International Monetary Fund

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Statement at the Conclusion of an IMF Staff Visit to Ghana

Press Release No. 13/347
September 18, 2013

A staff team from the International Monetary Fund (IMF), led by Christina Daseking, visited Accra during the week of September 11-17, 2013, as part of its ongoing engagement with the authorities. The discussions with the authorities focused on recent economic developments and challenges. The mission met with Vice-President Amissah-Arthur, Finance Minister Terkper, Bank of Ghana Governor Wampah, and other senior officials, as well as representatives from think tanks and the private sector. The mission would like to thank the Ghanaian authorities for their excellent cooperation and warm hospitality.

At the end of the mission, Ms. Daseking issued the following statement:

"While Ghana's medium-term economic prospects remain strong, short-term risks arise on the back of sizeable fiscal and external imbalances. Economic growth weakened in the first half of 2013, reflecting energy disruptions and high real interest rates. As energy problems have now subsided, the mission expects full-year growth of about 7 percent, compared with 8 percent in 2012. Inflation has risen temporarily above 11 percent, as a result of the significant fuel price adjustments earlier in the year. The main risks to the economy arise from a large current account deficit—projected to increase to above 13 percent of GDP in response to much weaker gold and cocoa prices and ongoing fiscal pressures. With projected reserves of less than 3 months of imports, the economy is exposed to risks from a potentially deteriorating external environment and global financial market pressures.

"A preliminary assessment of fiscal performance during the first seven months of the year reveals significant challenges. Consistent with a slowdown in economic activity, revenues have fallen short of expectations, and overruns in the wage bill, electricity subsidies, and high interest payments on public debt are creating fiscal pressures. The government has responded decisively with a sharp retrenchment in other expenditure and the mid-year adoption of revenue measures, such as the reintroduction of the national stabilization and import levies. However, it will be difficult for the government to

keep the deficit below 10 percent of GDP.

"The mission welcomed the consensus that is now emerging to reduce the excessive share of wages in government spending. The biometric registration of all public sector employees, the planned introduction of new HR guidelines to control hiring, and the agreement to settle wage negotiations before the budget discussions are positive first steps. Considering the unsustainable wage dynamics of recent years, a different approach is needed, based on wage moderation and strategic choices about the size and composition of the civil service.

"The mission agreed with the authorities on the need to reduce subsidies and tackle the problems in the energy sector. It welcomed the reinstatement of the automatic fuel price adjustment mechanism. Going forward, restoration of electricity tariffs to cost-recovery levels will reduce fiscal risks and provide the needed space for higher social spending and critical infrastructure. To support these priorities, the mission also encouraged the government to strengthen its ongoing efforts to improve revenue collection and continue the ongoing public financial management reforms, which have gained renewed momentum.

"Discussions with the Bank of Ghana focused on external risks and the challenges of bringing inflation back to single digits. The mission stressed the need for rebuilding a prudent reserve buffer. It agreed that monetary policy needs to remain tight until fiscal consolidation is firmly established, and possibly be tightened further if depreciation and inflation pressures heighten.

"An IMF team is expected to return to Ghana in early 2014 to conduct Article IV consultation discussions."

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