IMANI Policy Brief: Don't let the short-term crisis measures reverse regulatory gains made in supporting prudent fiscal behaviour

Background

The global economy is facing its most daunting headwinds for the first time since the 2007-2008 global financial crisis. The Coronavirus (COVID-19) pandemic continues to impact us all through health and economic channels, indicated by increasing financial market stress, collapse in commodity prices, supply chain disruptions and the loss of jobs, among others. These have significantly dampened near-term growth prospects. The United Nations Department of Economic and Social Affairs[1] (DESA) estimates that global growth could contract by 0.9% in the worst case — instead of growing by 2.5% — driven by the weakened COVID-19-related trade and investment climate. This would have significant impacts on people's wellbeing. Likewise, the World Health Organisation (WHO) indicates that over 1 million confirmed cases of COVID-19 have been recorded globally, with more than 50,000 deaths reported.[2] In Ghana, there have been 214 reported cases with five deaths as of 5 April 2020[3], according to official government statistics.

It is increasingly clear to many observers that the post-crisis recovery success will depend, crucially, on policies implemented during the crises to avoid making permanent and structural damages. Across the globe, most governments using monetary and fiscal policy institutions, are putting in measures to mitigate the 'shock's' effect on supply and demand-side dynamics, crucially capital accumulation.[4] According to the International Monetary Fund (IMF)[5], most of the policies globally have focused on:

1. Household – cash transfers of various forms, suspension of interest payments on loans, assistance to goods markets participants.
2. Businesses and private sector – suspension of interest payments, subsidies, tax and social security suspensions, the extension of maturities on loan facilities, direct credit provision by central banks, purchases of commercial papers and bonds and;
3. Financial sector – liquidity provisions to financial intermediaries, equity injections, government guarantees, and a cocktail of actions to preserve market liquidity.

The summary propositions above, constitute short term solutions which match up to the short-term supply and demand-side shocks and allow governments to monitor medium term to long term implications of policy actions. All economic actors have had to make drastic concessions and adjustments.

It is within this context that the Ghanaian government through the Minister of Finance and Economic Planning on 30 March 2020 outlined a strategy – fiscal measures to mitigate the impact of coronavirus pandemic including the Coronavirus Alleviation Programme (CAP), to manage the impact of the crisis on the Ghanaian economy. To this end, the solutions provided by the Ghanaian government must at the barest minimum address short term risks, with the limited potential of:

1. Damaging long term structural gains, and;
2. Undermining broad economic recovery strategies over the medium term.

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[1] https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-april-2020-briefing-no-136/

[2] https://www.who.int/docs/default-source/coronaviruse/situation-reports/20200404-sitrep-75-covid-19.pdf?sfvrsn=99251b2b_2

[3] https://ghanahealthservice.org/covid19/

[4] https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19

[5] https://blogs.imf.org/2020/04/01/economic-policies-for-the-covid-19-war/

The government's estimate of the immediate (2020) impact of COVID-19 is a decline in growth from a projected 6.8% to 2.6% of GDP, with several implications for revenue mobilisation, and financing of government operations. The Minister of Finance suggests that ***"…the estimated fiscal impact from the shortfall in petroleum receipts, shortfall import duties, the shortfall in other tax revenues, the cost of the preparedness plan, and the cost of Coronavirus Alleviation Programme …is GHS9.5 billion (USD1.73 billion; 2.58% of revised GDP[6])"***. The fiscal deficit will increase from 4.7% of GDP to 7.8% of GDP without any measures in place, while the primary balance will decline from a surplus of 0.7% of GDP to a deficit of 1.4% of GDP. In contrast, the cost of cleaning up Ghana's financial sector is reported to have cost between GHS17 (USD3.1 billion) and GHS20 billion (USD3.5 billion).[7]

Curiously, some of the proposed fiscal measures, leave more questions than answers which we set out in the below arguments. However, we first provide a summary of the actions announced by the government.

Summary of Actions - Fiscal Measures to Mitigate the Impact of the COVID-19 Pandemic

1. Utilise USD219 million from the petroleum stabilisation fund by lowering the cap on the fund from USD300 million to USD100 million, and transfer to the Contingency Fund to fund the CAP.
2. Defer interest payments on non-marketable instruments estimated at GHS1.2 billion (USD 219 million) to 2022 and beyond.
3. **Reduce expenditure on CAPEX and goods and services by GHS1.25 billion (USD 227 million).**
4. Secure an IMF Rapid Credit Facility (RCF) of almost GHS3.2 billion (USD 582 million), and Development Policy Operation (DPO) of GHS1.7 billion (USD 310 million) from the World Bank.
5. Reduce the proportion of the Net Carried and Participating Interest (CAPI) due to GNPC, the national oil company, from 30% to 15%.
6. **Amend the Petroleum Revenue Management Act (PRMA) 2011 Act 815, to allow a withdrawal from the Ghana Heritage Fund (for urgent expenditures concerning the coronavirus pandemic); the Heritage Fund has accrued an estimated USD592 million).**
7. **Amend the Bank of Ghana Act to allow for government borrowing from BoG beyond the stipulated threshold in the Act** in the event of tight domestic financing market conditions, and;
8. A host of monetary policy actions in partnership with the financial sector to support critical sectors directly exposed to the pandemic: namely, hospitality, pharmaceutical, education services, manufacturing including oil and gas.

We welcome the summary actions taken by the government. We also do note these do not significantly depart from that of other governments across the world, except for **points 3, 6, and 7 above**. One must be curious of these, more so, given economic and political developments over the last decade in Ghana.

Red flags - Reversing long term progress for short term gains?

The chequered history of economic management in Ghana's Fourth Republic shows a lack of commitment and consistency by successive governments in keeping with reforms necessary to

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[6] https://www.imf.org/external/pubs/ft/weo/2019/02/weodata/weorept.aspx?pr.x=48&pr.y=13&sy=2017&ey=2021&scsm=1&ssd=1&sort=country&ds=.&br=1&c=652&s=NGDPD%2CPPPGDP%2CNGDPDPC%2CPPPPC%2CPCPIPCH&grp=0&a=

[7] https://www.ghanaweb.com/GhanaHomePage/business/Financial-sector-cleanup-cost-won-t-exceed-GH-16-8-billion-Ofori-Atta-859477

drive the Ghanaian economy forward. Essentially, reforms which should shape the fiscal behaviour of governments through time in a predictable and efficient manner, get thrown out of the window at the 'slightest' risk and opportunity.

The following sets our arguments against recommendations 3, 6 and 7 of the programme:

1. By government's own estimates, the entire fiscal measures will cost the country some GHS9.5billion (circa US$1.7billion). It should be noted that this is less than the costs of the much-needed financial sector clean-up (circa GHS20 billion). Thus locally, our risk assessment of the combined effect of COVID-19 and the slump in crude prices is not comparable to the financial sector clean-up. As risky as the financial sector clean-up was, it did not require such structural changes in the law which could potentially erode gains in the conduct of monetary and fiscal policy. The government deserves credit for re-aligning its expenditure anytime revenue has been exposed to predictable and unpredictable risks. **On average revenue targets since 2017 have been missed by about 3.3%. However, they have been accompanied by a realignment in expenditure by about 2%, driven largely by a cutback in domestically financed capital expenditure of about 50% from projections which are already low.**

Table 1: Selected outturn of Fiscal indicators of government operations

	2017	**2018**	**2019**
Total Revenue			
Projected	43,124,611,697	49,059,044,226	54,565,043,013
Actual	41,497,894,313	47,636,732,967	52,974,137,931
Variance	**-3.92%**	**-2.99%**	**-3.00%**
Expenditure			
Total Projected	52,201,006,558	59,171,734,232	70,189,825,158
Actual	51,985,948,597	58,196,960,205	67,670,899,561
Variance	**-0.41%**	**-1.67%**	**-3.72%**
Goods and Services Projected	2,651,496,364	3,682,273,554	6,925,759,146
Good and Services Actual	2,482,109,266	5,127,862,371	6,169,604,335
Variance	**-6.82%**	**28.19%**	**-12.26%**
Capital Expenditure			
Domestic Financed Projected	2,096,694,661	2,674,945,808	2,217,211,329
Domestic Financed Actual	1,020,993,593	1,682,807,818	2,528,504,333
Variance	**-105.36%**	**-58.96%**	**12.31%**
Foreign Financed Projected	4,348,017,110	3,718,381,430	3,817,240,249
Foreign Financed Actual	5,310,417,071	3,055,527,017	3,623,333,880
Variance	**18.12%**	**-21.69%**	**-5.35%**
Note: Amounts in GHS			

Source: Fiscal outturn data – Ministry of Finance and Economic Planning, 2017-2019, Ghana

2. Again, the estimated impact of COVID-19 and the plummet of crude prices is expected to increase the fiscal deficit to 7.8% of revised GDP breaching the 5% of revised GDP deficit target set by law. This puts revised the GDP around GHS 370 billion.[8] The combined effect of the strategies proposed, according to the finance ministry, will reduce the deficit to about 6.6% of revised GDP – **net fiscal gains of about 1.2% [7.8% - 6.6%] of revised GDP or GHS4.5 billion or approximately USD820 million)**. Assuming that the deficit of 6.6% of revised GDP is a target, which can be appreciated given the exigencies of the time, **the additional measures that government intends to pursue must yield a net gain of about GHS4.5 billion!** How does the government plug this hole in the short term? Through all the initiatives it has outlined including **Points 6 and 7above**, granted that Ghanaians would accommodate them including Point 3, more so given 2020 is an election year.

We argue that the medium to long-term costs of (i) allowing withdrawals from the Heritage Fund and (ii) revising the BoG Act to accommodate financing of about 10% of the previous year revenue [as seen in other reports not officially communicated], is not the best approach. The government does not need to set back the gains made in legislation and reform for prudent fiscal behaviour, for short term gains. The significant exposures of the budget and economic management plan of government outlined by the Ministry of Finance are indicative of the need for drastic measures. But these cannot erode significant gains on reform, when there are alternatives.

A careful examination of the 2020 budget shows some programmes which can be revised, to close the USD820 million gap (to meet the 6.6% deficit target or even below 6%) without incurring significant reform costs, but also to demonstrate that, the government is committed to the fiscal goals the country has set, and will not jeopardise same on the altar of political expediency.

We highlight some of the items below. It should be noted that some of the below may have been considered by the Ministry of Finance in their estimates of GHS1.25 billion cut back in capital expenditure and expenditure on goods and services. However, the below are considered viable trade-offs (at least for 2020) that must be of interest for any government willing to maintain the gains realised over the past fiscal periods, without taking the easiest of routes. All actors are keeping tight reforms, and so should the government.

1. Office of government machinery goods and services of about GHS4 billion which includes, programmes such as NABCo (GHS840 million) and Free Senior High School (GHS2.4 billion).
2. Office of government machinery capital expenditure of about GHS650 million which includes GHS125 million for regional re-organisation, and GHS292 million for the Electoral Commission. Under the exigencies, the register cannot be a priority, and we can make savings.
3. Infrastructure capital expenditure of about GHS2.4 billion, of which about GHS1.2 billion is for roads – cognisant of the 2020 being christened year of roads, GHS944 million for special development initiatives (of which GHS755 million is for the various development authorities to pursue infrastructure programmes), and;
4. Amortisation of about GHS12 billion of loans. Renegotiate some of the interest and principal payments over the next two fiscal periods with creditors. Both The World Bank Group and IMF have called on all official bilateral creditors “to suspend debt payments from IDA countries that request forbearance”.[9]

[8]https://www.imf.org/external/pubs/ft/weo/2019/02/weodata/weorept.aspx?pr.x=48&pr.y=13&sy=2017&ey=2021&scsm=1&ssd=1&sort=country&ds=.&br=1&c=652&s=NGDPD%2CPPPGDP%2CNGDPDPC%2CPPPPC%2CPCPIPCH&grp=0&a=

[9] https://www.worldbank.org/en/news/statement/2020/03/25/joint-statement-from-the-world-bank-group-and-the-international-monetary-fund-regarding-a-call-to-action-on-the-debt-of-ida-countries

We argue that the government can make further cuts to any of the above, and other items and programmes in the 2020 budget, in line with keeping to a 6.6% deficit target or even below 6.6% assumed above (GHS4.5 billion). We note that the Fiscal Responsibility Law 2018(Act 982) provides conditions for which the target can be set aside. Nonetheless, we agree with the Civil Society Platform on Oil and Gas in Ghana (CSPOG)[10] that the Heritage Fund can certainly not be one of Ghana's first lines of defence in this emergency; it is for intergenerational wealth, not recurrent spending.

Every economic actor is tightening up as indicated, and the government should be able to sacrifice some of its programmes, at least in 2020, until the headwinds are under control. The country cannot undo every good law passed and kept, to deal with short term risks. Our ability to creatively guarantee the predictability of policy implementation is incredibly crucial in the current age of policy formulation, implementation and national progress.

The NPP administration has made several macro-economic gains as a result of some of these legislative reforms which have collectively earned favourable country assessment within the international capital markets, and have at least guaranteed some level of predictable behaviour on the fiscal strategy of government – for example, competitive yields on Ghana's recent Eurobond sales.

We recommend that the government should stick to its prudent strategy deployed in the last three years, to guarantee and ensure some relative predictability of policy, while providing a plank on which subsequent governments can build and consolidate our macro-fiscal behaviour. This is extremely important!

Setting aside or amending these two fundamental laws - namely the Bank of Ghana Act, 2016 (Act 918) and the Petroleum Revenue Management Law (Act 815) - is opening up a 'can of worms' which the country has struggled with, in its immediate economic past. It also indicates that we are not prepared to stick to the country's set 'rules of economic management', which eventually undermines policymaking.

About Authors

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[10] https://www.myjoyonline.com/business/economy/civil-society-groups-in-oil-and-gas-sector-caution-against-raiding-heritage-fund/