

The contents of this document are preliminary and subject to change.

GRAY/21/2062

July 15, 2021

**Statement by Mr. Saraiva, Mr. Velloso, Mr. Coronel, and Mr. Gallardo on Ghana
(Preliminary)
Executive Board Meeting
July 19, 2021**

We thank staff for the report and Messrs. Hosseini and Osei Yeboah for their helpful statement. Like most countries, Ghana was severely impacted by COVID-19. Yet, with the help of emergency funding from the Fund and other IFIs, the authorities have dealt head-on with the challenge of limiting the fallout from the pandemic. The pace of recovery will depend largely on the evolution of the pandemic and the availability, speed, and scope of the vaccination rollout. We support the thrust of the staff appraisal and would like to offer the following comments.

The Fund's emergency financing approved last year helped Ghana face the pandemic shock and preserve macroeconomic stability. The Rapid Credit Facility (RCF) disbursement, approved in April 2020, helped fill urgent BOP gaps, cushion the pandemic shock on the economy, improve confidence, and catalyze support from other development partners. However, fiscal, debt, and social indicators deteriorated, and growth—albeit not turning negative—plunged from 6.5 percent in 2019 to just 0.4 percent last year (the lowest in over three decades).

While the economy seems to be on the mend, fiscal vulnerabilities are significant. According to staff, growth will rebound to 4.7 percent in 2021 due to a strong recovery of the mining and services sectors, and a robust cocoa season. Over the medium-term, annual growth is projected to average 5.2 percent, providing support to much-needed fiscal consolidation that is required to rebalance the country's fiscal accounts and preserve medium-term debt sustainability. This is welcome. However, the authorities room for maneuver is very limited given the depletion of buffers, doubling of an already elevated fiscal deficit, higher-than-expected contingent liabilities, tighter financing conditions, resurgence of domestic arrears, and record high financing needs.

Fiscal consolidation is of course paramount, but the mix of measures should be carefully calibrated to avoid unintended consequences. Given Ghana's infrastructure

and social needs, there seems to be limited scope for expenditure rationalization outside the wage bill. Indeed, the electricity sector has large investment gaps, and the government needs to finance the CARES agenda and the Ghana Beyond Aid programs. Therefore, the authorities should place strong emphasis on domestic revenue mobilization. In this regard, they should consider tapping on the so-called sin taxes, closing tax loopholes and tax exemptions, and making sure the mining and oil sectors contribute adequately to revenue collections, particularly as these sectors benefit from higher international prices.

We take positive note that the banking system is facing the pandemic on a better footing. After a costly bailout implemented over several years, Ghana's banking system has been strengthened and is facing the pandemic crisis relatively well. This is good news. However, it would be important to try to recover over time at least part of the 8.2 percent of GDP spent in the process. In this regard, we welcome the introduction of the 5 percent levy on bank's profits. While reducing significantly the government's financing needs in the near term would be very challenging, if at all possible, we encourage the authorities to diversify the investor base in government bonds to reduce crowding out of bank credit to the private sector and mitigate risks from volatility in government bond yields.

Regulatory easing should be carefully phased out as conditions improve. Ongoing supervisory and regulatory easing during the pandemic crisis were important to respond to the shock and protect financial stability. As the recovery takes hold, regulatory easing should be phased out carefully to manage well the impact on banks' asset quality.

Finally, we commend the recent improvements in Ghana's AML/CFT framework and welcome efforts towards digitalization. The former has allowed the country to successfully exit the FATF "grey list" which bodes well, inter alia, for attracting FDI. We also take positive note of the steps taken to transition towards the digital economy in the context of the country's efforts to promote private investments and further improve the business environment.

With these remarks we wish the Ghanaian authorities success in their future endeavors.