

**Statement by Mr. Hossein Mirshojaeian Hosseini, Executive Director for Ghana
and Mr. Osei Yeboah, Advisor to Executive Director**

Our Ghanaian authorities would first like to extend their appreciation to the Board, management and staff for the timely disbursement of the Rapid Credit Facility in April 2020, which provided critical budget support and helped in their pandemic intervention efforts to save lives and livelihoods. They would also like to thank staff for the close engagement and sound policy advice which helped in the navigation of the crisis and look forward to continuing the collaboration beyond the crisis

The Ghanaian authorities welcome the candid and constructive discussions during the Article IV virtual mission and broadly agree with the staff appraisal. While being cautious, owing to the significant uncertainties surrounding the pandemic, the authorities see the recovery in economic activities taking shape and anticipate a stronger and inclusive rebound from the pandemic. They also welcome staff's recognition of the home-grown *Ghana Covid-19 Alleviation and Revitalization of Enterprises Support (CARES 'Obaatanpa')* program currently underway to strengthen the recovery and to address longstanding structural imbalances to move Ghana towards on a sustained and inclusive growth path.

Although infections and deaths (97,729 and 8022, respectively as of early-July 2021) remain relatively subdued, the socio-economic impact of the pandemic on Ghana has been severe. The authorities' immediate response to the health shock was to protect lives and livelihood through stringent but well-targeted lockdown and social distancing restriction measures to contain the spread of infections. While most restrictions have since been gradually eased, some (e.g. restraint on large gathering) are still in place amidst concerns about a third wave.

As at early July 2021, **864,918** people had received at least one dose of the vaccine, but the pace is highly predicated on allocations from the COVAX Initiative and bilateral vaccine donations. The government is targeting to vaccinate 70 percent of the adult population by mid-2022.

Concurrent with boosting health system delivery, the authorities provided relief packages to ease the burden on households and businesses, including free food, moratorium on loan repayments, and soft loans to targeted groups and individuals. Nevertheless, growth slowed, food prices spiked, and the fiscal deficit and public debt increased significantly. While the economic recovery is underway, its depth and breadth are predicated on the success of the authorities' vaccination campaign and global factors, including terms of trade developments and global financial market conditions. There are also concerns about scarring effect, particularly in the labor market.

Recent Economic Development and Outlook

Ghana was among the fastest growing economies in Sub Sahara Africa prior to the pandemic, with 6.5 percent growth in 2019. This was underpinned by strong policy commitments, evidenced by the successful completion of the Fund-supported ECF program in 2019. Notwithstanding the strong growth potential, the crisis has adversely impacted the hospitality industry, education sector, and the mining sector, including oil production, leading to an overall GDP growth of 0.4 percent y/y at the end of 2020. Growth is projected to rebound strongly to 4.7 percent in 2021 as domestic and global conditions improve. The external position remained strong in 2020 supported by higher gold prices and steady remittance inflows. Despite weak demand, supply-side effects led to inflation inching up above the Bank of Ghana's target band, but has since retreated to the policy corridor and is expected to stay within the band in the near-term. Although leading economic indicators are positive, the authorities remain cautious and are prepared to introduce additional supportive measures and make appropriate policy adjustments to safeguard macroeconomic stability without compromising the recovery.

Fiscal Policy

The Ghanaian authorities are committed to fiscal and debt sustainability. To safeguard the nascent recovery, the authorities' strategy will emphasize improving spending efficiency to limit leakages and widening the tax base to generate more domestic revenue. The authorities expect greater use of digitalization will improve revenue collection and administration, through electronic submission of tax returns to encourage prompt filing and reduce tax evasion. Digitalization will also facilitate implementation of property rate collections.

The 2021 Budget Statement introduced a number of new tax initiatives to boost domestic revenue, including the Covid-19 Health Levy, Sanitation and pollution levy (SPL) and energy sector recovery levy (Delta Fund). Additionally, a 5 percent financial sector levy has been placed on the pre-tax profits of banks to help defray the cost of the banking sector's clean up reforms. The government is also developing a gaming policy to generate additional revenue from online betting and automation of services which have been a source of tax leakage.

The authorities have introduced a medium-term fiscal framework with a path towards restoring the fiscal rule once the pandemic abates, and strengthen it further with a cap on public debt. The authorities recognize that advancing debt sustainability will hinge on mitigating fiscal risks, improving spending controls and debt management, and structural reforms, and are reviewing the medium-term debt management strategy to ensure a well-balanced mix of domestic and external bond issuance to reduce costs and financing risks.

Monetary and Exchange Rate Policies

The authorities feel that the current monetary policy stance is appropriate, and that the regulatory reliefs extended during the COVID crisis will be maintained until there is more clarity on the path and strength of the recovery. At the last monetary policy committee meeting in May 2021, the policy rate was lowered by 100 basis points in view of subdued inflation, sizeable spare capacity and slack in labor and product markets. That notwithstanding, the authorities are monitoring price and output developments closely and stand ready to tighten policy, if warranted. The regulatory and policy relief measures are also being maintained to support credit growth and ensure sufficient liquidity in the banking system for private sector use.

The Bank of Ghana (BOG) remains committed to a flexible exchange rate regime and intends to limit its market interventions to smoothening excessive market volatility. The forward foreign exchange program and market conduct rules introduced by the BOG are beginning to streamline activities and shaping price discovery in the foreign exchange market. In addition, the BOG is activating its gold purchases to build reserves, further enhance currency stability, foster investor confidence and attract FDIs. Larger gold holdings will also increase the BOG's leverage in raising cheaper financing to boost short-term foreign exchange liquidity.

Financial Sector Policies

The recent reforms have strengthened the banking sector and increased its resilience to shocks. Banks' performance has been strong through the pandemic with their assets, deposits and investments growing steadily. That said, the authorities are attentive to possible emergence of macro-financial vulnerabilities in the unlikely scenario of banks rebalancing their portfolio away from government securities to more corporate bond holdings as the recovery gains traction. Additionally, they recognize that the unwinding of temporary relief measures will expose banks to balance sheet impairments. The BOG has stepped up its engagements with banks and is monitoring development and asking banks to voluntarily increase provisioning or raise capital, and adopt effective cost controls.

The authorities are pursuing further reforms to deepen intermediation boost financial stability, and enhance confidence. To this end, they have requested Fund TA to strengthen their analytical framework and provide guidance on the operationalization of the Financial Stability Council. A draft Resolution Framework & Policy Statement, aimed at strengthening the regulation and supervision of banks, is pending approval by BOG Management ahead of implementation.

Ghana was removed from the Financial Action Task Force's (FATF) 'grey list' on June 25, 2021. This follows the enactment of various legislations in line with the FATF's requirements. to criminalize money laundering and other illicit financial activities. The authorities will continue

to work with the Inter-Governmental Action Group against Money Laundering in West Africa to safeguard Ghana's AML/CFT regime.

Structural Reforms

The Ghanaian authorities are committed to advancing structural reforms under the CARES program to foster economic diversification, create jobs and boost the economy's growth potential. The CARES initiative aims to reduce scarring from the pandemic by emphasizing the stabilization and revitalization of the economy, food security, enhancing private sector competitiveness and strengthening health infrastructure. The program aims to consolidate investments in sectors with competitive strength in the context of the African Continental Free Trade Area.

Power sector reforms will continue to ensure affordable and reliable power supply that is a key staple for development. The authorities are leveraging the ongoing energy sector recovery program review to re-negotiate power purchase agreements with producers and consolidate the sector's financial position, and limit arrears accumulation. The reforms will also seek to diversify the electricity production mix and boost the uptake of natural gas and other renewable resources, consistent with reducing Ghana's carbon footprint and making the economy greener, ahead of a formal policy guidance.

The Ghana Development Bank modeled on the German Development Bank—KfW will commence operations this quarter to support private sector businesses. The World Bank is providing \$200 million seed capital together with funding support from the European Investment Bank, while the KfW is extending technical assistance, including governance safeguards and capacity development.

The authorities' ongoing ambitious digitalization program is geared toward creating a stronger and more resilient economy. Ghana is developing a platform that consolidates the national identification project and the national electronic address system on a common digital platform to improve service delivery, including for social protection.

Concluding Remarks

Our Ghanaian authorities are emphasizing the need to continue supporting the recovery, preserve domestic stability, avoid scarring from the pandemic and launch their economic revitalization agenda through the CARES program to support sustainable and inclusive growth going forward.