood at GH¢742.0 billion (US$50.9 billion), equivalent to 70.6 percent of GDP, indicating an increase of 22.0 percent. This debt stock consists of GH¢452.0 billion in external debt and GH¢290.0 billion in domestic debt, representing 60.9 percent and 39.1 percent of the total debt stock, respectively. As a percentage of GDP, external and domestic debt represented 43.0 percent and 27.6 percent, respectively. The growth in the nominal debt stock was mainly attributable to continued exchange rate depreciation since 2022.

REAL SECTOR

Industry Sector

Industry has posted unimpressive growth records following the outbreak of COVID 19. In 2022, the sector grew by only 0.9% after posting negative growth rates in the preceding two years. It contracted again in 2023 with a negative growth rate of -1.2%. However, provisional growth data for the first quarter of 2024 showed that the sector grew by 6.8%, representing a major turnaround compared to the negative growth rate of -1.4% recorded in the same period in 2023. Indeed, industry outperformed both agriculture and services sectors, which recorded growth rates of 4.3% and 3.3%, respectively, in the first quarter of 2024. Growth targets for the sector in 2024 and for the medium term have been revised upward, anticipating stable and steady growth across all major subsectors.

Industry appears highly susceptible to macroeconomic instability, as evidenced by its growth records over the past four years in relation to other sectors, but thrives well in a stable environment. This indicates that government should be proactive in ensuring long-term macro stability, significantly contributing to the sector's resilience against to external shocks. Addressing the downturn in the electricity subsector, which recorded negative growth rates in the last two consecutive years (-3.5% in 2022 and -10.9% in 2023), is crucial, as the performance of the electricity subsector is pivotal to the fortunes of other industry subsectors (especially manufacturing) and the entire economy.
The government should however be commended for the following initiatives or ongoing programmes benefiting industry players:

A. **SME GO programme:** If well implemented, this initiative will benefit SMEs in industry, primarily involved in light or labour-intensive manufacturing, and help expand employment opportunities in the sector. According to the Minister for Finance, this initiative is "the largest SME financing initiative in the history of our country". While commendable, it calls for a proper monitoring and evaluation mechanism incorporating research and learning activities to ensure maximum benefits for the intended beneficiaries and the economy as a whole.

B. **Promotion of Electric Vehicles:** Steps to promote the development of electric vehicles in the country are positive but should be complemented with prudent investment in the electricity subsector to make electricity greener, more available, and affordable.

C. **1D1F Initiative:** The establishment of 211 new medium to large-scale companies, according to Government, is commendable. It would be beneficial to understand how these factories are performing and derive lessons to guide the government's objective of expanding the programme to the 261 districts not yet covered.

Agricultural Sector

Despite substantial efforts in training, infrastructure development, input supply, and strategic planning over the past few years, the fundamental question of food security, underscored by availability and accessibility, appears to be deteriorating. Rising food inflation has led to broad-based price hikes for vegetables like tomatoes, other cereals and grains, and fish and fish products.
Major farm infrastructure developments include:

- Commencement of 3550ha of irrigation infrastructure in economic enclaves within Afram Plains.
- Ongoing Phase III extension of the Tamne economic enclave and rehabilitation of the Vea irrigation scheme.
- Clearing of 450 acres of land for crops and animal husbandry in Banda, along with 40km of access roads.
- Construction of 13 small earth dams and development of about 313ha of irrigable area from nine irrigation sites in the northern regions.
- Review of the Planting for Food and Jobs (PFJ) initiative to an input credit system, with the Ghana Agriculture and Agribusiness Platform (GhAAP) developed to facilitate coordination and management of PFJ 2.0.
- Enrollment of 261 district extension officers and directors, including over 2,590 agriculture extension officers, on the platform.
- Assignment of 115 aggregators, comprising 46 District Department of Agriculture and 69 private aggregators, to various districts nationwide to coordinate input delivery and recovery of harvested produce.

Table 2: Services sector 2023: Real Growth Rates of sub-sector

Activity/Year	2017	2018	2019	2020	2021	2022*	2023*
ALL SERVICES	3.4	2.8	7.6	0.7	9.4	6.3	5.5
Trade, Repair of Vehicles, Household Goods	8.2	2.8	3.7	-2.9	6.3	1.3	0.3
Hotels and Restaurants	7.6	3.2	6.0	-37.0	4.7	0.0	4.1
Transport and Storage	8.9	1.1	4.3	4.1	7.2	4.0	5.6
Information and Communications	4.2	13.1	46.5	21.5	31.7	21.2	18.0
Financial and Insurance Activities	-17.7	-8.2	1.6	9.3	2.4	9.8	2.9
Real Estate	3.8	-6.5	19.9	11.7	8.9	-3.9	4.1
Professional, Administrative and Support Services	2.9	0.3	5.1	-6.2	10.8	-7.8	4.2
Public Administration and Defence, Social Security	4.2	4.3	3.7	10.0	25.5	6.1	4.5
Education	6.3	3.9	9.4	7.8	-3.9	10.2	4.4
Health and Social Work	14.1	22.6	10.4	5.9	7.6	9.2	8.3
Other Service Activities	5.3	3.1	2.6	-17.2	11.1	-1.3	3.9

**Provisional; Source: Mid-year Budget Review (2024)*

Despite significant government support for the agricultural sector, the required transformation is yet to be seen. It is essential to ensure that value chain actors targeted by government interventions have the necessary resources and capabilities to implement projects successfully. Real-time monitoring and evaluation should be a primary function of the important and primary function of the Ministry of Food and Agriculture (MoFA) at the district level to promote actions that ensure success.

Services Sector

The sector continued to dominate in 2023, with its share of GDP remaining unchanged from 2022 at 45.6%. The growth rate of 5.5% in 2023 is lower than the 6.3% in 2022.

The sector's relatively slower growth in 2023 is largely due to the general slowdown in 6 out of the 11 subsectors; however Hotels and Restaurants recorded a positive rate of 4.1%, compared to 0% in 2022. ICT remains the best performing subsector, though its growth rate has declined in 2022 and 2023, potentially due to the increasing cost of data. The growth rate of 4.5% for Public Administration & Defense, Social Security in 2023 is the lowest since 2020. The services sector is expected to grow at 3.2% in 2024, 3.8% in 2025 and 4.8% in 2026. The sector is expected to benefit significantly from the recent IMF tranche and continue to show resilience, serving as a backbone for overall economic growth.

Based on the above external sector development we make the following recommendations:

- Diversification of export destinations: Encourage and support businesses to diversify their export destinations beyond traditional markets. This is crucial for spreading risk while reducing dependency on a few markets
- Promotion of export-oriented industries: Incentivize and support industries that have high export potential through realistic tax breaks, subsidies for innovation, and assistance with market access.
- Enhancement of trade infrastructure: Invest in improving trade-related infrastructure such as ports, airports, roads, and customs facilities. Efficient infrastructure is likely to reduce transaction costs and improve the competitiveness of exports.

3 CONCLUSIONS AND OUTLOOK

Based on the half-year 2024 performance and the policies espoused in the midyear budget, we recommend the following:

GDP Growth and Employment

- Ghana's economy has been resilient and projected to grow at a modest rate of 3.1% in 2024 based on the PC-PEG initiatives of government. While unemployment, especially youth unemployment, remains a major concern, the various taxes and levies affecting businesses were expected to be consolidated in the mid-year review. A 15% VAT coupled with other levies makes the country an unattractive destination for business. We strongly encourage government to consider streamlining taxes and improving the enabling environment for the private sector to flourish and create the needed jobs to reduce youth unemployment.
- While per capita income has increased from US$1,979 in 2016 to US$2,365 in 2023, widespread inequality remains. Rising food prices and cost of living has affected the working class with its inherent livelihood challenges. We recommend accelerating economic growth while implementing better policies to redistribute income.

Fiscal

- To increase revenue from the extractives, all existing companies whose stability agreements are expiring, and new entrants will have to revise their agreements to increase the revenues that Ghana receives and ensure that the new agreements are easy to monitor. Efficient tax collection measures should be deepened in order to minimize the introduction of new or higher taxes, which overburdens the private sector thereby making them uncompetitive globally.
- Harmonize the number of government agencies operating at the ports to reduce the human interface and revenue losses, thus reducingrent-seeking activities by personnel collecting revenues at the port. This can also be achieved by rotating personnel stationed at the ports every two years. Additionally, GRA staff should complete asset declaration forms and not engage with or establish firms involved in clearing services until five years after retirement. The ports are major sources of revenue, and sealing leakages can significantly shore up the Tax GDP ratio.
- Review and monitor existing tax incentive packages on corporate income tax in all sectors of the economy, aiming toremove the exemptions from firms unable to create jobs and or generate forex inflows from their exporting activities.
- If any tax incentives are given to FDI/MNCs, they should be for firms partnering with local firms,where the equity of local partners is at least 40%. This will increasingly support local entrepreneurs in partaking in the profits made by FDI /MNCs in Ghana.
- Continuously evaluate the governance and efficiency of government subsidy programmes to ensure that they reach their intended target.
- The government should continue curtailing extra-budgetary spending and the accumulation of arrears by MDAs/MMDAs through the use of the GIFMIS platform for every transaction.
- Procurement audits should be instituted to ensure value for money in all government procurements

Debt

- The government should fulfill its promise to support banks and other private sector corporate institutions adversely affected by the DDEP to minimize its costs.
- The government should engage with bilateral and multilateral institutions to access cheaper funds while reducing reliance on expensive capital market funds. Guidelines should be established to clearly state the optimal proportions or ceiling on each type of debt.
- Review the fiscal responsibility law to include legislation of a debt ceiling to ensure deficits and debt are contained within sustainable thresholds
- Build up the existing Sinking Fund to ensure sufficientfor repaying restructured domestic and international debts when they fall due.

Monetary

While the Bank of Ghana has been striving to ensure price stability and enforcing foreign exchange regulations, we recommend the following:

- Effective monetary and fiscal policy coordination is needed to support macroeconomic stability and growth. The Bank of Ghana and fiscal authorities should strengthen their partnerships and institutional coordination with global and regional financial and economic institutions, development partners, and the private sector to unlock resources to catalyse and sustain economic recovery. Policies and actions should be coordinated to stabilize prices, the exchange rate, and support banks in reducing the cost of credit to the private sector.
- The central bank and the fiscal authorities should ensure that the Development Bank of Ghana provides a cheaper source of funding to the agricultural and light manufacturing sectors to support higher value addition. This will significantly enhance local industry's ability to produce import substitutes and improve

export competitiveness.

- Assess the size of the informal forex market and institute efforts to reduce its dominance and activities that drive exchange rate instability. The Bank of Ghana, in collaboration with law enforcement agencies, should clamp down on unregistered and unregulated businesses.

The Real Sector

- Funds to support SMEs should target those involved mainly in higher value addition in the agriculture (agro-processing), light manufacturing, hospitality, tourism, ICT, digitalisation and wholesale and retail trade of domestically produced goods/products. This ensures funds are not used by retailers and wholesalers for imports.
- Distribute funds based on existing database of SMEs to prevent newly set-up SMEs with no track record from accessing to the funds at the expense of existing SMEs with track record of higher value addition.
- Disburse funds through financial institutions, including development banks, to ensure they are used for the intended purpose, guaranteeing repayment and sustainability.
- Continue utilizing digital technology and other initiatives to create a business-friendly environment that attracts domestic and foreign investors and capital into the critical labour-augmenting and high growth sectors, including agro processing, light manufacturing, tourism, hospitality and ICT.