May 21, 2020
Approval: 5/29/20

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 19/97-1

9:30 a.m., December 6, 2019

1. Ghana—2019 Article IV Consultation

Documents: SM/19/264 and Correction 1; and Correction 2; and Supplement 1; and Supplement 2; and Supplement 3; and Supplement 4; SM/19/265

Staff: Sdralevich, AFR; Flanagan, SPR

Length: 55 minutes

Executive Board Attendance

T. Zhang, Acting Chair

Executive Directors	Alternate Executive Directors
	K. Obiora (AE)
	F. Sylla (AF)
	J. Corvalan (AG), Temporary
	N. Heo (AP)
	P. Fachada (BR)
	Z. Huang (CC), Temporary
	E. Cartagena Guardado (CE), Temporary
	B. Rankin (CO), Temporary
	C. Just (EC)
H. de Villeroché (FF)	
R. von Kleist (GR)	
S. Bhalla (IN)	
D. Fanizza (IT)	
	H. Mori (JA), Temporary
J. Mojarrad (MD)	
	F. Al-Kohlany (MI), Temporary
	H. Etkes (NE), Temporary
	(NO)
	D. Shestakov (RU), Temporary
	R. Alkhareif (SA)
	D. Susiandri (ST), Temporary
	P. Trabinski (SZ)
	K. Nelson (UK), Temporary
	P. Pollard (US), Temporary

S. Bhatia, Acting Secretary
P. Cirillo, Summing Up Officer
B. Zhao, Board Operations Officer
L. Nagy-Baker, Verbatim Reporting Officer

Also Present
African Department: G. Agou, A. Fedelino, B. Gyesaw, F. Queiro Pedroso de Lima, C. Sdralevich. Fiscal Affairs Department: J. Ralyea. Finance Department: N. Denewet. Legal Department: C. Blair. Office of Executive Directors: J. Bukovina. Secretary's Department: P. Cirillo. Strategy, Policy, and Review Department: M. Flanagan. World Bank Group: M. Geiger, A. Khanna. Western Hemisphere Department: A. Mugnier. Executive Director: Z.

Jin (CC). Alternate Executive Director: M. El Qorchi (MD), P. Rozan (FF). Senior Advisors to Executive Directors: O. Odonye (AE), J. Shin (AP), L. Voinea (NE). Advisors to Executive Directors: S. Belhaj (MD), T. Iona (AP), R. Makhammadiev (SZ), L. Nankunda (AF), K. Osei-Yeboah (MD), T. Persico (IT), S. Senich (US), F. Antunes (BR), A. Clark (UK), E. Comolet (FF).

1. GHANA—2019 ARTICLE IV CONSULTATION

Mr. Mojarrad and Mr. Osei Yeboah submitted the following statement:

Our Ghanaian authorities are thankful to Fund staff for the constructive policy engagement during the Article IV consultation mission and for the candid exchange of views on policies to consolidate post-program macroeconomic stability, mitigate risks and strengthen the economy's resilience. The authorities broadly share staff's assessment and policy priorities, but are generally more sanguine about the economy's medium-term prospects and the balance of risks. They believe that their continued firm commitment to prudent macroeconomic policies and relentless pursuit of structural reforms should lay a strong foundation for sustained and inclusive economic growth in the period ahead. At the same time, they also recognize that there is no room for complacency and are fully aware of challenges ahead. Concomitant with rapid economic growth, Ghana has achieved major gains in living standards and citizens' welfare in recent years, but the authorities recognize that more needs to be done to improve social outcomes, strengthen poverty alleviation, and enhance regional and gender equality to achieve the country's 2030 sustainable development goals (SDGs).

Recent Economic Developments and Medium-Term Outlook

The Ghanaian economy performed strongly under the ECF-supported program, thanks to prudent macroeconomic policies and the implementation of a range of reforms. The momentum remains strong post-program. In 2019, growth is expected at 7 percent, among the highest in Africa; inflation is contained within the Bank of Ghana's (BoG) target band; the current account deficit has narrowed significantly with increasing contribution from gold and oil exports; and international reserves are comfortable. The public debt to GDP ratio has been rising since 2017 despite fiscal prudence, but that primarily reflects the large energy and financial sector restructuring costs that have been absorbed by the budget.

Ghana's medium-term economic outlook will be shaped by the authorities' commitment to macroeconomic stability and their ongoing multi-pronged efforts towards economic diversification and efficiency gains, guided by the "Ghana Beyond Aid" development strategy. While extractive sectors are expected to continue to grow strongly—with oil and gas production doubling in few years and Ghana maintaining its dominant role as the largest gold producer in Africa—agricultural modernization, export-led industrialization, digitalization and formalization of the economy, along with investments in human capital and infrastructure and large productivity gains are expected to be the main drivers of growth, keeping in check the economy's reliance on volatile commodity exports. Ghana also expects to tap into a growing intraregional trade, in part facilitated by the African Continental Free Trade Area (AfCFTA).

Fiscal Policy and Priorities

The authorities remain committed to fiscal discipline and are determined to break the election year spending pressures observed in the past, starting with the upcoming 2020 political cycle. Their irreversible commitment to fiscal and debt sustainability is anchored in the rules-based 2018 Fiscal Responsibility Act (FRA), the establishment of a presidential advisory council to ensure FRA compliance, and adherence to a debt to GDP ratio guideline. The 2020 budget (currently before Parliament) meets the FRA's twin rules of maintaining an annual primary surplus and capping the overall deficit at 5 percent of GDP. The authorities would be willing to consider a further tightening of the fiscal rules along the lines suggested by staff should risks, especially those related to contingent liabilities and borrowing rollover, were to materialize.

Spending will be prioritized to ensure compliance with the fiscal rules if revenues fall short, but the exceptional and strategic one-off spending on financial sector clean-up, energy sector restructuring and security requirements will be assured. The authorities consider revenue mobilization a key element of fiscal stability going forward. Indeed, the "Ghana Beyond Aid" envisages a sizable increase in the tax to GDP ratio to ensure public sector debt sustainability and also to help meet the significant spending requirements of the SDGs over the next decade. The authorities are optimistic that the recent overhaul of the Ghana Revenue Authority, customs automation and paperless processes at the ports, together with enhanced compliance efforts, will boost domestic revenue. Further, the implementation of the 2016 PFM law—developed with IMF technical support—has increased transparency and accountability in the budget processes, while the creation of a dedicated entity to oversee SOE corporate governance should help to enhance their transparency and financial reporting.

Energy Sector Reform

The sizable excess electric power capacity and gas supply is the root cause of energy sector's financial strains in the form of arrears and operational losses, and has given rise to fiscal sustainability issues. In response, the government has launched a 5-year Energy Sector Recovery Plan (ESRP), with the help of the World Bank, to bring about a better supply-demand balance in the energy market and address the sector's financial difficulties. The authorities are committed to the full implementation of the ESRP and have already taken several measures in the Plan, including increases in electricity tariffs, postponement or cancellation of some power projects, and renegotiation of purchase agreements with independent power suppliers.

Monetary and Exchange Rate Policies

The BoG is firmly focused on price stability while maintaining adequate reserve buffers. The rebased CPI inflation and inflation expectations are now firmly within the BoG target band, and price pressures have been subsiding steadily since 2016 as the real policy rate has been kept in the positive territories since then. The BoG is willing to consider staff's recommendation of lowering the inflation target if disinflation proves durable and inflation expectations remain anchored, in coordination with fiscal policy and in a manner consistent with the government's macroeconomic framework. Further, in its effort to strengthen monetary policy transmission and enhance market liquidity, the BoG has launched Guidelines for Repurchase Agreements in Ghana to establish the framework for repo transactions, which are essential for a liquid and participatory money market. The authorities are continuing to strictly adhere to the BoG-MoF Memorandum of Understanding on zero central bank financing of the budget to contain fiscal dominance and to create space for noninflationary expansion of private sector credit in support of private sector-led growth.

The BoG remains committed to exchange rate flexibility and building sufficient buffers with limited intervention to mitigate external shocks and it has taken a number of initiatives to enhance market transparency and efficiency. Following the publication of the directive on forex market conduct, the BoG launched forward forex rate auctions to enhance price discovery and reduce uncertainty in meeting future forex demand.

Financial Sector Stability

The authorities firmly believe that a strong and resilient financial system is critical to investor confidence and to support sustained economic growth. With that in mind, and guided by the 2016 asset quality review, the authorities have made significant progress since then to clean up the financial sector through banks recapitalization, restructuring and resolution, and revocation of licenses of nonbank deposit-taking institutions and distressed fund managers. The progress has been evident in improved financial soundness indicators and healthy bank profitability. However, although declining, the high NPL overhang remains an issue of concern, prompting the BoG to streamline the write-off policy on bad loans, consistent with relevant banking laws and IFRS requirements. To further bolster confidence and consumer protection, the Ghana Deposit Protection Company (GDPC) has commenced operation. The banking sector supervisory framework has also been strengthened with the Basel III capital conservation buffer, which is 3 percentage points above the minimum capital adequacy ratio. The operational manual for the newly created Financial Stability Council (FSC) was published, FSC members were sworn-in into office, and the FSC will have its first sitting on December 20. Further, under the powers conferred by the Banks and the SDI Act, the BoG has issued directives to enforce banking sector governance. The authorities remain committed to addressing the residual pockets of vulnerability in the financial sector with the aim of transforming Accra into a financial hub for West Africa.

Structural Policies

The “Ghana Beyond Aid” development strategy seeks to broaden the economic base, to increase the economy’s resilience to external shocks, and to make growth more durable and inclusive. It is an overarching strategy and also encompasses Ghana’s Coordinated Program of Economic and Social Development 2017-2024 and Ghana’s Medium-Term Development Plan, which are in turn aligned with the UN SDG (Agenda 2030) and the African Union (Agenda 2063). As mentioned earlier, the strategy aims to gradually diversify the economy away from the extractive sector by modernizing the agricultural sector and embarking on an export-led industrialization strategy. Recognizing the criticality of a trained labor force to underpin the industrialization and digitalization agenda, the government has initiated an ambitious program to increase student enrolment at all education levels, including through a program of free senior high school education.

The “Ghana Beyond Aid” strategy recognizes that sustained development is predicated on the establishment a level playing field for the private sector. Ghana has made important strides in improving the business environment and compares favorably with peers in the latest World Bank’s Doing Business report. Notwithstanding, the government recognizes room for improvement, and is planning to launch a 3-year program in 2020 to enhance the transparency and efficiency of business registration and regulations that, among other measures, will help to catalyze FDI inflows. Also, the government is seeking funding support from the World Bank to establish a national development bank to facilitate access to credit for private businesses, while relying on the G20 compact with Africa to further enhance private sector participation in the economy.

While Ghana already compares favorably to peers in terms of control of corruption, the authorities are taking the necessary steps to strength their anti-corruption framework and to enhance the independence of anti-corruption institutions. Funding of anti-corruption institutions has also been increased significantly in the past two years and every effort is being made to meet the requirements of the FATF Action Plan to exit the “grey list”.

Concluding Remarks

Ghana has made significant strides in the past few years to place the economy on a sustainable growth path in an environment of macroeconomic stability. Steady gains in social sectors and advances in poverty alleviation and greater inclusion have also been quite notable on a longer horizon. The progress has been impressive, and widely recognized, but the policy agenda is not yet complete. There are certainly major hurdles to be cleared, but the authorities are determined to build on the macroeconomic gains of the last few years by continuing to follow prudent policies and implement structural reforms that have served Ghana well in the past. As Ghana moves forward, there will also be new challenges, but the authorities feel that their “Ghana Beyond Aid” strategy has put in place a comprehensive framework to broaden the economic base, increase the economy’s resilience and improve the social outcomes, and in the process, build a prosperous Ghana towards which all Ghanaians will contribute and also reap benefits.

Mr. Obiora and Mr. Odonye submitted the following statement:

We broadly agree with the thrust of the staff appraisal. Ghana made real progress with macroeconomic stabilization and structural reforms, particularly anchored by the recently and successfully completed ECF program. Underpinned by the authorities’ strong commitment to fiscal discipline, comprehensive restructuring of the financial sector and continued structural reforms, economic growth has been robust, with inflation declining to the Central Bank’s target band. Nevertheless, the rising external sector pressure and the 2020 election cycle appear to be key challenges to maintaining the authorities’ commitment to fiscal discipline. To this end, we are comforted with the reassurances in the adept buff Statement by Mr. Mojarrad and Mr. Osei Yeboah on the authorities’ self-reliant reform strategy, which would leverage the country’s export potential to expand agriculture and manufacturing production, foster human capital development, and improve efficiency through digitalization. We welcome the "Ghana beyond Aid" agenda and concur with the staff assessment that the authorities should prioritize strengthening institutions and policies to foster macroeconomic stability and inclusive growth under a post-IMF program environment.

We support the authorities' strong commitment to maintain fiscal discipline. Robust performance in gold, oil, and gas production has not only engendered growth but has helped strengthen fiscal performance. We are encouraged by the authorities' strong posture of fiscal restraint, which is partly reflected in institutional changes that have entrenched discipline and enabled consistency of government policies, including through implementation of the Fiscal Responsibility Act as well as the establishment of the Fiscal Responsibility and Financial Stability Councils. Yet given the potential headwinds identified in the report, we think the authorities should consider a more ambitious fiscal stance to reduce macroeconomic risks, accelerate debt reduction, and strengthen the external balance. We underline the need to reduce off-budget spending and avoid new collateralized debt in order to improve fiscal transparency and credibility.

We note the differences suggested by the models in the external sector assessment but think a less ambivalent appraisal could have been reached. While we respect the intricate analysis presented in Annex III of the report, we are surprised that staff could not reach a definitive conclusion of the external sector assessment for the country given its current account in deficit for the 8-year period (2017—24) in Table 1.The exchange rate is reported to be under persistent pressure, and both gross and net international reserves have been below the 3-month rule-of-thumb benchmark and/or the norm of 3.6 months suggested by the model for resource-rich LICs operating a flexible exchange rate system. Could staff elaborate on the reasons behind the discrepancies in the models for assessing the external sector? We note too that the authorities' definition of reserves may be different from a more widely-acceptable definition, and would appreciate staff's description of these differences, including the potential implications for the real size of Ghana's foreign exchange reserves.

The Bank of Ghana's (BoG) prudent monetary policy stance is both warranted and commendable. Indeed, this stance has helped sustain the inflation targeting framework and underpinned the stability in the general price level. But we are concerned that maintaining price stability could be jeopardized by the expiring monetary financing limits agreed under the

Ministry of Finance (MOF) – BoG Memorandum of Understanding (MoU). We therefore think it is critical that amendments to the BoG Act be expeditiously completed to entrench these financing limits into the country's laws. Could staff elaborate on the prospects for sustaining the monetary financing limits beyond the expiry date, which coincides with an election cycle?

We believe the Bank of Ghana (BoG) needs to act with more urgency in dealing with persisting vulnerabilities in the financial sector. While we commend the Bank's ongoing efforts in cleaning up the financial system, greater policy certainty and clarity will be served by prioritizing a completion of these efforts. In particular, it is critical that the BoG deal decisively and comprehensively with the protracted weaknesses of a state-owned bank. Could staff elaborate on why the authorities may be reluctant or unable to address the problems in this bank given they are longstanding and well-known? Relatedly, we urge the authorities to accelerate measures to reduce industry-wide NPLs; complete regulatory reforms and accelerate recovery of funds from both directors and shareholders of failed institutions.

Front-loaded and accelerated structural reforms should remain key imperatives going forward. In this context, we welcome staff's readiness to assist Ghana implement its ambitious structural reform program through Capacity Development in a post-program environment. To leverage this opportunity, we encourage the authorities to work on prioritizing and sequencing their TA needs with staff. We agree that priority be given to implementing the Energy Sector Recovery Program (ESRP) and completing the financial sector clean-up in order to mitigate fiscal risks and support inclusive growth. At the same time, continued strengthening of the business environment, including through implementation of the anti-corruption framework and the digitalization agenda, remain key to a successful export-oriented growth. We also encourage the authorities to consider long term measures that would enhance the financial viability of SOEs.

Mr. Heo and Ms. Pollard submitted the following joint statement:

We thank staff for the informative report and selected issues papers, and Messrs. Mojarrad and Osei Yeboah for their useful buff statement. Ghana has made important progress during and following the ECF program through fiscal and monetary discipline, leading to strong growth and significantly improved, single-digit inflation. Downside risks remain high, however, as energy and financial sector clean-up costs have increased government financing needs and future growth is heavily dependent on extractive and commodity-based industries, where revenue can be volatile. We are particularly concerned about Ghana's deteriorating debt sustainability, resulting in part from rising contingent liabilities on public debt and opaque off-budget operations.

We find it worrisome that progress on poverty alleviation has slowed and inequality has grown, and welcome the launch of the "Ghana beyond Aid" reform agenda to address these trends. The agenda's focus on export-oriented manufacturing may lead to a growth acceleration in Ghana if implemented strategically. However, we agree with staff that it is likely that this strategy will have to be complemented by efforts to simultaneously increase productivity in other sectors such as agriculture and services.

The new fiscal rule and establishment of the Presidential Fiscal Responsibility Advisory Council, while steps in the right direction, have key areas of weakness. The fiscal rule does not capture below the line budget costs. Indeed, in 2019, the fiscal deficit met the requirements of the fiscal rule only because the costs for financial and energy sector expenses were recorded off-balance sheet. The fiscal council is composed of presidential appointees whose terms lapse with the president's term, which would seem to undermine its independence and credibility. We agree with the recommendations to follow best practices in moving below the line budget costs above the line, and to have the fiscal council evolve into an entity with legal and operational independence from the executive branch, which could be in the form of a Parliament standing committee.

Stabilizing the overall fiscal balance will require near-term action to address structural problems in the energy sector. The World Bank estimates the excess power supply to cost up to $680 million per year. While we recognize the need to renegotiate or terminate the expensive take-or-pay contracts, we urge the authorities to ensure that this process is fair. Reforms in the energy sector have not been implemented evenly or decisively, thereby exacerbating poor service delivery challenges and fiscal pressures. For example, we understand the termination of the concession arrangement with PDS has thrown into question some official aid that was dependent on the privatization of ECG. Could staff comment on the next steps on energy sector reform, and whether they expect continued implementation the reform plan developed with the World Bank?

We appreciate the steps the authorities have taken regarding financial sector restructuring. The staff report and selected issues paper clearly lay out the difficulties facing the sector and the urgency of finding a solution and offer recommendations, but do not offer which actions should be prioritized over others. We would appreciate staff comments on what they view as priority actions.

The Debt Sustainability Analysis (DSA) shows that external and overall debt are at a high risk of debt distress. The build-up in debt following HIPC debt relief is disappointing, and we remain concerned about the non-concessional nature of much of Ghana's recent debt accrual and about the opaqueness of some loan facilities such as Sinohydro. We appreciate that this DSA vintage incorporates projected disbursements from the facility, but the DSA is still not clear on who is ultimately responsible for repayment. We also continue to question whether this type of collateralized borrowing, where the projects being funded are unrelated to the collateral, serves Ghana well.

Additionally, off-budget debt operations, such as Sinohydro, ESLA, and GETFund, ultimately add to public debt, but their decentralized nature complicates oversight and management of public financing. In countries with limited debt-management capacity and irregular publication of debt data, such operations can weaken market confidence and increase borrowing costs. We are concerned with the authorities' plan to partially finance, off-budget, the 2019 energy sector shortfall. This signals a move toward a systematic use of this arrangement even for routine transactions such as government transfers to SOEs, putting further pressure on the management of public debt and undermining fiscal transparency and credibility. We strongly support the recommendation to improve coordination and visibility of debt issuance across government entities, and to phase out off-budget operations. We remain concerned that there is not full transparency in reporting decentralized off-budget operations, which may complicate its debt sustainability outlook further. We request staff views on the comprehensiveness of debt information available for analysis.

Significant IMF technical assistance has been devoted to improving Ghana's anti-money laundering and terrorism financing (AML/CFT) regime. We support the on-going work and encourage the authorities to continue their efforts to fully and expeditiously implement Ghana's Action Plan in order to meet the requirements necessary to exit the FATF "grey list." This includes improving risk-based supervision of financial institutions and Designated Non-Financial Businesses and Professions. Lastly, we note that financial institutions consider a variety of factors, and not just a country's place on the FATF compliance document, when deciding to establish or maintain correspondent banking relationships.

Mr. Guerra and Mr. Tabora Munoz submitted the following statement:

We thank staff for the insightful reports and Mr. Mojarrad and Mr. Osei Yeboah for their informative buff statement.

In recent years, Ghana has achieved significant macroeconomic gains, with stronger growth based on extractive industries, and has improved its external position thanks to strong fiscal discipline. The medium-term outlook remains favorable, but challenges and downside risks are still significant, especially those associated with Ghana's high vulnerability due to large fiscal contingencies in the energy and financial sectors, and to external shocks due to its large financial needs and elevated debt. On the other side, promoting more inclusive economic growth, strengthening competitiveness of agriculture and the export-oriented industrial sector to diversify the country's economy, as well as improving the business environment and governance should remain top priorities. We broadly share staff's appraisal and have a few comments and questions.

Fiscal Policy: We commend the authorities for maintaining macroeconomic gains earned since 2017, for their commitment to fiscal discipline to preserve debt sustainability and for the recent overhaul of the Ghana Revenue Authority. We welcome the authorities' commitment to improve revenue mobilization in line with their medium-term revenue mobilization strategy to create more fiscal space for social spending, buttress sustainability of the "Ghana beyond Aid" strategy, as well as the commitment to have a 2020 budget focused on safeguarding macroeconomic stability—both important to maintain market confidence and mitigate debt rollover risks. Efforts should continue to consolidate the Fiscal Responsibility Act, aimed to break the pattern of high fiscal deficits observed in previous electoral cycles and to cope with the large fiscal contingencies from the energy and financial sectors.

Monetary and exchange policy: The monetary policy stance of the Bank of Ghana (BoG) seems adequate, which has allowed anchoring expectations and reducing inflation from the double-digit level in 2016 to the one-digit territory last year. However, strengthening coordination with fiscal policy and ending monetary financing continues to be of vital importance to keep lowering inflation and for the normalization of monetary policy. Furthermore, amendments to the BoG Act are needed to protect and strengthen the BoG balance sheet and support the inflation targeting framework. We welcome the new rule-based Foreign Exchange (FX) intervention policy with clear objectives. Continuing reducing FX interventions, promoting more market-based FX transactions, and a relatively tight policy stance are crucial to build stronger external buffers and for reducing exchange rate volatility.

Structural Reforms: Accelerating the implementation of growth-enhancing reforms, including human capital development, improvements to the business environment, stimulating competition and innovation to increase productivity in the manufacturing sector, diversifying the industrial policy and having good governance are key drivers for strong inclusive growth. Even though Ghana has significantly improved living standards in recent years, promoting inclusive growth to reduce inequality and alleviate poverty remains an unresolved task. Modernizing agriculture, encouraging formalization of the economy and digitalization of the tax and judicial procedures are key elements to improve the business climate and to attract private sector investment. It is equally important to continue addressing governance issues related to strengthening fiscal transparency through phasing out off-budget operations and maintaining anti-corruption efforts.

Energy sector: We commend the authorities' commitment to implement the Energy Sector Recovery Plan (ESRP) in order to mitigate fiscal risks and recover the financial health of the sector. However, an integral reform of the sector that includes establishing a competitive energy bidding process, reducing distribution losses, and starting the renegotiation of expensive power generation contracts must be a top priority. We would like to ask staff if there is a specific plan and a timeline to start the renegotiation process and how the authorities plan to address the legal issues that may come up as part of this process?

The financial Sector: We commend the authorities' efforts to strengthen banking resilience and the financial regulatory and supervisory framework, however, the clean-up of the financial sector, especially savings-loan institutions and microfinance, has yet to be completed. Accelerating reduction of Non-Performing Loans (NPL) and completing regulatory reforms still pending are key elements to recover the financial sector's credibility. We welcome the authorities' commitment to strengthen the AML/CFT regime and their confidence to meet the requirements of the action plan to exit the FATF's "grey list". We would like to hear from staff more about this action plan, what the specifics are and the timeline to recover the funds from complicit directors and shareholders of failed institutions.

Mr. Chikada, Mr. Tan, Ms. Mori and Ms. Susiandri submitted the following joint statement:

> We thank staff for the well-written report and Mr. Mojarrad and Mr. Osei Yeboah for the informative buff statement.
>
> We are pleased to note the solid achievements by the Ghanaian authorities as reflected by the robust growth, downward inflation trend as well as improved external position. That said, various challenges remain ahead, stemming mainly from domestic factors such as election-related spending pressures and energy and financial sector reform costs. Against this backdrop, we concur with the broad thrust of staff's appraisal and offer the following comments for emphasis.
>
> Continuing efforts should persist to maintain fiscal sustainability. We welcome the authorities' commitment to fiscal discipline and debt sustainability by adopting the 2018 Fiscal Responsibility Act and establishing the Presidential Fiscal Responsibility Advisory Council. This sent a strong signal from the authorities to guard against fiscal slippages as the political budget cycle emerges in an election year in 2020. To support fiscal discipline, we share staff's view to strengthen the fiscal rules and welcome the authorities' willingness to consider a further tightening should risks were to materialize.
>
> Risks from still-rising public debt need to be steadfastly addressed. High interest payments on a growing debt stock is a burden on Ghana's fiscal position and concrete progress to increase domestic revenue mobilization is required. Given significant contingent liabilities from SOEs, we agree that, among other things, the development of Public Sector Balance Sheet (PSBS) would be helpful. However, the usefulness and reliability of PSBS hinge on the data coverage, quality, and adequacy of valuation of assets. Thus, careful attention needs to be paid to the nature of assets and liabilities, including liquidity mismatches. We further note with concern the off-budget operations to SOEs in Ghana. As these could lead to fiscal risks, could staff comment on the efforts to mitigate the associated risks?
>
> Strengthening monetary and exchange rate policies remains key to preserve macroeconomic stability. We commend the authorities' work to maintain price stability and build external buffers, and their commitment to halt monetary financing, which contributed to a substantial decrease in inflation. While the current monetary policy stance remains appropriate, we encourage the authorities to remain vigilant of inflationary pressures as well

as exchange rate risks. We also support the authorities on revisiting the inflation target over the medium term to maintain competitiveness against trading partners. We note the staff recommendation to reduce FX interventions by applying the new rule-based FX intervention policy, which could help boost external buffers. We welcome staff's further comments on this new rule and its potential impact to the volatility of Cedi compared to the old one.

Further efforts are needed to complete the financial sector clean-up. We are encouraged by the improvements in the supervisory and regulatory framework. However, we are somewhat puzzled that there has not been much progress in addressing the NPL over-hang despite improving bank profitability and generally favorable macroeconomic conditions. We welcome staff's elaboration on this observation. While we see positive progress on the banking sector performance, non-banking institutions particularly the insurance industry and fund managers have experienced negative pressures. We invite staff's comment on the potential impact to the financial system stability if risks were to materialize in these sectors. Given the additional budgetary risks posed by the financial sector restructuring, we urge the authorities to closely monitor the developments and be prepared with a clear action plan if need be.

Effective implementation of structural reforms will support sustained and inclusive growth. As Ghana economy is heavily reliant on extractive sectors, we support the authorities' work toward economic diversification through agricultural modernization and industrialization. To achieve more inclusive growth by sharing the benefits of growth among its nationals, providing more targeted and means-tested social interventions are important. We also encourage the authorities to improve banking intermediation to support economic financing. Structural reforms to enhance the business environment, governance, and anti-corruption practices are critical to support sustainable growth in the medium-term. To this end, we welcome several steps by the authorities, including the appointment of an opposition party member as the Head of Office of the Special Prosecutor and the independence given to anti-corruption institutions

With these remarks, we wish the authorities further success in their endeavors.

Ms. Levonian, Ms. McKiernan and Mr. Rankin submitted the following statement:

We thank staff for their informative reports on Ghana and Mr. Mojarrad and Mr. Osei Yeboah for their useful buff statement. Ghana made important progress under the recent ECF-supported program, including stronger growth, lower inflation, fiscal stabilization, and steps to restore the health of the financial sector. Notwithstanding these successes, key challenges remain to achieve the authorities' development objectives. We encourage the authorities to entrench hard-won gains through continued fiscal consolidation, prudent monetary policy, financial sector strengthening, and further progress on structural reforms, especially in the run-up to the 2020 elections. We agree with the thrust of the staff appraisal and offer the following comments for emphasis.

Stronger domestic revenue mobilization would help improve Ghana's fiscal position. Ghana's average tax-to-GDP ratio (12.8 percent) has been persistently below peers in Sub-Saharan Africa (15 percent) and remains a full seven percentage points below staff's assessment of the tax frontier. In this respect, we welcome the authorities' "Ghana Beyond Aid" goal to raise the tax ratio to 18 percent by 2023. We note that reducing tax exemptions and enhancing the risk-based compliance system would help achieve this goal while balancing the need to build a more competitive business environment. In addition to the tax revenue strategies identified by staff, are there opportunities to better capture returns on public investments (e.g., through user-fees)? We commend the authorities' significant progress in reducing gender disparities. Experience shows that closing gender gaps leads to greater revenue mobilization and higher growth. What lessons should those seeking to close macro-critical gender gaps take from Ghana's experience?

Improving the efficiency of public investment could provide significant development gains. As highlighted in the Managing Director's speech at the High-Level Conference in Dakar earlier this week, only 60 percent of the region's infrastructure spending currently translates into public capital stock. In this regard, we welcome the very useful Selected Issue Paper on "A Public Sector Balance Sheet for Ghana." Public sector balance sheets provide an effective framework to improve policy and investment decisions. We encourage staff to include public sector balance sheets in staff reports, where possible, given data and other challenges.

Following comprehensive HIPC debt relief, Ghana is again at high risk of debt distress. Rising public debt is a key policy challenge which crowds out private sector credit, generates rollover risks, and compresses fiscal space needed to support inclusive growth. We encourage authorities to limit non-concessional borrowing to investment projects with credibly high rates of return. We also urge the authorities to reconsider reliance on collateralized borrowing which can create uneven seniority among creditors, reduce market access, limit policy discretion during stress episodes, increase borrowing costs on non-collateralized debt, and ultimately undermine debt sustainability. We recall the United Nations Addis Ababa Action Agenda declaration that "lenders also have a responsibility to lend in a way that does not undermine a country's debt sustainability." While the authorities' new fiscal rule capping the budget deficit is encouraging, we underline concerns that the fiscal rule does not account for very large off budget expenditures in the financial and energy sectors.

Lastly, we welcome staff's efforts to integrate capacity development (CD) priorities into the surveillance report. In particular, Annex V provides a helpful overview of CD priorities and objectives. As we have noted previously, we see merit in this presentation, which could be adopted as a template to help integrate CD with other core Fund functions.

Mr. Fachada and Mr. Antunes submitted the following statement:

We thank staff for the insightful reports and Mr. Mojarrad and Mr. Osei Yeboah for their statement. Ghana has made impressive progress, both in terms of macroeconomic stabilization and social inclusion. Growth is solid, inflation is relatively well-anchored and medium-term perspectives are positive. Nevertheless, the challenging global environment leaves no room for complacency. In order to sustain the authorities' ambitious plans to boost the economy and promote productive diversification, we underscore the importance of keeping the sound fiscal, monetary and financial policy frameworks built over the last few years.

Despite progress under the recently concluded ECF program, additional efforts will be needed to safeguard debt sustainability. We take note that the DSA assesses the risk of external and overall debt distress as high. External debt service is particularly burdensome, absorbing a third of government revenues and leaving little space for public investment. Furthermore, the current fiscal deficit is a cause for concern amid relatively subdued domestic revenue mobilization. We concur with staff that fiscal discipline in the months leading to the upcoming general elections will be key. It is paramount to avoid fiscal slippages that can lead to the deterioration of investors' confidence. On the positive side, the new fiscal rules provide an adequate framework to bring the public debt down to a sustainable path.

Inflation is well within the target band, but the authorities should remain vigilant in face of heightened inflationary pressures. The end of monetary financing of the government made possible a more predictable monetary policy framework and the reduction of inflation. We are encouraged by the fact that inflation expectations are broadly in line with the target, attesting to the credibility of the monetary authorities. Nevertheless, we agree with staff that the inflation target range remains relatively high. Keeping an adequately tight monetary stance will create the conditions to consolidate the monetary policy framework over time, gradually reducing interest rates and opening space for lower inflation targets.

Considering the structural conditions of Ghana's economy, we underscore the importance of keeping adequate foreign reserve levels. We take note that staff considers that international reserves remain relatively low. Since Ghana is a resource-rich country, it would be advisable to keep higher levels of reserves as a key buffer against commodity-price volatility. We take note that the authorities include significant resources held in the oil fund in their reserves estimates, which allows Messrs. Mojarrad and Osei Yeboah to assess the reserve level as "comfortable". Could staff elaborate on the discrepancies between its assessment and the authorities' views regarding reserve adequacy? What are the risks involved in keeping the current reserve levels, considering that resources in the oil fund can be readily available to the monetary authorities?

Economic diversification efforts are welcome, particularly when enhancing productivity and addressing supply side constraints. The ambitious "Ghana Beyond Aid" development strategy has the potential to structurally change Ghana's economy, promoting exports in non-traditional areas. While we applaud the authorities' efforts at economic diversification, excessive use of tax breaks and subsidized credit provokes market distortions. We believe that Ghana should continue focusing in productivity-enhancing initiatives, building on the country's comparative advantages with a view to deepening their participation in global value chains. Finally, we are encouraged by the authorities' intention to seize the growing potential of African intraregional trade, taking advantage of the AfCFTA.

Mr. Jin and Mr. Huang submitted the following statement:

We thank staff for the informative reports and Mr. Mojarrad and Mr. Osei Yeboah for their helpful buff statement. Ghana's economic growth continues to be strong after the completion of the ECF program, with inflation contained and the current account deficit narrowed. Looking forward, we encourage the authorities to keep up the momentum of pursuing prudent macroeconomic policy and diversifying the Ghanaian economy. We broadly agree with staff's appraisal and would like to limit ourselves to the following.

Boosting domestic revenue mobilization is critical to ensure fiscal discipline is observed. We commend the authorities' commitment to fiscal discipline and their determination to avoid a potential fiscal slippage in the upcoming 2020 election. Nevertheless, a contingent plan might be helpful in case the election-related spending would be more than anticipated. We note with concern that Ghana's tax revenue to GDP ratio remains low relative to its peers, despite extensive capacity development support received from the Fund in revenue administration. In this regard, more efforts are needed to further strengthen the tax administration by digitalization, broaden the tax base by encouraging formalization, and rationalize tax exemption when using tax incentives to attract foreign investment.

Containing contingent liability risk is the key to ensure public debt sustainability. Ghana's public debt-to-GDP ratio will increase by 4.1 percentage points this year, mainly driven by the materialization of contingent liabilities in the financial and energy sector. In this regard, we encourage the authorities to carefully manage fiscal risks when continuing to pursue the restructuring of the financial sector and reform of the energy sector. In addition, as Ghana relies more on non-concessional borrowing, public debt management should be further enhanced to mitigate risks stemming from increasing exposure to international capital markets.

More should be done to strengthen the monetary and exchange rate policy. We agree with staff that the monetary policy stance seems appropriate, given that inflation falls within the target band and the inflation expectation is anchored. The establishment of the repo market framework is a step in the right direction to strengthen the monetary policy transmission and enhance monetary market liquidity. We commend the authorities' commitment to exchange rate flexibility and the transparency and efficiency of the FX market. The international reserve level, which falls short of three months' worth of imports, is a source of concern. We encourage the authorities to accumulate reserve buffers if permitted. As indicated in Mr. Mojarrad and Mr. Osei Yeboah's buff statement, the authorities are planning to establish a national development bank to facilitate private sector borrowing. Staff's comments on the feasibility and effectiveness would be appreciated.

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

Mr. Di Tata and Mr. Corvalan Mendoza submitted the following statement:

We thank staff for the comprehensive report and the selected issues paper and Mr. Mojarrad and Mr. Osei Yeboah for their helpful buff statement.

Ghana's economic performance since 2017 has been characterized by strong growth, single-digit inflation, and improvements in the fiscal and external positions, but the economy still faces several challenges. Real GDP growth slowed in 2018 but is expected to pick up to 7 percent in 2019 owing to strong activity in the gold and oil and gas sectors, while inflation is contained within the Bank of Ghana's (BoG) target band. The external position is regarded as moderately weaker than implied by fundamentals, while international reserves need to be strengthened. The public debt increased from 59 percent of GDP in 2018 to 63 percent in 2019 partly driven by the financial sector cleanup and energy sector costs, and the DSA suggests a high risk of debt distress.

The medium-term prospects are broadly favorable under the assumption of continued access to markets and refinancing of the public debt. New oil field production would support growth of around 5 percent a year over the medium term, inflation would decline gradually, and international reserves are projected to remain above 2 months of imports. Downside risks to the baseline include election-related spending pressures and debt rollover difficulties, a further weakening of commodity prices, and higher-than-projected energy and financial costs. Upside risks relate, among other things, to new oil discoveries or rapid economic diversification. The consultation discussions appropriately focused on maintaining macroeconomic stability and laying the ground for strong, sustained, inclusive growth.

We welcome the authorities' commitment to fiscal discipline and to breaking the pattern of high fiscal deficits observed in previous electoral cycles. We are concerned, however, that the overall fiscal deficit (including energy and financial sector costs) is still large at 7 percent of GDP in 2019, significantly exceeding the ceiling of 5 percent established in the Fiscal Responsibility Act. We notice that under current policies the overall deficit is projected to decline to 6.4 percent of GDP in 2020, before stabilizing at around 5 percent over the medium term. We take note that a possible revenue underperformance in 2020 is likely to be compensated by under execution of capital spending.

We fully agree with staff that a more ambitious medium-term fiscal effort is necessary to lower borrowing and rollover risks and improve the external position. Given Ghana's low tax-to-GDP ratio relative to peers, we share the view that a stronger revenue mobilization is key to improving the fiscal position. In this regard, we encourage the authorities to consider the staff's proposals of extending property taxes, developing a comprehensive framework for taxation of extractive industries, reducing exemptions, and leveraging technology to enhance tax compliance. Could staff elaborate on the total size of tax expenditures in Ghana?

We also believe that the current fiscal rules should be strengthened. Among other things, this would require considering financial and energy sector costs above the line. Box 1 of the report provides other valuable recommendations, such as targeting a formal debt anchor consistent with a sustainable debt-to GDP ratio over the medium term. We take positive note of the PFM law and guidelines for sound public financial management. Going forward, further efforts are necessary to roll out the regulations and make project investment management (PIM) fully effective. We also welcome the creation of an entity to oversee governance in public corporations and encourage the authorities to make additional progress in this area. We commend the authorities for the advances in debt management and encourage them to coordinate debt issuance across government entities and smoothen the domestic redemption profile. Could staff comment on how important rollover risks are?

We agree with the authorities that the status quo in the energy sector is not sustainable and appreciate the discussion of the challenges faced by the sector in Box 3 of the report. In this connection, we welcome the authorities' commitment to implement the 5-year Energy Sector Recovery Plan (ESRP) with assistance from the World Bank as well as the measures that have already been taken in the context of the Plan, including recent increases in electricity tariffs.

We welcome the authorities' commitment to maintaining price stability and building external buffers and agree with the view that the monetary policy stance seems appropriate. The end of central bank financing of the government, in line with the amended BoG Act, has contributed to a significant reduction in inflation and a normalization of monetary policy. Over the medium term, it may be appropriate to lower the inflation target range, which is relatively high, provided that fiscal policy is supportive. We also welcome recent steps to deepen the interbank FX market.

Regarding the banking sector, we take positive note of recent improvements in capitalization and profitability but regret that progress in addressing NPLs has slowed. We encourage the authorities to strengthen licensing, regulation, and supervision, particularly of non-banks, which have had a mixed performance. We note that the process of financial restructuring is likely to pose additional risks to the budget, including from the recapitalization of a state bank. Could staff elaborate on the measures underway to address this bank's weaknesses? We encourage the authorities to develop a plan to strengthen the BoG's balance sheet with Fund advice and welcome recent directives to enforce bank governance. Addressing the still high level of NPLs and banks' high operating costs is important to facilitate credit growth.

The "Ghana Beyond Aid" development strategy seeks to accelerate growth and make it more inclusive by broadening the economic base through agricultural modernization and industrialization. The strategy relies on Ghana's comparative advantage in agro-processing and heavy industries, which would also help mitigate risks of Dutch disease. Box 2 provides a useful summary of the government's efforts at diversification. We would appreciate a brief assessment by staff of the pros and cons of the government's strategy.

Ghana's business environment has improved, the country ranks well at the regional level in terms of control of corruption, and the authorities have taken steps to improve transparency in the management of natural resources. However, further efforts are necessary in the areas of resolving insolvency, trading across borders, and paying taxes, as well as in reducing bribery. Moreover, staff notes that some gaps remain in the legal framework criminalizing corruption and that there is a need to improve coordination among anti-corruption bodies. We welcome the efforts underway to exit the FATF designation as a jurisdiction with AML/CFT deficiencies, including recent steps to improve the AML/CFT legal and supervisory framework. Going forward, developing capacity and making operational the beneficial ownership register are key priorities.

With these comments, we wish the Ghanaian authorities every success in their future endeavors.

Mr. Sigurgeirsson and Mr. Bernatavicius submitted the following statement:

We thank staff for the informative report and the selected issues papers and Mr. Mojarrad and Mr. Osei Yeboah for their helpful buff statement. We note the progress achieved during the ECF-supported program, which was successfully completed earlier this year. However, significant challenges and vulnerabilities remain related to fiscal performance and the financial and energy sectors. We generally concur with staff's appraisal, with the following comments for emphasis.

The current inflation target, which remains one of the highest in the region, could be revisited. We note the significant progress achieved by the Ghanaian authorities in recent years in stabilizing inflation. The current tight monetary policy stance is appropriate, and the Bank of Ghana should stand ready to act if inflationary pressures reemerge. We encourage the authorities to reduce FX interventions by applying the new rule-based intervention policy. We also note that a Memorandum of Understanding (MoU) between the Ministry of Finance and the Bank of Ghana, which put a hold on monetary financing will expire at end-2020. Thus, there is a need to amend the Bank of Ghana Act by strengthening the prohibition against monetary financing.

We encourage the authorities to strengthen fiscal rules and step-up the pace of fiscal consolidation. According to the current baseline, the fiscal deficit will remain elevated at 5 percent in the medium term. Considering the still high (and increasing) public debt, contingent liabilities stemming from the energy and financial sector and weak external position, there is a strong case for a more ambitious fiscal consolidation path. We support staff's recommendations on the need to avoid new-collateralized debt and to further improve fiscal transparency.

The growth of the tax revenue-to-GDP ratio has slowed down from 2008 to 2018. Domestic revenue mobilization is low compared to peer countries and remains one of the key challenges for Ghanaian authorities going forward. We note, however, that in recent years the IMF has provided an extensive TA on revenue mobilization. Could staff elaborate more on the lessons learned from this experience?

Economic growth remains robust but relies heavily on the extracting sector. Therefore, we welcome the authorities "Ghana beyond Aid" agenda, aimed at economic diversification. Realizing gain through this effort, however, will require patience and policy discipline. We also concur on the urgent need to complete the energy and financial sector clean-up, in light of exposure to potential vulnerabilities.

Mr. Sylla, Mr. N'Sonde and Ms. Nankunda submitted the following statement:

We thank staff for a comprehensive report, and Mr. Mojarrad and Mr. Osei Yeboah for their informative buff statement.

We take positive note of the authorities' successful efforts to preserve macroeconomic stability and sustain strong growth since the completion of the ECF-supported program in March. The fiscal position has improved, inflation has remained within the target band while financial stability has been maintained through more rigorous banking supervisory and regulatory frameworks. The country has also launched a bold program of structural transformation of the Ghanaian economy centered around the "Ghana Beyond Aid" agenda, which paves the way for a brighter economic outlook.

Notwithstanding the positive developments and prospects, Ghana still faces several challenges and vulnerabilities, including contingent liabilities stemming from the financial and energy sectors, large financing needs, exposure to market uncertainties and global slowdown. Looming election spending pressures add to fiscal risks.

Against this backdrop, the authorities should continue to enhance institutions and policies to maintain macroeconomic stability, foster economic resilience and buttress inclusive growth, notably by advancing their transformative agenda. Efforts should particularly be pursued towards price stability, furthering fiscal discipline and strengthening debt management to reduce debt burden, and restoring financial sector soundness.

We broadly share the staff's policy and reform advice, and wish to make the following comments for emphasis:

We commend the authorities for the 2020 budget alignment with the fiscal rules and encourage them to improve revenue mobilization through a comprehensive tax revenue strategy while enhancing public financial management. We agree that capping the budget deficit effectively will require stronger monitoring and oversight of fiscal operations, particularly those related to SOEs. The current PFM reform agenda remains key to attaining fiscal targets and ensuring debt sustainability. Full consideration should be given to the proposed modifications to the fiscal rules, notably the option of an additional fiscal anchor based on debt ceiling path; independent scrutiny over escape clauses; reporting requirements; and independence of the fiscal council. Given the country's significant financing needs, strong revenue measures along with adequate expenditure management would be necessary to create fiscal space and push ahead with priority spending projects. Therefore, additional measures are required, including further improving in tax collection and compliance, broadening the tax base and leveraging digitalization. Noting the authorities' plan to bring the tax ratio to 18 percent of GDP by 2023 from 12.8 percent currently we would welcome staff's elaboration on the authorities' view regarding each of the proposed elements of the tax revenue strategy laid out in paragraph 14 of the report.

We share the view that the current monetary policy stance is appropriate, but the inflation target may be on the high end. We encourage the authorities to consider a lower inflation target than the current range of 8 +/- 2 percent while ensuring proper coordination with fiscal policy and effective communication to anchor inflation expectations. In addition, efforts should continue to bolster external buffers to help absorb potential negative shocks. We also call on the authorities to pursue actions to develop the interbank markets including by reducing foreign exchange interventions, fostering market-based transactions, and promoting the new repo guidelines

The authorities should build on improved financial sector performance to further restructure the sector. We welcome the progress made in banking sector capitalization and profitability. Prompt resolution of non-performing loans (NPLs) is vital to preserve financial stability and help stimulate credit to private sector. In the same vein, efforts are needed to lower banks' operating costs through innovative technologies, and to disincentivize excess bank reserves with the central bank. We agree on the need to further strengthen Bank of Ghana's supervisory, regulatory, and AML/CFT frameworks including for Fintech.

On structural reforms, the authorities should continue implementing wide-ranging reforms consistent with the "Ghana Beyond Aid" agenda. We see merit in diversifying the economy away from natural resources and promoting export competitiveness. This would also help Ghana take advantage of the AfCFTA. The authorities should also address the constraints to their industrial policy by removing the regulatory impediments to entry. With respect to the energy sector, we would appreciate staff's comments on the reason to why the excess power capacity and gas supply is not exported. Can this be attributable to lack of appropriate interregional infrastructure? The establishment of the State Interest and Governance Authority as a single regulatory authority for all SOEs is a positive step towards strengthening governance and transparency. Finally, we urge the authorities to continue to observe the EITI requirements and the legal and institutional architecture to promote good governance.

With these remarks, we wish the authorities of Ghana success in their transformative agenda.

Mr. Palei and Mr. Shestakov submitted the following statement:

We thank staff for the well-written report and Mr. Mojarrad and Mr. Osei Yeboah for their insightful buff statement. The performance of the Ghanaian economy remained strong under the ECF-supported program. Economic growth has averaged above 7 percent in 2017-2019, while inflation decreased to single-digit. To some extent these gains stemmed from the extractive industries exports and should be qualified by a persistent inequality and relatively slow poverty reduction. While we welcome the progress in debt management, public debt continues to rise and the risks in the DSA remain high. The ambitious "Ghana beyond Aid" reform agenda is a timely and important undertaking. It should accelerate diversification of the economy and facilitate more robust and broad-based growth.

The medium-term economic growth prospects are favorable and could additionally be improved with new oil discoveries and/or gains from industrialization efforts. We note that exported raw materials mix is relatively diversified and mitigates the effects on Ghana from adverse external shocks. At the same time, additional diversification, including agricultural modernization and industrialization drive, would make growth more resilient. Demographic trends present a unique growth opportunity for Ghana to diversify its economy and generate new jobs across the sectors of the economy to accommodate the growing labor force. The share of employment in agriculture has been declining in Ghana, but rising agricultural productivity could still reduce rural poverty. Given an uptick in the most recent data in the number of the poor, do the authorities have a plan to focus on poverty reduction, in addition to the overall growth-promoting agenda?

The growth efforts will be fostered by the implementation of the "Ghana beyond Aid" agenda. The decrease of trade barriers and improved intraregional trade are crucial conditions for replicating the Asian growth "miracles" and establishing regional value chains. In the trade area, the benefits of the AfCFTA could be substantial. Human capital accumulation also presents an untapped potential as a driver of inclusive economic growth, because its contribution to the growth accounting exercise is estimated as low, while student performance and learning outcomes remain subpar. The efforts to improve the ease of doing business have already contributed to growth in the past decade and should be continued. We welcome the upcoming program to enhance transparency of business regulations and hope they will help catalyze FDI inflows.

We commend the authorities' commitment to fiscal discipline, which is anchored in the Fiscal Responsibilities Act and the Presidential Advisory Fiscal Council. We commend the authorities for strengthening fiscal institutions, including the introduction of a debt ceiling rule and making the fiscal council independent from the executive branch. A tighter fiscal path would improve domestic and external balances. An important downside risk stems from fiscal pressures of the 2020 elections. In case these risks materialize, the fiscal impulse is projected to be short-lived, which may jeopardize the hard-won gains in price stability and investor confidence.

In the monetary policy area, the authorities achieved notable success. At the same time, we encourage the authorities to continue to pursue a more ambitious goal of lowering the inflation target range over the medium term. This should be done against the background of strengthening the inflation targeting framework. The efforts of the Bank of Ghana to tighten financial supervision have not reverted the steady increase of NPLs. Can staff elaborate on the plan for a review of the loan write-off requirements, and how large a contribution it might provide towards the reduction of the stock of distressed loans?

With these remarks, we wish the Ghanaian authorities further success in facing challenges ahead.

Mr. Fanizza, Mr. Rashkovan, Mr. Etkes and Mr. Persico submitted the following joint statement:

We thank staff for the comprehensive set of papers and Mr. Mojarrad and Mr. Osei Yeboah for their helpful buff statement. The country has succeeded to maintain economic stability following the conclusion of the ECF-supported program. Monetary policy has kept the inflation within the target band. However, fiscal policy requires further adjustments to keep debt dynamics under control and to sustain the ongoing economic transformation. We share the trust of the staff appraisal and would like to add the following comments for emphasis:

The growing public debt is concerning. It is remarkable that the country is now at high risk of debt distress despite benefiting from the debt relief under the HIPC Initiative in 2002. We wonder whether an explicit debt anchor could help to place the debt-to-GDP ratio on a steady downward trend. Moreover, we remain concerned by the potential spending pressures that could arise from the upcoming elections in 2020. The misreporting of energy and financial sectors' fiscal costs and the size of the off-budget operations cast doubts on the authorities' debt reduction strategy. In this regard, we would like to ask staff both the extent to which the DSA captures the off-budget operations and the rationale behind the lowering of the parameter of the contingent liability test.

We agree with staff that the current monetary stance remains appropriate. Nonetheless, the authorities should be ready to address potential inflationary pressures. Moreover, we share the staff's advice that further efforts are needed to strengthen banking sector resilience and improve financial sector supervision. We would have appreciated a greater emphasis on the progress on the amendments to the Bank of Ghana (BoG) Act to make the BoG fully independent. Could staff provide greater details on this issue? We note the low level of reserves as well as the authorities' preference to include assets held in the oil fund in Ghana's international reserves and we wonder whether this constitutes a common practice among oil producers.

We welcome the CD strategy (Annex V) and note that AFR leads the Fund's efforts to effectively integrate surveillance and CD delivery. Indeed, the focus of TA on fiscal issues seems appropriate according to the findings of the surveillance and hope that future plans will include also training priorities. We wonder whether the outlined TA strategy was coordinated with the authorities and with other CD providers. We are surprised by the sheer number of TA missions which exceeds 50 missions in FY2020. Does Ghana have capacity to absorb so many TA missions? Would it make more sense to enhance training to cultivate such absorption capacity on the expense of some TA missions? Can staff provide data on training of Ghanaian officials by topic (macro, fiscal, monetary, etc.) in the recent years?

The country is currently under the Post-Program Monitoring (PPM). The June 2019 PPM paper envisaged that both the Article IV and the PPM discussion would be held in the period December 2019-January 2020. We wonder on the rationale for this short lag between the two' discussions. Indeed, the PPM should allow a more frequent monitoring with respect to the standard Art. IV cycle. Staff's comments are welcome.

Mr. Alkhareif and Mr. AlHafedh submitted the following statement:

We thank staff for the well-written set of reports as well as Mr. Mojarrad and Mr. Osei Yeboah for their helpful buff Statement. We broadly agree with the staff appraisal and will make a few remarks for emphasis.

We take positive note that Ghana's macroeconomic stability has been maintained, with strong growth, and improved government and external positions. Here, we commend the authorities' prudent policies aimed at reinforcing growth sustainability and would encourage further efforts to consolidate the gains made under the ECF program, especially in the context of downside risks.

We welcome the authorities' strong commitment to maintain fiscal discipline and avoid the recurrence of past fiscal slippages. In this context, we are encouraged by the authorities' willingness to consider further tightening of the fiscal rules along the lines suggested by staff, should risks were to materialize, especially those related to contingent liabilities and borrowing rollover. While public debt is assessed as sustainable, the risk of debt distress is high. Therefore, we welcome the considerable progress achieved in debt management and PFM and encourage continued efforts in this regard. Also, we support the authorities' efforts to further improve SOE oversight and transparency.

We encourage the authorities to continue their financial sector clean-up efforts, which should help in mitigating fiscal risks and supporting inclusive growth. Although bank profitability and capitalization have increased, sustained efforts are needed to further reduce NPL overhang and to address pockets of vulnerability in the financial sector. Other priorities include addressing protracted weaknesses of a state-owned bank, completing regulatory reforms, and stepping up the recovery of funds from failed institutions, as rightly noted by staff. In addition, we welcome the authorities' ambition to transform Accra into a financial hub for West Africa. Further, we are encouraged by the substantial improvement in financial inclusion and support the planned National Financial Inclusion and Development Strategy (NFIDS) to increase access to formal financial services, including through the use of financial technology. Also, we encourage accelerated actions to address AML/CFT deficiencies in line with the agreed plans.

The Energy Sector Recovery Plan (ESRP) is a step in the right direction. It contains a series of measures over the next five years, which should help in improving the energy sector's financial health, including through reaching a better balance between power and gas supply and demand. Indeed, advancing the ESRP is important going forward as the status quo could weigh on Ghana's fiscal sustainability.

Finally, more needs to be done to further improve productivity, alleviate poverty, and promote inclusive growth. Income and regional inequality remain a concern with higher unemployment and poverty in the northern regions compared to more urban regions. Here, we welcome the ambitious vision of a self-reliant "Ghana beyond Aid" aimed at diversification towards industries with export potential. Additionally, we support staff's call for a consistent and predictable government strategy to achieve enhanced transparency and efficiency in the business environment to attract more FDI inflows.

With these remarks, we wish the authorities further success.

Mr. de Villeroché, Mr. Ronicle, Mr. Rozan and Ms. Nelson submitted the following joint statement:

We thank Staff for the informative set of papers and Mr Mojarrad and Mr Osei Yeboah for their insightful buff statement.

We commend the authorities for their continued maintenance of macroeconomic stability and implementation of structural reforms to support long-term growth. With growth expected to accelerate to 7 percent in 2019 and remain around 5 percent over the medium-term, we note that Ghana will continue to rank amongst the fastest growing economies in Africa. Extractive industries are expected to continue as a major source of growth. However, we urge the authorities to maintain its focus on diversifying the economic base to ensure that long-term growth is resilient, stable and sustainable. In this regard, we welcome Staffs' selected issues paper on a "Growth Strategy for Ghana" and broadly agree with its recommendations.

While high growth rates have supported rising levels of GDP per capita over recent years, we are concerned that the figures mask trends of rising inequality, continued regional disparities and slower poverty reduction results. Ensuring that growth contributes to improved development outcomes must continue to be a major focus of the authorities' efforts. Further analysis on poverty and inequality trends in the country would have been useful. We therefore encourage the authorities to effectively implement its "Ghana Beyond Aid" strategy while carefully targeting the supported sectors.

We strongly encourage the authorities to focus on consolidating macroeconomic stability in 2020, which will require careful fiscal management including actions to avoid any fiscal slippages associated with pre-election spending. While the authorities' commitment to fiscal rules is encouraging, we share Staffs' assessment that the rules could be further strengthened to support fiscal discipline. In this regard, we encourage the authorities to implement Staff suggestions outlined in Box 1 of the Staff Report. We share Staffs' assessment that strengthened domestic resource mobilization (DRM) is critical to improving Ghana's fiscal position. The recent 2020 budget anticipates a fiscal deficit that is reliant on a substantial increase in domestic revenue, driven by both tax policy changes and improvements to tax administration. Could Staff elaborate on the mandate of the Ghana Revenue Authority, tasked to improve DRM? We feel strongly that the projections on revenues are optimistic, particularly given the likely disincentives to introduce new revenue measures during an election year. We emphasize the importance of the authorities presenting credible revenue projections to maintain macroeconomic stability and effectively support the large spending needs in its ambitious "Beyond-Aid" vision.

We support Staff's suggestion for the authorities to develop statistics on the full public sector balance sheet (PSBS). Broadening the coverage of assets and liabilities would greatly assist the authorities' oversight and management of fiscal policies and risks, particularly given Ghana's large number of SOEs, arrangements that can create contingent liabilities for the government, and proposals for sub-national levels of governments to issue municipal bonds. Could Staff elaborate on the authorities' views on adopting a broad measure of the PSBS? Also, could staff elaborate on the off-balance sheet commitments of the public sector in Ghana?

We urge the authorities to take decisive and quick steps to reduce public debt. We continue to see Ghana in high risk of debt distress while the upward trajectory since the March DSA is additionally concerning. Fiscal space remains squeezed by the debt picture with amortization expected to be the second largest expenditure category in the 2020 budget, while Staffs' baseline is for debt service to absorb over a third of government revenues. Could Staff elaborate further on the reasons behind the uptick in debt since the March DSA? Whilst there is an 'informal' guideline for the debt-to-GDP ratio, we support Staffs' recommendation for a formal ratio to help anchor debt expectations and reduce uncertainty over the debt trajectory. We also share Staff views that the authorities should seek to reduce off-budget operations to improve fiscal oversight and management and avoid contracting new collateralized debt. Furthermore, the redemption profile is concerning, and we concur that it will require careful management.

We commend the authorities for maintaining an appropriate monetary stance to keep inflation close to target. The authorities’ commitment to the MoU between the Bank of Ghana and the Ministry of Finance to prohibit monetary financing of the deficit is also very positive. That said, with the MoU due to expire at the end of 2020, we support Staff’s recommendations that its provisions are legislated. Could Staff explain whether the authorities are planning to strengthen the prohibition against monetary financing once the MoU expires in late 2020? While the authorities have made good progress in cleaning up the financial sector, the Reports illustrate starkly the continued challenges ahead to address remaining vulnerabilities. To support the effort, we are pleased to hear that the Financial Stability Council will hold its first meeting on the 20th December (as highlighted in the buff statement). While there are several areas to tackle to complete the financial sector clean-up, we would welcome Staffs’ assessment on the extent to which the authorities have a credible, comprehensive and well sequenced plan, and its ongoing cost for the public sector.

We commend the authorities for the improvements to the business environment and positively note the range of structural reforms that the authorities intend to implement. Prioritizing implementation of the Energy Sector Recovery Plan will be critical from the perspective of containing downside energy sector fiscal risks, and for enhancing access to reliable and affordable energy to support growth and poverty reduction efforts. As it is a macro critical sector, a balance sheet of the energy sector could be useful. The ambition to increase digitalization to address supply side constraints is a welcome feature. Digitalization offers exciting opportunities that could help Ghana improve its competitiveness and address socio-economic challenges and we encourage the authorities to look to front-runner developing countries for inspiration and advice. Finally, improving trade facilitation will be essential if Ghana is to leverage opportunities created by the Africa Continental Free Trade Area.

While Ghana has made good progress on tackling corruption and improving governance, we are disappointed that the authorities have not published a National Anti-Corruption Action Plan since 2017. A plan provides an anchor for sustained actions to tackle corruption and is important in enforcing accountability. As such, we encourage the authorities to publish a plan as soon as possible.

In the post ECF environment, we thank Staff for their continued provision of CD to Ghana. The information outlined in Annex V of the Report on CD priority areas going forward was helpful. We thank Staff for their extensive historical provision of TA for debt management. As Ghana's debt context illustrates, there is still a pressing need for improved debt management. Could Staff therefore comment on the extent to which its historical TA has been effective? We were also surprised to see that debt management is not listed in the top five priority areas. Could Staff outline what further support they intend to provide in the debt management area? We note positively that DRM is prioritized. With several development partners providing extensive TA to the Ghanaian Revenue Authorities and the Ministry of Finance's Tax Policy Unit, we encourage all partners (including the IMF) to coordinate to maximize synergies.

Mr. von Kleist, Mr. Trabinski, Ms. Lucas and Mr. Makhammadiev submitted the following joint statement:

We thank staff for the good set of reports and Mr. Mojarrad and Mr. Osei Yeboah for their informative buff statement. We commend the authorities for successfully completing the ECF-supported program, and sustaining macroeconomic stability and strong growth. To preserve and consolidate these gains, we encourage the authorities to address key challenges stemming from still-rising public debt levels, weaknesses in the fiscal domain as well as energy and financial sector risks.

Containing public debt and bolstering revenue mobilization are key to safeguard fiscal sustainability. Elevated public debt and low revenue outturns remain a serious concern. They limit Ghana's ability to undertake growth-focused and poverty-reducing expenditure policies and to react to possible shocks. We concur with staff that a more ambitious fiscal stance would decrease macroeconomic risks, accelerate debt reduction and rebuild policy buffers in the face of the high risk of debt distress. Could staff comment on how the debt trajectory will influence the "Ghana beyond Aid" strategy? In light of the upcoming elections, the authorities' commitment to fiscal discipline—as demonstrated by the adoption of the Fiscal Responsibility Act—is of critical importance. In this regard, we would appreciate staff's comments on how the increase in the wage bill would affect consolidation efforts.

Strengthening fiscal transparency is critical to enforce prudent policy and maintain credibility of the reform agenda. We welcome the introduction of fiscal rules and the Advisory Council in December last year, as well as the publication of the fiscal risks statement in March this year. We support staff's recommendations to improve the fiscal rules, especially by simplifying them and introducing a debt anchor. We urge the authorities to refrain from off-budget spending and new collateralized borrowing. Such operations represent serious yet hidden risks to debt sustainability and give rise to governance concerns.

We commend the authorities for forcefully cleaning up the financial sector. While this came at a heavy fiscal cost, the clean-up is expected to unclog lending to the private sector. Could staff inform if there are any indications of increased credit provision at this time? Keeping the financial sector in good health will require a reinforcement of regulatory and supervisory capacities. Staff's comments on the authorities' plans in this regard would be appreciated. As already in the past, we encourage the authorities to anchor the prohibition of monetary financing in the BoG Act.

Progress on structural reforms should continue. The diversification agenda is commendable and will require sustained efforts over the longer horizon to reap benefits. Ensuring conducive investment conditions is a key factor in better exploiting the development potential and fostering private sector investments. In this context, we strongly support the authorities' engagement with the G20 Compact with Africa to enhance their cooperation with the private sector, further improve the business environment and thus secure more private investment. Given revenue mobilization needs, incentives for investors should be geared more toward non-tax measures. We are concerned with the recent termination of the concession agreement for electricity distribution. It raises doubts about the rule of law and may have negative repercussions for investor sentiment.

Mr. Just and Mr. Bukovina submitted the following statement:

We thank staff for the comprehensive report and well-focused Selected Issues Paper, and Messrs. Mojarrad and Osei Yeboah for their helpful buff statement. We broadly share the staff's appraisal and emphasize the following aspects:

The Ghanaian authorities stay the course of macroeconomic stabilization, backed by advancing the structural reform agenda. Fiscal discipline and tight monetary policy improved government and external positions, resulting in single-digit inflation and stronger growth. Nonetheless, key challenges remain, such as additional contingent liabilities or continued revenue underperformance, and the election in 2020 will test the authorities in their fiscal commitments and reform-oriented appetite.

In the fiscal area, sustained fiscal consolidation will require stronger revenue mobilization and the effective implementation of public financial management reforms, while continuing with the proactive debt management to lengthen the maturity structure remains critical to reduce the risk of debt distress. We commend the authorities' firm commitment to fiscal discipline, but note that the steady increase of the deficit, public debt, and gross financing needs require additional policy effort. We concur with staff's recommendations on domestic revenue mobilization and support the suggested menu of measures to increase the low tax-to-GDP ratio. The authorities should focus on a growth-oriented tax mix and over the medium term, we suggest expanding the reliance on corporate income tax to indirect taxes, especially VAT. To further support fiscal consolidation, possible modifications of fiscal rules and especially the gradual implementation of a public sector balance sheet should be pursued. In this regard, better management of and less uncertainty about the public sector's financial position will increase transparency and potentially have a positive effect on government borrowing due to a reduction in the spread premium. We would appreciate an update by staff on the authorities' progress in addressing debt challenges in the energy sector.

Sound fiscal and structural policies are paramount to maintaining market confidence. The recent period of growth was driven predominantly by extractive industries, and we therefore, welcome the launch of the ambitious "Ghana beyond Aid" transformation strategy, as the diversification of the economy by developing industries with export potential is needed for inclusive growth. Modeling this strategy after successful East and Southeast Asian economic models may be challenging, and the authorities should prioritize sectors that can export and innovate and where Ghana could achieve economies of scale. We would appreciate staff's comments whether the ACFTA could help with Ghana's economic diversification ambitions. Accelerating the implementation of structural reforms, and continuing with the digitalization initiative to improve transparency and the business environment, should be conducive for private sector-led growth. In this context, the authorities need to ensure that the deficiencies in the AML/CFT framework are fully addressed to meet FATF requirements.

Monetary policy is appropriately focused on maintaining price stability. We welcome the end of monetary financing and support a tight policy stance should inflationary pressures emerge or fiscal risks materialize.

Could staff elaborate on the likelihood of amending the BoG act to end the possibility of monetary financing?

While progress in the supervisory and regulatory framework has improved banking sector performance, more needs to be done to enhance financial sector governance, risk management, and avoid unsustainable business models. In that regard, of particular concern are the many distressed non-banking institutions which required intervention, resulting in reimbursement costs at 0.6 percent of GDP, and additional costs may materialize. A robust financial sector requires firm supervision, more rigorous licensing procedures, and further regulatory enhancements with a focus on more effective risk management to safeguard a sound financial sector. We would appreciate staff's comments whether plans by the BoG for a minimum loans-to-deposit ratio to boost lending will be implemented and what safeguards will be put in place to prevent riskier lending practices. Staff points out that also due to high operating costs in the banking sector, lending rates remain high, causing a major barrier for access to credit which is necessary for sustained economic growth. Can staff elaborate on specific measures and best practices available for Ghana to improve operational efficiency?

Mr. Bhalla and Mr. Singh submitted the following statement:

We thank the staff for the report and Mr. Mojarrad and Mr. Osei Yeboah for their informative buff statement.

Ghana has made noteworthy efforts in addressing economic challenges by implementing sound reforms and macroeconomic adjustments. The challenging endeavors by authorities have started yielding dividends in terms of higher GDP growth, lower inflation, narrowing current account and fiscal deficits, which in turn, have led to enhanced stability of the exchange rate and the external position. We complement the authorities in continuously bringing down the poverty head count ratio and improving the HDI index. The authorities' commitment to sound macroeconomic and structural policies to transform one of the large sized economies of Sub-Saharan Africa and reducing poverty levels is noteworthy.

We believe that a sound financial sector is vital to support the growing financing needs of an expanding economy like Ghana. As enumerated in the staff report, sweeping clean-up of the financial sector by the authorities, including resolving banks and shutting down insolvent specialized deposit-taking institutions and distressed fund managers; strengthening the supervisory regulatory framework; adopting a strategy for addressing nonperforming loans (NPLs), have emerged as bold policy measures and have started yielded dividends in terms of significantly bringing down NPL levels and improving the overall health of the financial sector. We would urge authorities to continue to pursue these reforms in order to contain the heavy fiscal cost of banking sector restructuring, which would ultimately pay-off in terms of unclogging credit growth and lower financial intermediation cost for the growing economy. The sectoral composition of NPLs presented in the Selected Issues paper reveals that agriculture and allied activities have highest NPL ratio. Given that agricultural output is prone to natural and weather disturbances and hence leads to higher NPLs, does the staff think that introduction of risk mitigation measures like crop insurance scheme, could help minimize the NPL risk in this sector?

We appreciate the authorities' commitment to macroeconomic stability demonstrated in the last three years, as well as the institutional changes to entrench discipline and irreversibility of robust government policies, including the implementation of the Fiscal Responsibility Act and the establishment of the Fiscal Responsibility and financial Stability Councils. The Selected Issues paper, however, observes that business surveys consistently identify the high cost of capital and limited access to long-term credit as two main bottlenecks to the growth of local manufacturing firms. Further, the problem seems to be compounded by the large domestic financing needs of the public sector which crowd out private-sector growth. Does the staff agree that the above-mentioned institutional reforms envisaged will provide adequate cushion to release credit to private sector?

The authorities believe that the ongoing reform agenda, especially digitalization, can turn Ghana into one of the most business-friendly countries in Africa as well as dramatically improve public service efficiency and delivery. Could the staff elaborate on the scale and breadth of digitization strategy for the economy and which specific sectors of the economy are expected to be benefitted the most?

We wish the authorities the very best in their pursuit of the "Ghana beyond Aid" agenda – an ambitious vision to take the country to the upper middle income status over the next decade.

The Acting Chair (Mr. Zhang) made the following statement:

Good morning, everyone. The first session this morning is on Ghana, 2019 Article IV consultation. World Bank staff is also attending this session. Twenty-two Directors issued 17 grays. As you know, this 2019

Article IV consultation is the first after the end of the Fund ECF program, which ended in this March; and this is the first staff report to be discussed by the Board since Ghana entered the post-program monitoring in June.

As you have already seen from the report, and as also highlighted in your grays, the authorities have preserved significant macroeconomic gains achieved during the program, which include the high growth, single digit inflation, and improved fiscal and external positions. These are very much important, together with the progress in structural reforms.

On the other hand, the risks remain high, and work needs to be done in a wide range of areas. The authorities have a continued sustained commitment to these reforms. We will work together with the government authorities to make sure their objectives will be achieved, which is the Ghana Beyond Aid agenda.

The staff representative from the African Department (Mr. Sdralevich), in response to questions and comments from Executive Directors, made the following statement:

On post-program monitoring (PPM), the PPM was approved in June of this year. The 2017 guidance on post-program monitoring envisages two reports a year, of which one will be normally the Article IV report that we are discussing today. The policy also states that the Article IV consultations can no longer be combined with post-program monitoring reports, which is why this Article IV is a standalone report. We are planning the first PPM visit and report in the spring of 2020.

With regard to rollover risks, this is a delicate issue, and that is why I would like to talk about it here. Meeting government financing needs, including the refinancing of government debt, remains one of the key vulnerabilities in the short term. Over 2019 and 2020 annual gross financing needs are estimated at about 15 to 16 percent of GDP, of which about 12 percent of GDP are raised on the markets domestically and externally, including through Eurobonds. The magnitude of the needed financing underlines the importance of these risks, especially given the uncertainty related to the forthcoming elections, which are going to be in December of next year. So far, conditions have remained overall favorable, also thanks to the approval of the 2020 budget, which was generally assessed in a positive way by market players. We just learned that the authorities are planning to issue a 3 billion-dollar Eurobond in the coming January.

Lastly, on monetary financing, the end of monetary financing to the government was one of the main successes of the Extended Credit Facility (ECF), and it was critical to lower inflation from about 16 percent to the current levels of 8 percent a year. The Memorandum of Understanding (MoU) was the cornerstone. While the MoU expires at the end of 2020, just after the elections, the authorities have indicated during the mission that they intend to continue to abide by the rule of no monetary financing, and they also plan to extend the MoU before it expires.

Staff has been recommending imbedding the provisions of the MoU in the Bank of Ghana Act. The authorities have indicated that at present they have no immediate plans to do so. In fact, a parliamentary debate on the Central Bank Act would probably be very difficult in the political climate leading up to the elections.

While legislation will be the first best solution, the main goal is really to avoid monetary financing, which can also be achieved through regular renewals of the MoU, so in that sense, it is still a good solution, although it is not the optimal solution.

Mr. Von Kleist made the following statement:

We issued a joint gray and would like to emphasize two points. First, containing public debt and enhancing domestic revenue mobilization (DRM) are key to safeguard fiscal and overall sustainability. So we concur with staff that a more ambitious fiscal stance would lower macroeconomic risks, and this would also foster debt reduction and help to rebuild policy buffers in the face of high-risk of debt distress, and we thank staff for the additional comments you have made just now.

My second point is that we strongly encourage the authorities to make further progress on structural reforms. Improved investment conditions could help to better exploit the development potential and foster private sector investment. We strongly support the authorities’ engagement with the G20 Compact with Africa. This initiative contributes to increased cooperation with the private sector, further improves the business environment, and thus secures more private investment.

Ghana shows a strong country ownership within the initiative and is one of the four focus countries of the World Bank to further implement the G20 initiative by using the International Finance Corporation (IFC) country private sector diagnostics to identify prioritized reforms and selected sectors. With this, we wish the authorities all the best.

Mr. de Villeroche made the following statement:

We would like to support staff in their conclusions. We welcome the completion of the ECF in March, but we think that fiscal vulnerabilities remain. Like Mr. Von Kleist, we think that improving domestic resources mobilization is one of the key points to reinforce the fiscal stance of Ghana in the long run, and to know the development needs of the country as well.

Overall, we are a bit concerned by the importance of interest payment and the profile of Ghana's debt. The country is in high-risk of public and external debt distress with ongoing debt levels still increasing. Though financing through tapping the international market, Eurobonds can be useful, the non-concessional terms of this debt is putting pressure on debt sustainability.

Lastly, I would like to acknowledge and thank staff for the selected issue on growth where it supports an active development policy. We think it is very much welcome, and we support the recommendations for an improved business environment with clarification of Ghana Beyond Aid agenda on business relations.

Mr. Sylla made the following statement:

Any economist who is familiar with Ghana knows how this country has suffered from high inflation and the instability of its local currency against other currencies. Achieving and maintaining a single digit of inflation is certainly a very positive result for which the authorities should be commended. The causes of this instability have always been known. Among others, we can cite running large budget deficit, especially during election. This deficit was financed mainly by Bank of Ghana (BoG), so putting in place a fiscal rule and strictly adhering to it is an initial step to consolidate this achievement. We support the staff recommendation made in Box 1 on page 12, and we encourage the authorities to proceed with this adjustment.

Other recommendations we can make is that the authorities should do their best to enact the Bank of Ghana Law, the zero financing of fiscal deficit.

Ms. Pollard made the following statement:

I think Mr. Sylla's comments this morning are very good in that they remind us that Ghana has come a long way, and I agree that we should commend them for the efforts that they have made, particularly to address monetary financing to bring inflation down, and now I think the remaining is to address fiscal and debt issues. Here I want to support the remarks made by Mr. Von Kleist and Mr. de Villeroche on the need to improve domestic revenue mobilization and certainly agree with Mr. de Villeroche on continuing concerns about the high debt servicing needs of the country.

I think the answer to our question on debt sustainability and debt transparency is very helpful, and we certainly encourage the authorities to move away from the practice of taking on off-budget debt obligations and to avoid new collateralized debt obligations, particularly those where the collateral does not actually relate to the specific project. With that, we just are very encouraged by the Ghana Beyond Aid agenda and the focus on private-sector development and certainly wish the authorities well as they implement that.

Ms. Nelson made the following statement:

We would like to very much echo what others have said. We commend the authorities for their continued maintenance of macroeconomic stability, and we very much encourage that they focus on consolidating stability during 2020, which notably is an election year. Their stated commitment to avoiding fiscal slippages associated with pre-election spending is strongly welcomed.

One of the salient points of the Article IV for us was that despite the high rates of growth that has placed Ghana amongst the fastest growing economies in Africa, inequality has risen; poverty reduction has slowed, and regional disparities persist. This very much underlines the need for Ghana to focus on ensuring that growth is genuinely inclusive. We welcome the ambitions outlined in the Ghana Beyond Aid strategy given that they also tackle poverty and inequality. We think this strategy needs to be financed as much as possible by domestic resources, and as others have said today, there is a need to very much focus on how to mobilize those resources, particularly given that a large proportion of current revenue goes to debt and covers the large public wage bill. We therefore strongly welcome that tax policy and revenue administration account for two of the five priority areas for further Fund capacity development activities.

In providing such capacity development, we flag a clear need for Ghana's capacity to develop a credible revenue estimate to provide a sound basis for effective medium-term planning. This reflects our view that the revenue projections in the 2020 budget and the ambitions to increase the tax-to-GDP ratio from 12.8 percent currently to 18 percent by 2023 are actually overoptimistic, rather than staff's conclusion that they may be optimistic.

On the issue of debt, we remain worried about Ghana's continued high-risk of debt distress. We understand that the Fund has already provided extensive technical assistance (TA) on debt management, and it was reassuring to read in the staff responses to technical questions that the Fund's assistance has been effective and that assistance for further debt management does not need to be in the top five capacity development priority areas. However, we ask staff to keep a close watch on the debt issue and stand ready to reprioritize towards scaled-up technical assistance for debt management if necessary.

Finally, whilst there is an informal guideline for the debt-to-GDP ratio, we fully support staff's recommendation for the authorities to adopt a formal ratio to help anchor expectations and help reduce uncertainty over the debt trajectory. We also share staff's assessment that fiscal rules could be strengthened further to support fiscal discipline, and we note from the buff statement that the authorities would be willing to consider a further tightening of the fiscal rules along the lines suggested by staff should risks, especially those related to contingent liabilities and borrowing rollover, materialize. However, we would strongly encourage the authorities to tighten fiscal rules regardless of whether or not such risks materialize.

Mr. Just made the following statement:

Thank you, Chair. We also thank staff for the documented helpful answers to our questions and the mission chief for his introductory remarks, in particular addressing the issue of monetary financing. We join Mr. Sylla in commending the authorities for successfully completing the ECF program and for the long way Ghana has come.

The list of public financial management (PFM) and fiscal transparency reforms, digitalization projects, and the discussions on reducing significantly tax exemptions, all go in the right direction and are really very welcome. Going forward, the effective implementation of these policies on a sustained basis will be key. We are also hopeful that with the new fiscal rule, the authorities will refrain from the traditional overspending during an election year.

Like many other Directors, we are concerned about the lack of clarity of the fiscal rule, the direction and extent of exemptions, and the bias towards bringing certain items below the line. While this was probably not the intention, we strongly encourage the authorities to read staff's recommendations on how to improve the rule.

In particular, and here we echo Ms. Pollard, very large off-budget debt could raise questions about the true extent of public debt, especially once the current race for yields would slow. Ghana is susceptible to swings in investor confidence as nonresidents hold a large share of Ghanaian debt.

We thus call on staff to put extra emphasis on surveillance, particularly of frontier economies, on professional debt management practices, using a risk-based approach when looking at debt-carrying capacity and be realistic when assessing the efficiency and returns from public spending.

Finally, we share Mr. Heo's and Ms. Pollard's concerns, also expressed now by Ms. Nelson, that progress on reducing poverty and inequality has stalled and encourage the authorities to take appropriate action.

Mr. Fanizza made the following statement:

I commend the staff for the excellent work and in particular stress the importance of remaining engaged with the country. In this sense, I am pleased also to hear that actually the post-program monitoring missions are going to be spaced away from the Article IV consultation. Doing that in December and January would not make any sense because you want to have a monitoring and be involved actually in the policy discussion. As everybody has said, the vulnerability remains relevant, so the post-program monitoring should be an occasion to provide further input to the authorities' policymaking and remain engaged in a constructive policy dialogue.

Mr. Alkhareif made the following statement:

I would like to take this opportunity to commend the authorities for their efforts to maintain macroeconomic stability. Their efforts to improve economic diversification is commendable. The agricultural modernization and industrialization are a step in the right direction to enhance economic diversification, and in this context, we welcome staff's analysis in Box 2 on economic diversification.

Reforms under Ghana Beyond Aid are encouraging, and we encourage the authorities to step up their efforts to focus on enhancing competitiveness and anti-corruption measures.

On the fiscal front, I agree with my colleagues on the need to watch for the high public debt. Increasing domestic revenue mobilization efforts are a step in the right direction, and we encourage the authorities to focus on enhancing the non-oil revenues.

We take positive note of the staff analysis in Box 1 when it comes to the fiscal rules. In countries like Ghana, striking the right balance between flexibility and rigidity is important, and we are encouraged by the authorities' focus on maintaining prudent fiscal policies.

We would like to conclude by encouraging the authorities to step up their efforts in enhancing the AML/CFT frameworks. We wish the authorities continued success.

Mr. Cartagena Guardado made the following statement:

We commend Ghana's macroeconomic gains and improved external position. The medium-term outlook remains favorable but challenging, and the downside risks are still significant. We concur that promoting a more inclusive economic growth, strengthening competitiveness, and improving the business environment and governance should remain top priorities. We commend the authorities for their commitment to fiscal discipline and to preserve debt sustainability. We welcome the authorities' commitment to implement the energy sector recovery plan to mitigate fiscal risks and restore financial health of the sector. It is also important to continue addressing governance issues related to strengthening fiscal transparency. We commend the authorities' effort to strengthen banking resilience and the financial regulatory and supervisory frameworks. We welcome the authorities' commitment to strengthen regulation in the anti-money laundering (AML) regime and their confidence to meet the requirements of this action plan.

Mr. Etkes made the following statement:

I would like to focus now on the interaction between the Fund and the country, in particular about capacity development (CD) delivery. First of all, we commend the African Department for leading the Fund's efforts in integrating surveillance in CD delivery, and we hope that other departments will follow suit. CD is central for the Fund's interaction with Ghana, particularly at this stage, and the plan is important. The strategy is very important.

We would like to highlight two issues that perhaps could improve the planning for the strategy in the future. The first is to cooperate with other CD providers at the planning stage, not only in the implementation stage, as was indicated in the replies to our question. The second is to consider how the country team can affect the training of Ghanian officials in training centers and at headquarters. It is another tool that the team country should have in order to maximum the benefit for Ghana from the Fund's services. We would like to wish the authorities all success.

Mr. Bhalla made the following statement:

First, the report is very informative, very useful. I am going to emphasize something that I have seen emerging through all of the Article IV reports. There are two conclusions that emerged through all of them. One is fiscal consolidation, and that is a good thing. The other is inflation targeting, and that is a good thing. Now, if I look at the report, there is another thing related to inflation targeting, and that is the real cost of capital, and I am afraid this will be something I will repeat throughout for other countries as well, something that emerges from my Indian experience.

If you look on page 27 of the report, we find that the inflation rate is somewhere around 9-10 percent, while the bank lending rate is 27 percent, and the policy rate is 17 percent. So it will be useful to see what is the difference between the two, how this helps bring down inflation and whether it is too high or too low. More should be done. Everything fits in the inflation targeting framework, and all I would like is some kind of an empirical analysis as to whether a 20 percent or 10 percent real rate is really justified. Because then we talk about debt of these countries, and it feeds into their debt repayments. Eighty percent of the debt is in interest payments, et cetera. As Mr. Obiora had pointed out in the case of India, that whatever we do for fiscal consolidation is good and here whatever you are doing on the monetary policy is good. I think the staff should document that we have such high real rates, and it is achieving the following purposes. If not, then I think we need to relook at this one-size-fits-all.

The Acting Chair (Mr. Zhang) made the following statement:

I think you raise a very important point. The measures taken will fundamentally have some impact on not only the business but the more important issues like cost of capital and impact on the people's living.

Mr. Jin made the following statement:

We take note of some Directors' concern of the collateralized borrowing. We can fully understand these concerns. I would like to offer some observation from different perspectives in order to enrich this discussion and deepen our understanding on these practical issues.

First, in some cases, the collateralized borrowing could generate more revenue than the resources that are used as collateral to repay the debt. There would be net surplus, and this surplus can be shared by all the other lenders and the authorities, so with this kind of collateralized borrowing, other lenders and the authorities could also be better off.

Second, even though the projects are not directly related to the collateral, the collateralized borrowing is still not necessarily inappropriate. Financing the infrastructure with the natural resource as collateral is essentially a goods-for-goods trade based on countries' comparative advantage. The lender has advantage in infrastructure construction, and the borrower has the resources which the lender happens to need. For different lenders, the value of collateral is not always the same. For those lenders who have a big and stable amount of the collateral, they are willing to accept it as collateral. But for those lenders who have limited demand and cannot ensure a final market for the collateral, the value of the collateral will be highly discounted, if not zero. In this regard, the collateralized borrowing when the collateral is not hard currency but a commodity whose value is subject to market conditions will not necessarily crowd out the borrowing country's resources to repay other lenders. On the other hand, some infrastructure projects with significant positive externality and economic return might not be profitable in financial terms. In this case, consolidated or coordinated financing across sectors by the authorities is necessary. We encourage the Fund to provide countries with related technical assistance to develop this cross-sector coordination capacity when it is necessary.

Third, we also take note of some Directors' concerns that collateralized borrowing might weaken the country's budget flexibility. I think if carefully managed, the collateralized borrowing may help a country to fully take the potential of the otherwise under-mobilized resources for the much-needed capital spending.

Finally, we also take note of some Directors' concern that the collateralized borrowing might increase borrowing costs on non-collateralized debt. We think the cost of non-collateralized borrowing is determined by the global financial conditions, which is not possible to be affected by a single collateralized borrowing project. Without collateralization or government subsidies, lenders could hardly provide financing to low-income countries with low interest rates and favorable terms. The collateralized borrowing can only depress the borrowing costs against international benchmarks.

So whether my observations make sense are subject to your judgment and further analysis. In general, I think the collateralized borrowing is a very important and practical issue which involves both opportunities and risks. We should try our best to benefit from the opportunities, manage the risks, and avoid an oversimplified, one-size-fits-all solution.

Mr. Sylla made the following statement:

After Mr. Jin's intervention, I would like to add something on what he said on collateralization. Our country really needs the Fund and the World Bank assistance on this issue because sometimes the collateralization can be seen by our authorities like a means of being sure that this investment will be made. What we call here as flexibility is for budget issues, which prevent us to not do collateralization. Most of the time what we call flexibility in the budget is the resources that are going to be generated by mining sector to be used in the budget for other means. But meanwhile when the resources are collateralized, it is kind of earmarking of revenue or future revenue that this infrastructure will be done by any cost and even with the change of government or change of policy. So this is one of the ways to see the collateralization why our government most of the time were for collateralization, besides the fact that most of the time the concessional resources are not there. We see this issue coming to the Fund often, and I want to support Mr. Jin's view on that.

Mr. de Villeroche made the following statement:

I am not sure it is the right place to have a wide debate on collateralization. I would like to remark that if debt is collateralized, concessional lending becomes subordinated, and it means that concessional lending may be impossible in many cases, including multilateral lending from the World Bank or from the IMF. If everything is pledged somewhere else, our privilege will be destroyed. I would like to caution a bit on easy solutions. Debt sustainability goes as a whole. The country has to be consistent on its commitments. Collateralization could be an easy solution with very negative spillovers if generalized.

The Acting Chair (Mr. Zhang) made the following statement:

Thank you, Mr. de Villeroche. Like I said, for this issue of the collateralized lending or borrowing, we will have separate opportunities to discuss it in the coming months. I know all of you are very much interested in this issue, and we take note of that.

The staff representative from the African Department (Mr. Sdralevich), in response to questions and comments from Executive Directors, made the following statement:[1]

We have been listening with great attention to the concerns of Directors, and I can also say that they do coincide with our own concerns, so I think they underlined what are the real risks but also the opportunities that the country, Ghana, and the authorities are facing right now.

On the question of the inflation targeting and the cost of capital, which I would agree that is actually a very complex issue, it involves crowding out of the private sector. It involves the risk of lending into a business environment, which as in many countries in Africa is fairly risky. It involves a structural liquidity of the banking system. It also involves an inflation targeting which is focused on inflation but has to take into account also other factors like exchange rate and where the transmission channel to the real economy is not as structured as in other countries where inflation target is more classic. I take note of the request for more empirical work. In fact, it is something that we plan to do, but as I said, it is a very complicated issue.

Mr. Mojarrad made the following concluding statement:

Thank you, Mr. Chairman. I thank Executive Directors for their support and helpful comments in their grays and this morning's very rich discussion on issues such as inflation targeting and collateralization, which I will convey to my Ghanaian authorities. I also wish to express my authorities' appreciation to management for continued support and to the staff team for its

[1] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

constructive engagement. Let me also welcome the new mission chief, Mr. Sdralevich, who made his first Board consultation on Ghana. I wish him and his team all the success. I would also like to express my gratitude to the former mission chief, Ms. Fedelino, and her team for their hard work and high-quality engagement with the authorities.

At the outset, let me stress that my Ghanaian authorities are committed to preserving the significant gains achieved under the recent Fund-supported ECF program by maintaining macroeconomic stability and ensuring sustainable growth. At the same time, they are mindful of risks and uncertainties in view of the upcoming presidential election and the challenging global environment and are determined to make appropriate policy adjustments if and when needed to preserve the recent gains and to implement their development objectives and their Ghana Beyond Aid agenda.

Second, a number of Executive Directors emphasized the need for economic gains to be shared more broadly and to close the inequality gap. These objectives are high on the authorities' agenda and are embedded into the Ghana Beyond Aid initiatives such as One-District-One-Factory (1D1F), One-District-One-Dam, and Planting for Food and Jobs. These programs are an integral part of the authorities' broader strategy to diversify the economy and lessen its dependence on extractive sectors and to bridge the income and gender gaps with emphasis on underdeveloped regions.

Third, the authorities recognize that reliance on foreign market borrowing could heighten refinancing risk and strain fiscal and debt management. In addition to strengthening the medium-term revenue mobilization efforts, the Ghanaian authorities are exploring avenues for less costly financing alternatives in their funding mix and encourage more private sector investment through an enabling environment. The authorities are also enhancing debt transparency through a centralized monitoring scheme for all government and SOE obligations, which would help identify contingent liabilities, a point mentioned by a number of Directors.

Fourth, on budget financing, the MoU between the Ministry of Finance and the Bank of Ghana that underpins the authorities' commitment to zero central bank financing of the budget will be renewed in a timely manner. Authorities are still assessing the feasibility of amending the Bank of Ghana Act.

Many Directors commended the central bank's effort to clean up the banking sector and enhance its resilience and urged the authorities to intensify and speed up the process. In this context, the current sensitive pre-election political climate warrants caution to ensure the public's continued confidence in the process.

Once again, let me thank you on behalf of my Ghanaian authorities for your continued support to Ghana's program and your constructive comments today. Thank you, Mr. Chairman.

The Acting Chair (Mr. Zhang) made the following concluding statement:

Ghana is an Article VIII member and maintains one exchange restriction and a multiple currency practice subject to Fund approval. Staff does not recommend approval at this time, and no decision is proposed. The 2019 Article IV Consultation with Ghana is hereby concluded.

The following summing up was issued:

Executive Directors agreed with the thrust of the staff appraisal. They commended the Ghanaian authorities for the strong macroeconomic performance and laying the foundations for sustained and more inclusive growth. Against the backdrop of external risks and the upcoming elections, Directors stressed that important challenges remain, especially entrenching prudent macroeconomic policies, ensuring debt sustainability, and pressing ahead with structural reforms, which are essential to successfully implement the authorities' "Ghana beyond Aid" agenda and reduce poverty and inequality.

Directors welcomed the authorities' commitment to fiscal discipline and the fiscal rules introduced by the 2018 Fiscal Responsibility Act. They underscored that fiscal discipline through the rigorous implementation of the 2020 budget law is key to maintaining macroeconomic stability. While welcoming progress in debt management, Directors expressed concern about Ghana's high risk of debt distress, and highlighted the need to strengthen the fiscal rules and phase out off-budget operations. In addition, most Directors urged the authorities to avoid new collateralized borrowing to help reduce public debt and improve fiscal transparency. Directors emphasized that a more ambitious fiscal stance, based on a comprehensive domestic revenue mobilization strategy, would help anchor debt dynamics on a clearly declining path, contain financing needs, create buffers for contingent liabilities, and support a stronger external position. They welcomed the Fund's capacity development efforts to bolster the authorities’ fiscal reforms. A number of Directors suggested the adoption of a formal debt anchor to guide the authorities’ debt sustainability efforts over the medium term.

With inflation close to the central target of the Bank of Ghana, Directors agreed that the monetary policy stance seems appropriate, although tighter policies would be warranted if inflationary pressures materialize. They stressed the need to increase international reserves by limiting central bank intervention and to entrench monetary financing limits in domestic law to protect the Bank of Ghana’s balance sheet and strengthen the inflation targeting framework. Over the medium term, Directors recommended lowering the inflation target range.

Directors welcomed recent steps taken to move the energy sector back to financial health. They indicated that the implementation of the Energy Sector Recovery Program supported by the World Bank and key stakeholders, including adhering to the automatic pricing formula for electricity tariffs and reinstituting private sector participation, is crucial to limit costs to the government and to the public.

Directors welcomed the progress in the clean-up of the financial sector and recent improvements in banking sector performance. However, they urged the authorities to complete the financial sector restructuring while mitigating its fiscal costs. This requires implementing upfront reimbursement caps, addressing weaknesses in a state-owned bank, accelerating measures to reduce the NPL overhang, completing regulatory reforms, and stepping up recovery of funds from complicit directors and shareholders of failed institutions.

Directors considered that continuing the development gains of recent decades will require boosting export competitiveness, increasing economic diversification, and accelerating productivity growth. Improving the business environment and promoting digitalization would also boost opportunities.

Directors encouraged the authorities to continue strengthening the anti-corruption framework, in particular by enhancing the capacity of law enforcement and prosecutorial bodies. They welcomed the government’s collaboration with the Financial Action Task Force (FATF) and the Inter-Governmental Action Group against Money Laundering in West Africa to improve the AML/CFT framework and eventually exit the FATF “grey list.”

It is expected that that the next Article IV consultation with Ghana will be held on the standard 12-month cycle.

APPROVAL: May 29, 2020

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Outlook and risks

1. Given an uptick in the most recent data in the number of the poor, do the authorities have a plan to focus on poverty reduction, in addition to the overall growth-promoting agenda?

- Inclusive growth and poverty alleviation are central to the “Ghana beyond Aid” agenda. Several of the authorities’ flagship programs are focused on achieving these goals. For example, efforts to increase productivity in the cocoa sector (including recent financial support from the AfDB) and to raise awareness about and subsidized the use of fertilizers and improved seed varieties (via the Planting for Food and Jobs program launched in 2017) are targeted at smallholder farms in rural areas. Similarly, the government’s free high-school program (Free SHS) has an important redistributive component. These and other programs complement more traditional efforts in the area of social protection, such as the Social Security and National Insurance Trust (SSNIT), the National Health Insurance Scheme (NHIS), the Ghana School Feeding Programme (GSFP) and the Livelihood Empowerment Against Poverty (LEAP, a cash transfer program).

Fiscal policy and Debt sustainability

2. We request staff views on the comprehensiveness of debt information available for analysis.

- The information on central government debt and key off-budget operations is comprehensive. Nevertheless, staff has consistently highlighted the challenges posed by special purpose vehicles and other off-budget entities for debt management and transparency and argued for phasing out off-budget spending. The picture is not as comprehensive for the public sector, notably SOE debt, although the DSA does capture some non-guaranteed SOE debt, including Sinohydro. Furthermore, the authorities have been forthcoming with information on systemic SOEs and the staff has made progress in understanding the overall debt picture beyond the central government. This does not exclude the possibility, however, that some SOE debt remains unaccounted for.

3. Careful attention needs to be paid to the nature of assets and liabilities, including liquidity mismatches. We further note with concern the off-budget operations to SOEs in Ghana. As these could lead to fiscal risks, could staff comment on the efforts to mitigate the associated risks?

- As the first line of defense, staff has urged the authorities to mitigate these risks by avoiding new off budget operations and containing the size of the existing ones. Staff's recommendations resulted in slowing down the borrowing of the GETFund from $500 million to $100 million. Also, staff has highlighted the need to increase the transparency of these operations through full disclosure of their nature and risks involved. The authorities have been cooperative in that regard by sharing data with staff, and inclusion of these liabilities in the DSA. In addition, the authorities have published extensive information related to off-budget operations in budget documents and other communication.
- Moreover, the authorities passed the PMF regulations and the State Interests and Governance Authority Act (SIGA), the provisions of which, should improve monitoring and mitigation of SOE risks. The authorities are working with the World Bank on making the SIGA entity operational.

4. In addition to the tax revenue strategies identified by staff, are there opportunities to better capture returns on public investments (e.g., through user-fees)?

- Specific data are not readily available. But, all major highways and roads, including the Accra TEMA highway leading to the newly rehabilitated port have tolls. Current tolls fees are fairly low in Ghana. Discussions are ongoing at the government level to increase the rates. If done, new user fees could generate substantial additional revenues.
- In terms of indirect return on public investment, capital spending has contributed to the construction of critical infrastructures such as the extension of the airport and the port equipped with cutting-edge digital platforms which are expected to improve domestic revenue mobilization on these sites. More broadly, the government has initiated the digitalization of transactions in the economy which will also strengthen domestic revenue collection.
- The authorities are also seeking to obtain better value for money from investments through reforms to the public investment management (PIM). Working with the World Bank, the authorities have developed a database of projects and draft regulations to improve existing PIM practices.

5. Could staff elaborate on the total size of tax expenditures in Ghana?

- Based on technical assistance report from 2017, tax expenditures have been estimated at about 4 percent of GDP. As a first step to rationalize these tax expenditures, in early 2019 the authorities tabled in Parliament a tax exemption bill which however has not been approved yet. This bill is expected to initially streamline exemptions by about 0.15 percent of GDP. The authorities see the current bill draft as a politically feasible first step to remove existing exemptions. The government plans to build on the exemption bill to pursue remaining exemptions over the medium term.

6. Could staff comment on how important rollover risks are?

- To be addressed during the Board meeting.

7. Noting the authorities' plan to bring the tax ratio to 18 percent of GDP by 2023 from 12.8 percent currently we would welcome staff's elaboration on the authorities' view regarding each of the proposed elements of the tax revenue strategy laid out in paragraph 14 of the report.

- The authorities agree on the critical need to increase more revenues, but their view is not yet fully formed as they are currently in exploratory mode. They are considering all revenue measure options, including the ones highlighted in the paragraph 14. At the same time, they are very aware of the importance to strike the right balance between economic growth and fiscal consolidation. Finally, the implementation of various tax measures will also depend of their political feasibility in the post 2020 election period.

8. In this regard, we would like to ask staff both the extent to which the DSA captures the off-budget operations and the rationale behind the lowering of the parameter of the contingent liability test.

- The only off-budget vehicle captured in the DSA is Sinohydro. The DSA also includes 1.3 percent of GDP in State Owned Enterprise debt not guaranteed by the central government. The potential impact of other off-budget liabilities is captured by the contingent liability test where the parameter for SOE debt has been increased from 2 to 3 percent of GDP in addition to the standard parameter for financial sector debt at 5 percent of GDP. The increase of this parameter for SOE is designed specifically to capture potential off-budget liabilities particularly in the energy sector.

9. Could Staff elaborate on the mandate of the Ghana Revenue Authority, tasked to improve DRM?

- The Ghana Revenue Authority (GRA) is in charge of proposing tax policy, implementing tax policies adopted by the government or the Parliament, and collecting revenues on behalf of the government both at the customs and tax administration levels. Ghana has experienced stagnating revenue to GDP ratio over the last three years. Against this background, the government has initiated several efforts to improve revenue mobilization through the GRA. Extensive CD has been provided to strengthen tax administration, particularly in mining and petroleum sectors. Tax collection in these sectors is expected to improve, building on TA recommendations. On the policy front, the National Fiscal Stabilization Levy will be extended to all firms, although collection challenges could arise from this extension. Also, improvement of tax collection is expected from 2020 onwards for underperforming taxes, including the VAT. All these changes will be led by the new GRA leadership which has been appointed few months ago following an in-depth diagnostic conducted by consulting firm McKinsey.

10. Could Staff elaborate on the authorities' views on adopting a broad measure of the PSBS?

- The authorities welcomed the PSBS analysis and its potential to enhance fiscal policy decisions. The authorities are taking steps improve fiscal reporting coverage. The PFM law and new regulations require the authorities to broaden the scope of their financial reporting to include the existing extrabudgetary funds, independently-generated funds (IGFs- hospitals and universities) and donor funds by the end of 2020. The IMF has provided technical assistance to help with the move to broader coverage. Moreover, PFM provisions to that require more rigorous financial reporting to the authorities by SOEs will also provide a better view on the public sector's financial position.

11. Also, could staff elaborate on the off-balance sheet commitments of the public sector in Ghana?

- The government is conducting a limited number of off-budget operations, including the Sinohydro project to finance public infrastructure and the GETFund to speed up school construction. Financial challenges in the energy sector have created additional off budget operations supported by the SPV created in the Energy Sector Levy Act (ESLA). The Sinohydro and GETFund operations will reduce the net worth of the public sector in the short term, but could yield improvements, through higher growth, in the long term. The ESLA operation does not change public sector net worth as it replaces one liability with another. However, it does serve to regularize the debt obligation as many of the initial liabilities were in the form of arrears. Staff has urged the authorities to contain the existing off budget operations and refrain from new ones while increasing their transparency.

12. Could Staff elaborate further on the reasons behind the uptick in debt since the March DSA?

- The main reason for the up-tick in debt since the March DSA is the materialization of additional liabilities in the energy sector, which led to an increase in the projected deficit for 2019 (from 5.6 percent of GDP in the $7^{th}/8^{th}$ review to 7.0 percent GDP in the Article IV staff report).

13. Could staff comment on how the debt trajectory will influence the "Ghana beyond Aid" strategy?

- Successful implementation of the "Ghana beyond Aid" reform agenda will rely on stronger private-sector credit growth, which is currently being crowded out by the public sector large gross financing needs. In addition, high debt and accompanying high debt service reduce fiscal space for capital expenditure and create vulnerabilities, including higher rollover risk. Staff recommends a tighter fiscal stance to accelerate debt reduction, reduce vulnerabilities and preserve macroeconomic stability, all of which will support the authorities' growth strategy.

14. In this regard, we would appreciate staff's comments on how the increase in the wage bill would affect consolidation efforts.

- The budgeted wage bill increase has been mainly driven by the increase of the minimum wage agreed with unions. In the absence of such agreement, the overall fiscal deficit in 2020 would have been lower by 0.3 percent of GDP. Yet, postponing this agreement seemed politically unfeasible in the run to the 2020 elections. Going forward, the wage bill is projected to remain flat in percent of GDP.

Monetary and exchange rate policies

15. Could staff elaborate on the prospects for sustaining the monetary financing limits beyond the expiry date, which coincides with an election cycle?

16. Could staff provide greater details on this issue [i.e. progress on BoG Act amendments to make the BoG fully independent]?

17. Could Staff explain whether the authorities are planning to strengthen the prohibition against monetary financing once the MoU expires in late 2020?

18. Could staff elaborate on the likelihood of amending the BoG act to end the possibility of monetary financing?

- Questions above will be addressed during the Board meeting.

19. We note the staff recommendation to reduce FX interventions by applying the new rule-based FX intervention policy, which could help boost external buffers. We welcome staff's further comments on this new rule and its potential impact to the volatility of Cedi compared to the old one.

- The new FX intervention policy referenced in the staff report was adopted prior to the completion of the 7th and 8th ECF reviews (as a prior action). This new policy, which was developed with IMF TA, is meant to rationalize FX interventions to strike a better balance between managing FX volatility and building FX buffers. After a volatile 2019Q1, exchange rate volatility has remained relatively low, partly as a result of FX interventions by the central bank supported by external borrowing.

External Sector

20. Could staff elaborate on the discrepancies between its assessment and the authorities' views regarding reserve adequacy? What are the risks involved in

keeping the current reserve levels, considering that resources in the oil fund can be readily available to the monetary authorities?

- The rapid improvement in the current account in 2017-2018 was largely due to temporary factors and results in a current account balance above the norm estimated by the EBA-Lite CA model. Staff attributes some of the improvements to factors which are not affected by the exchange rate, including higher oil production volumes, and points to the absence of a significant manufacturing sector which would closely link the external position to the exchange rate. This motivates staff's assessment that the external position in 2018 remains moderately weaker than fundamentals and desired policies, reflecting the significant negative impact of expansionary fiscal policy and the low level of reserves.

21. Could staff elaborate on the reasons behind the discrepancies in the models for assessing the external sector? We note too that the authorities' definition of reserves may be different from a more widely-acceptable definition, and would appreciate staff's description of these differences, including the potential implications for the real size of Ghana's foreign exchange reserves.

22. We note the low level of reserves as well as the authorities' preference to include assets held in the oil fund in Ghana's international reserves and we wonder whether this constitutes a common practice among oil producers.

- (Answer to both questions above) Staff follows the definition of gross international reserves in the BPM6 manual (p. 111), which states that:
- "Reserve assets are those external assets that <u>are readily available to and controlled by monetary authorities</u> for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes (such as maintaining confidence in the currency and the economy, and serving as a basis for foreign borrowing)."[2]
- The authorities' definition of gross international reserves also includes Ghana's oil funds and other encumbered assets, which consist primarily of pledged assets. Together, these two components accounted for about $1.7 billion as of end-2018, or about 0.8 months of prospective imports (see table).
- While encumbered assets are excluded from staff's definition of reserves as they are not "readily available", the BPM6 manual offers advice on when to include assets in sovereign wealth funds, such as Ghana's oil funds (pp. 115-6):
- "If the special purpose government fund's external assets are on the books of the central bank, or an agency of the central government, that allows the monetary authorities control over the disposition of funds, then the presumption is that the assets are reserve assets (provided all other criteria for being a reserve asset are met). On the other hand, if the funds are held in a long-term fund with a separate legal

[2] See also the 2016 Guidance Note on the Assessment of Reserve Adequacy and Related Considerations, Box 1.

identity, the presumption is that they should not be included in reserve assets, not least because the ready availability criterion is less likely to be met."

- In the case of Ghana, the oil funds are managed but are not under the direct control of the Bank of Ghana. Rather, the assets in the oil funds are administered and utilized in accordance with the Petroleum Revenue Management Act of 2011. The Act restricts withdrawals from the oil funds unless certain conditions are met. In particular, withdrawals can take place from one component of the fund if there are oil revenue shortfalls (that component is meant as a revenue smoothing device to compensate the budget when oil revenues fall below a threshold). Withdrawals can also happen at specified points in time from another component of the oil fund, and only at Parliament's discretion. Therefore, in the case of Ghana, oil funds do not meet the condition of being readily available and under the control of the monetary authorities (this condition may be met in other countries, if their sovereign wealth funds have a different legal structure).
- While not readily available and controlled by the Bank of Ghana, staff recognizes that oil funds (and, to a lower extent, encumbered assets) could in principle be used to meet balance of payments financing needs. Therefore, a more inclusive definition of "Gross foreign assets" corresponding to the authorities' definition is also shown in Table 4 of the staff report. However, we note that even under this broader definition, reserves are below the 3.6 months benchmark calculated by the ARA tool, which takes account of export commodity exposure (among other factors).

Ghana: International Reserves

	2017	**2018**	**2019p**
In millions of US dollars			
Gross Foreign Assets (authorities definition)	7,555	7,025	6,888
Gross International Reserves (staff definition)	5,491	5,317	5,116
Net International Reserves (staff definition)	4,557	3,886	3,892
Ghana Petroleum & Stabilization Fund	698	866	889
Encumbered Assets	1,366	841	883
Months of imports			
Gross Foreign Assets (authorities definition)	3.9	3.5	3.3
Gross International Reserves (staff definition)	2.8	2.7	2.4
Net International Reserves (staff definition)	2.4	2.0	1.9
Ghana Petroleum & Stabilization Fund	0.4	0.4	0.4
Encumbered Assets	0.7	0.4	0.4

Financial Sector

23. ***Could staff elaborate on why the authorities may be reluctant or unable to address the problems in this [state-owned] bank given they are longstanding and well-known?***

24. ***Could staff elaborate on the measures underway to address this bank's weaknesses?***

- (Answer to questions above). Recapitalization modalities for the state-owned bank have been under consideration for some time, with the authorities originally intending to utilize the recapitalization vehicle (Ghana Amalgamated Trust) that was announced by the Ministry of Finance in January 2019 (also see para. 36 of IMF Country Report No. 19/97). However, this support has not yet materialized, and envisaged restructuring modalities have not yet been shared with staff. The government did appoint a new Managing Director to lead the strategic repositioning of the bank, but this process will take time.

25. ***We would appreciate staff comments on what they view as priority actions***

- While substantial progress has been made to buttress financial sector resilience, completion of ongoing efforts remains important to address residual pockets of vulnerabilities. This includes, in particular, finalizing the clean-up of fund managers and other non-banks and completing reimbursement procedures; addressing weaknesses of a state-owned bank; accelerating measures to reduce the NPL overhang; completing regulatory reforms, and stepping up efforts to recover resolution costs incurred to date. Further details can be found in chapter 3 of the Selected Issues paper accompanying the staff report.

26. ***We would like to hear from staff more about this action plan [to exit the FATF's "grey list"], what the specifics are and the timeline to recover the funds from complicit directors and shareholders of failed institutions.***

- The latest update from the FATF from October 18, 2019, describes the action plan and progress in detail. The FATF indicates that Ghana has taken steps towards improving its AML/CFT regime, including by conducting a risk assessment on legal persons, and developing a framework for adequate and effective investigation and prosecution of TF. Implementation of the authorities' action plan will help address strategic deficiencies, including by: (1) implementing a comprehensive national AML/CFT Policy based on the risks identified in the NRA, including measures to mitigate ML/TF risks associated with the legal persons; (2) improving risk-based supervision, by enhancing the capacity of the regulators and the awareness of the private sector; (3) ensuring the timely access to adequate, accurate and current basic and beneficial ownership information; (4) ensuring that the FIU is focusing its activities the risks identified in the NRA, and adequately resourced; and (5) applying a risk-based approach for monitoring non-profit organizations

- Regarding the second point, for all financial institutions that have been closed, receivers have been appointed who are seeking to recover assets and distribute the proceeds to the banks' creditors – which include the Bank of Ghana and the government. This process, however, has been slow amidst poor asset quality, weak record-keeping and extensive litigation. Staff has no information about the authorities' timeline for the recovery process, nor on potential criminal investigations.

27. We welcome staff's elaboration on this observation [i.e. not much progress in addressing the NPL over-hang].

- While improving macroeconomic conditions have helped reduce the inflow of new NPLs, many banks remain burdened by (legacy) stocks that have not yet been written off, even though recovery prospects may be weak given weaknesses in the legal framework for debt workouts and enforcement of creditor rights. Banking sector profitability is supported by investments in government securities, but profits may decline if additional write-offs crystallize credit losses (i.e., in situations where provisioning is lagging).

28. We invite staff's comment on the potential impact to the financial system stability if risks were to materialize in these sectors [insurance industry and fund managers].

- The materiality of any potential risk transmission across financial institutions would be determined by (i) the size of cross-sectoral exposures to troubled institutions and (ii) the fiscal resources that the government may be willing to deploy to cover the claims of institutional creditors (above and beyond the reimbursement of retail depositors). Staff lacks granular information needed to provide reliable estimates of the potential impact on financial system stability but will seek to continue discussions during post-program monitoring.

29. Can staff elaborate on the plan for a review of the loan write-off requirements, and how large a contribution it might provide towards the reduction of the stock of distressed loans?

- According to the Bank of Ghana's latest *Banking Sector Report*, the removal of all loans classified as 'loss' from the stock of NPLs would reduce the NPL ratio by about 50 percent, i.e. from 17.8 percent to 8.9 percent (data as of August 2019). It should be noted, however, that such write-offs may crystalize credit losses, i.e. if loans to be written off have not yet been fully impaired as per IFRS. Staff has not yet had the opportunity to discuss the authorities' plans for reviewing the loan write-off requirements.

30. We would welcome Staffs' assessment on the extent to which the authorities have a credible, comprehensive and well sequenced plan, and its ongoing cost for the public sector.

- As noted in para. 34 of the staff report, clean-up efforts are well advanced, following the closure of a large number of banks, specialized deposit-taking institutions and fund managers. Estimated costs for the banking sector clean-up are around 3.8 percent of GDP, with a preliminary estimate of at least 0.6 percent for specialized deposit-takers (to be confirmed as the reimbursement process of affected depositors progresses). The government has estimated public sector costs for the clean-up of the fund management industry in their 2020 budget statement at 0.4 percent of GDP. Staff has not yet been provided with a comprehensive plan for rehabilitating the weak state-owned bank.

31. Staff's comments on the authorities' plans in this regard [i.e. reinforcement of regulatory and supervisory capacities] would be appreciated.

- As noted in IMF Country Report 19/97 and the Selected Issues paper accompanying the staff report, the authorities have already made important progress in strengthening the regulatory framework for the banking sector (including via new directives on capital requirements, corporate governance and the forthcoming finalization of a directive on risk management), and ongoing efforts to strengthen the supervisory and regulatory framework for non-bank financial institution are in train. Further capacity building, enhanced risk-based supervision practices, and a more robust enforcement culture can help safeguard financial system stability going forward.

32. As indicated in Mr. Mojarrad and Mr. Osei Yeboah's buff statement, the authorities are planning to establish a national development bank to facilitate private sector borrowing. Staff's comments on the feasibility and effectiveness would be appreciated.

- The National Development Bank as envisioned will refinance credit to manufacturing and agriculture as a wholesale bank. It will also provide guarantee instruments to encourage commercial banks to lend to other targeted sectors of the economy. The authorities indicated that they plan to work with the World Bank on this project, including to help capitalize the bank. The effectiveness of this project would hinge on the governance structure of the new bank, transparency of its operations, and whether market-based solutions would guide the funding allocation to various projects. Care should be taken that the new development bank does not pose fiscal risks, e.g. through government guarantees

33. Could staff inform if there are any indications of increased credit provision at this time?

- At this moment, we do not have any clear indication of a pick-up in private sector credit growth. Private sector credit to GDP has remained roughly unchanged since 2015. The latest indication is that this trend will continue this year, as private-sector credit is expected to grow roughly in line with nominal GDP growth.

34. We would appreciate staff's comments whether plans by the BoG for a minimum loans-to-deposit ratio to boost lending will be implemented and what safeguards will be put in place to prevent riskier lending practices.

- At the conclusion of its most recent meeting in November 20-22, the MPC mentioned a minimum loan-to-deposit ratio as a policy option that would be worth exploring to boost lending. A policy decision has not been taken, and staff does not have any information on specific proposals. Therefore, we cannot comment on what safeguards might be put in place. Staff's preliminary assessment is that a minimum loan-to-deposit ratio could boost lending to targeted sectors, at least temporarily, but past experience in other countries underlines that it may also have several undesirable consequences. These include: (i) a shortened maturity structure (if banks reduce relatively more expensive term deposits and wholesale longer-term funding); (ii) lower asset quality (by lowering loan origination and risk management standards); and (iii) lower risk-weighted capital ratios. Cross-country experience also suggests that additional lending is often concentrated in existing clients, and minimum LDRs do not necessarily increase SME lending or longer-term lending, which are among the key bottlenecks to growth in Ghana as identified in business surveys.

35. Can staff elaborate on specific measures and best practices available for Ghana to improve operational efficiency [in the banking sector]?

- As discussed in the staff report and in Box 2 of the Selected Issues Paper on "Financial Stability on the Road to Recovery", lending rates in Ghana remain high, in part due to costly financial intermediation. High profit margins in the banking sector are driven by high net interest margins, which is consistent with both significant market power and a high-risk premium. In addition, bank intermediation costs are disproportional driven by operating costs, half of which are personnel expenses. Leveraging both data and digital solutions to support financial intermediation and better service provision offers promising avenues, as suggested by the 2019 World Bank 4th Ghana Economic Update: Enhancing Financial Inclusion.

36. Given that agricultural output is prone to natural and weather disturbances and hence leads to higher NPLs, does the staff think that introduction of risk mitigation measures like crop insurance scheme, could help minimize the NPL risk in this sector?

- It is possible that crop insurance would minimize NPLs, and overall credit risk, in the agriculture sector. Insurance should be targeted and well-designed to minimize its potential fiscal costs. Other factors that are likely to be important are improvements in land tenure security and in mechanisms to enforce property rights and collateral guarantees in case of loan defaults.

37. Does the staff agree that the above-mentioned institutional reforms [i.e. the implementation of the Fiscal Responsibility Act and the establishment of the Fiscal

Responsibility and Financial Stability Councils] envisaged will provide adequate cushion to release credit to private sector?

- These institutional reforms are certainly a step in the right direction, although they could be strengthened further, as discussed in the staff report. However, reducing government borrowing needs, in particular by containing the fiscal deficit, should be the main lever to limit crowding out and boost private-sector credit growth.

Energy Sector

38. Could staff comment on the next steps on energy sector reform, and whether they expect continued implementation the reform plan developed with the World Bank?

- (Answer prepared in coordination with the World Bank). The energy sector reforms prescribed in the Government's Energy Sector reform Program (ESRP) are moving forward despite the recent decision to terminate the energy distribution concession. Recent reform actions include increases in electricity tariffs in July 2019 and October 2019 (the latter as part of the reinstated automatic tariff adjustment formula). These tariff adjustments are important for increasing the level of cost recovery in the sector. Further, the Government announced the decision to put a moratorium on any new PPAs and adopted a Competitive Procurement Policy for new PPAs and a Least-Cost expansion plan. The Government also achieved a reduction of domestic gas prices from US$ 7.29 MMbtu in 2018 to US$ 6.08 Mmbtu in 2019, aiding its implementation of a new Least Cost Fuel Procurement Policy. The World Bank expects a continuation of the reform plan laid out in the ESRP supported by technical assistance, including renewed private sector participation in power distribution over the medium-term.

39. An integral reform of the sector that includes establishing a competitive energy bidding process, reducing distribution losses, and starting the renegotiation of expensive power generation contracts must be a top priority. We would like to ask staff if there is a specific plan and a timeline to start the renegotiation process and how the authorities plan to address the legal issues that may come up as part of this process?

- The authorities have not announced a precise timeline. They have launched a collaborative consultation process in late July by inviting Independent Power Producers (IPPs) to a meeting at the Ministry of Finance. A subsequent meeting was held in August. Letters were also sent to the IPPs regarding payments. The authorities have hired a law firm to review the Power Purchase Agreements. Based on the consultations and review, Government negotiating teams have been constituted and, as of mid-November, were close to completing the first round of bilateral consultation meetings with several IPPs, as well as project sponsors.

40. With respect to the energy sector, we would appreciate staff's comments on the reason to why the excess power capacity and gas supply is not exported. Can this be attributable to lack of appropriate interregional infrastructure?

- Ghana exports some electricity to Benin, Burkina Faso, and Togo. The authorities are actively exploring options to export more. The transmission network to these countries has been upgraded. However, additional sales will also depend on demand from these countries as Ghana's electricity tends to be relatively expensive, due in part to PPA terms, and many countries in the region are exporting electricity at competitive prices. On gas, the West African Gas Pipeline provides the potential infrastructure to export gas within the region. However, Ghana consumes all of the gas it extracts.

41. As it is a macro critical sector, a balance sheet of the energy sector could be useful.

- The authorities publish an annual report on SOE financial performance, which provides a broad picture of the energy sector SOE's assets and liabilities as well as select financial information on individual SOEs.[3] From the data, it would be possible to prepare a rough unconsolidated balance sheet for analytical purposes. Staff will explore this possibility during the next mission.

42. We would appreciate an update by staff on the authorities' progress in addressing debt challenges in the energy sector.

- In 2017, the authorities created a special purpose vehicle ("ESLA" SPV) to address legacy debts in the energy sector amounting to GHc 10 billion. Proceeds from debt securities issued by the SPV, which are backed by government energy sector levies, are used to repay the legacy debt. To date, the authorities have cleared about GHc 6 billion in legacy debt. In the mid-term budget, the nominal levies were raised to allow for further issuance of debt by the SPV to clear the remaining legacy debt.
- Going forward, the key to resolving debt challenges will be the implementation of the Government's Energy Sector Reform Program (ESRP), designed with World Bank assistance (see also answer above).

Structural Reforms

43. What lessons should those seeking to close macro-critical gender gaps take from Ghana's experience?

- Ghana has made significant progress towards reducing gender disparities, although much work remains to be done. A National Gender Policy was published in May 2015. An important lesson from Ghana has been the focus on reducing gender disparity through improved access to education with support by the government and key stakeholders. Supporting girls' access to education from early childhood to

[3] http://www.mofep.gov.gh/reports/2017-state-ownership-report

college leads to a better allocation of talent within the economy, increased productivity and higher labor supply, in addition to promoting gender equality from broadly. However, despite improvements, it's important to note that gender disparity in Ghana remains high, as documented in 2018 Ghana SDGs Indicator Baseline report from UNDP. Research by ActionAid and others indicates that the supply and quality of public services in education, health, water and sanitation could be improved, and that shortfalls impact girls and women disproportionately. Therefore, increasing fiscal space for social spending by maintaining fiscal discipline and increasing revenue mobilization could help close the gender gap further in Ghana.

44. Box 2 provides a useful summary of the government's efforts at diversification. We would appreciate a brief assessment by staff of the pros and cons of the government's strategy.

- The "Ghana beyond Aid" strategy seeks to achieve a significant growth acceleration by increasing productivity. Opportunities for large productivity gains can be found across sectors: (a) in agriculture, where productivity in Ghana (and SSA more generally) still lags the rest of the World; in manufacturing, where Ghana could take advantage of its privileged position as a gateway to West Africa, in addition to developing downstream and upstream industries related to its mineral and agricultural resources; and in services, including by increasing digitalization and promoting itself as a financial services hub. In staff's view, the success of this reform agenda will ultimately depend on careful prioritization (given limited resources), fostering competition across firms, and targeting support to sectors that demonstrate export performance. More detail can be found in the Selected Issues Paper on "Growth Strategy for Ghana" accompanying the staff report.

45. Could the staff elaborate on the scale and breadth of digitization strategy for the economy and which specific sectors of the economy are expected to be benefitted the most?

- The authorities have an ambitious digitization strategy, that they hope will increase formalization and improve the business environment. As discussed in the Selected Issues Paper on "Growth Strategy in Ghana", this strategy includes streamlined customs procedures at the revamped Tema port that may facilitate cross-border trade by reducing the cost and time requirements of documentary compliance, a contributing factor to Ghana's lower score in this dimension in the 2020 Doing Business report. In addition, the introduction of unique digital addresses for every location across the country through the National Digital Property Addressing System (NDPAS), which was launched in 2017 and is expected to be completed in 2020, could contribute significantly to increasing the size of the formal economy. Unique addresses will allow businesses to locate clients more easily, which in turn can support growth in online and financial services. Linking these addresses to property and credit registries could also help improve land tenure and reduce property title disputes. Finally, digital addresses may increase tax collection by improving information on business location and registration. Ongoing plans to digitize tax and judicial procedures and health records, introduce national ID cards and expand mobile banking could also have a significant positive impact on the ease of doing business.

Fund engagement

46. We note, however, that in recent years the IMF has provided an extensive TA on revenue mobilization. Could staff elaborate more on the lessons learned from this experience?

- Key lessons have been learned. One the main lessons is the importance of senior-level management engagement with TA providers and a willingness to consider TA recommendations. A number of specific points also stand out. The experience with tax exemptions provides an instructive example. First, multiple exemption granting powers have been a major source of rapid growth of tax expenditures. Second, past exemptions granted have not necessarily been critical to attract investors. Third, tax expenditures have been costly, accounting for about 4 percent of GDP. Against this background, the tax exemption bill submitted in Parliament in early 2019, to be approved, strengthens the Ministry of Finance's power over exemption granting and streamlines exemptions by about 0.15 percent of GDP. These efforts would need to be sustained over the medium term through further streamlining of exemptions.
- Looking ahead, subsequent to the installation of new senior managers in GRA, the authorities requested a 3-year sustainable engagement with FAD under the Revenue Mobilization Trust Fund (RMTF) Program, that would see a FAD managed program of implementation support over the next three years. This more intensive CD engagement would seek to further modernize the GRA including specific programs in support of improved revenue mobilization. At the heart of the modernization, will be the acquisition and implementation of an integrated tax administration system (ITAS) that will address the current severe problem of poor data integrity and modernize the business delivery in a more technology driven/e-service operating environment.

47. We wonder whether the outlined TA strategy was coordinated with the authorities and with other CD providers.

- As part of the Art. IV consultation, the team held discussion with the authorities on their CD needs and gaps, also based on the support from other CD providers. This discussion informed the outlined TA strategy. At the implementation stage, there would be further coordination with other CD providers in the field and under various thematic working groups (for example, domestic revenue mobilization). The informational annex includes details on expected CD delivery by the World Bank, one example of coordination between the Fund and other institutions.

48. ***Does Ghana have capacity to absorb so many TA missions? Would it make more sense to enhance training to cultivate such absorption capacity on the expense of some TA missions?***

- The new CD strategy is informed by the track record on both absorption and implementation. During the Article IV mission discussions, the authorities indicated continued demand for TA across several areas and pointed to several concrete accomplishments that were the result of Fund TA.

49. ***Can staff provide data on training of Ghanaian officials by topic (macro, fiscal, monetary, etc.) in the recent years?***

- A full list of Fund TA provided since 2017 is included in the Informational Annex to the staff report. Complete data on training is difficult to obtain, since hands-on training is part of many TA missions, even when it is not the main deliverable. Nonetheless, a snapshot of Fund CD mostly focused on training of Ghanaian officials since 2017, with information by topic, is provided below:

Fund CD - Training of Ghana officials by Topic

Subject	Topic	Department	Year
Delivery of Integrity Training for Customs	Fiscal	AW2	2019
PPP/PFRAM/Fiscal Risk Management - Seminar	Fiscal	FAD	2019
Fiscal Risks Management PFRAM 2.0 technical manual	Fiscal	FAD	2019
PCA Training and Mentoring Support	Fiscal	AW2	2019
Follow-up to finalize Compliance Improvement Plan and guide Data Matching Team	Fiscal	AW2	2019
Seminar on PIMA	Fiscal	FAD	2019
Workshop on Public Investment Management	Fiscal	FAD	2019
AFE : Workshop on PFMI Organization and Operational Risk Management	Fiscal	AFE	2018
Provision of Mentoring Support to Intelligence and Investigation Units (Phase 1)	Fiscal	AW2	2018
Pillar 2 ICAAP Workshop	Monetary	MCM	2018
Train staff on Excise audits	Fiscal	AW2	2018
IFRS 9 Model Validation_1	Monetary	AW2	2018
Conference on Fiscal Management of Mining and Petroleum in West Africa	Fiscal	FAD	2018
Professional Attachment on Financial Market Infrastructures and Payments at Bank of Tanzania	Monetary	AW2	2018
Training on Consolidated Supervision	Monetary	AW2	2017
Customs ADM/FAD Ghana Workshop on Customs Procedures and Control in Ports	Fiscal	AFW	2017
IFRS Training	Monetary	AW2	2017
Regional TADAT High-Level Training (ECOWAS/WATAF/ATAF) and DPs	Fiscal	AW2	2017
TADAT Training	Fiscal	AW2	2017

50. ***We wonder on the rationale for this short lag between the two' discussions. Indeed, the PPM should allow a more frequent monitoring with respect to the standard Art. IV cycle. Staff's comments are welcome.***

- To be addressed during the Board meeting.

51. ***Could Staff therefore comment on the extent to which its historical TA [on debt management] has been effective?***

- Debt management TA has been effective in Ghana. Efforts to deepen the domestic debt market and improve debt management started alongside the last Extended Credit

Arrangement and were closely coordinated with the authorities and AFR in the context of the program. The government financing crisis in 2013-2015 had left the domestic market paralyzed and unable to issue at long maturities, forcing about a drastic change in the borrowing strategy. It is in this context that extensive TA was provided, which has achieved significant reforms over the last four years, namely: (1) deepening the domestic market by extending the domestic yield curve to 15 years and becoming increasingly comfortable with liability management operations (LMOs); (2) increasing debt transparency and communication by drafting and implementing a Medium-Term Debt Strategy (MTDS), drafting and publishing an Annual Borrowing Plan (ABP), developing a quarterly issuance calendar which is published on the MOF website and revised on a rolling monthly basis. These reforms have helped to enhance monitoring of financing and refinancing risks. Areas such as the composition of the investor base and the primary dealer system are now being looked at closely by the authorities, with TA support.

52. Could Staff outline what further support they intend to provide in the debt management area?

- TA was provided in November 2019 on the primary dealer system. During the Article IV mission, the authorities also mentioned specific areas in treasury and debt management that would warrant further TA, and staff stands ready to engage in the future. As this is an area where extensive TA was already provided with very good results, staff sees it as less of a priority compared to other policy areas.

53. We would appreciate staff's comments whether the ACFTA could help with Ghana's economic diversification ambitions.

- AfCFTA can definitely help Ghana's diversification strategy, by opening markets for Ghana's agricultural and manufacturing exports. Ghana's close trade links to Nigeria, recent investments in port modernization and the establishment of the AfCFTA secretariat in Accra are examples of growth opportunities related to the trade agreement.