

# MID – YEAR FISCAL POLICY REVIEW OF THE 2018 BUDGET STATEMENT AND ECONOMIC POLICY

# HIGHLIGHTS ON THE PETROLEUM SECTOR

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# JULY 19, 2018

Executive Summary

According section 28 of the Public Financial Management Act, 2016 (Act 921), the Minister of Finance is duty-bound by the Act to prepare and submit to Parliament a mid-year fiscal policy review on or before 31st July of each financial year.

This document presents highlights on the petroleum sector as contained in the mid-year fiscal policy review.

It presents an overview of the petroleum sector’s contribution to recent macroeconomic developments, external sector developments, petroleum receipts and utilization for the period spanning January to May 2018 and updates on key policy initiatives.

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Introduction

As you may recall, in April 2015 the NDC government had sought and received approval to bring in the IMF to redeem them from the economic distress they had put the country in. Mr. Speaker, in October 2016, after a year and half under the program, this was the IMF’s assessment of their performance: “…Economic outlook remains difficult and fiscal challenges are mounting. The growth outlook for 2016 and 2017 has weakened, revenues are underperforming and the deteriorated financial situation of some SOEs in the energy sector is posing fiscal risks. The authorities will cut spending to offset revenue shortfalls and have taken steps to address the financial situation of SOEs, including with new levies on petroleum products. Domestic revenues are underperforming-reflecting lower-than-projected oil prices, weak economic activity with lower business profits and personal incomes, as well as lower than-expected revenue impact from several measures implemented so far.

Mr. Speaker, as a country we continue to face many challenges that we must address. These include:

* Low domestic revenue mobilization
* Illicit financial flows
* Impact of recent oil price increases

Overview of Recent Macroeconomic Developments

Mr. Speaker, provisional data released by the Ghana Statistical Service (GSS) in April 2018 show that overall real GDP growth (including oil) was 8.5 percent for 2017, up from the original projection of 6.3 percent, and the 3.7 percent growth recorded in 2016

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External Sector Developments

Mr. Speaker, the provisional trade balance for the period January to May 2018 recorded a surplus of US$1,354.89 million, 6.59 percent higher than the surplus of US$1,271.09

million recorded during the same period in 2017. The improvement in the trade balance was as a result of higher export earnings, driven by oil and non-traditional exports which outweighed the value of imports.

The value of merchandise exports for the first five months of 2018 was provisionally estimated at US$6,910.36 million, indicating an increase of 10.5 percent, compared with US$6,253.46 million recorded in the same period in 2017. High receipts from oil exports accounted for the improvement in export earnings.

The value of crude oil exported in the review period was US$1,908.22 million, compared to US$1,033.35 million recorded in the same period 2017. The increase in the value of the oil export was due to both price and volume effects. The average realized price of oil continued to increase and settled at US$70.38 per barrel, compared to US$53.02 per barrel recorded for the same period in the previous year, partly due to geopolitical tensions. Volume exported also increased by 39.13 percent to 27,114,807 barrels despite a planned Floating Production Storage and Offloading (FPSO) maintenance shut down in February and May, compared to 19,489,201 barrels in the same reporting period of 2017.

Mr. Speaker, total value of merchandise imports for the period January to May 2018 amounted to US$5,555.48 million, up by 8.88 percent compared to US$4,982.37 million recorded in 2017. The increase in imports was as a result of an increase in both oil and non-oil imports. The total non-oil merchandised imports (including electricity) for the period January to May 2018 is provisionally estimated at US$4,423.99 million, compared to an outturn of US$4,063.23 million recorded in the same period in year 2017, representing an increase of 8.88 percent.

Total realized inflows from petroleum receipts amounted to GH¢2,104.0 million, or 36.3 percent higher than the programmed estimate of GH¢1,544.2 million.

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This includes unanticipated Corporate Income Taxes from oil of about GH¢373.5 million for the period.

Petroleum Receipts and Utilization Inflows (January-May 2018)

Mr. Speaker, Ghana National Petroleum Corporation (GNPC) lifted four parcels of crude oil (i.e. the 42nd and 43rd Jubilee, 6th TEN as well as the 1st Sankofa liftings) on behalf of the State in the first five months of 2018, compared with three liftings in 2017 (i.e. the 36th and 37th Jubilee as well as 2nd TEN liftings). This involved 3.96 million barrels of crude oil, compared with 2.89 million barrels in the same period in 2017. A total of 8,881.38 MMScf of gas was delivered to Ghana National Gas Company (GNGC) in the first five months of 2018, compared with 8,782.20 MMScf in the same period in 2017. 117. However, in terms of lifting proceeds, the volumes covered five liftings, with the 41st Jubilee and 5th TEN liftings, which were carried out in December 2017 and paid for in January 2018, adding to the number. This makes it a total of five liftings, same as 2017, involving, 4.96 million barrels (compared with 4.87 million barrels in 2017).

A total of US$313.34 million accrued from the five parcels of crude oil liftings in January-May 2018, compared with US$249.81 million in the same period in 2017

Outflows (January-May 2018)

Mr. Speaker, the Petroleum Revenue Management Act (PRMA) requires that not more than 70 percent of Government’s net petroleum receipts is designated as Annual Budget Funding Amount (ABFA) and not less than 30 percent designated as Ghana Petroleum Funds (GPFs). Out of the amount transferred into the GPFs, the Ghana Heritage Fund (GHF) receives not less than 30 percent, with the rest transferred into the Ghana Stabilisation Fund (GSF).

The January-May 2018 petroleum receipts were allocated based on the provisions of the PRMA, as amended. Total revenue distributed was US$373.30 million, compared with US$277.79 million in the analogous period in 2017. Of this amount, GNPC (the NOC) was allocated a total of US$94.26 million, compared with US$90.90 million in 2017. GNPC’s

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2018 transfers comprised Equity Financing Cost (US$56.26 million) and its share of the net Carried and Participating Interest (US$38.00 million), compared with Equity Financing Cost of US$51.81 million and a net Carried and Participating Interest of US$39.10 million in 2017,

Mr. Speaker, a total of US$160.48 million was transferred into the GPFs in January-May 2018, compared with US$102.16 million in 2017. Out of the amount transferred in the period, the GHF received US$48.15 million, compared with US$30.65 million in the same period in 2017, while the GSF received US$112.34 million, compared with US$71.51 million in the same period in 2017. The total amount transferred in the first half of 2018 from petroleum liftings and related proceeds to the ABFA was US$117.55 million, compared with US$84.73 million in the same period in 2017.

Update on Key Policy Initiatives

In February 2018, government further reduced the Special Petroleum Tax for consumers at a time of rising oil prices on the international market

Specialized Audits (Mining, Oil and Gas, Telecommunications Services, Transfer Pricing and High Net Worth Individuals)

 Mr. Speaker, several billions of Cedis are lost every year due to transfer-mispricing and tax evasion, which leads to a lower than expected Tax-to-GDP ratio. Government will commission audits of local and multinational enterprises in Mining, Oil and Gas, Telecommunications Services, Transfer Pricing and High Net Worth Individuals to address transfer mispricing and other forms of tax evasion.

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Downstream Petroleum Monitoring

 Mr. Speaker, recent audits by the GRA has established that some Oil Marketing Companies (OMCs) have been under-declaring liftings. The GRA in collaboration with the NPA have developed the use of a common platform to report on oil lifting. With this development it will be possible to detect if the OMCs understate their oil lifting from the depots and tanks. Severe action including imposition of penalties and prosecutions will be initiated to collect all outstanding taxes.

*ISSUED BY: Gideon Ofosu-Peasah │Policy Analyst │gideon.peasah@penplusbytes.org*

Reference

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