

IN THE THIRD SESSION OF THE SEVENTH PARLIAMENT OF THE
FOURTH REPUBLIC OF GHANA

REPORT OF THE FINANCE COMMITTEE **ON THE SUPPLEMENTARY ESTIMATES** **FOR THE 2019 FINANCIAL YEAR**

1.0 INTRODUCTION

The Supplementary Estimates for the 2019 Financial Year were *laid* in the House on Monday 29th July, 2019 and *referred* to the Finance Committee for consideration and report, pursuant to Article 179(8) of the 1992 Constitution and Order 143 of the Standing Orders of the House. This followed the presentation of the Mid-Year Fiscal Policy Review of the 2019 Budget Statement and Economic Policy to Parliament pursuant to Section 28 of the Public Financial Management Act, 2016 (Act 921).

The Committee subsequently met and considered the Supplementary Estimates with Deputy Ministers for Finance, Hon. Kwaku Kwarteng and Hon. Abena Osei-Asare as well as a technical team from the Ministry for Finance.

The Committee hereby presents this report to the House pursuant to Order 161 of the Standing Orders of the House.

2.0 REFERENCES

The Committee referred to and was guided by the following documents in its deliberations on the Supplementary Estimates:

- The 1992 Constitution of the Republic of Ghana
- The Public Financial Management Act, 2016 (Act 921)
- The Budget Statement and Economic Policy of Government for the 2019 Financial Year
- The Mid-Year Fiscal Policy Review of the 2019 Budget Statement and Economic Policy
- The Standing Orders of the House

3.0 BACKGROUND

In November 2018, the 2019 Budget Statement and Economic Policy of Government was presented to the House for approval in line with Article 179 of the Constitution and Order 140 of the Standing Orders of the House.

The Budget reflected the strategic focus of building a stronger economy for jobs and prosperity.

Since the 2019 Budget was approved by the House, many significant developments have arisen on the macroeconomic front, especially with regard to the first quarter weak performance of the Ghana Cedi against the US Dollar, driven largely by external pressures.

Also, some contingent liabilities crystalized into debts, requiring resources for servicing.

The Supplementary Payments to be undertaken have given rise to the need for some adjustments in the annual estimates approved for the 2019 fiscal year.

3.1 2018 MACROECONOMIC PERFORMANCE

The performance of the economy for the 2018 financial year is summarized in the table below:

Indicator	Target for 2018	Outturn for 2018
Overall Real GDP Growth Rate (%)	5.6	6.3
Non-Oil Real GDP Growth Rate (%)	5.8	6.5
End-Period Inflation (%)	8.9	9.4
Overall Budget Balance (% of GDP)	-3.7	3.9
Primary Balance (% of GDP)	1.4	1.4
Gross International Reserves in months of imports of goods and services	≥3.5	3.6

Source: Ministry of Finance

Total revenue and grants at the end of December, 2018 amounted to GH¢47,637 Million (equivalent to 15.8% of GDP) compared to the Revised Budget estimate of GH¢49,059 Million (equivalent to 16.4% of GDP).

Tax revenue for the period of January to December 2018 amounted to GH¢37,784 Million, equivalent to 12.6% of GDP. This was lower than the revised budget of GH¢38,589 Million by 2.1%.

Total expenditure for the 2018 financial year including arrears amounted to GH¢59,310 Million (19.7% of GDP) compared to the revised budget figure of GH¢60,030 Million (equivalent to 20.1% of GDP). The outturn shows a 1.2% deviation from the revised budget but a 14.2% year-on-year growth on the outturn for 2017 which amounted to GH¢51,939 Million.

4.0 MACROECONOMIC TARGETS FOR 2019

Macroeconomic Indicators for the year 2019 and the provisional outturn for end-June, 2019 are as captured in the table below:

No.	Item	2019 Target	End-June 2019 Provisional Outturn
1	Overall Real GDP growth rate (%)	7.6	6.7*

2	Non-Oil Real GDP growth rate (%)	6.2	6.0*
3	End-Period Inflation (%)	8.0	9.1
4	Overall Budget Balance (% of GDP)	-4.2	-3.3
5	Primary Balance (% of GDP)	1.2	-0.8
6	Gross International Reserves in months of imports of goods and services	≥3.5	4.3

Source: Ministry of Finance * As at end-March, 2019

4.1 FIRST QUARTER PERFORMANCE FOR 2019

Real GDP growth for the first quarter of 2019 was 6.7%. This compares favourably with a 5.4% growth achieved for the first quarter of 2018. Growth in the Non-Oil Sector was 6.0% compared to 4.2% in the corresponding period of 2018.

The Industry Sector recorded a growth of 8.4% in the first quarter of 2019 compared to 10.4% during the same period in 2018. Growth in the Services Sector rebounded strongly to 7.2% in the first quarter of 2019 compared to 1.4% recorded during the same period in 2018, whilst the Agricultural Sector recorded the lowest growth of 2.2% in

the first quarter of 2019 compared to 4.7% during the same period in 2018.

4.2 SUPPLEMENTARY PROVISION FOR 2019

The total amount of the supplementary estimates is *Six Billion, Three Hundred and Seventy Million, Three Hundred and Fifty-Five Thousand, Nine Hundred and Twenty-Six Ghana Cedis (GH¢6,370,355,926)*

5.0 OBSERVATIONS AND RECOMMENDATIONS

5.1 Exchange Rate

The Committee observed that after coming under pressure temporarily in February 2019, the volatility of the Cedi has largely normalized towards the end of the first quarter of 2019, on account of improved supply of foreign exchange, partly from the recent Eurobond issue.

The depreciation of the cedi was observed to have edged up again in May through June 2019, resulting in a cumulative depreciation of 8.4% in the half-year to June 2019, compared to 2.4% for the corresponding period in 2018.

Against the British Pound and the Euro, the Ghana Cedi cumulatively depreciated by 7.6% and 7.9% respectively.

5.2 2019 Budget Implementation Challenges

The Committee noted that the implementation of the 2019 Budget for the first half of 2019 has been successful, albeit with some challenges, mostly structural.

On the one hand, there has been less robust revenue mobilization relative to programme targets (despite a 7.7% per annum growth) and, on the other hand, a faster execution of expenditures.

The shortfall in revenues is mainly accounted for by shortfalls in customs receipts and non-tax revenues, whilst the faster execution of expenditures is mainly due to unprogrammed expenses on border security to combat terrorism.

These developments have pushed the financing requirements above the programmed levels for the period and has consequently widened the fiscal deficit for the period January to June 2019 from the programmed target of 2.9% of GDP to a provisional outturn of 3.3% of GDP.

5.3 Measures to Achieve the Annual Revenue Targets

The Committee noted that Government is vigorously pursuing some revenue measures including the sale of Electromagnetic Spectrum, Telco's Licenses Renewal, gains from the realization of assets and mineral rights from extractive industry and strengthening compliance at the ports to ensure that the annual revenue target for 2019 is not compromised.

5.4 Adjustment of Discretionary Spending

On the expenditure front, Government intends to adjust some discretionary expenditures in the 2019 Budget that have a minimum impact on economic growth using a system of budget allotment. Ministries, Departments and Agencies (MDAs) are therefore required

to observe their revised ceilings to ensure that the fiscal targets are not compromised.

5.5 Factors Necessitating a Review of the Macroeconomic Framework

The Committee noted that among other things, the following developments have necessitated the revision of the 2019 macroeconomic framework:

- relatively weak performance of the Ghana cedi against the US dollar, driven largely by external pressures, especially in the first quarter of 2019. The Ghana Cedi depreciated cumulatively by 8.4 percent through end-June 2019;
- lower-than-programmed Total Revenue and Grants (a 15.5 percent shortfall despite a 7.8 percent nominal growth);
- faster rate of expenditure execution of 92.9 percent relative to a revenue mobilization performance rate of 84.5 percent for the first half-year of 2019;
- crystallization of Energy Sector IPPs payments which were not programmed into the 2019 Budget; and
- lower than projected crude oil and gas volumes.

In view of these developments, and consistent with Section 28(2)(d) of Act 921, the 2019 GDP projections, as well as the 2019 Fiscal Framework have been revised to safeguard the public finances.

5.6 Revisions to Total Revenue and Grants

The revised Total Revenue and Grants for the 2019 financial year is GH¢58.9 Billion, 0.01 percentage point lower than the original 2019 Budget estimate of GH¢58,904.9 Million.

5.7 Revisions to Expenditures

Total Expenditure (incl. arrears clearance) for the full year 2019 is now estimated to be GH¢74.6 Billion, about 1.6 percent higher than the 2019 Budget estimate of GH¢73.4 Billion. Upward adjustments to Interest Payments reflect partly the effect of a higher exchange rate than programmed, as well as higher net domestic borrowing to meet some regional emergency security and energy expenses in the first half of the year.

Additionally, upward adjustment in projected expenditures for Goods and Services are to meet critical expenses on security, among others.

5.8 Revised overall Budget Deficit

In view of the revisions to *Total Revenue and Grants* and *Total Expenditure*, the revised *Overall Budget Deficit* is, therefore, programmed at 4.5 percent of GDP. This deficit target is consistent with the debt sustainability analysis for 2019 and the medium-term. The estimated World Bank DPO facility of US\$500 Million and the proceeds from the monetisation of mineral royalties are expected to moderate domestic borrowing in the second half of the year.

5.9 Crystallisation of Energy Sector Contingent Liabilities

The Committee was informed that the crystallisation of energy sector contingent liabilities in respect of **take-or-pay contract obligations** with Independent Power Producers (IPPs) estimated at GH¢5.1 billion for 2019 is being amortised, thus increasing the requirements for external amortisation above the amount originally provisioned for in the 2019 Budget. **(Please see APPENDIX)**

5.10 Adjustment in Total Appropriation

As a result of the revisions to the 2019 fiscal outlook, the 2019 Appropriation of GH¢78,771,833,602.12 that was approved by this august House in December 2018 will not be adequate to cater for the additional programmed needs which will increase the total Appropriation to GH¢85,142,189,527.94.

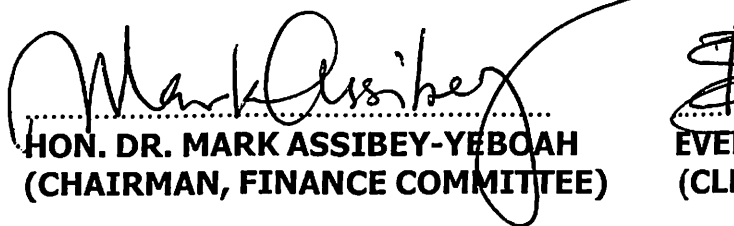
It has therefore become necessary that an amount of **GH¢6,370,355,926** be approved as supplementary estimates to the original Appropriation of GH¢78,771,833,602.12 to bring the revised Total Appropriation for the 2019 Fiscal Year to GH¢85,142,189,527.94.

6.0 CONCLUSION

The Committee respectfully recommends to the House to *adopt* this report and *approve* by Resolution, the sum of ***Six Billion, Three Hundred and Seventy Million, Three Hundred and Fifty-Five Thousand, Nine Hundred and Twenty-Six Ghana Cedis (GH¢6,370,355,926)*** as **Supplementary Estimate** for the **2019**

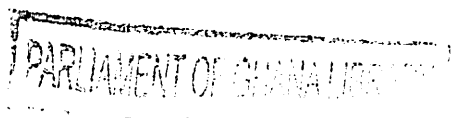
Financial Year for the purpose of meeting expenditure to carry out Government's services in accordance with Article 179(8) of the Constitution.

Respectfully submitted.


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HON. DR. MARK ASSIBEY-YEBOAH
(CHAIRMAN, FINANCE COMMITTEE)


.....
EVELYN BREFO-BOATENG (MS.)
(CLERK, FINANCE COMMITTEE)

1ST AUGUST, 2019.



APPENDIX

2019 PAYMENTS TO IPPs (Q1-Q2)

No.	BENEFICIARY IPP	AMOUNT IN USD	AMOUNT IN CEDI
1	KARPOWERSHIP GH	46,442,522.42	232,139,829.26
2	LITASCO SA	94,927,592.90	481,732,756.52
3	AMERI	79,148,776.24	399,377,000.00
4	AKSA ENERGY COM	9,794,749.31	173,278,000.00
5	PMT FOR SUPPLY OF GAS FROM THE SANKOFA FIELD	227,967,808.30	1,158,863,620.35
6	SUNON ASOGLI POWER GH LTD	24,459,023.94	255,000,000.00
7	STRATCON BP OIL	59,107,027.17	331,679,062.80
8	TRF IFO A/C NO 0131641132043 GOENERGY COMPANY LIMITED	5,952,410.14	30,455,506.47
Total		547,799,910.41	3,062,525,775.40

2019 Amortisation (Q1-Q2)

Item	2019	
	Q1-Q2 Prog	Q1-Q2 Prov
Amortisation (due) o/w energy	-2,658.84 0.00	-5,413.76 3,062.53