Ghana: The Turnaround Story Continues

Investor Call:

August 16, 2018

Key Highlights | Why Invest in Ghana?

- In 2018 we continue to: focus on fiscal consolidation; address structural challenges; & improve domestic revenue mobilization.

- We met our key macroeconomic targets in 2017; In 2018, we successfully completed the combined IMF 5^{th} & 6^{th} reviews; successfully issued 10 & 30 year Eurobonds; presented the 2018 Mid-Year Fiscal Policy Review; & we are on course with our economic transformation agenda. In the first 6 months of 2018 we achieved the following:

  - **GDP growth** of 8.5% in 2017 (target of 6.3%); 6.8% growth in qtr. 1 2018 against 6.7 in qtr. 1 2017. Non-Oil GDP grew by 5.4% in qtr. 1 up from 4.0 % in qtr. 1 2017;

  - **Inflation** reduced from 15.4% at end 2016 to 11.8 % at end 2017 and has further reduced to a single digit of 9.6% as at July 2018.

  - **Fiscal deficit** of 2.6% against target 2.4% of GDP as at end May 2018. Provisional end-June data indicates a recovery with an end-June cash fiscal deficit of 2.7% of GDP compared to a target of 2.8%.

  - **Debt to GDP ratio** reduced from 73.1% in 2016 to 69.2% in 2017 & to a provisional figure of 64.4% of GDP at end June 2018.

  - **Year-to-date the cedi has depreciated by 6.13% against the dollar on the interbank bank.** This compares with same-period depreciation of 4.19% in 2017. The cedi has held its ground in the midst of a stronger dollar (which has impacted most currencies, including the EUR and GBP), global trade war concerns and emerging market contagion concerns.

Key Highlights | Why Invest in Ghana?

  - **Trade Account** continues to remain strong and recorded a surplus of US1.1 bn (2.1% of GDP) at end June 2018

  - **Current Account Deficit** of US$334 mn (0.6% of GDP) as at end of June 2018 compared to a deficit of US$181 mn (0.4% of GDP) for the same period last year.

  - **Gross International Reserves** was US$7.3 bn equivalent to 3.9 month of import cover for goods and services as at end of June 2018 compared to 4.5 months of import cover in 2017. [compared with US$7.6 bn equiv. to 4.3 months of imports at end 2017]

- 2018 and the medium term will focus on:

  - Consolidating the economic gains we made in 2017 and the 1st half of 2018

  - Improving domestic revenue mobilization

  - Continuing with our structural reforms to ensure irreversibility (Human Resource Management Information System (HRMIS), restructuring the Internal Audit Agency (IAA), PFM regulation and other policy documents)

  - Banking Sector restructuring and balance sheet repairs on-going

  - Government to push for a social partnership between labor, CSO's, Private Sector, and faith-based orgs etc. to start a national dialogue on participatory development as our collective goal

Government's Post-IMF Extended Credit Facility (ECF) Plan

- This Government inherited a derailed Programme but indicated its commitment to work with the IMF to return the programme back on track and conclude it successfully. As a result, the programme was rephased for an additional year with the last test date moving from December 2017 to December 2018.

- Significant progress has been made since last year with the completion of 3 Programme Reviews (i.e. the 4^{th} and combined 5^{th} and 6^{th} Reviews) and we are on track to completing the 7^{th} Review which has end-June as the test date.

- **The Government does not intend to renew another ECF programme with the IMF but is rather committed to graduating to other IMF programmes such as the Policy Support Instrument. This is appropriate for our status and in line with our medium-term economic policy reforms.**

- The PSI is designed to promote a close policy dialogue between the IMF and a member country, normally through semi-annual Fund assessments of the member's economic and financial policies.

- In addition to this consideration, the Government will continue to subject itself to the rigours IMF's Article IV Consultations which we take seriously

- Lastly, we are committed to strengthening structural reforms which are ongoing under the current programme and have developed strategies to ensure irreversibility of policies

Banking Sector Reforms

- Bank of Ghana has, since April 2017, introduced a comprehensive set of reforms with the sole objective of repairing and restructuring banks
  - to ensure that they remain well-capitalized and strong to support a fast a growing economy
  - ensuring the safety and soundness of individual banks
  - aligning prudential risks to bank capital
  - and addressing cross-sector and cross-border risks in the industry.

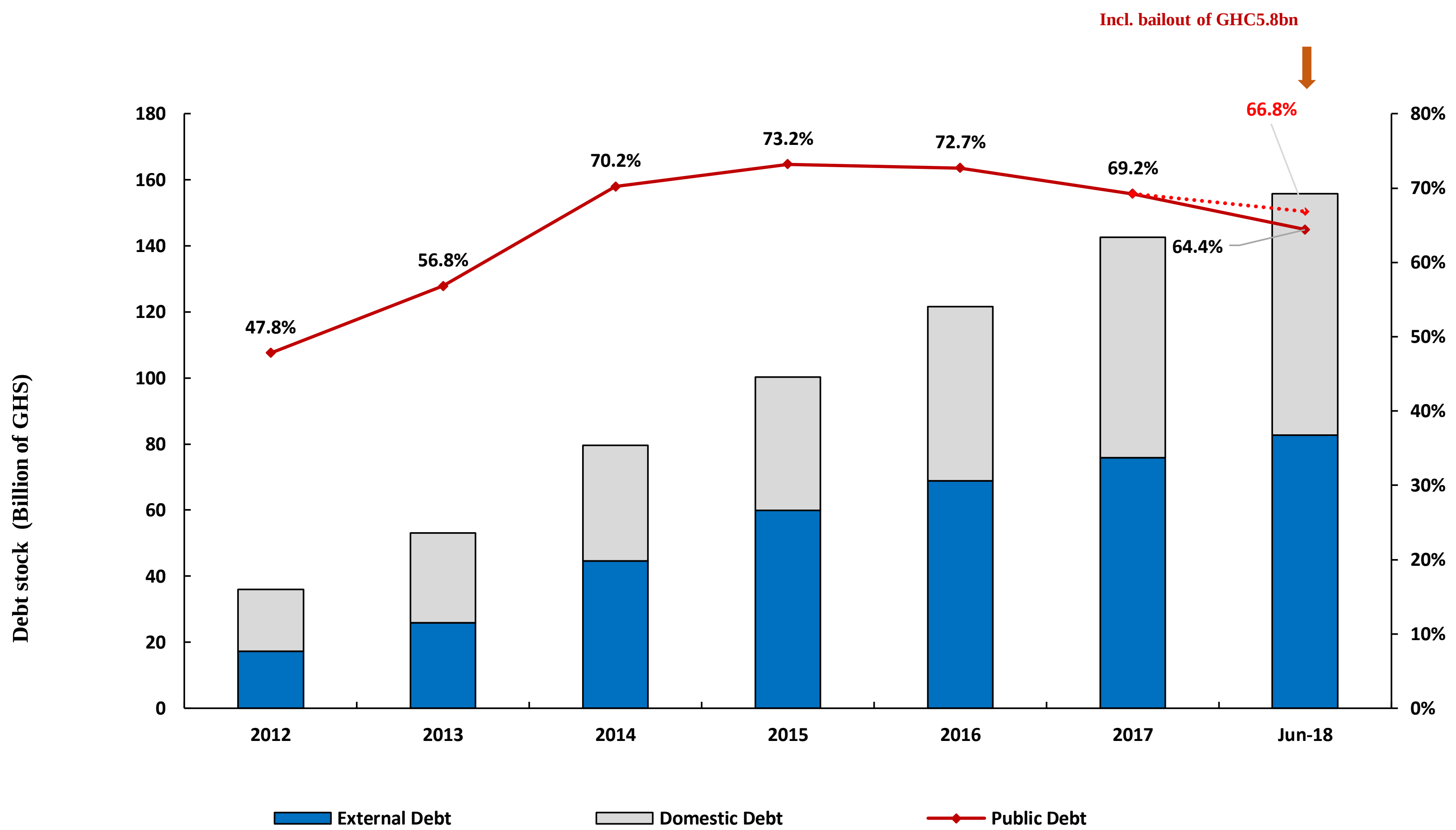
- Actions taken so far:
  - The closure of two banks in August 2017
  - In August 1, consolidated five banks, into a new indigenous bank due to:
    - license acquisition by false pretenses,
    - Inadequate capital,
    - High levels of non-performing loans owing to poor liquidity and credit risk management controls,
    - And above all weak corporate governance structures

Banking Sector Reforms, ctd

- Other ongoing reforms to enhance activities in the sector include:
  - Revision of the current risk-based supervision framework
  - Enforcement of the directive on loan write-offs
  - Review of the governing legislations on the credit reference system
  - Improving the collateral registry system
  - Strengthening the AML/CFT regime
  - Issuance of a draft directive on cyber and information security
  - Issuance of the draft "fit and proper", financial holding companies and mergers and acquisitions directives.
  - Adoption of the accounting standard on financial instruments (IFRS9)
  - Increase in the minimum capital requirement, and
  - The implementation of the deposit protection scheme is on-going in line with the Ghana Deposit Protection Act, 2016 (Act 931)

Impact on the debt to GDP ratios

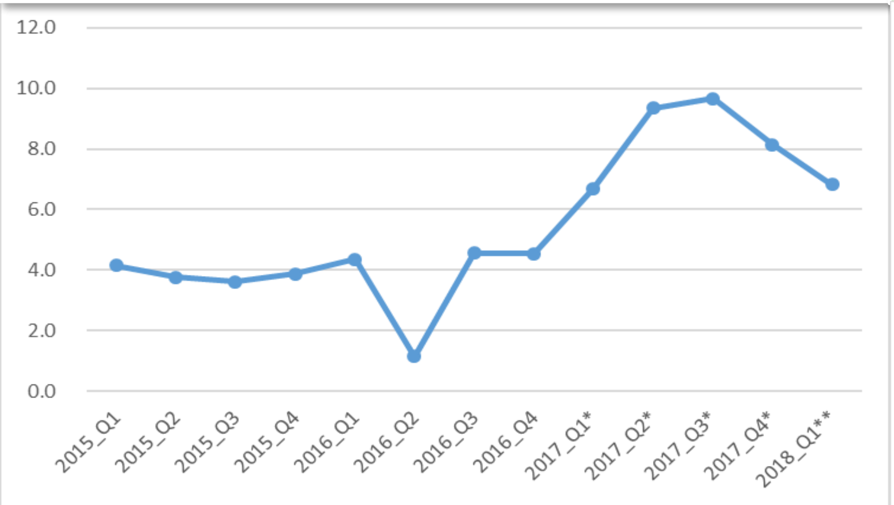
Public Debt to GDP Ratio continues to fall from 2017 to 2018



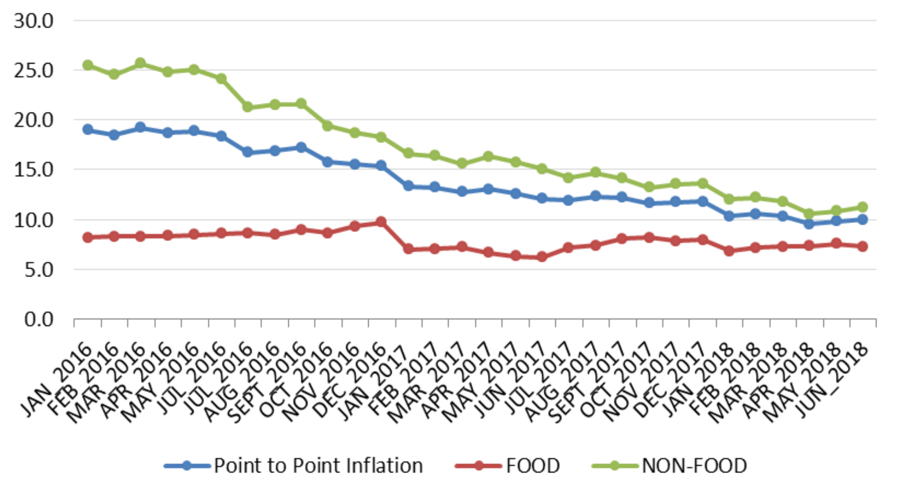
Macroeconomic Performance

Economic Growth and Prices pointing in the right direction

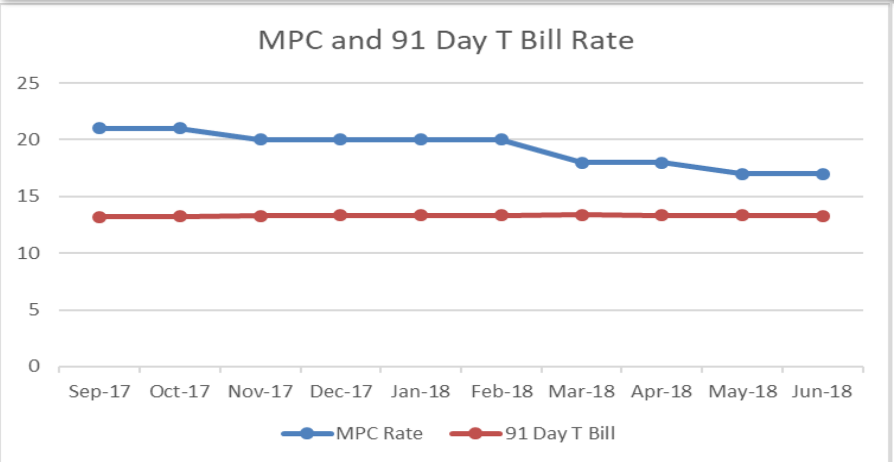
Quarterly GDP remains high with Qtr. 1 2018 @ 6.8% compared favorably to 6.7% in Qtr. 1 2017



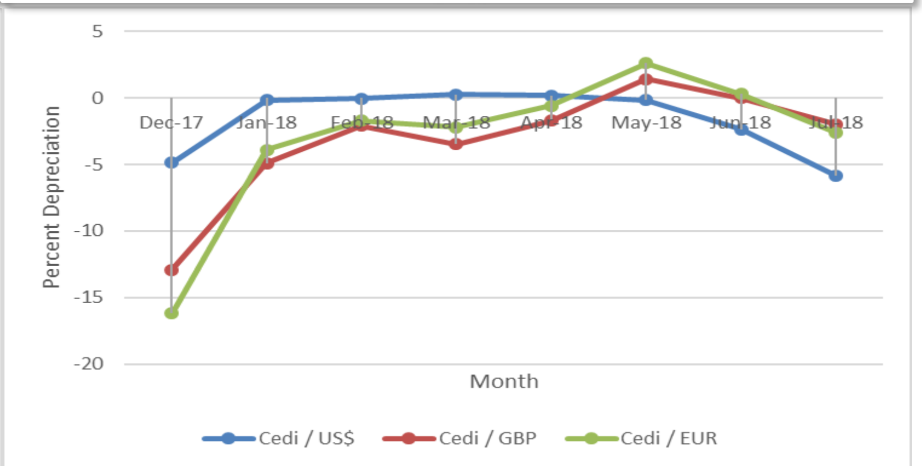
Inflation remains subdued and was 10% in June 2018



MPC Rate trending downwards, a reflection of strong macroeconomic expectations. 91 Day T Bill rate stabilized



Exchange Rate depreciation @ 5.8% for Cedi To US $ as at July 2018, but depreciation against Euros and GBP performed better in 2018



Highlights of the 2018 Mid year Fiscal Review

Highlights of 2018 Mid-Year Fiscal Policy review

- Revenue Measures:
  - Imposition of a Luxury Vehicle Levy on motor vehicles above specified engine capacity.
  - Additional Personal Income Tax band of 35% imposed on monthly incomes in excess of GH¢ 10,000.
  - VAT restructuring: decoupling GETFund and NHIL from the Input-Output mechanism with rates of 2.5% each and reduction of VAT rate to 12.5%

- Intensify compliance through:
  - Prosecutions of tax evaders and corrupt tax officials
  - Special VAT Attack force to ensure enforcement & improve collection efficiency
  - Further institutional reforms at GRA. Appointment of a international consultants to support our revenue mobilization efforts
  - Downstream Petroleum Monitoring
  - Tax Amnesty and Review of Returns
  - Enhanced VAT Collection
  - Desk Audit of Corporate Income Tax Returns
  - Introduction of Cargo Tracking Note (CTN)
  - Audits of specialized sectors (Mining, Communications, Oil and Gas , Free Zones, High Net worth Individuals)
  - Issue Audits (Withholding Tax, NFSL, Rent Tax)

… Measures will ensure meeting Macro Targets

- The 2018 macro targets are:

  - ✓ Overall real GDP growth of 6.8 percent;
  - ✓ Non-Oil real GDP growth of 5.4 percent;
  - ✓ End-period of inflation of 8.9 percent;
  - ✓ Fiscal deficit of 4.5 percent of GDP;
  - ✓ Primary surplus of 1.6 percent of GDP; and
  - ✓ Gross international assets to cover at least 3.5 months of import of goods and services.

- The increase in crude oil price provides a buffer for ABFA and the Sinking Fund

Strategies for Irreversibility

- Legislation of a fiscal rule to cap fiscal deficit to not more than 5% of GDP
- Strict enforcement of the PFM Act to promote efficient and effective PFM
- Continuation with the zero central bank financing arrangement with the BoG
- Minimize budget rigidities and cap transfers to earmarked funds at 25% of tax revenues
- Maximize domestic resource mobilization. The new measures announced in the 2018 Mid-Year fiscal policy review are expected to rake in revenues of about 0.5% of GDP
- Deepen digitalization in expenditures & revenues through the GIFMIS, automation of the ports, TIN, EPOS, NIS, National Digital address system, etc. to improve revenue mobilization and increase efficiency public spending
- Continue to implement structural reforms
- Institution of the Economic Policy Coordinating Committee (EPCC) as part of institutional arrangements to effectively coordinate and monitor macroeconomic policies, post IMF ECF programme.
- Operationalization of the Office of the Special Prosecutor as part of measures to curb corruption.

Strategies for Irreversibility

- Support to the governance institutions such as the AG, Office of the Special Prosecutor, and CHRAJ to promote probity, accountability and transparency and further promote zero tolerance for corruption.
- Strengthening oversight and the financial viability of energy SOEs as part of measures to reduce fiscal risks.
- Enforce the Public Procurement Act to ensure sole sourcing is minimized to promote competition & efficiency in public spending, thereby, promoting value for money.
- Institute an effective communication strategy to communicate government macroeconomic policies & outcomes (various economic reports and data) to relevant stakeholders in monthly/quarterly basis.
- Institute risk management framework to mitigate macro-fiscal risks (establishment & operationalization of the Fiscal Risks Unit at MoF).

Conclusion: Ghana Beyond Aid