

REPORT OF THE FINANCE COMMITTEE ON THE SUSPENSION
OF THE FISCAL RESPONSIBILITY RULES FOR THE 2020
FINANCIAL YEAR

1.0 INTRODUCTION

The request for the Suspension of the Fiscal Responsibility Rules for the 2020 Financial Year was laid in the House on Wednesday, 29th July, 2020 by the Hon. Minister responsible for Parliamentary Affairs, Mr. Osei Kyei-Mensah-Bonsu on behalf of the Minister responsible for Finance.

Rt. Hon. Speaker referred the request to the Finance Committee for consideration and report.

The Committee met with the Minister for Finance, Hon. Ken Ofori-Atta, Two Deputy Ministers for Finance, Hon Mrs. Abena Osei-Asare and Hon. Kwaku Kwarteng and Officials from the Ministry of Finance to consider the report.

2.0 DOCUMENTS REFERRED TO

The Committee referred to the following Documents:

1. The 1992 Constitution
2. The Public Financial Management Act, 2019 (Act 921),

3. The Fiscal Responsibility Act, 2018 (Act 982), and
4. The Standing Orders of the Parliament of Ghana

3.0 BACKGROUND

Section 2 of the Fiscal Responsibility Act, 2018 (Act 982) enjoins Government to observe the following fiscal rules on annual basis:

- a) The overall fiscal balance on cash basis for a particular year shall not exceed a deficit of five percent of the Gross Domestic product for that year; and
- b) An annual positive primary balance shall be maintained.

Act 982 also provides in Section 3 (1) that the Minister for Finance may suspend the fiscal rules due to a force majeure, or unforeseen economic circumstances or both.

Section 3 (3) further provides that

3. (3) Where the Minister, in accordance with subsection (1), suspends the fiscal responsibility rules, the Minister shall, within Thirty days, present before Parliament for approval

- (a) facts and circumstances for the suspension of the set fiscal responsibility rules in a given financial year;
- (b) plans for restoring the public finances of the country within a reasonable period after the force majeure or unforeseen economic circumstances have elapsed; and
- (c) a quarterly breakdown of the revised deficit target for the year as part of the budget presented to Parliament.

During the presentation of the 2020 Mid-Year Budget Review and Supplementary Estimate to Parliament on July 24th, 2020, the Minister for Finance informed Parliament that he has suspended the fiscal rules in

accordance with Section 3 (1) of the Fiscal Responsibility Act, (Act 982) [para 440 on page 89 of the Mid-Year Review document] in light of the COVID-19 pandemic.

Consequently and as required by Section 3 (3) of the Fiscal Responsibility law, the Minister has presented to the House, the necessary documentation in the form of a Memorandum requesting for approval for the suspension of the fiscal rules. It is this request that is before the House for approval.

4.0 PURPOSE OF THE REQUEST

The purpose of the request is to seek Parliamentary approval for the suspension of the fiscal responsibility rules contained in the Fiscal Responsibility Act, 2018 (Act 982).

5.0 OBSERVATIONS

5.1 Facts and Circumstances for the Suspension of the Set Fiscal Rules in 2020

The Committee observed that the COVID-19 pandemic has affected virtually all countries of the world and every aspect of the Ghanaian economy. The pandemic has wreaked havoc on economic activities, created uncertainty and weakened growth. Remittances have declined significantly and there has been massive capital flights from low income countries. Restaurants, hotels, bars, public transport businesses, factories, retailers, street vendors, education institutions (both public and private), informal sector workers, among others have all been affected.

Households and businesses have equally been hard hit with significant job losses and reduced incomes. Further, Government revenues have considerably declined whilst its expenditures are rising.

The slowdown in economic activities has led to:

- a drastic downward revision in the growth of real GDP from 6.8% to 0.9%;
- an estimated revenue shortfall of GH¢13,405 Million representing 3.5% of GDP;
- an additional anticipated expenditure of GH¢11,788 Million largely to contain the impact of COVID-19 pandemic, representing 3.1% of GDP;
- an upward revision of the cash-basis fiscal deficit from GH¢18.9 Billion (4.7% of GDP) to GH¢44.1 Billion (11.4% of GDP); and
- a revision in the primary balance from a surplus of GH¢2.8 Billion (0.7% of GDP) to a deficit of GH¢17.8 Billion (4.6% of GDP).

From the above, the slowdown in economic activities has caused both the domestic market and global markets to slow down significantly.

The Committee was informed that given the impact of the pandemic, it was clear to the Minister for Finance that the fiscal rules of a deficit not exceeding 5% of GDP and a positive primary balance as enshrined in the Fiscal Responsibility Act were neither feasible nor attainable. The scale of the damage and macroeconomic distortions caused by the pandemic is unprecedented in the country's history. The Minister had no option than to suspend the fiscal rules and targets for the 2020 fiscal year.

5.2 Impact of the pandemic on Expenditure

The Committee was informed that efforts by Government to contain the pandemic has resulted in an unanticipated increase in expenditure. This increase arose because Government rolled out a series of interventions to control the spread of the disease and mitigate the socio-economic impact on households and businesses. The interventions were in respect of:

- COVID-19 preparedness and response plan
- Provision of health Infrastructure (Agenda 111);
- Coronavirus Alleviation Programme;

- Capitalization of National Development Bank to support economic recovery;
- Security;
- Elections; and
- Payment of outstanding claims.

The Committee was informed that the expected increase in expenditure is estimated at GH¢11,788 Million representing 3.1% of revised GDP. The increased spending occurred simultaneously with a decline in revenues. The double impact of the pandemic has led the Minister to further revise the fiscal deficit to 11.4% of GDP and the primary balance to a deficit of 4.6% of GDP.

5.3 Impact of COVID-19 on Crude Oil Revenues

The Committee observed that the pandemic also adversely affected commodity prices generally and crude oil in particular.

The Committee noted that at the time of preparing the 2020 budget, petroleum revenue was projected at US\$1,567.61 Million. Unfortunately due to the pandemic, expected petroleum revenue receipts have been revised to US\$660.45 Million.

In addition, the Benchmark petroleum volume has also been revised downwards from 70.2 Million barrels to 66.5 Million barrels representing a 5.3% decline.

This together with other revenue shortfalls will result in a total Revenue and Grants shortfall of GH¢13,405 Million representing 3.5% of GDP.

5.4 Plans of Restoring the Public Finances of the Country

The Committee was informed that as part of efforts to restore the economy and return the country to the fiscal responsibility threshold of a deficit not exceeding 5% of GDP and a positive primary balance by 2024, Government is implementing a number of fiscal consolidation measures.

The measures are aimed at:

- reducing the fiscal deficit from 11.4% of GDP in 2020 to 9.6% in 2021, 7.1% in 2022, 5.2% in 2023 and 3.8% in 2024.
- Improving the primary balance from a deficit of 4.6% in 2020 to a deficit of 3.4% in 2021, 1.9% in 2022, deficit of 1.0% in 2023 and a surplus of 0.1% in 2024;
- Increasing real GDP growth rate from 0.9% in 2020 to 4.7% in 2021, 5.8% in 2022 and 5.4% in 2023 and 2024. Inflation is expected to moderate in the medium term to stay within 8±2% band; and
- Improving Gross International Reserves to 4months of import cover in 2020 and the medium term.

The Committee was informed that in order to achieve the goals of fiscal consolidation and restore the economy, there is the need to mobilize revenue. Government therefore intends to improve revenue collection by:

1. establishing a world class technology platform for tax identification, assessment and collection;
2. enforcing compliance through the implementation of enhanced compliance and efficiency measures including broadening the tax base through digitization and tax education and minimizing revenue leakages through simplification of tax filing processes, frequent tax audits and prosecution of tax offenders;
3. implementing the revised Transfer Pricing Regulations;
4. implementing an effective property rate collection system; and
5. optimizing Non-tax revenue collection through the amendment of the Fees and Charges Act.

Government also anticipates a recovery in crude oil prices above the revised 2020 projected average of US\$39.1 per barrel as well as an increase in the projected volume to help boost petroleum revenues.

The Committee was also informed that Government envisages a mix of domestic and foreign borrowings including pursuing concessional loans and raising funds from the capital markets to finance its expenditure.

On the Expenditure front, the non-occurrence of one-time expenditure items such as election-related expenditures, COVID-19 expenditures, Energy Sector IPP payments and expenditure containment measures will aid fiscal consolidation. Goods and Services as well as CAPEX will also be streamlined to reflect the main imperatives of the Ghana CARES Programme. Government further intends to put in place measures to ensure waste minimization of expenditure, rationalize government travels, and reprioritize Government spending, among others.

The Committee was assured that these interventions would go a long way to achieve Government's goal of restoring the public finances of the country.

5.5 Ghana CARES Programme

The Committee was informed that as part of efforts to transform the economy, Government is implementing the Ghana COVID-19 Alleviation and Restoration of Enterprises Support (Ghana CARES) Programme. The Ghana CARES Programme is to be implemented in two phases as follows:

- ❖ The Stabilization Phase which runs from July to the end of the year (2020) involves:
 - extending the provision of free water for another three months;
 - extending the provision of free electricity supply to customers on the lifeline tariff for additional three months; and
 - increasing funding to the CAP-BuSS programme to enable NBSSI support enterprises with over 100 employees that have also been affected by the COVID-19 pandemic.

- ❖ The Medium-term Revitalization Phase aims at accelerating the Ghana beyond Aid Economic Transformation Agenda by:
 - spurring on agricultural modernization through enhancing the Planting for Food and Jobs and Rearing for Food and Jobs Programme.
 - providing a targeted, effective and transparent support to the private sector to enable it accelerate progress in building Ghana's light manufacturing technology and digital economy sectors;
 - reviewing and optimizing Government Flagship programmes; and
 - establishing Ghana as a regional financial hub by establishing an International Financial Services Hub as well as a regional manufacturing and logistics hub for the West Africa region.

5.6 Quarterly Breakdown of the Revised Deficit Target for the Year

The Committee observed that in compliance with Section 3 (3) of the Fiscal Responsibility Act, 2018 (Act 982), the Ministry of Finance has prepared a quarterly breakdown of the Revised Deficit Target for the year 2020. Details of the Quarterly breakdown is summarized in the Table 1 below:

Table 1 Summary of Quarterly Break-down of Revised 2020 Fiscal Framework

	Item	2020 Budget	2020 Revised Budget	2020 Q1	2020 Q2	2020 Q3	2020 Q4
1	Total Revenue and Grants	67,071	53,667	10,957	11,050	13,465	18,194
	% of GDP	16.9	13.9	2.8	2.9	3.5	4.7
2	Total Expenditures (Incl. arrears)	85,952	97,740	21,789	23,352	24,787	27,813
	% of GDP	21.6	25.4	5.7	6.1	6.4	7.2
3	Overall Fiscal Balance (cash)	-18,881	-44,074	-10,832	-12,301	-11,322	-9,618
	% of GDP	-4.7	-11.7	-2.8	-3.2	-2.9	-2.5
4	Total Financing	18,881	44,074	10,832	12,301	11,322	9,618
	% of GDP	4.7	11.4	2.8	3.2	2.9	2.5
5	o/w Foreign Financing	10,619	18,462	4,791	-2,231	7,886	8,016
	% of GDP	2.7	4.8	1.2	-0.6	2.0	2.1
6	Primary Balance	2,811	-17,806	-4,423	-7,071	-4,123	-2,188
	% of GDP	0.7	-4.6	-1.1	-1.8	-1.1	-0.6
7	Nominal GDP	398,048	385,378	385,378	385,378	385,378	385,378

Source: Ministry of Finance

6.0 CONCLUSION

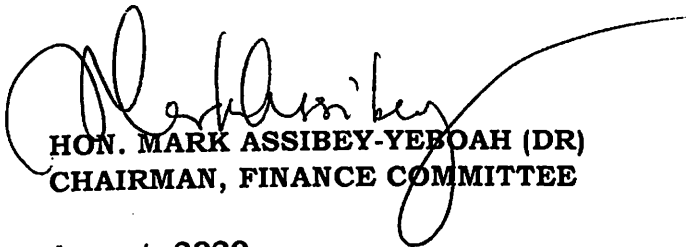
The Committee has observed that Covid-19 pandemic, an unforeseen economic condition has adversely affected every aspect of economic activity and created uncertainty as well as weakened economic growth. This has resulted in an expected deficit of 11.7% of GDP.

Given the startling statistics, the Committee agrees with the Finance Minister that there is the need to suspend the fiscal rules in accordance with Section 3 (1) of the Fiscal Responsibility Act, 2018 (Act 982).

Further, the Committee is satisfied that the conditions precedent for the granting of approval for the suspension of the fiscal rules under Section 3 (3) of Act 982 have been complied with.

The Committee therefore recommends to the House to adopt its report and approve the suspension of the Fiscal Responsibility Rules for the 2020 financial year in accordance with the Constitution, Section 3 of the Fiscal Responsibility Act, 2018 (Act 982) and the Standing Orders of Parliament.

Respectfully submitted.



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



EVELYN BREFO-BOATENG (MS)
CLERK TO THE COMMITTEE

August, 2020