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IMF bailout: Ghana scores high marks on 3rd review


Minister of Finance, Mr Seth Terpker and some IMF officials

A team from the International Monetary Fund (IMF), led by Joël Toujas-Bernaté, visited Ghana from April 27-May 11, 2016, to conduct discussions on the third review of Ghana's financial and economic programme supported by the IMF's Extended Credit Facility (ECF).

The ECF is a lending arrangement that provides sustained programme engagement over the medium to long term in case of protracted balance of payments problems. The arrangement for Ghana in an amount equivalent to SDR 664.20 million (180 per cent of quota or about US$918 million) was approved on April 3, 2015.

The discussions focused on the implementation of the programme, the medium-term outlook, and policies and structural reforms needed to restore debt sustainability, and a return to high growth and job creation, while protecting the poor.

Mr. Toujas-Bernaté said at the end of the visit that: "Implementation of the programme, so far remains broadly satisfactory. Most of end-December 2015 performance criteria were met, with the exceptions of small deviations in the wage bill and net domestic assets of Bank of Ghana (BOG). Despite the more difficult global environment, with lower commodity prices and domestic power shortages, economic growth in 2015 was close to 4 per cent, slightly higher than expected. Inflation, which remains still high at 19.2 per cent in March 2016, is being affected by the increase in utility tariffs, energy sector levies and transportation costs, but core inflation has started to decline in recent months."

He said: "The required fiscal adjustment is on track, with the overall cash deficit improving from 10.6 per cent of GDP in 2014 to 6.7 per cent of GDP in 2015, and the primary balance close to zero, from a deficit of 4.4 per cent of GDP in 2014. On a commitment basis, the adjustment is stronger still reflecting larger-than-programmed repayments of arrears. The authorities have also made progress in implementing fiscal structural reforms, although at a slower pace than expected in some areas. The mission welcomes the recent adoption of several new tax laws and progress in strengthening payroll controls and addressing payroll irregularities, along with advancing public financial management reform, including in developing the Treasury Single Account. However, preparation of a new public finance management (PFM) law and an amended BOG Act has been delayed."

"Looking ahead, given the high level of public debt, fiscal consolidation needs to continue, notwithstanding the headwinds from low commodity prices. Recognising these challenges, the authorities prepared, and discussed with the mission, a package of measures which would reduce the risk of expenditure overruns, in particular on the wage bill, and keep the 2016 budget outturn consistent with the programme objectives, with an overall cash deficit now projected at 4.8 per cent of GDP. Within the framework of the Petroleum Revenue Management Act, the authorities will reduce expenditures to offset the shortfall in oil revenues. The relatively large government cash resources available at end-2015 and possible additional donor support in 2016 should allow the government to adapt the budget financing strategy to prevailing market conditions.

"The increase in BOG's policy rate in 2015 has been instrumental in reducing exchange rate volatility. Building on continued progress in improving the effectiveness of its inflation targeting framework, BOG remains committed to maintaining an appropriate monetary policy stance to bring inflation down toward its medium-term objective.

"Underpinned by the recently introduced petroleum and electricity levies, a strategy is being developed to address the difficult financial situation of the state owned enterprises (SOEs) in the energy sector. This strategy will be critical to avoid additional fiscal pressures and possible spillovers on the banking system, as well as to sustain the improvement in electricity delivery achieved recently.

"The IMF team will continue to support the authorities as they finalise work in the coming weeks in a few areas, including on the new PFM law, the amended BOG Act and the strategy for addressing the financial situation of SOEs. Subject to this work being completed, the IMF Executive Board would be expected to consider the review during the summer after finalisation of the required documentation," Mr. Toujas-Bernaté said.

The mission met with President John Dramani Mahama, Vice President Kwesi Amissah-Arthur, Finance Minister Seth Terkper, Bank of Ghana Governor Dr. Abdul-Nashiri Issahaku, Minister of Employment and Labour Relations Haruna Iddrisu, other senior officials, and the donor community.

The IMF team thanked the authorities for their "hospitality, the collaboration, and the high-quality and constructive discussions."