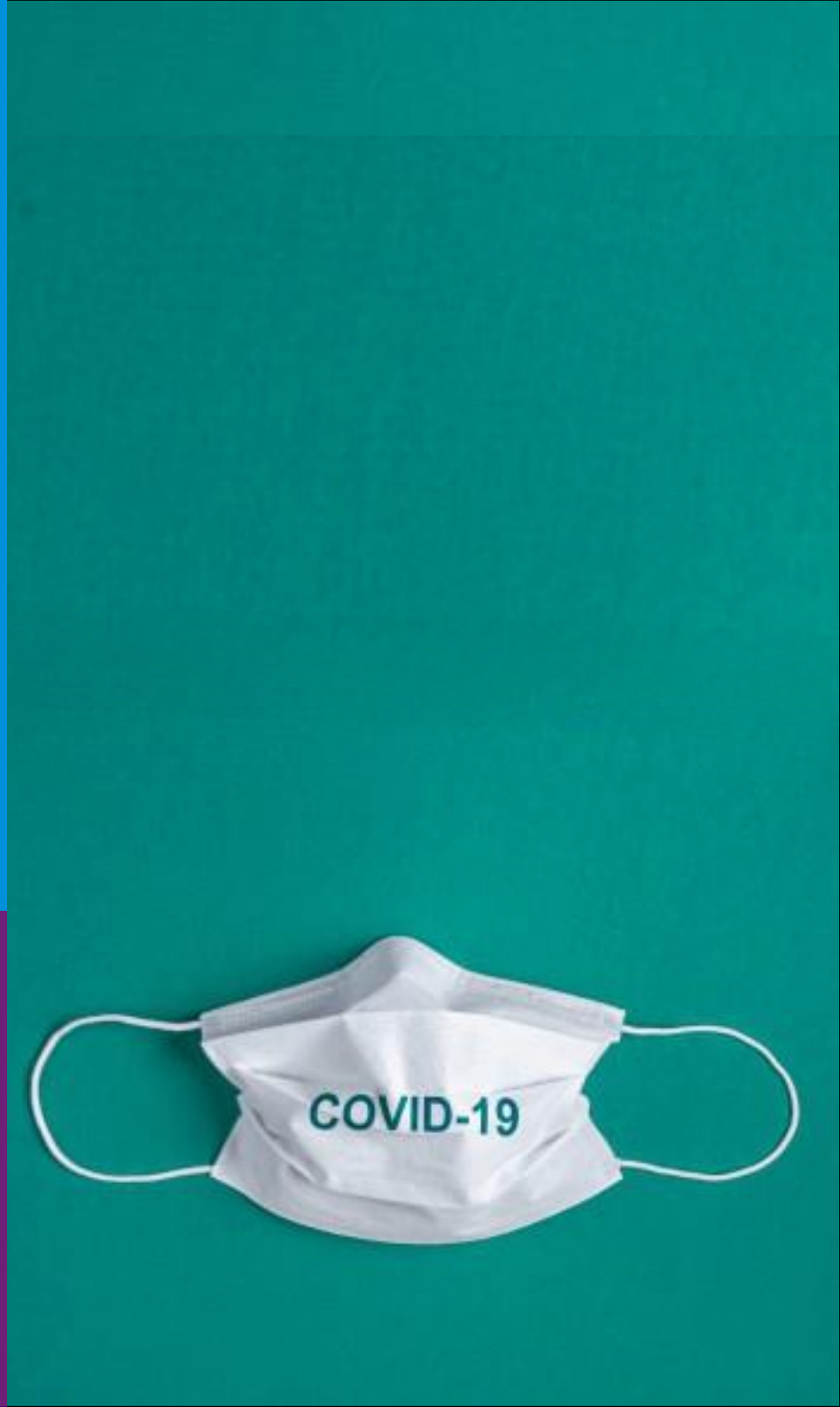
The economic impact and implications of COVID-19:

The Ghanaian Perspective

April 2020



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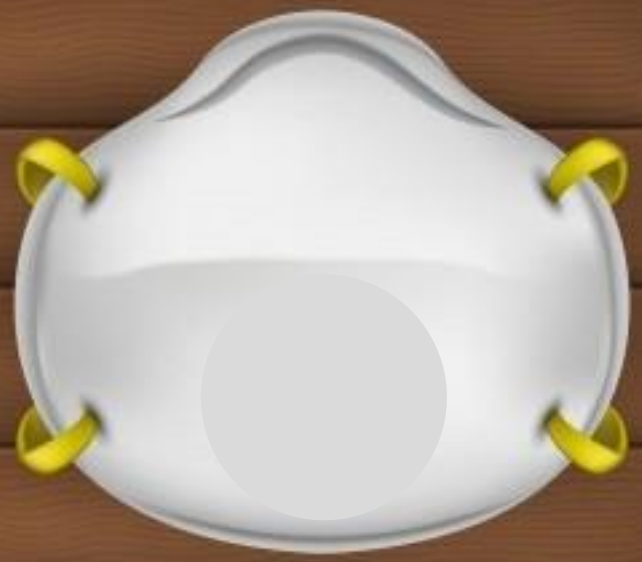

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- The data used in the analysis is assumed to be accurate from the various sources and valid as at 8 April 2020. The fluid nature of the pandemic means the situation may change anytime.

- KPMG is neither responsible for implementing the plans nor for the success of the user's decisions.

Outlook

Executive Summary

GDP Growth

2.6%

- Real GDP growth projected to decline from 6.8% to 2.6% for the 2020 fiscal year
- In the event of a par al lockdown, economic growth could decline to approx. 1.5%
- Growth rates expected to deteriorate further in event of full lockdown

Petroleum Revenue

GHC5,679 Million

Projected shortfalls:

- Annual Budget Funding Amount - GH¢3,526 million
- Ghana Stabilisation Fund - GH¢1,058 million
- Ghana Heritage Fund - GH¢453 million
- Transfers to GNPC - GH¢642million.

Non-Oil Tax Revenue

GHC2,254 Mi lion

- Import duties will fall short of target by GH¢808 million
- Shortfalls in tax revenues (excluding oil tax revenues and import duties) amounting to GH¢1,446 million

Cost of Preparedness and Response Plan

GHC1,572 Mi lion

- The cost of a COVID-19 preparedness plan is estimated to be USD $100 mn (GH¢572 million)
- Additionally, an estimated GH¢ 1.0 billion will be required to fund a comprehensive Coronavirus Alleviation Programme (CAP)

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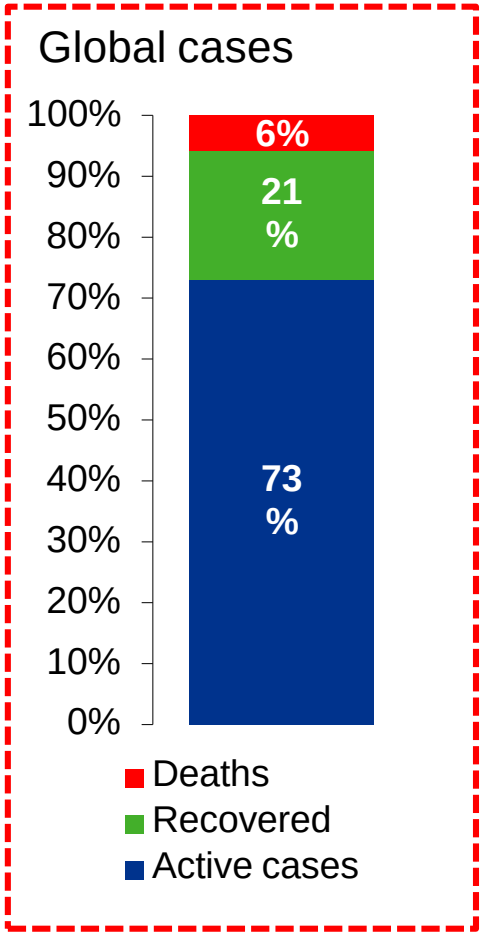
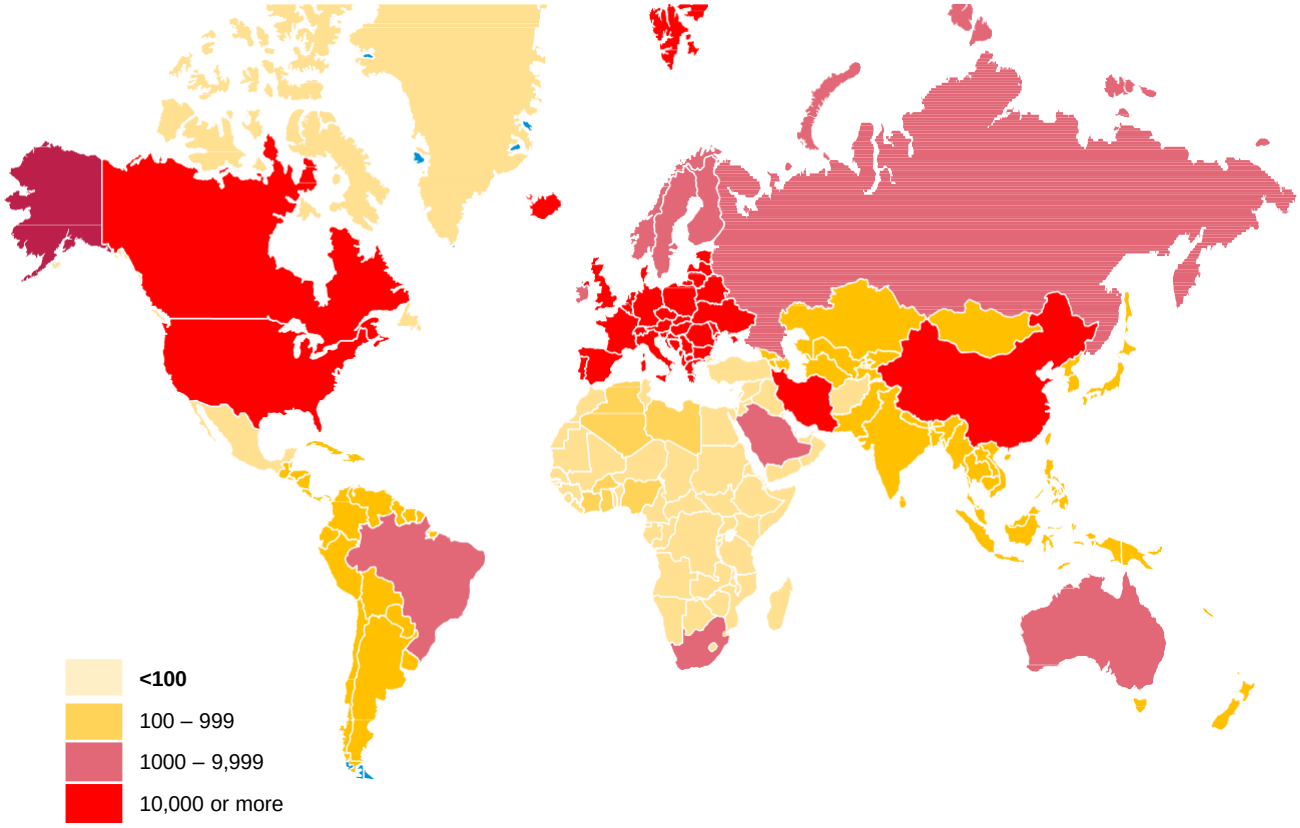
Global Situation

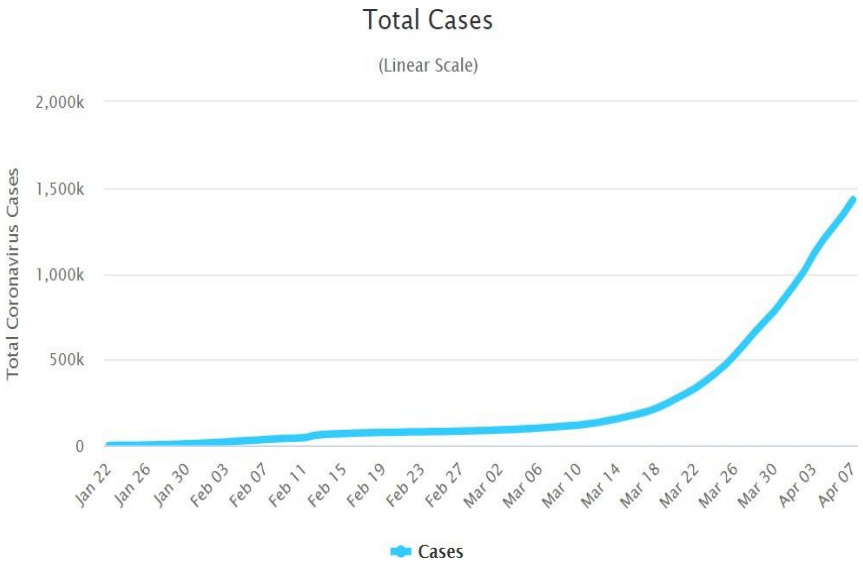
Total reported cases now exceed 1,455,000 with estimated 21% recovered and 6% death rate

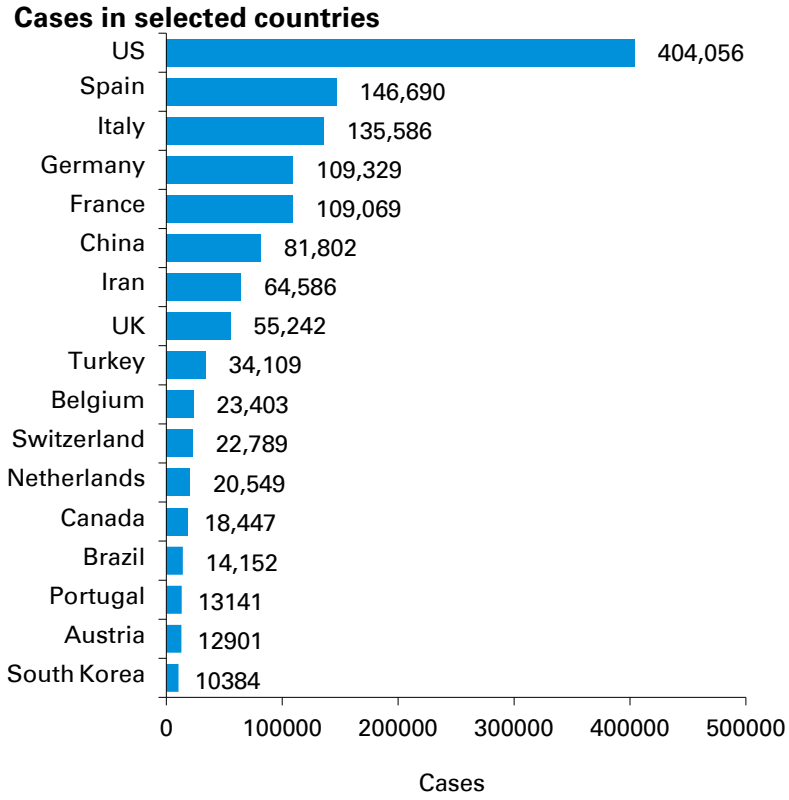




Sources: Worldometer and Johns Hopkins University and Medicine as at 8 April2020

Over 1,300,000 cases now recorded outside China accounting for about 95% of global cases





Sources: Worldometer and Johns Hopkins University and Medicine

It took 3 months to reach first 100,000 cases but only days to reach over 1.0 million (WHO)

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Global Developments

There has been multifaceted response from multilateral institutions **toward** mitigating the economic impact

World Health Organization

UNITED NATIONS FOUNDATION

THE WORLD BANK
IBRD • IDA

INTERNATIONAL MONETARY FUND

G20

Launch of Solidarity Response Fund

Covid Response Fund US$14 billion

Emergency Funding of US$50 billion

Injection of US$5.0 trillion

"The IMF could quickly disburse $50 billion through its emergency financing facilities to low income and emerging market countries dealing with COVID-19"
MD, IMF

Global response to limit the spread and contain the virus

01 USA

- Restrictions on travels (ban on travelers from EU and UK)
- Lockdown in some cities and closure of schools and ban on public gatherings. Over 90% in lockdown.

02 Europe

- The EU banned travellers from outside the bloc for 30 days
- Britain's response has been somewhat measured with less restrictions on social gatherings. However, strict lockdown is in place

03 Africa

- Response from Africa has been mixed as some countries have no cases
- Some have put in place travel bans from countries worst affected and closure of schools and ban on religious and social gatherings

04 Asia & MiddleEast

- Travel restrictions and lockdown in some countries.
- Total lockdown in China at the peak even though restrictions are easing as spread subsides
- Israel has deployed highly sensitive technology to track victims

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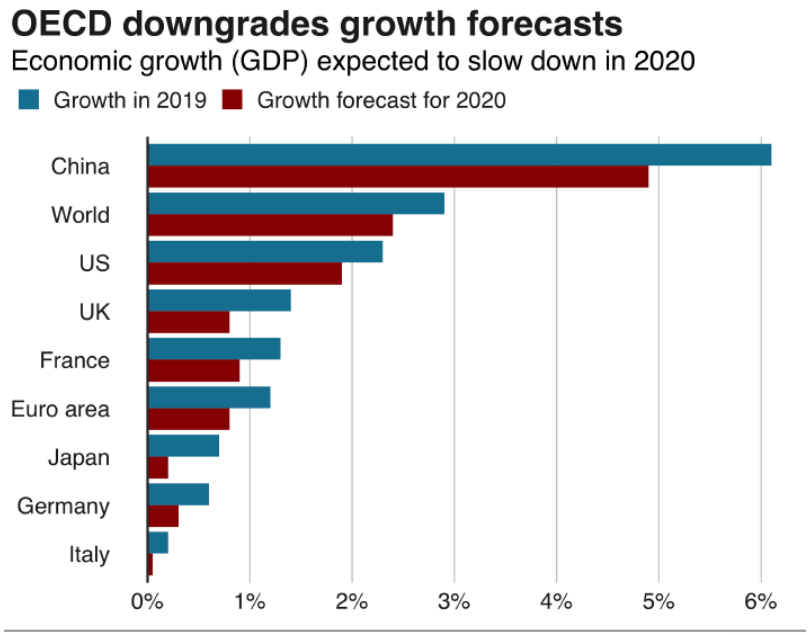
Economic Impact and Global Response

In a worst case scenario, where the pandemic persists, a global recession is likely



The Organisation for Economic Cooperation and Development (OECD) forecast growth of just 2.4% in 2020, down from 2.9% in November. It also said that a "longer lasting and more intensive" outbreak could halve growth to 1.5% in 2020

Bloomberg estimates that in a pandemic situation, Covid-19 could cost the world economy

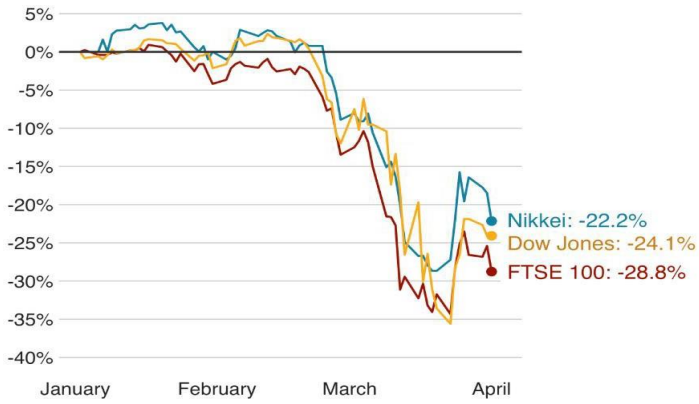
$2.7 trillion

Equivalent to UK's economy

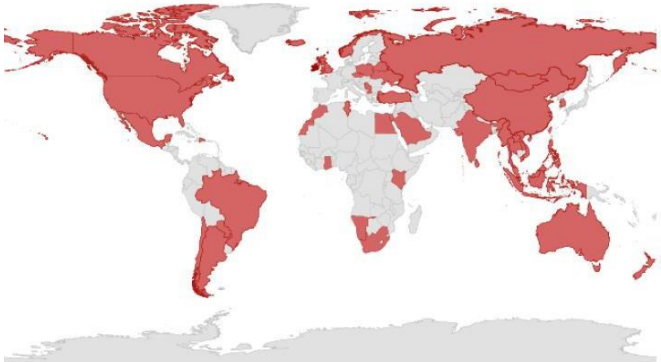
Source: Bloomberg, WEF & BBC

The economic impact has been widespread impacting stock markets and commodity prices…

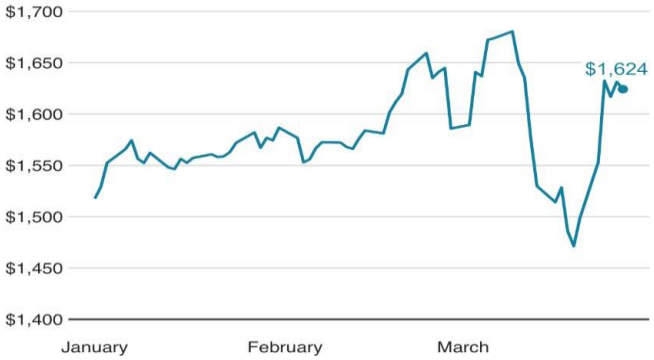
Stock markets have experienced falls



Central banks in more than 50 countries have cut interest rates to try to strengthen their economies

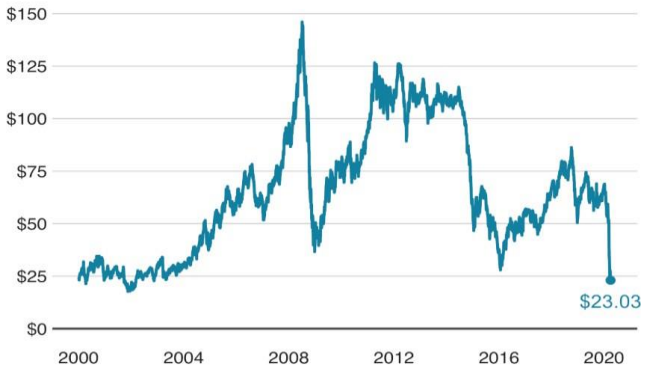


The value of gold is jumping back



Oil price hits 18-year low

Brent crude, US dollars per barrel



…Higher gold prices and falling oil prices could have positive impact for some economies

Source: Bloomberg, BBC and KPMG Analysis

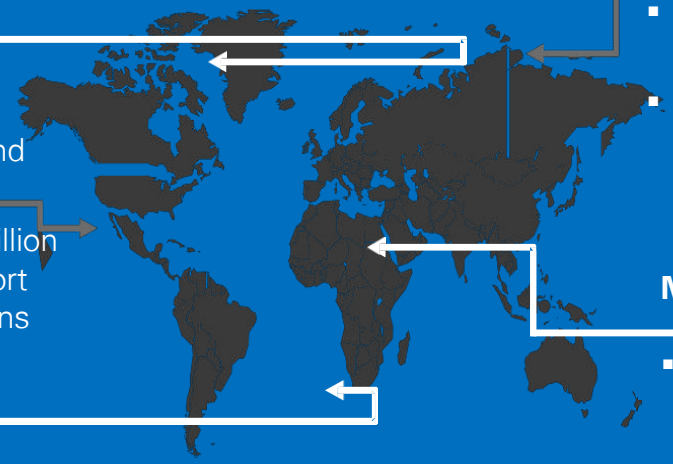
Global Economic Response

Europe

- The UK unveiled a stimulus package on excess of US$400 billion which includes paying 80% of workers' salaries of US$3,000 and grants to businesses.
- European Central Bank plans to buy close to US$1.0 trillion bonds to ensure liquidity.
- Germany and France announced stimulus packages to cushion businesses and help unemployed.

USA & Canada

- The Treasury cut interest rates by a percentage point to between 0% and 0.25%.
- A total stimulus package of US$2 trillion dollars has been signed off to support individuals, big and small corporations and public sector agencies.
- Canada also announced rates cut, mortgage extensions and unemployment support



Africa

- Multilateral institutions like IMF and the World Bank provide a lifeline for African countries to access funds to combat the virus. Some countries including Ghana have cut rates and announced various monetary policies.

Asia

- China announced series of measures including cutting medium term rates and stimulus packages in the form loan extension and reverse repo operations worth over US$174 billion.
- Australia announced stimulus packages worth over US$60.0 billion and also reduced interest rates to 0.5%. In Hong Kong payment cash subsidy of US$1,200 per resident adults.
- Japan announced stimulus packages of over US$20.0 billion in the form of business loans
- India announced stimulus package of over US$22.0 billion to help the poor

Middle East

- The drop in oil prices even before the pandemic will negatively impact the ability of governments to respond. However, Saudi Arabia announced US$32.0 billion in emergency funding.
- Other countries including Kuwait have announced similar measures and cut interest rates.

Developing countries and emerging economies will be significantly impacted without support in the form of development assistance, debt relief & debt restructuring.

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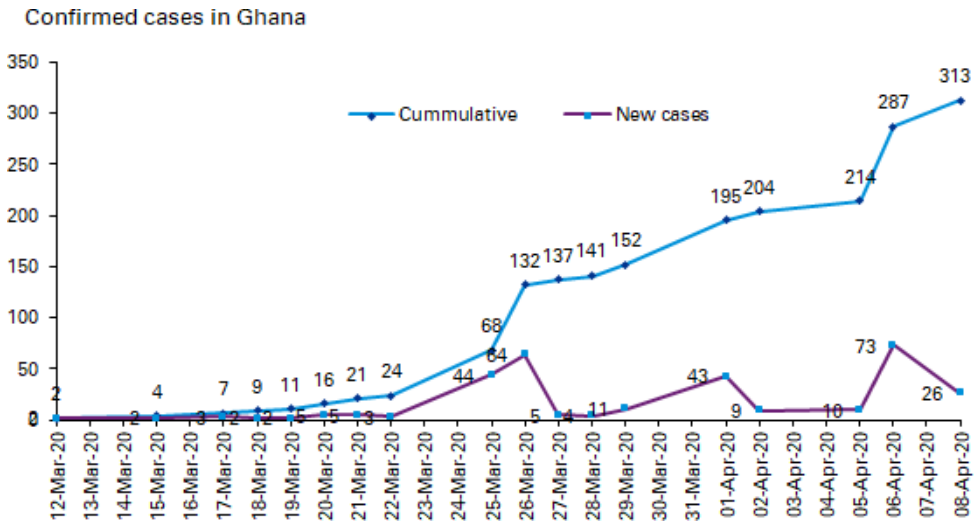
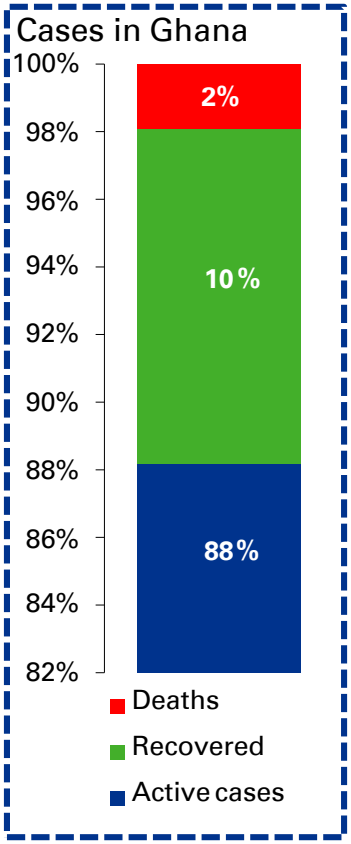
The Ghanaian Perspective

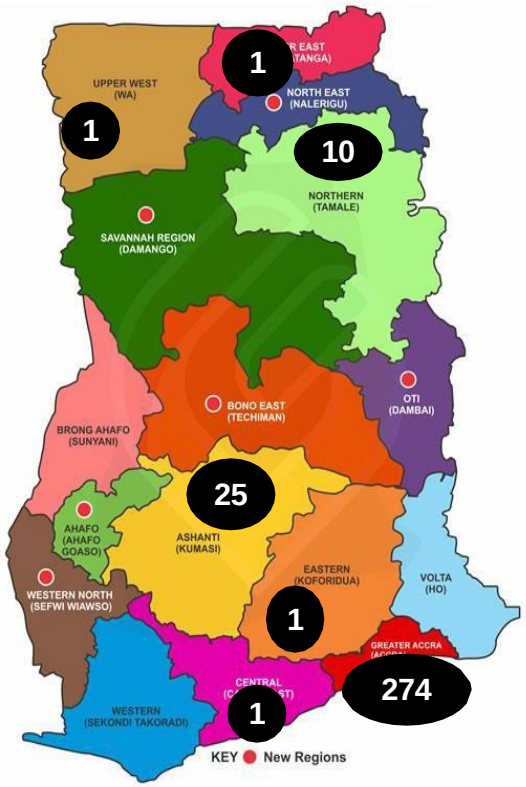
Ghana has recorded 313 cases with a 10% recovery rate and 2% death rate



- Over **33%** of the confirmed cases in Ghana were recorded from travelers placed under mandatory quarantine.
- WHO classified Ghana among 13 **Priority 1** countries to be at risk due to its international passenger volume.
- Most parts of the Greater Accra and Ashanti regions have been placed under a 14 day partial lockdown since 22 March 2020



Geographic Distribution of Cases



Source: Ghana Health Service and MoF presentation to Parliament. Data valid as at 8 April 2020

Outbreak of the pandemic to negatively impact the economy and erode some gains

Hospitality industry

- Occupancy rates of hotels are expected to decline from **70%** to **below 30%**
- Considering the global trends in the cancellation of flights, closure of borders and the need to maintain social distancing including the ban on social gatherings, revenues and cashflow of hotels, restaurants, bars, pubs and nightclubs will experience decline significantly.

Agriculture

- The agricultural sector is also expected to experience adverse disruptions in the supply chain coupled with lower demand activities.
- Uncertainty, fear and panic could also negatively impact the planting decisions of farmers.
- If the pandemic intensifies, it could lead to **shortage in food supply and a general inflation** of food prices.

Investment

- In an attempt to curb the spread of the virus, travel restrictions and border shutdowns were imposed. An unintended consequence of the Government's directive is the inability of foreign investors to enter the country to transact business or even undertake feasibility studies
- This trend is expected to worsen as the level of uncertainty increases going forward.

Health institutions

- The Government is putting in measures to support the health institutions by pledging **US$100 million** to the COVID-19 Preparedness and Response Plan
- However, the Ministry of Health and the Ghana Health Service are of the view that the country's health facilities do not have the capacity to handle a full-fledged pandemic.

Trade and industry

- Trade volumes both domestic and international are reducing especially with China which constitutes the highest of Ghana's imports and the second highest of Ghana's exports
- The decline in international trade will result in a **reduction of expected import duties.**

Fiscal impact

- The Government of Ghana anticipates that, the total shortfall in petroleum receipts, import duties, tax revenues and the cost of the preparedness plan and the Coronavirus Alleviation Programme will cost the economy about **GH₵ 9.5 billion**.
- The primary balance of the economy will worsen from a surplus of **GH₵ 2.8 billion** to a deficit position of **GH₵ 5.6 billion.**

Source: MoF presentation to Parliament on 30 March 2020

However, we anticipate some positive impacts from current situation

Positive Impacts

… Enhance Local Production: Opportunities are provided for import substitution, thereby, enhancing local production of goods and services.

… Improve Agriculture Production and Export: Opportunity to boost domestic production and consumption of some food commodities, such as rice, maize, cassava, yam and chicken and export of commodities for which Ghana has comparative advantage in to trade within the West African Sub-region, among countries that have not closed their borders to cargo.

… Reduced Prices for Petroleum Products: Consumers of petroleum products across Ghana are, however, likely to benefit from the decline in international price of crude oil as the ex-pump price of petroleum is likely to reduce.

… Improve Balance of Payment: The increased demand for gold as a safe haven as a result of the virus outbreak will likely impact positively on the balance of payments and receipts from mineral royalties.

Source: MoF presentation to Parliament on 30 March 2020

Ghana's Preparedness in Managing Risk – Fiscal Policies

Utilisation of the Stabilisation Fund

- Lower the cap on the Ghana Stabilisation Fund (GSF) from the current US$300 million to US$100 million
- Amend the PRMA to allow a withdrawal from the Ghana Heritage Fund to undertake emergency expenditures in periods of national emergency.

External Financing

- Secure the World Bank DPO of GH¢1,716 million
- Secure the IMF Rapid Credit Facility of GH¢3,145 million.

Adjustments in Expenditures

- Reduce the proportion of Net Carried and Participating Interest due GNPC from 30% to 15%;
- Adjust expenditures on Goods & Services and Capex downwards by GH¢1,248 million.

Implementation of CAP

- Prepare and implement a Coronavirus Alleviation Programme (CAP) to be funded with an initial amounting to GH¢1.0 billion to mitigate the impact of the Coronavirus on businesses and households and ensure that job losses are minimised.

Establishment of the COVID-19 Fund

- A COVID-19 Fund is to be managed by an independent board of trustees, chaired by former Chief Justice, 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

- 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 whiles focusing on the payment of arrears.

Source: MoF presentation to Parliament on 30 March 2020

Ghana's Preparedness in Managing Risk – Fiscal Policies

Liquidity for Health Care Providers

- The MoF paid GH¢300 million to NHIA as part of measures to provide liquidity to Health Care providers and the pharmaceutical industry.
- Government arranged Life and Sickness Insurance for Health Care Professionals at the frontline of the Health Care Pandemic.

Reduction in Data Cost

- Engaging the Telcos to reduce the cost of data and telecommunication services to households and small businesses.

Tax Reliefs

- Extension of due dates for filling of taxes from four (4) months to six (6) months after the end of the basis year
- Tax payers encouraged to pay their taxes by bank transfers
- Grant a remission of penalties on principal debts to Tax payers who redeem, their outstanding debts due GRA up to 30th June 2020
- Waive VAT on donations of stock of equipment and goods for fighting the Covid-19 Pandemic
- Waive taxes on selected Third-Tier Pension withdrawals
- Permit the deduction of contributions and donations towards COVID-19 as allowable expense for tax purposes.

Source: MoF presentation to Parliament on 30 March 2020

Ghana's Preparedness in Managing Risk - Monetary Policies

Policy Rate and Reserves

- The Bank of Ghana (BoG) has decreased the monetary policy rate by 150 basis points to 14%.
- Reduction in the required reserve requirement from 10% to 8%.

Capital Conservation Buffer

- Capital Conservation Buffer (CCB) for banks of 3.0% is reduced to 1.5%

Support to Mobile Money Users

- All mobile money users can send up to GH₵100 for free (excl. cash out). Daily limits of mobile money transactions increased.

Interest Payment

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

Government Borrowing from BoG

- Amendment of the Bank of Ghana Act to allow for government borrowing from BOG up to 10% of previous year's tax revenue in the event of tight domestic financing market conditions.

Commercial Banks Support

- Commercial banks to:
  - provide syndication facility of GH¢3 billion to support industry especially in the pharmaceutical, hospitality, service and manufacturing sectors.
  - grant six-month moratorium of principal repayments for selected businesses;
  - reduction of interest rates priced-off the Ghana Reference Rate (GRR) by 200 basis points (2% per annum).

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Prognosis & implications

Global and local trends have implications at the macro level

Revised Budget

- The pandemic reverses some macroeconomic gains with fiscal deficit projected to widen to 6.6% of GDP. A new budget statement may be required to address these gaps and reset targets.

Economic Fundamentals

- Pressure on the cedi due to bond sell-off by foreign investors and dwindling reserves. Servicing external debt could be expensive and borrowing cost will rise as evidenced by rising yields on Eurobonds.

Foreign Direct Investment (FDIs)

- FDIs will dwindle as investors set new priorities. This will significantly affect medium term strategic goals including the funding of the sustainable development goals (SDGs).

Services Sector

- Continued lockdown and border closure to impact trade and the tourism sub-sectors. Banking sector to be impacted due to potential default. Telecommunications sector to record positive trend due to rising demand for data.

Industry Sector

- Significant impact on industry sector. Decline in oil prices to impact growth and continued lockdown to impact the manufacturing sector due to dampened demand.

Agriculture Sector

- Agriculture may not be heavily impacted as it relies less on intermediate imports. However, uncertainty could lead to food shortages and panic buying which may induce food inflation.

Global and local trends have implications at the micro level

Cash Flow Planning

- Firms are likely to experience cash flow issues and impact ability to service debt. Businesses need to rationalise resources and restructure maturing debts.

Innovation

- Firms must drive innovation in business process to better prepare for similar uncertainties. Digitisaton of business processes to eliminate manual interventions.

Supply Chain Disruptions

- With major supply sources and hubs like China shutting down, businesses will experience material shortages and the need to plan purchases to ensure efficient use of scarce resources.

Business Continuity Plan

- Firms need to put in place business continuity plan (BCP). This is to ensure business is not interrupted and a back-up to fall on in case of emergency.

Redundancies

- There is the likelihood of firms shedding redundant staff as business experiences decline. Firms need to prepare for such scenarios and rehire when there is improvement.

3 Rs

- Businesses need to ***retreat, review and re-strategise*** for the headwinds ahead. Turnaround may be in a short to medium term depending on the degree of impact on the business.

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