MID-YEAR REVIEW OF THE BUDGET STATEMENT & ECONOMIC POLICY & SUPPLEMENTARY ESTIMATES OF THE 2020 FINANCIAL YEAR

REVIEW

BY

INSTITUTE OF STATISTICAL, SOCIAL AND ECONOMIC RESEARCH (ISSER)[1]

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[11] Prepared by: Prof. Peter Quartey, Prof. Augustin Fosu, Dr. Fred Dzanku, Dr. Ama Pokuaa Fenny, Dr. Festus Ebo Turkson, Dr. Richmond Atta-Ankomah, Dr. Andrew Agyei-Holmes, Dr. Ralph Armah. We are grateful to Agricultural Development Bank (ADB) for sponsoring the Launch of this dialogue.

1. INTRODUCTION

Senior Colleagues and staff, distinguished members of the press, ladies and gentlemen. It gives me great pleasure to present on behalf of the ISSER team, the Institute's comments on the Mid-Year Review of the Budget Statement 2020 and Supplementary Estimates, which was presented to Parliament by the Hon. Finance Minister. The review will be in three parts: first, a review of global trends in 2019 and half year figures for 2020 which will inform the discussions on the possible repercussions on Ghana's economy especially in the midst of COVID-19. This will be followed by an assessment of key targets and outcomes of the mid-year policy initiatives to stimulate the economy from severe recession resulting from the effects of COVID-19. The final section provides our concluding remarks.

Global developments

Similarly, global growth is projected at -4.9% in 2020, from the 2.9% rate in 2019. "This is as a result of the COVID-19 pandemic, which has had a more negative impact on economic activity in the first half of 2020 than expected. It has rapidly intensified in a number of emerging market and developing economies, necessitating stringent lockdowns and resulting in even larger disruptions to activity." (IMF, World Economic Outlook, June 2020 Update). **Sub-Saharan Africa is projected to contract by 3.2 percent** (1.6 percentage points worse than what was forecasted in April 2020).

2. ASSESSMENT OF THE MID-YEAR REVIEW OF THE 2020 BUDGET STATEMENT

Ghana's GDP grew by 6.5% in 2019, a slight increase from the 6.3% in 2018. **The rate is, however, expected to decline to 0.9% in 2020**. The initial projected growth rate of 6.8% for 2020 was revised to 0.9% due to the impact of COVID-19. **Similarly, oil GDP is expected to grow at 1.6% in 2020, from the 5.8% in 2019, while non-oil GDP growth has been revised from 6.8% to 1.6%**. Both overall real GDP and non-oil GDP grew by 4.9 % in the first quarter of 2020. (MoF, 2020 Midyear Budget Review Statement)

The IMF projected growth rate for Ghana is 1.5% in 2020, a decrease from 6.3% in 2019. These rates are, respectively, higher than the overall SSA averages of 3.1% in 2019 and -3.2% in 2020. According to the IMF, the decline is attributable to a weaker external environment and measures to contain the COVID-19 outbreak. Meanwhile, Ghana's real GDP per capita is projected to contract by 0.5% in 2020, from a rate of 4.0% in 2019. (IMF, SSA Regional Economic Outlook, June 2020 Update). **The 2020 mid-year budget puts Ghana's expected growth rate in 2020 at 0.9%.**

Thus, Ghana appears to outperform both SSA and the world on growth (**Global growth -4.9%; SSA -3.2%**). Not only is its GDP growth above the SSA's and the world's, but also the anticipated deterioration in its growth performance, as bad as it is, is actually less severe than that of SSA or of the world generally.

2.1 The Fiscal Sector

The 2020 Mid-Year Review and Supplementary Budget was anchored on the vision of the Government to protect jobs and businesses in the midst of the COVID-19 pandemic. Much of the review was centered on fiscal developments and policy indicatives in response to the effect of COVID-19 pandemic which was first reported in Ghana on the 12th March 2020.
Fiscal developments within the first half of 2020 showed revenue underperformance and excessive (i.e. relative to target) expenditure, which ultimately led to a higher fiscal deficit of 6.3% of GDP as against the projected target of 3.1% for the first half of 2020. The primary balance which was programmed to be a deficit of 0.01% of GDP turned out to be at 3.3% of GDP.

Half-year Estimates: The total revenue and grants shortfall of GH¢7,752 million was 26% below the expected programmed amount of GH¢29,759 million. This shortfall was accounted for by the shortfall of GH¢3,229 million from non-oil tax revenue, GH¢1,155 million from non-oil non-tax revenue and GH¢ 2,475 from oil revenue. **The expenditure over-run of GH¢4,799 (i.e. actual of GH¢46,352 million against the programmed of GH¢41,554) was mainly as a result of COVID-19 related expenses**. With the exception of grants to other government units, all major expenditure line items exceeded their targets for January-June 2020. **Though it is Refreshing to note that capital expenditure exceeded target by 7% but wages and compensations exceeded target by 13% while goods and services exceeded target by 17%**

To mitigate the negative impact of the pandemic on the economy of Ghana, the government indicated its intention to pursue fiscal measures aimed at protecting jobs and businesses for the second half of 2020 and beyond.

Estimates for 2020: Updated fiscal estimates from the reviewed budget for 2020 indicate that revenues in 2020 will fall short of the budgeted by GH¢13,632 million, an equivalent of 3.5% of GDP. This is expected to arise from a GH¢5,257 million loss of petroleum revenue (1.4% of GDP), non-oil tax revenue shortfall of GH¢5,108 million (1.3% of GDP) and non-tax revenue shortfall of GH¢3,286 million (0.85% of GDP). Expenditures are expected to increase by GH¢11,660 million, representing 3.0% of GDP, and this is expected to arise mainly from COVID-19 Preparedness & Response Plan, Security, Elections, provision of Health Infrastructure, Coronavirus Alleviation Programme, Capitalization of National Development Bank and payment of outstanding claims.

The pandemic cost in addition to the cost of elections, security, outstanding claims and capitalization of the National Development Bank (Cost equivalent of 3% of GDP) and the revenue shortfall of 3.5% of GDP means that government has an additional financing need of almost 6.5% of GDP. **Thus, given the initial pre-COVID-19 programmed fiscal deficit of GH¢18.881 million (4.7% of GDP), the government revised the fiscal deficit (on cash basis) to GH¢44.1 billion (11.4% of GDP).**

Apart from the tax reliefs to households and businesses (including waiver of income taxes on third-tier pensions and personal emoluments of all health workers from April-September 2020, waiver of VAT, NHIL and GETFund levies on donations of equipment and goods for CONVID-19, etc.) the government announced the following COVID-19 mitigation measures among others for the second half of 2020 and beyond:

- Three (3) months of free water for households and commercial consumers and free electricity supply to lifeline consumers. This was after the 3 months of free water and 50% Electricity subsidy of a cost of GH¢1.02 billion for all from April to June 2020.
- A GH¢2 billion Guarantee Scheme is to help businesses to access loans from banks at affordable rates in order to retain jobs and to save businesses
- Reduction of the Communication Service Tax from 9% to 5%
- An increase in the CapBuss Programme by GH¢100 million (already GH¢600 million is being disbursed to micro and mall enterprises) to facilitate credit to small enterprises of which GH¢30 million to support the Creative Arts, and the Media.
- Plans to support households in very poor communities in the 80 districts (awaiting findings from a survey by ISSER)
- A GH¢100 billion Ghana COVID-19 Alleviation, Revitalization, and Enterprise Supports (CARES) development initiative for 2021-2023, intended to stabilize and revitalize the economy back to its robust growth path by 2024

On the fiscal sector, we make the following observations: First, the above fiscal measures and initiatives to contain the negative impact on the economy of Ghana are **achievable but this will greatly depend on the extent to which Ghana is able to contain the spread of the virus and return economic activities to some semblance of normalcy**. Indeed, after the mid-year review, the President has announced further relaxation of some of the initial restrictive measures to contain the spread of the virus. A further easing of the remaining restrictions will in no doubt positively impact on the fiscal estimates for the rest of the year.

Secondly, while the government has indicated how it will finance the fiscal gap, the sources of financing as indicated in the **budget falls short of the gap of GH¢25,193 million**. Indeed, the new financing that will be raised this year to "take care" of the gap amounts to about GH¢19,906 million[2], **indicating a shortfall of GH¢5,287**. Given that the government has indicated it will raise GH¢17,350 million from domestic sources and GH¢7,843 million from external sources, it looks more certain that **the shortfall of about GH¢5.3 billion will be raised from domestic sources**.

Thirdly, the Ghana CARES programme though laudable, its funding and sustainability is yet to be fully detailed. Thus, there is the need for government to outline the framework for raising the funds, given that government will be contributing GH¢30 billion with the remaining GH¢70 billion being raised by the private sector. How does government intend to attract the GH¢70 billion investments from the private sector, given that the private sector is equally struggling with the negative effects of the pandemic? Which sectors will be the focus of the recovery and what are the modalities for supporting businesses especially large-scale firms?

Fourth, should we rather focus more on how to enhance efficiency in revenue collection as well as <u>expenditure tracking of COVID-19 related expenditures</u> rather than the size of the deficit? Other countries are equally recording such high budget deficits. In South Africa,

[2] See page 88, paragraph 437 of the 2020 Mid-Year Fiscal Policy Review and Supplementary Estimates.

"the narrow measure of the budget deficit for 2020/21 has, as a result of COVID-19, shifted from 6.8% of the gross domestic product (GDP) to 14.6% of GDP"

2.2 Monetary and Financial Sector

As a custodian of monetary policy, the Bank of Ghana (BoG) announced complementary measures to the government's fiscal response. In an initial response to the impact of the crisis on the Ghanaian economy, the Bank of Ghana reduced the policy rate by 150 basis points to 14.5 percent. The central bank further announced a raft of measures including the following:

- Deferment of interest payments on non-marketable instruments with BoG to beyond 2022
- Reduction in primary reserve requirement from 10 percent to 8 percent for banks and micro finance institutions. The corresponding reduction for savings and loans companies, finance house companies and rural banks is from 8 percent to 6 percent.
- Reduction of interest rate on Ghana Reference Rate by 200 basis points
- Reduction of interest rate on short term instruments by 200 basis points, which saves interest payment by government of up to GH¢300 million
- Lowering of costs for mobile money transactions
- Purchase of a GH¢5.5 billion Government of Ghana COVID-19 relief bond with a 10-year tenor

The mid-year budget review further indicated a provision of a syndication facility of GH¢3.0 billion by government through the central bank to support industries, in the pharmaceutical, hospitality, service and manufacturing sectors. While this is laudable, this support should be extended to actors along the agricultural supply chain in order to ensure that both demand and supply sides of the economy grow simultaneously to avoid (or minimise) any possible inflationary pressures.

Clearly, inflation in the last few months has been driven by food and non-alcoholic beverage component of the consumer price index; following the anxieties during the early days of the covid-19 pandemic. One cannot forecast with certainty that Ghana's worst days with the pandemic are over. It is therefore unclear if the mid-term inflation of $8 \pm 2\ percent$ can be achieved at the end of the year. While being hopeful that the central bank can work towards achieving this target, a lot now depends on the government.

The various covid-19 related stimulation packages are good but these may lead to demand pull inflation if not accompanied by an equivalent growth in the supply side. Government must therefore tactically revamp the agricultural sector and minimize the food supply chain challenges, particularly to the country's major cities.

Finally, in the medium-term, the revised estimates in the mid-year budget review projects an increase in revenue from crude oil as a result of increased oil production. While it is good to be optimistic, with the current global uncertainties and the just ended price war between South Arabia and Russia which resulted in massive decline in crude oil prices (about 65% quarterly fall), government has to be cautious with projections based on revenues from oil production since reoccurrence of similar events in the future is possible. Such developments undoubtedly have some repercussions on the stability of the local currency to other foreign currencies.

2.3 External Sector

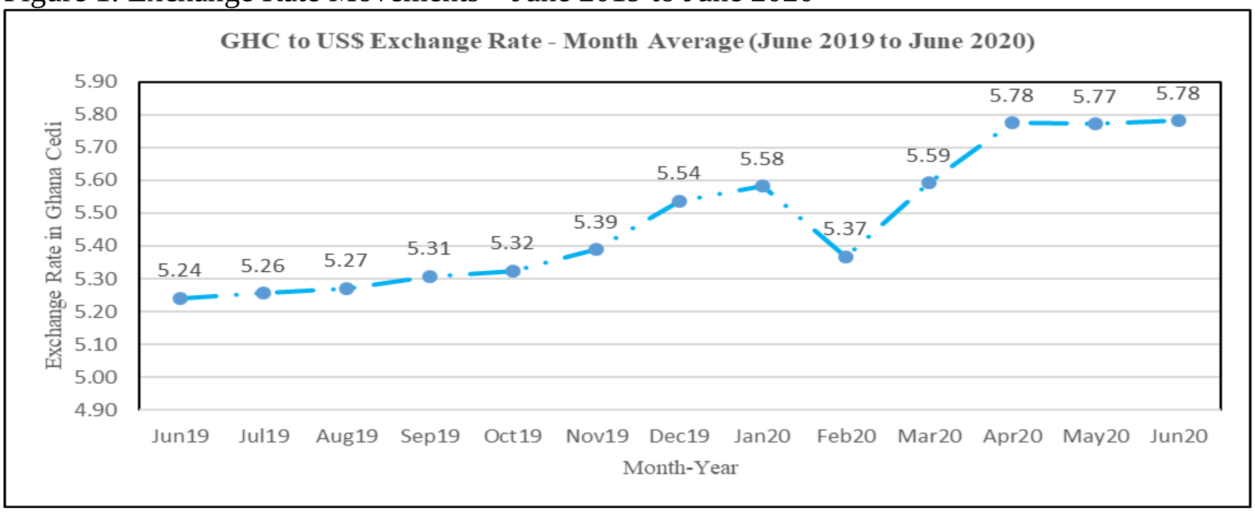
Debt

The COVID-19 related expenditures and the frontloading of government's fiscal operations resulted in the need for increased financing for the first half of 2020, and this increased the debt stock from GH¢217,990.7 million (US$39,344.2 million and an equivalent of 63% of GDP) to GH¢258,372.8 million (US$45,566.81 million) an equivalent of 67% of GDP.

Ghana is at risk of high distress and should develop more efficient way of raising revenue rather than resorting to further borrowing.

Exchange Rate Movements

Figure 1: Exchange Rate Movements – June 2019 to June 2020



Source: Bank of Ghana, 2020 and Exchange-rates.org, 2020.

For the first half of the year in 2019, the monthly average interbank exchange rate between the Ghanaian cedi the US dollar hovered at just about GH¢5. As shown in Figure 1, the rate climbed up towards the end of 2019 in tandem with the usual demand pressures on the US dollar towards the end of the year, as the Christmas festivities kick in. As expected, the rate of depreciation of the cedi slowed down at the beginning of January 2020, reflecting the seasonal bearish sentiments that characterizes the Ghanaian market at that time of the year. The impact of the COVID-19 pandemic and the attendant government response, beginning with the travel restrictions and lockdown measures in March 2020, has translated into unusual pressures on the exchange rate. This stems particularly from the deterioration in the current account balance position. **It must be stated that the Cedi's performance has been relatively stable despite the pandemic.**

2.4 Agriculture

In the last three years, government's anchor strategy for agricultural transformation has been the Planting for Food and Jobs (PFJ) initiative. The mid-year budget review suggests an investment of GH¢1.85 billion (about $320 million) in the agricultural sector since 2016. GDP growth averaged 5.2% per year over the same period. **However, since we neither know what would have happened in the absence of the reported investments nor the details of these investments, a thorough assessment is required to understand whether these investments yielded optimum returns**.

The second quarter growth estimates are useful for judging the robustness of the sector to the negative impacts of the pandemic. The agricultural sector growth projections for 2020 which have been reviewed downward by 1.4 percentage points overall (5.1% to 3.7%) is a testament to the expected negative impact of the pandemic on the sector. The forestry subsector is expected to be the hardest hit as zero growth is expected instead of 3.1%; this is followed by fisheries projected to grow 1.7 percentage points less in 2020 (down to 0.5% from 2.2%).

Given that import and distribution of inputs such as agro-chemicals and seeds were affected by global and national movement restrictions, we expect production, prices and consumption to be affected. The COVID-19 crisis could serve as an opportunity for domestic production of agro-chemicals, particularly given that the oil industry could potentially provide input into such agro-chemical industries.

First quarter of 2020 showed that the inflation situation worsened, and this was attributed to deterioration in food prices[3] resulting from panic buying episodes prior to the lockdown in March and closure of major markets for fumigation to be undertaken. Consequently, food inflation worsened in April 2020, with vegetables for instance recording as high as 37%. This suggests that it is not enough to produce food but also extremely critical to address issues of distribution and consumer expectations in a way which takes into consideration the new challenges brought to fore by COVID-19.

Movement restrictions during the lockdown period curtailed the normal activities of market queens and middlemen/itinerant buyers who went to production centres to aggregate food for distribution. First, it will be important to look at how **ICTs can be harnessed to facilitate the activities of these middlemen so that even without physical movement to production centres they can still place orders and get products delivered to distribution centres**. Second, a conscious effort to manage consumer expectations about supply side dynamics will be key. With adequate production and stocks, it will be critical to educate consumers so there is minimal need to hoard food produce.

Ultimately, beyond the education of consumers is the need to develop **formal infrastructure to deal with food storage and distribution**. A subject matter which Ghana is seeking to address using the National Buffer Stock Company (NBSC) and Ghana Commodities Exchange (GCX). It is therefore a welcoming news to know that the government intends providing financial support to the NBSC and GCX to enable them store and trade stocks as needed to smoothen out supplies on

[3] Food inflation was over 14% at the end of the first quarter in 2020.

the market. What we are not sure of is how quickly these resources would be made available to them. This point is made with hindsight that it took nearly ten years to set up the GCX. With COVID-19 pressures and limited sources of financing, it will take extreme commitment on the part of government to make the promised investment.

Finally, although Ghana is self-sufficient in many food staples, there are significant domestic supply gaps in rice. Even though the environmental conditions can support self-sufficiency in production of rice, there are critical gaps in terms of input markets, market linkages and credit facilities. It is therefore in good faith that the mid-year budget review targets aggressively facilitating access to financing for rice millers to enable them to purchase paddy from rice farmers. Although this could encourage producers to expand their activities and ultimately output, direct financial support to producers to encourage irrigation and land preparation for water management will be key.

2.5 Industry

Before COVID 19 emerged, industry was projected grow at 8.6% in 2020. Growth projection for sector in 2020 has been revised to a meagre 0.8%, indicating the low resilience of the sector to the shocks from COVID 19 Pandemic. The large cut in growth projection is based on projected downturns in all major subsectors of industry. **Oil and gas subsector is however projected to have the highest negative impact, with growth projection for 2020 slashed from 7.3% to negative 7.7%**. Due to the industry's relatively high integration into the global economy, particularly by way of trade (i.e. exports and imports of manufacturing inputs), it was a sector that most quickly felt the impact of the COVID 19: The 2020 first quarter sectoral growth for industry was 1.5%, compared to 8.4% for the same period in 2019, while both the services and agriculture sectors recorded higher growth rates in 2020 quarter one (1) than in 2019 quarter one (1).

The 2020 Mid-Year Budget Review put forward a number of policies to bring about stability and recovery of the sector. While the majority of the policies appear general in that they are focused on the broader business community, there are many aspects that matter for industry. These include:

- Expanding support to the millions of Ghanaians in the micro, small, and medium-sized enterprises (MSMEs) sector by increasing the funding to the CAP-BuSS Programme being run by NBSSI.
- Facilitating access to financing for rice millers to enable them to purchase paddy from rice farmers.
- Pledging to pay government's outstanding obligations to contractors and suppliers, to inject liquidity into the system and ease the cash flow difficulties of businesses.
- Build on government's initiative of sourcing from local pharmaceuticals and textile & garment sectors and expand procurement from local producers for its goods and services as far as practicable.
- Proposal to complement the CAP-BuSS programme with another one that focuses on large businesses.
- Proposal to establish a Credit Guarantee Scheme of up to GH¢2.0 billion to enable businesses to borrow from banks at more affordable rates and at longer tenor.

- Proposal to build 88 new district hospitals and other health facilities.
- The medium term programme - Ghana CARES programme.

While only a few of the measures specifically target firms in Ghana's industrial sector (which consist of mining & quarrying, manufacturing, construction, electricity, water and sewerage), they still stand to benefit directly from all the policies and/or indirectly through the general expansionary impact the measures will have on the business environment.

It is however crucial to intimate the fact these measures need to have more focus on or prioritize businesses or industries that rely significantly on local inputs (e.g. agro-processers) in order to deepen the multiplier effect locally and speed up the stabilization and recovery process. To this end, the decision to facilitate access to financing for rice millers, for example, is a highly welcome one given the strong linkage the activities of rice millers have with agriculture. Such a strategy will help to significantly develop local productive capacities along value chains in the long term and build resilience particularly against external shocks.

Under 1D1F, 232 projects are at various stages of implementation. Among these, 76 are completed and operational. The rest, which includes five (5) medium-size agro-processing factories, are under construction. Only 33% of 1D1F projects completed, indicating that attracting private sector participation in these programmes at the required speed has been problematic. Need to develop attractive and flexible PPP arrangements

2.6 Services

The Services sector continues to show positive growth rates, with a growth rate of 9.5% in the first quarter of 2020 compared to 7.2% during the same period in 2019. It is reported that growth in the sector during the period was largely driven by performance in the Information and Communication sub-sector (46.5%) as compared to what was seen in the previous year (37% in 2019). This is not surprising with the impact of the COVID 19 and the need for remote working and online schooling.

Developments in the Social Sector

In the government's bid to achieve the President's Ghana Beyond Aid vision amidst mitigation efforts to combat COVID 19, there is continuous implementation of its flagship programmes to preserve livelihoods. Significant investment in these initiatives have intensified and could signal a positive outlook for the growth in the services sector.

Education

At the secondary level, the much touted 'Free SHS' will see the first batch of students writing their final exams and progressing on to tertiary level. The education sub-sector is therefore expected to continue growing and remains the main driver of the government's social programmes. Its associated boarding infrastructure (especially feeding at school) and investment in physical infrastructure have seen appreciable developments over the last few months. This also includes the Ghana School Feeding Programme (GSFP) which was extended to reach 2,980,000 pupils in deprived communities during the first quarter of the year. Between the two programmes, we see massive investments to provide opportunities for the youth in the country. **However, there**

are still questions about the employability of youth graduating from various levels of the education system and our ability to drive up quality education and learning outcomes.

Health

Prior to the COVID 19 pandemic, all regions were expected to have **developed Emergency Preparedness Plans** and established functional Rapid Response Teams (RRT) to improve upon emergency preparedness and service delivery at all levels. However, there are clear gaps in this preparedness as many regions have shown the inexistence of infrastructure to support the mitigation efforts of the Government in this pandemic. **It is expected that the "Agenda 111" initiative which will allow for the establishment of 111 new hospitals in districts and regions without these facilities, will close these gaps**. Again, the infrastructural investment will require short to medium-term investment in the training of health personnel to manage these facilities. Strengthening the health system should be at the core of government's efforts as the country like many others around the world, make efforts to revamp economic growth.

Transportation Services

The 2020 budget projected a major boost to the road sector, declaring 2020 as "The Year of Roads". It is clear, that these road developments have not been abandoned with a number of the major road projects completed, and many others still in progress. Reprioritizing funds from the transport sector at this time could have been seen as expedient but the argument is that many of these projects had seen substantial progress prior to the outbreak of the pandemic. **The question is whether the `Year of Roads' programme will not be short changed given the revenue challenges.**

Information, Communication and Technology (ICT)

One of government's cardinal principles in its economic transformation is to formalize the economy by leveraging on technology to improve administrative systems, increase transparency, and improve effectiveness and efficiency in service delivery. The National Identification System is expected to provide an integrated national database when completed. In the 2020 Budget, the government was expected to deploy about 103 telephony sites in various communities across the country to provide voice and data communications to 400 communities and over 200,000 people. The pandemic has revealed huge inequalities in access to technology as workers and students were expected to work from home or join online schooling programmes. How can the government ensure that each citizen is part of this digitisation drive? There are opportunities to involve the Telcos in close partnership with the government to achieve these milestones. **In the short term, it is noteworthy to observe government's plan to reduce the Communication Services Tax (CST) from 9% to 5%. This will reduce the cost of communication services to consumers and enable young entrepreneurs who rely on the digital services to promote and drive their activities. Also, the need to do undertake more activities using virtual means requires lower cost of data to facilitate economic activities.**

Tourism

As expected, the tourism sector has been one of the hardest hit with the outbreak of the COVID 19 pandemic. In 2019, the government sought to leverage on the tourism sector to create additional source of domestic revenue mobilization. Many tourism enterprises were licensed and expected to expand the scale of their operations. In spite of investments in this sector, local tourism continues to suffer as some of the mitigation efforts imposed by the government have deterred many from using their services. Whether the sector will see an improvement, will depend on how much the country is able to contain this current health crisis. **However, there could be a glimmer hope as Ghanaians adopt and develop taste for local tourism especially with the closure of international borders. The 30 million stimulus package could go a long way if well implemented.**

2.7 Roads

Year of Roads – Several roads have been earmarked for construction and they are at different stages, ranging from contract stage to completion. It is not clear how government will find the money to complete these projects given that we are 4 months to the end of the year and struggling to meet revenue targets.

3. CONCLUSION

The 2020 mid-year budget shows that GDP growth is expected to fall to 0.9% in 2020 and this could have repercussions on economic activities ie employment and livelihoods. Need for targeted support in terms of access to cheap credit with flexible payments terms to stimulate growth. We also make the following observations:

- The fiscal measures and initiatives outlined to contain the negative impact of COVID-19 on the economy are achievable but greatly depends on the extent to which Ghana is able to contain the spread of the virus and return economic activities to some semblance of normalcy.

- While the government has indicated how it will finance the fiscal gap through domestic and external sources. Given that businesses are already recording lower activities; it is unlikely government will be able to raise enough from domestic sources. Borrowing from external sources could also saddle the public purse with future interest payments. There is little discussion on revenue efficiency ie how do we transform our local institutions to enhance revenue mobilization rather than borrowing?

- The achievement of the fiscal targets for the year (for instance international trade revenue taxes as well as VAT on imported supplies) will also depend on the extent to which Ghana's major trading and development partners are able to contain the pandemic and how soon a vaccine is found.

- The Ghana CARES programme though laudable, it's source of funding and sustainability is yet to be fully appreciated. How does government intend to attract the GH¢70 billion investments from the private sector, given that the private sector is equally struggling with the negative effects of the pandemic? Which sectors will be the focus of the recovery and what are the modalities for supporting businesses especially large-scale firms?

- **Should we rather focus more on how to enhance efficiency in revenue collection as well as <u>expenditure tracking of COVID-19 related expenditures rather than the size of the deficit</u>? Other countries are equally recording such high budget deficits. In South Africa, "the narrower measure of the budget deficit for 2020/21 has, as a result of COVID-19, shifted from 6.8% of the gross domestic product (GDP) to 14.6% of GDP". UK Prime Minister says `Build, Build, Buid' to steer the economy from recession.**

- **Low interest rates for businesses**: The Bank of Ghana has responded with policy measures to ensure lower interest rates and the Banks have reduced lending rates by 2 percentage points. There has been calls for further reduction in the rates but bearing in mind the risk posed by COVID-19, it will be difficult to accede to such demands unless government provides subsidized credit as was the case of SME loans through the NBSSI.

- **Sustainability of a stable exchange rate:** The exchange rate has been relatively stable considering the revenue challenges including export receipts. However, this has been possible partly because of the foreign loans and grants. **The sustainability of a stable exchange rate in the coming months is very critical**.

- **Private Sector:** There has been a number of policies to stimulate the private sector including low interest rates, the CARE programme, NBSSI Loan, syndicate loans etc. **However, access to cheaper sources of credit remains a challenge as stated in the GSS Business Tracker Survey**. A significant proportion of businesses have not benefited from the support especially large-scale businesses

- **Jobs:** A number of people have lost their jobs as a result of COVID-19 and lump sum support to such vulnerable groups is necessary. In as much as the COVID-19 Trust Fund is in the process of supporting such people, their effort could be complemented with some financial support from government.

- **Free Electricity and water for households:** This gesture will go a long way to alleviate the suffering of the poor and vulnerable provided the taps flow and electricity supply is not erratic. It should also be noted that the poor fetch water from vendors and if care is not taken, the initiative will enrich private water vendors.

In conclusion, the 2020 mid-year budget inspires hope but its success critically depends on government finding the resources and the extent to which the policies and initiatives outlined are implemented. One therefore has to be cautiously optimistic about the targets set for 2020.