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GRAY/21/2075

July 15, 2021

**Statement by Ms. Senich and Mr. Westphal on Ghana
(Preliminary)
Executive Board Meeting
July 19, 2021**

We thank staff for the report and Mr. Hosseini and Mr. Osei Yeboah for the informative Buff statement. Ghana entered the COVID-19 pandemic with a favorable economic outlook, outperforming regional peers in terms of economic growth and measures of its institutional framework. The authorities were forward-leaning in their efforts to contain the impact of the pandemic, including by offering significant fiscal support, which helped to save lives and safeguard livelihoods. At the same time, debt vulnerabilities were already high and have since increased. **We agree with staff recommendations that going forward, the authorities will need to implement fiscal consolidation, limit monetary financing of the deficit, closely monitor external financing vulnerabilities, continue to pursue structural reforms, and improve the provision of fiscal and debt statistics.**

Like staff, we are concerned about Ghana's high level of public debt and high gross financing needs. We note that the report judges public debt to be sustainable only "if authorities' medium-term consolidation plan (reflected in the baseline) is rigorously and credibly implemented." We agree that the authorities should accelerate fiscal consolidation and endorse many of staff's proposals to promote consolidation. We appreciate staff's recognition that their previous projections for fiscal consolidation may have been overly ambitious and that some of the proposed spending cuts could be politically challenging to adopt. Given Ghana's history with collateralized debt issues, we reiterate that the Fund can help borrowers analyze collateralized transactions, and we encourage borrowers to limit their use to situations in which there are clear benefits. We also note with some concern that the debt statistics exclude Cocobod's debts, debts owed to independent power producers (IPPs) and gas producers, and more than 2 percent in domestic arrears that were accumulated last year. We echo staff's call for improved quality and timeliness of fiscal data.

We agree that the Bank of Ghana's (BOG's) policy rate cuts and easing of macro- and micro-prudential standards were appropriate in the wake of the pandemic, but we caution against the uptick in monetary financing of government debt. We strongly

support the BOG and the Ministry of Finance signing a renewed memorandum of understanding (MOU) that limits outright monetary financing of the deficit to improve market sentiment and reduce inflation risks over the medium term. We note that in 2020 the BOG purchased government bonds worth 2.6 percent of GDP through the Asset Purchase Program, and *we would appreciate clarification from staff about how some of the other net lending to the government (e.g., the bond monetization and the securitized government overdraft and interest) fits with the government's liabilities to the BOG and is captured in the fiscal financing data, particularly in Table 2a. We would also appreciate clarification on whether these additional sources of financing would be limited under a renewed MOU.* Finally, we encourage the authorities to work toward eliminating Ghana's multiple currency practice.

Ghana's receipt of a \$1 billion Rapid Credit Facility in April 2020 improved their external reserves position, but we note that staff project a medium-term deterioration in the country's external financing needs. Given that the authorities have been covering the FX cash flow deficit with FX government borrowing, currency depreciation could damage Ghana's external position and debt sustainability. We further note that staff's baseline does not assume any FX depreciation, but a targeted inflation differential between the Ghanaian cedi and the U.S. dollar of about six percentage points may place downward pressure on the exchange rate going forward. We urge the authorities to remove their Capital Flow Measures in line with the Fund's Institutional View.

We commend the authorities' actions to help stabilize the banking sector during the pandemic and welcome that banks remain well-capitalized. We note, however, that the banking sector is heavily exposed to central government credit, and that this increase in domestically held public debt has crowded out private lending and could create a negative feedback loop. With FX-denominated debt representing nearly half of the total debt stock, we would have appreciated more detail on FX-related risks to the banking sector. We commend the authorities for their significant progress in improving the AML/CFT regime to meet the commitments under the Financial Action Task Force (FATF) action plan and for exiting the FATF grey list.

We appreciate the report's focus on structural reforms to limit inefficient fiscal subsidies and promote growth over the medium term. We echo that the authorities should be more transparent about the country's energy sector reform plan, engage with all relevant stakeholders during negotiations with the IPPs, and rationalize electricity tariffs to minimize inefficient government spending. We welcome news of the increasing digital transformation in Ghana, which could help to improve tax collection and spur increased innovation. *Could staff elaborate on how the digital transformation will meaningfully increase potential GDP growth, as we find this assumption to be optimistic?*