Ghana National Chamber of Commerce & Industry

Your Business Links, Our Business

GNCCI'S COMMENTS ON THE 2018 MID-YEAR FISCAL POLICY REVIEW

Submitted to the Minister of Finance

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1.0 Introduction

On 19th July, 2018, the Minister of Finance presented the 2018 Mid-Year Fiscal Policy Review of the 2018 Budget Statement and Economic Policy to Parliament. The Ghana National Chamber of Commerce and Industry followed the presentation with keen interest. In line with its legislative mandate of promoting and protecting trade, commerce, industry and manufactures of Ghana, the Chamber discussed the mid-year review and its implications among other pertinent issues affecting the business community in Ghana.

In this press release, the Chamber shares its perspectives on the mid-year review and the general economic and policy environment facing businesses as a way of contributing towards the consolidation of the gains for subsequent growth and prosperity of businesses and national development.

Macroeconomic Gains

The Chamber commends government for the gains made in its management of the Ghanaian economy in the past year. Per the available data for 2016 and 2017, there has been an improvement in the macroeconomic environment. Specifically, the fiscal deficit reduced from 9.3 percent at the end of 2016 to 5.9 percent; inflation reduced from 15.4 percent as at the end of 2016 to 11.8 percent; the gross public debt to GDP ratio reduced from 73.1 percent as at the end of 2016 to 69.8 percent; the growth rate of GDP increased from 3.7 percent as at the end of 2016 to 8.5 percent; and interest rates (91-day treasury bills) reduced from 16.4 percent as at the end of 2016 to 13.3 percent; while there was a 550-basis point reduction in the monetary policy rate to 20% as at 2017.

Similarly, there have been reductions in electricity tariffs varying between 17.5% and 30% for various customer classes, some tax reliefs for businesses and an upsurge in investor confidence in the Ghanaian economy as witnessed by the over-subscription of the 2018 sovereign bond: the 10-year bond raised $1billion at 7.627%; while the maiden 30-year bond raised $1 billion at 8.627%. According to the Ministry of Finance, the bond was issued at the lowest rates on the international capital markets which also peaked in excess of $8 billion, indicating an over subscription of three times the targeted amount.

Despite the macroeconomic gains, lending rates remain and have proven excessively sticky downwards. It is the expectation of the Chamber that the introduction of the Ghana Reference Rate in April 2018 will help in bringing down lending rates. The high lending rate is a major concern for the business community particularly those in domestic production. Government must work with the banking sector to bring down the interest rate at the micro level. The expectation that a reduction in the Bank of Ghana prime rate will automatically bring down interest rates of the commercial banks ignores the many constraints the commercial banking sector faces. These include, but not limited to, high non-performing loans (NPLs) some of which emanate from government's inability to pay its contractors. These and many other issues must be addressed as part of measures to bring down interest rates.

2.0 Taxation - Conversion of NHIS and GETFund Value Added Tax Rate into Straight Levies

It is clear from the discussions that preceded the presentation of the mid-year budget review and some of the policy measures announced in the review that government is in need of additional tax revenues to fund its many policies and programmes. The domestic tax mobilisation effort has been hampered by the inability of government to expand the tax net, poor tax compliance, and the rising levels of tax exemptions.

The Chamber is of the opinion that the mid-year review and proposed policies do not seem to include any discernible attempt to curtail public expenditure. It appears that the focus is on bridging the expenditure gap by raising more revenues, directly or indirectly. The absence of a thorough review and management of expenditure items in line with their intended benefits or objectives only goes to increase the appetite for additional revenues. For instance, there is seeming abuse of the procurement process, appointment of political aides in addition to the technocrats at the ministries, departments and agencies resulting in budget overruns. Also, raising revenues to continue paying allowances and other non-essential items is not sustainable, and can possibly create agitations in other sectors. There is therefore an urgent need to revisit some of the expenditure items in greater detail, based on sound economic and financial principles rather than political expediency.

To achieve the 2018 fiscal objectives and targets, government has introduced a number of revenue and expenditures measures, including new tax measures to generate an estimated amount of GH¢1.345 billion, strengthening of tax compliance, and expenditure adjustments. The conversion of the NHIS and GETFund value added tax rate into levies will obviously increase government revenue. However, this has cost implications for businesses and consumers. In the absence of a competition law, and depending on the nature of tax incidence of specific products, producers may pass on the additional cost to consumers.

This new tax measure remains a test for the government to affirm its commitment to shifting away from taxation to production. The Chamber believes that there is a need to examine the effect of this new tax measure on local production, while still encouraging government to widen the tax net to capture new tax payers, including the informal sector. Tax exemptions are critical for business growth but to the extent that they are enjoyed by only a few, they present a worry to the ordinary business man and woman who will have to bear the brunt of additional taxes in the wake of low revenue generation. We therefore call on government to undertake a systematic and thorough review of its tax exemptions' policy.

3.0 Stimulus Package and other initiatives

The Chamber commends government for its commitment in supporting the private sector to drive the industrial transformation of the Ghanaian economy. Several economic initiatives, including the 1D1F and Planting for Food and Jobs, have been instituted and are at various stages of implementation. The Chamber understands that, in support of the implementation of these initiatives, the Ghana EximBank has disbursed US$5.1 million to the pharmaceutical and textile industries. The Universal Merchant Bank has also disbursed GH¢2 million to the aluminium industry. While lauding these initiatives, the Chamber believes that they tend to serve as a short-term approach to solving a systemic problem of industry.

The Chamber, as the guardian of the interests of businesses in Ghana, is aware that many businesses, including those undertaking domestic production, are distressed. They are borrowing at very high interest rates and face unsustainable competition from cheap imports. The Chamber is also aware that the tax regime and the manner it is applied do not always support domestic industry. For instance, a company operating in soya bean pays taxes (3%) on imported raw soya beans, but is exempted from paying taxes when it imports caked soya beans. There are companies whose challenge is poor corporate governance and lack of management skills which need to be addressed. The inadequacy or non-availability of bottom-up data in identifying and addressing the inherent risks and bottlenecks along the value chains will undermine the industrial transformation agenda of government.

In the opinion of the Chamber, a stimulus package to industry must encompass addressing the policy constraints on businesses. It must address questions around trade policy and the virtual takeover of the domestic markets by imports. It must address the prevailing high interest rates. It must recognise that policy matters more to industrial development than one-off projects. We urge government to involve all stakeholders in the management of the stimulus package.

In support of government's industrial transformation agenda, the Chamber has commenced its Agricultural Value Chain Project aimed at addressing data constraints and the expected business connectedness that is required to create better interfaces between actors, industry performance metrics, and the wider economy. Government has pledged its support for this project, which is also currently enjoying some support from other stakeholders. Notwithstanding the expressed support and commitment, it is the Chamber's expectation that government will continually engage the Chamber and other stakeholders to address the distress faced by industry with respect to the provision of relevant micro data. Such micro data are critical in examining the revenue contributors to the wider economy.

4.0 Integrated Bauxite and Aluminium Project

The Chamber welcomes government's commitment to transform the Ghanaian economy through industrialisation, with emphasis on value addition to the mineral resources of the country. The Integrated Bauxite and Aluminium Project is a step in the right direction. It is our earnest expectation that the bill for the establishment of the Ghana Integrated Bauxite and Aluminium Development Authority will soon be passed into law to operationalise the Ghana Integrated Aluminium Industry Initiative.

Most resource-rich countries pursue two main investment strategies regarding natural resource revenues. These are "spend as you go" (SAYG) and delinked investment. In the Chamber's view, the government appears to be pursuing a conflation of the two models in order to bridge the estimated US$30 billion infrastructural gap in the country with the US$2 billion barter agreement with SinoHydro Group Limited of China for Ghana's refined bauxite. In a natural resource-endowed country, this is commendable. However, the Chamber sees a tilt towards "SAYG" and admonishes the government to be mindful of the impact of aluminium price volatility on any infrastructure spending that is frontloaded. We suggest that through broader and objective consultation with stakeholders, the country can structure a more beneficial management of the natural resources via: Concession; Construction; and Off-takers' (CCOs) rights arrangements.

Government has assured Ghanaians that the US$2 billion infrastructure agreement/arrangement with Sinohydro Company Ltd will not add to the debt stock. It is also reported that the arrangement will involve a three-year moratorium to enable the country to build an aluminium refinery after it fulfil its obligations. The barter arrangement, as mentioned in the mid-year budget review, is known in international financing circles as Resource for Infrastructure (RfI). It was introduced into Africa by the Britain, France, and The Netherlands in the late 1990s as a resource collateral arrangement in a more mutual fashion. It was later taken on by China with conditions more favourable to them.

The Chamber is calling for a broader stakeholder consultation on the barter agreement that will place the country in a position to guard against the tendency of a greater portion of the liquidity exiting back to China. The barter arrangement will likely result in infrastructure capital equivalent to roughly 4% of Ghana's GDP. In this regard, concerted efforts are required to address liquidity cycle and spill-overs, and the liquidity dynamics of this inflow and its ability to trigger non-natural resource-based capital growth. This entails strategic management of the fiscal mirrors with aluminium pricing; infrastructure, industry and project planning; procurement planning to improve procurement practices and processes; improvement in education to address labour and skills' gaps; and improving the legal regime for off-taker purchasing agreements.

The RfI model of financing has been pursued by China in Africa since 2004 with several beneficiary countries, including Angola (US$4.5bn, Oil), Sudan (US$1.3bn, Oil), Nigeria (US$12bn, Oil), DRC (US$9bn, Cobalt, Diamond, Copper), Gabon (US$3bn, Iron Ore), Zimbabwe (US$700m), Tanzania (US$400m), Mozambique (US$300m), and Ghana (US$3bn, Oil), which was later truncated.

These deals were seen as too favourable for China, and that led several of these countries to complain, causing an abrupt suspension of the model in 2012. Some of the reasons for the complaints included pushy disagreements, traditional donor pressure, poor or non-existent regulatory framework, and poor sourcing relations. The impact of the RfI approach has also not been very encouraging for these economies in terms of real economic impact, non-resource capital increase and other investment spill-overs. Ghana appears to be one of the few countries in which China is relaunching the model after the initial suspension. In this regard, the Chamber requires that appropriate due diligence be pursued to ensure that the barter process, now and in the future, creates more non-resource capital upsurge via proper local content management and skills update.

Natural resources are depletable and conscious efforts must be made to ensure that the country benefits more and enjoy sustainable development after their depletion. The arrangement is a timely match of cash-rich China in search of liquidity advantage and raw materials in a country with a vast pool of underdeveloped natural resources and huge infrastructure gap.

5.0 Social Partnership

Beyond the IMF's Extended Credit Facility and in line with the President's vision of a "Ghana Beyond Aid", government looks forward to viable social partnerships that engage stakeholders as trusted partners to actively participate in the development of the country. This has been a development goal of government. However, in some cases, government has failed to engage its partners in the formulation and implementation of policies such as the Free SHS, "1D1F", "Planting for Food and Jobs", etc. Unfortunately, a top-down approach has often been the case with such policies and programmes with their inherent current challenges and foreseeable complications. Nonetheless, the Chamber welcomes the call for social partnerships and shares the view that together with other stakeholders, a roadmap for the development of Ghana can be fashioned out.

It is the expectation of the Chamber that this new social partnership will be our unifying force to achieve a shared vision of socio-economic growth and development, and prosperity. Each partner must act in good faith and recognise the unique contributions that are inherent in our concatenated diversity.

6.0 Conclusion

Creating an enabling business environment for growth and prosperity is a shared responsibility. The relative improvement in the macroeconomic indicators reflects government's commitment to socio-economic growth and development. However, the micro dynamics appear to be missing. It thus becomes fleeting when economic growth fails to commensurate with job creation and improved living conditions. Ghana is a micro-system and there is a need to mobilise micro data to inform government's policies and initiatives.

It is the expectation of the Chamber that government, through its new social partnership, will continually engage stakeholders in addressing issues affecting businesses and the general economy. In all cases, the Chamber hopes that government will not restrict or limit its boundary of ideas but rather encourage diversity in thinking by drawing upon the invaluable talent that abound in academia, industry, and civil society organizations. The Chamber will do its best to support government's efforts to grow the economy and businesses for improvements in the material conditions of Ghanaians.