

An Examination of Coronavirus Pandemic Nexus on Ghana's Economic Outlook

Ephraim Armstrong Awinbugri (Ph.D.)¹, Benjamin Akese Debrah²

¹Accountant/Research & Seminar Coordinator, Agogo Presbyterian Women's College of Education

²Banker, Republic Bank Ghana Ltd, Kumasi

Abstract: - The research was to examine coronavirus pandemic nexus on Ghana's economic outlook. The researchers employed quantitative research using secondary data emanating from excerpts of the 2020 budget statement presented by the Finance Minister, Ken Ofori-Atta and the subsequent statement presented to parliament after the outbreak of the virus. The researchers found that the overall fiscal deficit will augment from the programmed GH¢18.9 billion (4.7% of GDP) to GH¢30.2 billion (7.8% of revised GDP). The primary balance will correspondingly worsen from a surplus of GH¢2,811 billion (0.7% of GDP) to a deficit of GH¢5.6 billion (1.4% of GDP) and a general decline in tax and non-tax revenue, following drastic fall in prices of crude oil from \$63.21 a barrel to \$22.9 a barrel, cocoa \$2,440/tons to \$2,253/tons except Gold which had a price increase from \$1,479/toz to \$1,621.6/toz. Additionally, estimated GDP of 6.8% has since been revised to 2.6%/1.5%. Similarly, the hospitality industry, foreign direct investments, trade and industry have been adversely affected following measures such as lockdown of key commercial hubs in Ghana from operations to avoid further spread, closure of borders amongst others. The researchers recommend that government should ensure fiscal discipline despite 2020 being an election year as well as strict adherence to the Fiscal Responsibility Act 2018 (Act 982)

Keywords: Pandemic, Coronavirus, Economic Outlook

I. INTRODUCTION

Indisputably, the outbreak of the Coronavirus(COVID-19) pandemic announced by the World Health Organization on 11th of March, 2020 has not only jeopardized human lives, but also dented global economic outlook; Ghana not being an exemption.

The Minister of Finance, Ken Ofori-Atta, in compliance with Article (21) of the Public Financial Management Act 2016 (Act 921), The 1992 Constitution of Ghana, as well as the United Nations Sustainable Development Goals (Agenda 2030) and the African Union Agenda 2063, presented the 2020 Budget Statement dated 13 November 2019 captioned "Consolidating the Gains for Growth, Jobs and Prosperity for All".

Amongst others, the budget was driven by the following eight (8) thematic medium-term directional plans: Domestic Revenue Mobilization, Business Regulatory Reforms, Intensified Drive for Foreign Direct Investment, Digitization, Accelerated Infrastructure Development, International Financial Services Centre, Enhanced Financial Support to Local Enterprises, and Science and Technology. Worthy of

emphasis that the 2020 Budget is the first since Ghana exited the four-year International Monetary Fund (IMF) programme, the first election year Budget to be prepared within a strict fiscal regulatory framework that imposes a numerical limit on fiscal deficit encapsulated in the recently passed Fiscal Responsibility Act 2018 (Act 982) placing a 5% cap on fiscal deficit in any given year.

1.1 Research Objective

The objective of the study was to examine the impact of the Coronavirus pandemic on the economic outlook of Ghana

1.2 Research Questions

To what extent has the Coronavirus pandemic affected the economic outlook of Ghana?

1.3 Problem Statement

As the world comes to terms with the scale and severity of the COVID-19 pandemic, the health of the global population is rightly taking priority over other sectors of the economy. Ghana is currently an import driven economy and it is without doubt the pandemic would definitely pose a serious threat to its economic outlook especially now that its largely importing country (China) has been the focal point of spread of the Coronavirus.

But what predictions could be made about the economic outlook of Ghana following the emergence of the coronavirus?

II. LITERATURE REVIEW

Review of literature embodies conceptual and empirical reviews on the subject matter.

2.1 Conceptual Review

Conceptual review essentially encompasses COVID-19 and Ghana's economy.

2.1.1 Coronavirus (COVID-19)

The global march of COVID-19 is beginning to look unstoppable. A modeling group at Imperial College London has estimated that about two-thirds of the cases exported from China have yet to be detected.

According to **Jon C. and Kai K. (2020)**, the World Health Organization (WHO) still avoided using the word "pandemic"

to describe the burgeoning crisis, preferring the use of “epidemics in different parts of the world.” But many scientists say that regardless of what it is called, the window for containment is now almost certainly shut. “It looks to me like this virus really has escaped from China and is being transmitted quite widely,” says Christopher Dye, an epidemiologist at the University of Oxford. “I’m now feeling much more pessimistic that it can be controlled.” In the United States, “disruption to everyday life might be severe,” Nancy Messonnier, who leads the coronavirus response for the U.S.

According to John Ashton (2020), over the past 30 years, there has been a succession of new threats to public health from a variety of infectious disease agents. Beginning with Bovine Spongiform Encephalitis in 1986, followed by Avian flu (1997), Severe Acute Respiratory Syndrome in 2002, Swine flu (2009), Ebola (2014) and now Corona (COVID-19), nature reminds us regularly that humans exist on the planet on sufferance. We live in habitats where respect for the relationships between animal, social life and environment is necessary for a species to thrive. Rapid urbanization with incursion into jungle and wilderness bring exposure to unfamiliar organisms often involving consumption of exotic wildlife species. Mass migration

and poor attention to hygienic considerations are familiar factors in the emergence of novel and virulent infections and underlying this is poverty, inequality and subsistence living.

2.2 Ghana Economy

Ghana’s economy was touted as the fastest growing economy in 2019, with real GDP growth estimated at 7.1%. High growth momentum since 2017 has consistently placed Ghana among Africa’s 10 fastest-growing economies. Improvements in the macroeconomic environment were accompanied by expansion in domestic demand due to increased private consumption. The industrial sector, with average annual growth exceeding 10%, was a major driver of growth in the three years to 2019.

Agriculture will continue to be the second fastest-growing sector in the economy, but a financial sector clean-up that started in 2017 placed a temporary drag on growth of services. In 2019, Ghana maintained its moderate fiscal and current account deficits, single-digit inflation, and a relatively stable exchange rate. The fiscal deficit improved from 3.5% of GDP in 2018 to 3.4% in 2019. However, the current account deficit rose from 3.1% of GDP to 3.5% as net flows in the income account outweighed gains in the trade account. A steady decline in nonfood inflation and tight monetary policy helped keep inflation within a medium-term target of $8 \pm 2\%$ (<https://www.afdb.org/en/countries/west-africa/ghana/ghana-economic-outlook>)

III. RESEARCH METHOD

The research involved mainly secondary data extracting Ghana’s 2020 Budget Statement as well as commentaries ran by audit firms such as Deloitte and KPMG

IV. GHANA’S ECONOMIC 2020 PROJECTIONS

4.1.1 Highlights of the 2020 Budget on the Ghanaian Economy

The 2020 budget enumerated the specific macroeconomic targets detailed for the 2020 fiscal year as follows:

- Overall Real GDP growth of 6.8 percent, Non-Oil Real GDP growth of 6.7 percent, End-period inflation of 8.0 percent, Fiscal deficit of 4.7 percent of GDP, Primary surplus of 0.8 percent of GDP; and Gross International Reserves to cover not less than 3.5 months of imports of goods and services.

4.1. 2 Similarly, Macroeconomic Targets for the Medium Term Included:

Total public debt is GHC208.6 billion (including the cost of the banking sector clean-up) at the end of September 2019, Overall Real GDP growth to average 5.7 percent for the period, Inflation to be within the target band of 8 ± 2 percent, Overall fiscal deficit to remain within the Fiscal Responsibility Act Threshold of not more than 5 percent of GDP, and Gross International Reserves to cover at least 3.5 months of imports of goods and services.

4.1. 3 Resource Allocation For 2020 Was Envisaged As:

Total Expenditure (including clearance of Arrears) is projected at GH¢85.9 billion (21.6% of GDP) in 2020, Wages and salaries are projected at GH¢22.9 billion and constitute 26.7 percent of the Total Expenditure (including Arrears clearance), Use of Goods and Services is also projected at GH¢8.3 billion (2.1% of GDP) and 9.7 percent of the Total Expenditure (incl. Arrears clearance), Interest Payments on public debt is projected at GH¢21.7 billion (5.4% of GDP).

4.1. 4 Resource Mobilization For 2020

Total Revenue and Grants for 2020 is projected at GH¢67.1 billion (16.9% of GDP), Domestic Revenue is estimated at GH¢65.8 billion and Grants disbursement from Development Partners is estimated at GH¢1.2 billion (0.3% of GDP).

4.2 Adverse Impact of Covid-19 On The Ghanaian Economy

Despite the above lofty projections, the emergence of the Coronavirus (COVID-19) pandemic remains a hefty blow towards the realization of the budget goals and if care is not taken, the economic outlook might be adversely dented as enumerated below:

4.2.1 Adverse Impact on the Hospitality Industry

The negative impact on the hospitality industry is likened to the cancelation of the Scheduled international conferences in Ghana on the 4th African Union Specialized Technical

Committee (STC) on Finance, Monetary Affairs, Economic Planning and Integration meeting and the G24 Technical meetings, which were programmed in early March 2020, leading to a loss of 1000 combined participants and therefore a loss in 1000 hotel beds!. Transportation services have been among the worst hit due to social distancing, closure of schools, and ban on public gatherings. Additionally, the global trend in the cancellation of flights, closure of borders (land, sea and air), and the need to maintain social distancing, including the ban on public gatherings, are having huge negative impacts on economic activities in the hospitality industry. Among the worst hit are hotels, airline business, tourist sites and attractions, and car rental services. Hotel occupancy rates as depicted in Table 1 are down from 70% to fewer than 30% and staffs are being sent home. Even before the impact of the current lockdown, restaurants were already experiencing an average drop in patronage of 60%.

4.2.2 Impact in Investments

Generally, foreign investors are unable to come to the country to transact business so it is envisaged that there will be decline in programmed Foreign Direct Investment (FDI). The situation is further compounded by the closure of borders, restriction on flights etc so movement generally is impeded by investors.

4.2.3 Impact on Trade and Industry

According to the Honorable Minister of Finance, trade volumes and values (both domestic and international) are also reducing as a result of the coronavirus pandemic. There have been significant reductions in trade volumes and values with many countries, especially China, which represents the highest of Ghana's imports and the second highest of Ghana's exports. Reductions in imported intermediate goods could significantly slowdown manufacturing activities in Ghana. Reductions in imports of goods and services could have the tendency of reducing the demand for forex for importation of goods and services. This has a favourable impact on foreign exchange volatility and on our net international reserves. It also provides opportunities for import substitution, thereby, enhancing local production of goods and services.

4.2.4 Impact on the Agriculture Sector

Even though agriculture may not be badly affected since it does not require significant imported intermediate goods, growth could still be a slow-down as a result of disruptions in the supply chain and lower demand activities. Disruptions could limit farmers' access to inputs, such as seeds, fertilizers and insecticides, uncertainty and fear could negatively impact planting decisions; and also a reduction in the volume of main agricultural exports, as a result of the general downturn in global economic activity due to the pandemic. General shortage in food supply is anticipated if the pandemic intensifies. This could lead to inflation in food prices, especially rice, bread, poultry and other meat products, vegetables, sugar and other commodities.

4.2.5 Impact on Commodity Prices

Government will register a shortfall in crude oil receipts amounting to GH¢5,679 million. Additionally, preliminary analysis shows that import duties will fall short of target by GH¢808 million for the 2020 fiscal year. Similarly, the projected slowdown in non-oil GDP as result of the coronavirus pandemic is expected to result in shortfalls in tax revenues (excluding oil tax revenues and import duties) amounting to GH¢1,446 million, bringing the total estimated shortfall in non-oil tax revenues to GH¢2,254 million.

4.2.6 Impact on GDP

Total estimated fiscal impact from the shortfall in petroleum receipts, shortfall import duties, shortfall in other tax revenues, the cost of the preparedness plan, and the cost of Coronavirus Alleviation Programme is GH¢9,505 million (2.5% of revised GDP).

It is believed that a recalibration of the 2020 Fiscal Framework underpinning the approved 2020 Budget to reflect the fiscal impact of the coronavirus, as outlined above, without incorporating measures, shows that the overall fiscal deficit will increase from the programmed GH¢18.9 billion (4.7% of GDP) to GH¢30.2 billion (7.8% of revised GDP). The primary balance will correspondingly worsen from a surplus of GH¢2,811 billion (0.7% of GDP) to a deficit of GH¢5.6 billion (1.4% of GDP). Measures are, therefore, required to close the fiscal gap of GH¢11.4 billion (2.9% of revised GDP).

4.3 Government's Response Thus Far

The following actions have since been taken by government:

The initial cost of programmes and activities under the COVID-19 Preparedness and Response Plan is about GH¢572 million (US\$100 million).

The MoF paid GH¢300 million to NHIA on Friday 27th March 2020 as part of measures to provide liquidity to Health Care providers and the pharmaceutical industry. In addition, the Government arranged Life and Sickness Insurance for our Health Care Professionals on the front line of the Health Care Pandemic.

Lower the cap on the Ghana Stabilisation Fund (GSF) from the current US\$300 million to US\$100 million in accordance with Section 23 (3) of the Petroleum Revenue Management Act (PRMA). This measure will enable the excess amount in the GSF account over the US\$100 million cap to be transferred into the Contingency Fund, consistent with Section 23 (4) of the PRMA. The amount transferred into the Contingency Fund will be used to fund the Coronavirus Alleviation Programme (CAP). Through this process, an estimated **GH¢1,250 million** will be transferred into the Contingency Fund to Fund the CAP. Mr. Speaker, we therefore wish to seek approval from this August House for the Finance Minister to use the Funds which will be available

in the Contingency Fund to fund the Coronavirus Alleviation Programme.

Arrange with BOG to defer interest payments on non-marketable instruments estimated at **GH¢1,222.8 million** to 2022 and beyond;

Adjust expenditures on Goods & Services and Capex downwards by **GH¢1,248 million**;

Secure the World Bank DPO of **GH¢1,716 million**;

Secure the IMF Rapid Credit Facility of **GH¢3,145 million**;

Reduce the proportion of Net Carried and Participating Interest due GNPC from **30% to 15%**;

Amend the PRMA to allow a withdrawal from the Ghana Heritage Fund to undertake urgent expenditures in relation to the Coronavirus pandemic. There is an estimated **US\$591.1 million** in the Ghana Heritage Fund.

Establishment of a COVID-19 Fund, to be managed by an independent board of trustees, chaired by former Chief Justice, Sophia Akuffo, to receive contributions and donations from the public to support the CAP and to assist in the welfare of the needy and the vulnerable.

Realignment of Statutory Funds towards expenditures that tend to mitigate the impact of the coronavirus pandemic (sanitation and health related expenditures) and limiting the award of new contracts while focusing on the payment of arrears;

Amendment of the Bank of Ghana Act to allow for government borrowing from BOG beyond the stimulated threshold in the Act in the event of tight domestic financing market conditions;

The Bank of Ghana and the Ministry of Finance have engaged the Commercial Banks to discuss their support to the private sector to mitigate the impact of the Coronavirus pandemic. The support includes:

- i. a syndication facility of GH¢3 billion to support industry especially in the pharmaceutical, hospitality, service and manufacturing sectors, as mentioned by His Excellency the President;
- ii. granting of six-month moratorium of principal repayments for selected businesses;
- iii. reduction of interest rates priced-off the Ghana Reference Rate (GRR) by 200 basis points (2% per annum);

The Ghana Revenue Authority will provide some reliefs to businesses and households including:

- i. extension of due dates for filling of taxes from 4 months to 6 months after the end of the basis year;
- ii. tax payers encouraged to pay their taxes by bank transfers;
- iii. grant a remission of penalties on principal debts to Tax payers who redeem, their outstanding debts due GRA up to 30th June 2020;
- iv. waive VAT on donations of stock of equipment and goods for fighting the Covid-19 Pandemic;
- v. waive taxes on selected Third-Tier Pension withdrawals; and
- vi. permit the deduction of contributions and donations towards COVID-19 as allowable expense for tax purposes.

4.4 Summary of Findings on Consecutive Impacts

The extent of impact of the virus on economic outlook include: significant shortfalls in petroleum receipts; shortfalls in import duties; shortfall in other tax revenues; increased health-related expenditures; and tight financing conditions

4.5 Recommendations

The researchers recommend strict fiscal discipline in 2020 regardless of it being an election year as well as adherence to the Fiscal Responsibility Act 2018 (Act 982).

Additionally, the researchers recommend that prudent economic policies should be initiated to curb any effect of budget overruns due to COVID-19 spending else unemployment would soar from the medium term up to the long term.

V. CONCLUSION

It is envisaged that the adverse impact of COVID -19 on Ghana's economy could be short term and medium term up to 2021 and beyond and that the COVID-19 pandemic would have an adverse impact on the economy of Ghana as regards low revenue mobilization, increased public debt, fall in foreign direct investments etc.

REFERENCES

- [1] John Ashton (2020). The pandemic of coronavirus: tackling the latest plague. *Journal of the Royal Society of Medicine*; 2020, Vol. 113(3) 123–124
- [2] Jon Cohen and Kai Kupferschmidt (2020). Strategies shift as coronavirus pandemic looms. <http://science.sciencemag.org/content/sci/367/6481/959.full>
- [3] Ministry of Finance (2020). Budget Statement for the 2020 Fiscal Year
- [4] Ministry of Finance (2020). Economic Impact of the Covid-19 Pandemic on the Economy of Ghana.

APPENDIX

Economic Impact of The Covid-19 Pandemic On The Economy Of Ghana review

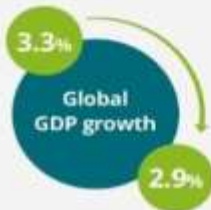
Economic impact of COVID-19 at a glance



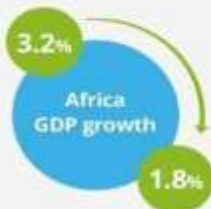
Impact on the Ghanaian economy

Impact on the Global and Africa economy

Global GDP growth of 3.3% for 2020 to slow to less than 2.9% due to Covid-19.

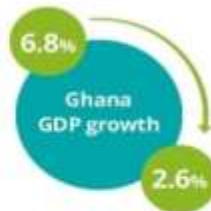


Africa's projected GDP growth of 3.2% for 2020 is now expected to slow to about 1.8%



Impact on GDP Growth

Ghana's estimated GDP growth is set to plummet from a target of 6.8% to about 2.6% in 2020



Initial cost of preparedness and response plan

Total amount dedicated by Government of Ghana (GoG) towards fight against Covid-19

GH¢572m

Total fiscal impact from revenue shortfall and cost of preparedness and response plan

GH¢9,505m

Estimated impact on petroleum receipts

Shortfall in the Ghana Stabilisation Fund

↓ **GH¢1,058m**

Shortfall in the Ghana Heritage Fund

↓ **GH¢453m**

Shortfall in Annual Budget Funding Amount (ABFA)

↓ **GH¢3,526m**

Shortfall in transfers to GNPC

↓ **GH¢642m**

Estimated impact on tax revenue

Shortfall in import duties

GH¢808m

Shortfall in other non-oil tax revenues

GH¢1,446m

Total shortfall in non-oil tax revenue

GH¢2,254m

Source: IMF | INEPA | GoG | Palmita Analytics