GHANA | MACROECONOMIC UPDATE | FISCAL POLICY | INSIGHTS

FUNDAMENTALS

GHANA'S FY2024 BUDGET: MIND THE GAP

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IN BRIEF

- Our assessment of the 8M2023 fiscal performance showed that while the IMF-inspired frontloaded adjustment remained on track with the containment of payroll and CAPEX budget, revenue continued to underperform its target. This prompted the authorities to further cut FY2023 revenue target by GHS 1.0bn (0.1% of GDP) to GHS 133.9bn (IC Insights forecast: GHS 129.8bn).

- When Compared to the pre-DDEP budget for 2023, the authorities chalked DDEP-induced interest savings of GHS 4.8bn (0.5% of GDP) in 8M2023. By FY2023, the total interest savings from the DDEP, which will partly finance the 2023 budget, could rise to GHS 6.2bn.

- In our view, Ghana's 2024 fiscal framework appears vulnerable to persistent revenue undershooting as we think the authorities' expectations appear quite bullish against the observed trend growth in revenue, waning impact of inflation, and the new revenue measures. We forecast FY2024 revenue at GHS 164.3bn (16.0% of GDP) in the base case scenario. In our bull case outcome, we anticipate total revenue at GHS 172.8bn (+29.1% y/y), which would still fall below the authorities target by GHS 3.6bn (0.4% of GDP).

- Our analysis of the estimated expenditure plan for 2024 in value terms and matched against the revenue outlook makes for uncomfortable reading in an election year, and keeps us mindful of the financing gap. We opine that adjusting for the projected election-related cost would make little impact on the planned spending growth.

- For the second consecutive year, the financing options available to the Ghanaian Treasury is restricted to the domestic market with a complete reliance on Treasury bills as the domestic bond market remains closed. This financing outlook leaves us cautious on the expected pace of decline in yields for T-bills. The authorities have signalled plan to build a buffer of GHS 31.8bn to cover potential auction shortfalls in 2024. However, we are unable to confirm a credible funding source. We think the buffer would likely emerge from excess uptakes during weekly auctions where there is strong investor demand, which, in itself, could introduce some stickiness in the expected downturn in interest rates in 2024.

Budget performance in 2023

A frontloaded fiscal adjustment inspired by the IMF

Ghana's Finance Minister presented the country's 2024 budget on Wednesday 15 November 2023, which included an update on the macro-fiscal developments during 9M2023 and targets for 2024.

Our assessment of current macroeconomic conditions showed a steady progress towards macroeconomic stability, anchored on the IMF-supported policy tweaks and reforms. While the IMF-inspired frontloaded fiscal adjustment remained on track with the containment of payroll and CAPEX budget, revenue continued to underperform its target mainly due to lower-than-expected oil revenue in 8M2023. Consequently, we believe the perennial revenue undershooting casts a shadow over the 2024 revenue outlook, heightening our focus on a potentially wider funding gap in the upcoming election year.

Walking on slippery grounds as revenue lines disappoint. In the first eight months of 2023, oil revenue came in at GHS 6.7bn (-32.4% vs target) as crude oil production from the three main fields fell below target amidst lower prices on the world market. Other revenue (which include ESLA proceeds) and Grants also fell below target by 11.8% and 26.6%, respectively. We observed a broad-based decline in the performance of the energy sector levies in 8M2023, except the Price Stabilisation & Recovery Levy which outperformed target by 49.3%. More importantly, the Energy Debt Recovery Levy (EDRL) undershot target by 24.6% to raise GHS 1.0bn whereas the Delta Fund Levy fell short of target by 11.2% to raise GHS 660.6mn in 8M2023.

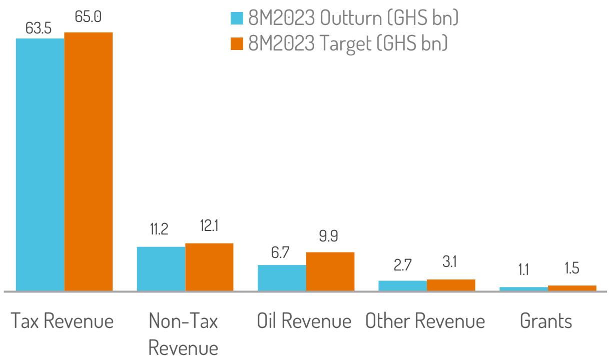
While the Delta Fund Levy was introduced in 2021 to cover the excess capacity charges from existing Power Purchase Agreements, the EDRL was imposed in 2015 to resolve the inter-utility debt within Ghana's energy sector. In this regard, we view the shortfalls in the ESLA revenue as an upside risk to the energy sector debt with potential spillovers for the fiscal sector.

Overall, we observed undershooting of targets across tax revenue (GHS 63.5bn | -2.4%) and non-tax revenue (GHS 11.2bn | -7.5%), resulting in a shortfall of GHS 3.1bn (0.4% of GDP) in total revenue and grants (GHS 79.1bn). This prompted the authorities to further cut FY2023 revenue target by GHS 1.0bn (0.1% of GDP) to GHS 133.9bn (IC Insights forecast: GHS 129.8bn).

Leaning on spending cuts to keep the adjustment plan on track. In view of the disappointing revenue outturn in 8M2023, the fiscal consolidation efforts intensified on spending cuts across all commitment lines, except the use of Goods & Services which surprisingly overshot its budget by 30.4% to GHS 8.3bn. Interestingly, the authorities have raised the planned spending on Goods & Services in FY2023 to GHS 11.8bn (vs GHS 8.6bn in the mid-year budget). We think this expansion of the Goods & Services budget reflects frontloading of expenditure ahead of the upcoming election year 2024 as the commitment for this item witnessed a 5.9% y/y decline to GHS 11.1bn in the 2024 budget.

To keep the fiscal adjustment on track, the authorities contained the 8M2023 outturns on the payroll at GHS 32.4bn (-5.4% vs target), CAPEX at GHS 9.9bn (-35.5% vs target), and statutory payments at GHS 19.0bn (-0.3% vs target). This resulted in a primary budget deficit (on commitment basis) of GHS 5.6bn (-0.7% of GDP), marginally better than the target primary deficit of GHS 7.9bn (-0.9% of GDP) in 8M2023.

8M2023 REVENUE PERFORMANCE VS TARGET



SOURCE: MINISTRY OF FINANCE, IC INSIGHTS

Interest savings from DDEP and suspension of external debt service further aided the fiscal consolidation efforts

During the first 8-months of 2023, the authorities expended GHS 20.0bn (2.3% of GDP) on interest payments, substantially below the budget ceiling of GHS 31.7bn. This was largely due to lower-than-programmed interest payment on external debt at GHS 1.3bn (-89.4% vs target), reflecting the existing suspension of external debt service which we believe will resume in 2024.

Similarly, domestic interest payment in 8M2023 was GHS 18.7bn (-3.9% vs target), reflecting the savings from the Domestic Debt Exchange Programme (DDEP). When Compared to the pre-DDEP budget for 2023, the authorities chalked DDEP-induced interest savings of GHS 4.8bn (0.5% of GDP) in 8M2023. By FY2023, the total interest savings from the DDEP, which will partly finance the 2023 budget could rise to GHS 6.2bn.

We expect the deep interest savings to sustain the deficit compression for the remainder of 2023. We also expect continued containment of primary expenditure to anchor the frontloaded fiscal path in line with the target adjustment of 3.8% of GDP in 2023. In view of the ongoing expenditure rationalisation measures, the authorities have slashed the FY2023 overall deficit target (on commitment) to GHS 39.1bn (4.6% of GDP) compared to 5.7% at the mid-year review. Similarly, the target cash deficit was cut to GHS 45.1bn (5.3% of GDP) compared to 6.4% at mid-year budget review.

A closer look at the 2024 budget

Mind the financing gap

In our view, Ghana's 2024 fiscal framework appears vulnerable to persistent revenue undershooting as we think the authorities' expectations appear quite bullish while tax effort tends to soften in election years amidst expenditure overruns. Although this likely slippage keeps us mindful of a potentially wider-than-expected financing gap in FY2024, we maintain some optimism in the IMF policy anchor to ensure sustained spending controls.

Shooting for the moon with revenue target. The 2024 budget execution hinges on mobilising total revenue and grants worth GHS 176.4bn (16.8% of projected GDP for 2024) with non-oil domestic revenue expected at 14.1% of GDP. If we assume the authorities will achieve the FY2023 revised revenue target of GHS 133.9bn, the FY2024 revenue target translates into an expected growth of 31.7% y/y. Our review of the revenue measures suggests the increased reliance on:

- broadening the coverage of indirect taxes such as VAT and Communication Service Tax (CST) and simplifying their administration,
- reviewing the existing stamp duty ad valorem rates and specific fees to reflect current economic conditions,
- reviewing the excise rates to harmonize the different rates for beer,
- expand the environmental excise duty to cover plastic packaging, and industrial and vehicle emissions, and
- fully operationalize the Income Tax (Amendment) Act 2023 (Act 1094) in 2024

We expect these measures to sustain the ongoing improvement in domestic revenue collections as the authorities build on IMF-supported fiscal reforms which commenced in 2023.

However, our trend analysis suggests a compounded annual growth rate (CAGR) of 21.8% from 2017 – 2023 while the simple average annual growth rate yielded 22.4% (including inflation-supported years of 2022 and 2023). This low-20% historical revenue growth (including periods of aggressive revenue drive) casts doubt on the authorities' target growth of 31.7%. If the 2023 revised revenue target of GHS 133.9bn fails to materialize, this could widen the budget underperformance as the FY2024 target becomes a higher hurdle to scale.

GOVERNMENT REVENUE TARGETS (FY2024 vs FY2023)

	FY2024 (p)	FY2023 (p)	Y/Y Change
Total Revenue & Grants	**176.4**	**133.9**	**31.7%**
Tax revenue (GHS bn)	143.2	107.6	33.1%
Non-Tax Revenue (GHS bn)	22.6	17.6	28.4%
Other revenue (GHS bn)	6.6	5.5	20.0%
Grants (GHS bn)	3.1	2.5	24.0%

SOURCE: MINISTRY OF FINANCE, IC INSIGHTS. (p) → Projected

Against the backdrop of waning influence of inflation on revenue, the observed annual historical growth rates, and the authorities expected new revenue, equivalent to 0.9% of 2024 GDP, we forecast FY2024 revenue at GHS 164.3bn (16.0% of GDP) in the base case scenario. In our bull case outcome, we anticipate total revenue at GHS 172.8bn (+29.1% y/y), which would still fall below the authorities target by GHS 3.6bn (0.4% of GDP).

The planned reforms to expenditure control anchors leaves us cautiously hopeful for continued fiscal consolidation. The authorities estimate total expenditure (on commitment basis) at GHS 226.7bn (21.6% of projected 2024 GDP), representing a 31.0% y/y growth in spending expansion for the coming year.

Our analysis of the estimated expenditure plan for 2024 in value terms and matched against the revenue outlook makes for uncomfortable reading in an election year, and keeps us mindful of the financing gap. The authorities plan to increase spending (on commitment basis) by GHS 53.7bn (+31.0% y/y) while total revenue and grants is forecast to grow by GHS 42.5bn (+31.7% y/y). Despite the seeming higher revenue growth in percentage terms, the relative monetary values revealed a higher expansion in planned spending for 2024.

Being an election year, we sought to adjust for the one-off election-related fiscal costs. Our search revealed an allocation of GHS 786.9mn for the Electoral Commission. While this allocation translates into a 103.8% y/y surge due to the 2024 elections, we opine that adjusting for the projected election-related cost would make little impact on the planned spending growth.

Probing further, we observed that the planned expenditure on CAPEX (GHS 28.7bn) represents a y/y increase of GHS 10.1bn, mainly driven by a 94.1% surge in domestically-financed CAPEX. We believe this leaves room for spending cut in the event of a likely revenue underperformance in 2024. We also view ongoing reforms on spending control as crucial for limiting off-budget overruns.

As part of the ongoing IMF-supported reforms, the authorities plan to amongst other measures:

- develop a centralised inventory of all ongoing and planned projects to strengthen budget credibility, exercise commitment controls, and prevent build-up of spending arrears.
- Integrate Human Resource Management Information System (HRMIS) with the Ghana Integrated Financial Management Information System (GIFMIS) and the payroll system to tighten control on "ghost names", promotions, hiring, and payroll costs.
- Align the quarterly allotments with a cash forecast and tighten the use of allotments as control on the GIFMIS rather than the budget.
- Amend the Fiscal Responsibility Act to enhance budget credibility, underpin fiscal discipline, and improve fiscal oversight. The amendment will focus on designing new fiscal rules and ensure autonomy of the Fiscal Council.

GOVERNMENT EXPENDITUE TARGETS (FY2024 vs FY2023)

	FY2024 (p)	FY2023 (p)	Y/Y Change
Total Expenditure on commitment basis (GHS bn)	**226.7**	**173.0**	**31.0%**
Employee Comp, (GHS bn)	63.7	51.2	16.9%
Interest Payment (GHS bn)	55.9	34.8	24.4%
Statutory Payment (GHS bn)	39.6	28.9	37.0%
Goods & Services (GHS bn)	11.1	11.8	-5.9%
Capital Expenditure (GHS bn)	28.7	18.6	54.3%
Arrears Clearance (GHS bn)	11.6	6.0	93.3%

Financing the FY2024 fiscal gap

For the second consecutive year, the financing options available to the Ghanaian Treasury is restricted to the domestic market with a complete reliance on Treasury bills as the domestic bond market remains closed.

Based on the target revenue and expenditure outlook, the authorities anticipate an overall budget deficit (on commitment basis) at GHS 50.3bn (4.8% of projected GDP) with a primary surplus (on commitment) at 0.5% of GDP. This translates into a continued but softer fiscal adjustment equivalent to 1.0% of GDP in FY2024 (vs aggressive adjustment of 3.8% of GDP in FY2023).

On cash basis, the overall budget deficit is targeted at GHS 61.9bn, equivalent to 5.9% of FY2024 GDP (IC Insights: 6.3% ±0.5pp), higher than the revised 5.3% expected in FY2023. We believe the higher overall fiscal deficit reflects the expected payment of Past Due Interest (PDI) after suspending external debt service in 2023 with the hope of concluding external debt restructuring negotiations. The 2024 fiscal year will also mark the first full year of semi-annual coupon payments on the restructured bonds (in February and August 2024). We flag these two debt service obligations as the key sources of increase in the overall budget deficit for 2024.

We expect cumulative inflows of USD 720.0mn under the IMF programme (in two equal tranches), subject to meeting programme review conditions, and a World Bank DPO of about USD 300.0mn to support the 2024 budget. However, we think these inflows would largely support external debt service, leaving the domestic market as the funding source for the FY2024 budget deficit. This financing outlook leaves us cautious on the expected pace of decline in yields for T-bills.

While we anticipate that continued decline in inflation will pull down nominal interest rates on T-bills in 2024, we are mindful of the potential pressure from new borrowing requirements of GHS 62.0bn (5.9% of GDP). The authorities have signalled plan to build a buffer of GHS 31.8bn to cover potential auction shortfalls in 2024. However, we are unable to confirm a credible funding source. We think the buffer would likely emerge from excess uptakes during weekly auctions where there is strong investor demand, which, in itself, could introduce some stickiness in the expected downturn in interest rates in 2024.

MACRO-FISCAL TARGETS BY THE GOVERNMENT

	FY2024 Target	FY2023 Target
Macroeconomic and Fiscal Targets		
Overall Real GDP Growth	2.8%	2.3%
Non-Oil Real GDP Growth	2.1%	2.8%
End-Year Headline Inflation	15.0%	31.4%
Overall Budget Deficit (% of GDP) - Cash	5.9%	5.3%
Primary Balance (% of GDP) - Commit	0.5%	-0.5%
Gross International Reserves (Months of import)	1.7	0.8

SOURCE: MINISTRY OF FINANCE

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