



THE BUDGET SPEECH
OF THE GOVERNMENT OF GHANA FOR THE
2019 FINANCIAL YEAR: **HIGHLIGHTS ON THE PETROLEUM
SECTOR**



November 15, 2018

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Executive Summary

“The Budget Speech of The Government of Ghana For The 2019 Financial Year: Highlights on The Petroleum Sector” presents highlights on the petroleum sector as contained in the budget speech read by Ken Ofori-Atta, Minister for Finance on the floor of parliament on Thursday, 15th November 2018 for the 2019 Financial Year

It presents an overview of the petroleum sector’s contribution to macroeconomic developments in 2018 and 2019, sector developments, petroleum receipts, utilization for 2019 and provides information on key policy initiatives.

It is an important resource for those who may not want to read voluminous pages of the budget and interested in the petroleum sector resources and revenues.

1. Introduction

Mr. Speaker, this statement is an abridged version of the 2019 Budget Statement. I would like to request the Hansard Department to capture the entire Budget Statement and Economic Policy.

I also submit before this august House, the 2018 Annual Report on the Petroleum Funds, in accordance with Section 48 of the Petroleum Revenue Management Act, 2011 (Act 815), as amended.

Mr. Speaker, within two years of the change in government, below are just some of the problems we have fixed:

- a change from the opaque allocation of Ghana's oil blocks to non-performing cronies to a transparent allocation of oil blocks to investors with the capacity to work the fields.
- Mr. Speaker, during the first half of 2018, real GDP grew by 5.4 percent, reflecting slower growth in the oil sector compared to 2017, but we are still on track to achieve our revised target of 5.6 percent growth this year. Much of the higher growth in the past 2 years reflects our prudent economic management and flagship programmes that respond to the realities of the majority of our citizens.

A major focus of the Government in the last 22 months has been to clean the economic mess we inherited with the restoration and sustainability of macroeconomic stability as the anchor for economic growth. Fiscal policy has been underpinned by increased revenue mobilization, fiscal consolidation, and expenditure prioritization, as well as moving Government policy from a focus on taxation to a focus on production. In this regard, Government has implemented the following policies and measures:

- Abolished excise duty on petroleum;
- Reduced special petroleum tax rate from 17.5 percent to 15.0 percent and further reduced to 13 percent, converted from ad valorem to specific tax. In fact, it is

- important to note that petroleum taxes as a percentage of the total price build up for petroleum prices has reduced from 40.0 percent in March 2017 to 26.0 percent today.

2. Economic Developments and Outlook

Growth

Growth in advanced economies expected to increase very marginally from 2.3 percent in 2017 to 2.4 percent in 2018, largely on the back of strong growth in the US economy, which benefited from sizable fiscal stimulus. Growth in emerging markets and developing economies was steady in the first half of 2018, supported by continued stronger growth in emerging Asia, despite the moderation of activity in China. Growth in the emerging markets and developing economies is projected to remain steady at 4.7 percent in 2019, same as in 2018 and 2017.

In sub-Saharan Africa, growth is expected to increase from 2.7 percent in 2017 to 3.1 percent in 2018, and further to 3.8 percent in 2019, boosted by oil-exporting economies which benefited from higher oil prices.

Commodity Prices

Mr. Speaker, commodity prices generally continued to strengthen in the third quarter of 2018; oil prices increased to about US\$76 a barrel in the first half of 2018, the highest since November 2014, but declined to about US\$71 in October 2018, following increased oil production by the major exporters.

3. Domestic Macroeconomic Performance For 2018

Mr. Speaker, the performance of the economy for the first nine months has been impressive. To properly assess this performance, let me first re-state the macroeconomic

targets set for 2018 as presented in the 2018 Budget:

- Overall Real GDP growth rate of 6.8 percent (5.6 % in the rebased series);
- Non-Oil Real GDP growth rate of 5.4 percent (5.8 % in the rebased series);
- End-period inflation of 8.9 percent;
- Fiscal deficit of 4.5 percent of GDP (3.7 % in the rebased series);
- Primary surplus of 1.7 percent of GDP (1.4 % in the rebased series); and
- Gross International Reserves to cover not less than 3.5 months of imports of goods and services.
- Real GDP grew by 5.4 percent (using rebased series) in the first half of 2018 compared to the annual target of 5.6 percent. Non- oil real GDP grew by 4.6 percent compared to the 2018 target of 5.8 percent.

Growth

Mr. Speaker, the 2018 Budget envisaged a 6.8 percent GDP growth rate. However, with the rebasing of the GDP, there has been the need to revise the 2018 growth projection. Thus, the overall GDP growth target has been revised to 5.6 percent, taking account of the base effect of the GDP rebasing and half-year performance. Non-Oil GDP is projected to grow by 5.8 percent.

Mr. Speaker, provisional estimates by the Ghana Statistical Service show that economic growth remains strong in 2018. Real GDP grew by 5.4 percent during the first half of 2018. The non-oil economy grew by 4.4 percent and 4.3 percent in the first and second quarters of 2018, respectively.

Mr. Speaker, to safeguard our fiscal policy objectives for 2018, Government presented a package of revenue measures to this august House during the Mid-Year Fiscal Policy Review of the 2018 Budget Statement and Economic Policy. These measures took into consideration, the need; first, to improve the sluggish revenue performance of the first five months of the year and, second, to address the low non-oil tax-to-GDP ratio as compared to peer middle income economies.

4. Petroleum Receipts

Mr. Speaker, Government receipts from crude oil liftings for the first 9 months of 2018, from Jubilee, TEN and Sankofa Gye Nyame (SGN) fields, amounted to US\$604.09 million (GH¢2.72 billion).

Mr. Speaker, out of petroleum receipts (i.e. proceeds from Liftings and other petroleum receipts) of US\$723.55 million, GNPC (the NOC) was allocated a total of US\$223.43 million, comprising Equity Financing Cost (US\$149.72 million) and its share of the net Carried and Participating Interest (US\$73.71 million). The ABFA received a total of US\$176.33 million, while the GPFs received US\$323.79 million

Mr. Speaker, we have set the following medium term (2019- 2022) macroeconomic targets consistent with our objectives:

- Overall Real GDP to grow at an average of 7.0 percent;
- Non-Oil Real GDP to grow at an average of 6.6 percent;
- Inflation to be within the target band of 8 ± 2 percent;
- Overall fiscal deficit to remain within the fiscal rule of 3-5 percent of GDP;
- The primary balance to be in a surplus of at least 1 percent of GDP; and
- Gross International Reserves to cover at least 4 months of imports of goods and services.

5. Petroleum Risk management

Mr. Speaker, the 2018 Budget announced the development of a petroleum risk management programme to mitigate the economic impacts of global crude price volatility. In the last year, a strong recovery in global crude prices has brought to bear the full brunt of Government's 2015 price deregulation policy. The Ministry of Finance, Ministry of Energy, and the NPA have worked closely over the past months to develop a strategy to reduce volatility in pump prices by limiting consumers' expenditure against upward price movements.

6. 2019 And Medium-Term Macroeconomic Targets

Mr. Speaker, we have set the following medium term (2019- 2022) macroeconomic targets consistent with our objectives:

- Overall Real GDP to grow at an average of 7.0 percent;
- Non-Oil Real GDP to grow at an average of 6.6 percent;
- Inflation to be within the target band of 8 ± 2 percent;
- Overall fiscal deficit to remain within the fiscal rule of 3-5 percent of GDP;
- The primary balance to be in a surplus of at least 1 percent of GDP; and
- Gross International Reserves to cover at least 4 months of imports of goods and services.

Mr. Speaker, based on the overall macroeconomic objective of sustaining and restoring macroeconomic stability and pursuing inclusive growth, and job-creating programmes, the following targets have been set for the 2019 fiscal year:

- Overall Real GDP growth of 7.6 percent;
- Non-Oil Real GDP growth of 6.2 percent;
- End-period inflation of 8.0 percent;
- Fiscal deficit of 4.2 percent of GDP;
- Primary surplus of 1.2 percent of GDP; and
- Gross International Reserves to cover not less than 3.5 months of imports.

Real Sector

Mr. Speaker, overall GDP is projected to grow by 7.6 percent in 2019 while non-oil GDP is projected to grow at 6.2 percent. In terms of sectoral growth, the Agriculture Sector is expected to grow by 7.3 percent, the Industry Sector (9.7 %), and the Services Sector (6.1 %).

7. Resource Mobilisation for 2019

Receipts from upstream petroleum activities are projected at GH¢5.4 billion in 2019, equivalent to 1.6 percent of GDP, and representing 30.3 percent growth over the projected outturn for 2018.

Domestic revenue is estimated at GH¢57.8 billion, representing an annual growth of 25.5 percent over the projected outturn for 2018. Of this amount, non-oil Tax Revenue will constitute about 74.2 percent of domestic revenue and amount to GH¢42.9 billion. This estimate reflects the impact of expected improvements in tax compliance and reforms in revenue administration.

Non-Tax Revenue, excluding oil, will amount to GH¢6.5 billion (1.9 percent of GDP) in 2019, equivalent to 11.3 percent of Total Domestic Revenue. Of this amount, GH¢4.4 billion is expected to be retained by institutions as internally generated funds (IGF). In addition, as a result of the IGF capping, an amount of GH¢282.2 million is expected to be paid into the Consolidated Fund.

Petroleum Revenue for 2019

Mr. Speaker, the Benchmark crude oil price for 2019 has been projected at US\$66.76 per barrel in line with the Petroleum Revenue Management Act (Amendment), 2015 (PRMA, Act 893). The gas price for 2019 is also projected at US\$3.99 per MMBtu. The 2019 Benchmark Revenue crude oil output is 63.4 million barrels (173,764 barrels of oil per day).

Mr. Speaker, the Ministry is proposing to this august House to allow it to exclude gas revenues to the tune of US\$181.80 million from the projected petroleum revenues for 2019, as we devise ways of getting VRA to pay for the gas supplied it by Ghana Gas.

Furthermore, as a measure to minimize the amount of gas produced in the SGN Field for power production, Government has decided to postpone the extraction of its share of the

gas resource (Royalties, and Carried and Participating Interest (CAPI), until such a time that we line up off takers to consume the gas in-year. These are prudential measures and should not be misconstrued to mean that the Ministry will not be pursuing the VRA's gas bills, as required by the PRMA.

Mr. Speaker, if this House grants us this request, the projected petroleum revenue for 2019 will amount to US\$1.1 billion.

This is made up of Royalties (US\$227.10 million), Carried and Participating Interest (US\$602.80 million), Corporate Income Tax (US\$249.60 million) and Surface Rentals (US\$1.10 million).

Of this amount, US\$404.90 million will be ceded to the NOC for its Equity Financing Cost (US\$320.10 million) and share of the Net Carried and Participating Interest (US\$84.80 million), US\$473.0 million allocated to the Annual Budget Funding Amount (ABFA), while the GPFs receive US\$202.70 million. The GPFs' receipts will be distributed between the Ghana Stabilisation Fund (US\$141.90 million) and the Ghana Heritage Fund (US\$60.80 million)

8. Infrastructure

Mr. Speaker, the Railway Location Workshop, also at Essikado, is being modernized and equipped, and will be completed in 2019 to become a one-stop workshop to serve the railway, mining, petroleum and agricultural industries. We are confident, 2019 will witness the relaunch of the railway system in Ghana.

Mr. Speaker, to develop the Takoradi Port as an Oil and Gas hub, Government commenced the development and operation of an on-dock container multi-purpose terminal with a container quay of 16-metre draft to accommodate bigger vessels. The first phase of the Dry Bulk Jetty which involves the construction of the 600m quay wall was completed. The second phase of an additional 200m quay wall will commence in 2019.

9. Industrialization

We exported over \$2.8 billion worth of crude oil in 2017, but still imported \$1.7 billion of refined petroleum products such as petrol. Government will in 2019 begin the groundwork for the establishment of a petrochemicals hub. The hub will process our gas into petrochemical products, including fertilizer, for the domestic and West African sub-regional markets. This will be accomplished by developing major infrastructure for refining, discharging, storing, distributing, and trading petroleum products.

On adding value to our natural resources, our main focus will be on leveraging our huge bauxite resources to develop a comprehensive aluminium industry and also starting development of a Petro Chemicals industry to add value to our oil and gas output.

10. Agenda 2030 for sustainable development

Among other green initiatives, we will, in 2019, work with the Ministry of Energy, to introduce tax free solutions for Full Electrical Vehicles in order to promote a technology shift from fossil fuel-based vehicles, which is a major global source of climate change gases, and from diesel vehicles which is a significant source for local air pollution and poses significant health challenges to our people. Globally, Mr. Speaker, cities such as Hamburg, Oslo and London are introducing car and diesel free zones, to improve quality of life. The UK, India, France, and other countries are planning a ban on the sale of new petrol and diesel vehicles from 2030. A successful transition will require a Public-Private partnership in installing necessary infrastructure for electrical charging. Mr. Speaker, Ghana cannot be left behind to become the dumping site for environmentally harmful products. We must be bold in developing policies that embrace these technological shifts.

11. Conclusion

Marching Boldly Towards Ghana Beyond Aid;

the Aker oil Field will start producing in 2021 and will eventually add about 100,000 barrels of oil per day to Ghana's crude oil production. In addition, ExxonMobil is coming on board soon to explore and produce crude oil in the Deep-Water Cape Three Points;

In this 2019 budget we have chosen to sacrifice and build for the future; we have chosen to invest in people; we have chosen to boldly tackle the infrastructural needs of the people with a \$2 billion facility next year. We have chosen to make our rich oil resources more accessible to credible investors through competitive bidding and we aim to hit, God willing, a million barrels of crude oil production within a matter of a decade. It may sound ambitious, but we are confident in the plan that we have.

Reference

MOF (2018). The Budget Speech of the Government of Ghana for the 2019 Financial Year. Available on <http://www.reportingoilandgas.org/wp-content/uploads/2019-Budget-Speech.pdf>