

**For Immediate Release**

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## **UPSA'S ANALYSIS OF GHANA'S 2021 BUDGET STATEMENT**

### **I. INTRODUCTION**

The Research Consultancy Centre (RCC) of UPSA instituted the **UPSA ECONOMIC DIALOGUE SERIES**, a platform to contribute meaningfully to Ghana's economic policy and discourse. Therefore, UPSA's analysis of the 2021 budget statement presented to the Parliament of Ghana themed *Economic Revitalisation through Completion, Consolidation and Continuity* by Hon. Osei Kyei Mensah-Bonsu, the Majority Leader, Minister of Parliamentary Affairs and Leader of Government Business on Friday, 12<sup>th</sup> March 2021 is in line with the objectives of the dialogue series to explain the positives, the negatives, and the overall impact on the citizenry.

Our commentary covers three thematic areas namely revenue, expenditure, and debt: suggestions on how to improve revenue generation; reduce debt and ensure prudent spending, and the way forward as Ghanaians.



**Revenue**



**Expenditure**



**Debt**

## 2. KEY INNOVATIONS FOUND UNDER REVENUE GENERATION IN THE 2021 BUDGET STATEMENT.

These are highlighted as follows:

- a) The proposed *collaboration* between the Ministry of Finance and the Ministry for the Interior to co-supervise the gaming industry and *formulate a comprehensive policy to improve revenue mobilization* may lead to improvement in revenue. While we admonish further expansion of the tax base to increase tax revenue, focus should not be on increasing oil and gas receipts to avoid the ‘Dutch disease’.
- b) Government’s *pledge to review existing road tolls* and align them with current market rates will improve efficiency.
- c) The *rebate of 30 percent on income tax* due companies; in hotels and restaurants, education, arts and entertainment, and travel and tours for the second, third and fourth quarters of 2021 will create temporary room for expansion (must be monitored to inform future policy).
- d) The *suspension of quarterly income tax instalment payments* for the second, third and fourth quarters of 2021 for small businesses will bring temporary relief to small businesses.
- e) The *suspension of quarterly instalment payments of the vehicle income tax* for the second, third and fourth quarters of 2021, for ‘tro-tros’ and taxis may cushion vehicle owners temporarily against the 5.7 percent increase in petroleum prices.
- f) The *extension of the waiver of interest* as incentive for early payment of accumulated tax arrears may incentivize payment of tax arrears. This must be monitored to inform future policy.
- g) The proposal to establish a Development Bank of Ghana is in the right direction.

## 3. PROBLEMATIC ASPECTS OF THE BUDGET

The 2021 budget statement is said to give a clear strategy designed to lift the nation out of the various challenges imposed on Ghanaians by COVID-19. However, the fiscal year 2021 will be challenging for all countries including Ghana, given the unprecedented uncertainties in the context of the COVID-19 pandemic about the post-lockdown economic outlook and the massive fiscal shock from the pandemic (as indicated by the IMF, 2020), compounded by the decline in commodity prices and businesses. Some of the challenges to the successful implementation of this budget relating to revenue, expenditure and debt are outlined below:

### Revenue

- a) The COVID-19 pandemic has caused additional health spending that far exceeds the annual budget for health. To provide the requisite resources to sustain the implementation of these measures, the Government is proposing the introduction of a COVID-19 Health Levy of one percentage point increase in the National Health Insurance Levy and one percentage point increase in the VAT Flat Rate.

This is going to create more challenges and impact negatively on businesses since the NHIL will be increased from 2.5% to 3.5%, and the VAT Flat Rate from 3% to 4%. The seriousness of the impact is the fact that both the NHIL and VAT Flat rate are not recoverable by the taxpayer as a deduction from its output VAT as was the case under the VAT credit system, hence the tendency to pass it on to consumers by way of an increase in price, which may end up impoverishing many. This also has the tendency of promoting tax evasion.

- b) The government proposes a Sanitation and Pollution Levy (SPL) of 10 pesewas on the price per litre of petrol/diesel under the Energy Sector Levies Act and introduces the Energy Sector Recovery Levy (ESRL) of 20 pesewas. The impact of the SPL and ESRL is a proposed 5.7 percent increase in pump prices. The challenge in the implementation of these levies will be whether the government can hold on to it without succumbing to pressures from the impact these taxes will have on consumers as well as on the prices of goods and services.
- c) A financial sector clean-up levy of 5 percent on profit-before-tax of banks to help defray outstanding commitments in the sector is proposed. The challenge with this kind of levy is that in the end, it will be pushed onto the customers of the banks in terms of increase in the percentages charge on loans and other bank services. This is going to affect businesses, individuals and it may even reduce the profit margin of the banks with the accompanying ramifications of laying off workers.

## **Expenditure**

- a) The key issue with the budget for 2021 relates to the shortcomings of Ghana's expenditure on COVID-19 management. Considering, the uncertainty surrounding Covid-19, financial outlay to deal with this is huge and likely to increase the public debt further.
- b) The other critical challenge with government expenditure has to do with spending on the health and education sectors which has increased both as a share of the budget and as a share of GDP. The wage bill represents a large share of spending across all sectors, further narrowing the scope for investment and the dominance of the wage bill has negative implications for expenditure effectiveness.

## **Public Debt**

- a) Before the emergence of the COVID-19 pandemic, the government incurred significant debt to fund the country's rising fiscal deficits. Both the debt portfolio and the borrower's cost of debt have grown significantly. It could be noted that, National Debt in December 2020 stood at GH¢291,614.5 million (US\$50,829.6 million), representing 76.1 percent of GDP or 71.5 percent if financial sector bailouts are excluded.

- b) There is high possibility that, Ghana could be in danger of external debt pressure, weakening its debt sustainability status.
- c) The government, therefore, has a huge challenge in the accumulation of new debt, since the governments' primary balance was revised from a surplus of 0.8 percent to a deficit of 4.6 percent of GDP. It is clear the government needs to strengthen strategies to reduce interest payment through proactive debt management since there is indication that borrowing will continue to pay off some of the maturing debts.

#### **4. OUR WAY FORWARD**

Based on the above observations, it is our view that the following steps will have to be taken in the short to medium term to ensure a reduction in the country's debt, improve revenue generation and reduce the tax burden on ordinary Ghanaians and businesses.

##### **Revenue**

- a) The benefits of progressive taxes are well-known. Government should consider reintroducing the luxury vehicle tax as way of widening the tax base. A related area for consideration is the emerging gaming sector.
- b) Efforts at collecting property tax should be intensified by leveraging on the national digital property addressing system.
- c) Small and medium size online businesses are soaring, which are important sources of revenue for government. Government must therefore find creative ways of taxing these businesses to improve its revenue generation.
- d) Tax compliance remains a major problem in the country, especially for the informal sector. One way to reduce tax evasion is to improve our tax compliance measures. This can be achieved by enhancing our digitization drive as a way of tracking revenues and tax collections in both formal and informal sectors. Education on tax compliance is also important.
- e) Among the revenue sources, grants seem to be the type with minimal economic consequences. However, grants are a small component of the revenue sources. Effort to improve on grants is important.
- f) Government must also ensure that leakages in the revenue basket are sealed, using technology and strengthening of revenue related public institutions.
- g) A continual improvement in the revenue administration should be a priority.
- h) Efforts at reducing corruption must still be high on the government agenda to reduce leakages in the revenue basket.

## **Expenditure**

- a) There is need for government to reduce 'wastage' in the system such as reducing the size of government drastically.
- b) There is the need to stimulate the economy by investing significantly in sectors that are growth driven such as the agriculture and industry sectors. In the service sector, government should invest in emerging businesses such as personal protective equipment (PPEs) and internet services.
- c) Governments, irrespective of which party is in power must ensure the timely continuity/execution of contracts awarded to avoid unnecessary cost accruing from penalties and judgment debts.
- d) The Phase II of the Ghana CARES programme should be implemented with a broad stakeholder engagement, within well targeted spending lines.

## **Public Debt**

- a) Government should give priority to smart borrowing, that is borrowing should be used for productive ventures rather than for recurrent expenditures such as payment of wages.
- b) Appropriate amounts should be borrowed, if necessary, to complete the project/purpose for which such loans were contracted so that the nation can reap the full benefits.
- c) Prudent management of borrowed money is important.

## **5. CONCLUSION**

While the 2021 budget contains enough policy directions to overcome the challenges confronting the economy, more focused effort in key areas with multiplier effects are required. We are of the view that, these three items are important for the sustainability of the budget, *enhancing revenue mobilization, prudent expenditure of available public funds, management of the fiscals of the economy including* enhancing public institutions, using competent personnel, stemming up the corruption avoidance efforts, among others.

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