4th GHANA ECONOMIC UPDATE

Enhancing Financial Inclusion

Africa Region

June 2019

WORLD BANK GROUP

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ACKNOWLEDGEMENTS

This edition of the Ghana Economic Update is the fourth in the bi-annual series on Ghana's economic development and prospects. Every edition includes both a broad overview of the country's macroeconomic and structural dynamics, and a special topic dedicated to one theme. In this update, the focus is on financial sector development and financial inclusion. The report was prepared by Michael Geiger (Senior Economist), Kwabena Gyan Kwakye (Economist), Carlos Leonardo Vicente (Senior Financial Sector Economist), Barbara Monica Wiafe (Financial Sector Consultant), and Nana Yaa Boakye Adjei (Financial Sector Consultant). Beatrix Allah-Mensah (Senior Operations Officer) and Kennedy Fosu (Communication Specialist) reviewed the report and advised on the public outreach. The report was prepared under the overall guidance of Abebe Adugna (Practice Manager), Henry Kerali (Country Director), and Errol Graham (Program Leader and Lead Economist). The peer reviewers were: Chandana Kularatne (Senior Economist), Yoko Doi (Senior Financial Sector Specialist), and Bledi Celiku (Economist).

ABBREVIATIONS AND ACRONYMS

AMA	Accra Metropolitan Assembly
API	Application Program Interface
AQR	Asset Quality Review
BoG	Bank of Ghana
BTCA	Better Than Cash Alliance
CAR	Capital Adequacy Ratio
CGAP	Consultative Group to Assist the Poor
CBG	Consolidated Bank of Ghana
DFI	Development Finance Institutions
DFS	Digital Financial Service
ECG	Electricity Company of Ghana
ELA	Emergency Liquidity Assistance
EMDE	Emerging Markets and Developing Economies
ESRP	Energy Sector Recovery Program
FDI	Foreign Direct Investment
FH	Finance House
GCMS	Ghana Customs management Systems
GEMS-TA	Ghana Economic Management Strengthening Technical Assistance
GEP	Global Economic Prospects
GEPP	Ghana E-Payment Portal
GH¢	Ghanaian Cedi
GhIPSS	Ghana Interbank Payment Settlement System
GoG	Government of Ghana
GRA	Ghana Revenue Authority
IMF	International Monetary Fund
IPP	Independent Power Producer
MCC	Micro Credit Companies
MDA	Ministries, Departments, and Agencies
MFC	Microfinance Companies
MFI	Microfinance Institutions
MNO	Mobile Network Operator
MoF	Ministry of Finance
NBFI	Non-bank Financial Institutions
NFIDS	National Financial Inclusion and Development Strategy
NPL	Non-performing Loan
PFMA	Public Financial Management Act
PMI	Purchasing Manager's Indices
PPA	Power Purchase Agreements
RCB	Rural and Community Banks
S&L	Savings and Loans Company
SCD	Systematic Country Diagnostic
SDI	Specialized Deposit-taking Financial Institutions
TRIP	Total Revenue Integrated Processing System
USSD	Unstructured Supplementary Service Data
VRA	Volta River Authority
VSLA	Village Savings and Loans Associations

EXECUTIVE SUMMARY

Recent Economic Developments

Ghana's real GDP expanded in 2018, albeit at a slower rate than in 2017; the expansion was spurred by the mineral component of the industry sector. Official data released in April 2019 indicate an overall growth rate of 6.3 percent in 2018. In terms of sectoral growth dynamics, industry continued its lead with 10.5 percent. The second-highest sectoral growth rate was recorded in agriculture with 4.8 percent; sustained increases in the forestry and logging, crops, and livestock sub-sectors drove agriculture growth in 2018. The services sector grew by only 2.8 percent in 2018. Non-oil GDP reached 6.5 percent growth in 2018.

Ghana's average inflation rate for 2018 was the lowest in five years. Inflation fell from its peak of 19.2 percent in March 2016 to 9.4 percent in December 2018. Inflation continued to be in single digits in the first four months of 2019; but it gradually rose from 9 percent in January to 9.5 percent in April 2019. The favorable price developments in 2018 reflected continued monetary restraints by the Bank of Ghana (BoG), fiscal consolidation and the sharp reductions in non-food inflation. The lower non-food inflation reflected lower costs of health, education, and communications services. As inflation eased, the BoG reduced its policy rate from 21.5 percent at its peak in 2016 to 16 percent in January 2019, in an effort to spur non-oil growth.

Heightened vulnerabilities in the financial sector in 2018 triggered a swift response from the authorities. Between August 2017 and December 2018, nine domestically owned universal banks were closed. The assets and liabilities of two banks were transferred to a state-owned universal bank while those of the remaining seven banks were transferred to a bridge bank (Consolidated Bank Ghana [CBG]). The CBG was capitalized by the Government of Ghana (GoG) in the amount of about US$100 million (0.2 percent of GDP). The Government also issued a domestic bond equivalent to US$1.65 billion (2.5 percent of GDP) to cover the gap between the liabilities and the good assets assumed by the CBG. The total fiscal cost of the interventions was equivalent to around 3.4 percent of GDP in 2018.

The government sustained its fiscal consolidation efforts in 2018 despite challenges. Shortfalls in Value Added Tax (VAT) and "other revenues" and overruns in expenditure on goods and services (altogether equivalent to 1.5 percent of GDP) were largely offset by overperformance in corporate income taxes relative to target (due to improvements in compliance); and cuts in capital spending. As a result, the 2018 fiscal deficit target was met with 3.8 percent of GDP (provisional outturn data), excluding the financial sector clean-up cost. With the inclusion of the one-off financial sector cost, the fiscal deficit would be 7.2 percent of GDP in 2018. Fiscal data for early 2019 is not yet publicly available.

The current account deficit narrowed further in 2018 but portfolio capital outflows put pressure on reserves. The current account deficit narrowed to an estimated 3.1 percent of GDP, relative to 3.4 percent of GDP in 2017. The current account deficit was primarily financed by Foreign Direct Investment (FDI), which in 2018 stood at 5.6 percent of GDP (same as 2017). However, lower-than-expected foreign capital inflows reduced the capital and financial account net inflows to only 1.7 percent of GDP, compared with percent of GDP in 2017. This reflected the rapid decline in portfolio investments, which was 1.2 percent of GDP in 2018 (down from 4.4 percent of GDP in 2017). As a result, imports coverage of gross international reserves fell to 2.6 months from 2.8 months in 2017.

The Ghanaian cedi came under considerable pressure in the second half of 2018 and in the first quarter of 2019. At the end of 2018, the cedi had depreciated against the dollar by 8.9 percent, cumulatively. The BoG intervened in 2018 to slowdown the depreciation, and as a result, gross international reserves declined by US$250 million. This policy was discontinued in an effort to stop the loss of reserves. As a result, first quarter 2019 depreciation of the Ghanaian cedi intensified. The cedi depreciation reached its lowest point on March 15, 2019 when year-to-date depreciation reached 11.1 percent. With the successful issuance of three Eurobonds totaling US$3 billion on March 19, 2019, the increased foreign exchange reserves provided enough buffer to reverse the downward trend. As a result, the Ghanaian cedi bounced back and by mid-April it had appreciated by 6 percent over the March 15 low-point. Still, the cedi was down by 7.1 percent year-to-April.

Macroeconomic Outlook and Economic Policy Challenges

Economic growth is expected to be stronger in 2019; but over the medium term a more diversified economy is an imperative. Growth is projected to increase to 7.6 percent in 2019, driven by both the oil and non-oil sectors. Growth in the non-oil sector is expected to remain high at 6.2 percent, as policy interventions in agriculture and industry are expected revitalize the productive sectors. These interventions would be important in diversifying the economy and bringing about a more broad-based sustainable economic growth over the medium to long-term. But to facilitate the transition toward a more diversified economy, there is a need to invest Ghana's current natural resource wealth in non-natural resource sectors for sustainable growth in the medium-to-long-term. The Government needs to improve on the economy's competitiveness for private sector-led investments in the non-oil sector for growth. Without that, total factor productivity is projected to remain stagnant or decline marginally over the medium term.

Fiscal consolidation is expected to slow in 2019 but the overall stance will likely remain intact over the medium term, but domestic revenue mobilization is an imperative. The overall fiscal deficit in 2019, excluding financial sector clean-up cost (expected to be about 1.6 percent of GDP), is expected to be 4.0 percent of GDP, rising to 4.5 percent of GDP in 2021. The deficit, inclusive of expected clean-up costs, would reach 5.6 percent in 2019. An effective domestic resource mobilization strategy is an urgent imperative for the Government as the reduction of expenditures, including public investment, in response to revenue underperformances may not be sustainable. Any new tax measures should be reviewed against their social and economic objectives to allow prioritization of the tax regime.

The next election cycle in 2020 will be an important test of fiscal sustainability. Ghana's fiscal and debt dynamics could be adversely affected by possible fiscal slippages due to: revenue underperformance and higher, election-related spending leading up to the 2020 elections; further negative developments in the already vulnerable financial sector, despite interventions made in 2018; and unfavorable external financing conditions. On the upside, the adoption of the fiscal responsibility law and the establishment of the fiscal council in December 2018, with the statutory ceiling on the fiscal deficit of 5 percent, provide an opportunity to overcome the legacy of election-cycle-driven fiscal slippages in 2020. With the next election falling within a boom phase, the economy does not need any additional fiscal stimulus.

Addressing the vulnerabilities in the financial sector is urgent and will require additional efforts in 2019, and over the medium term. In 2019, the government will need to spend an additional GH¢5.5 billion (equivalent to 1.6 percent of GDP) to solve all challenges related to microfinance institutions MFIs; Savings and Loans; and the introduction of another resolution bond for the CBG to support the closure of two additional banks that took place in January 2019. To help strengthen resilience and stability of the banking system, the authorities increased the minimum capital for banks to GH¢400 million (US$83 million) effective in December 2018 (up from GH¢120 million) and are strengthening supervision, including through enforcement of prudential standards, implementation of a new capital requirements directive, introduction of risk management and corporate governance directives, among others.

Financial Sector Development and Financial Inclusion

The financial sector in Ghana has grown rapidly since 2010, and with it the share of Ghanaians with access to formal financial services, which is a measure of financial inclusion. Total financial sector assets grew from 53 percent of GDP in 2010 to 78 percent in 2017. Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs.

But access to financial services across regions and by key demographics is still low. Rural access to formal financial accounts is still low, but almost doubled between 2011 and 2017, due to a rising market share of non-bank financial institutions (NBFI), including mobile money providers. Women are less financially included than men in Ghana. Yet, excluding women from access to financial services means widespread lost opportunity for their households and the economy as a whole. Not surprisingly, the poor have significantly lower access to formal financial services than the non-poor. Insufficient financial literacy is an important long-term factor for low savings rates in Ghana, and more broadly, financial illiteracy suppresses consumers' demand for financial services. In addition, persistently high interest rates in Ghana are a major barrier to affordable access.

Despite all the challenges in building a more financially inclusive economy, there has been a significant growth in the number of financial access points over the past five years. This growth has been primarily related to the spread of mobile money. The total number of mobile voice subscriptions grew 39 percent from 25.6 to 37.4 million between 2012 and 2017. Mobile phone penetration has created opportunities for the expansion of financial services and increased the role of non-financial institutions as much as e-money issuers, positioning Ghana as the fastest growing mobile money market in Africa. This dynamic development indicates the potential of digital financial services and payments to further enhance financial inclusion in Ghana.

The expansion of the agent distribution network was critical to the success of mobile money. The number of active agents increased from around 6,000 in 2012 to more than 150,000 in 2017—a 25-fold increase. This expansion of agents offered users more cash-in and cash-out opportunities and increased the overall convenience of using mobile money.

The government has facilitated interoperability across payment instruments by establishing a mobile money switching solution. In May 2018, the Ghana Interbank Payment Settlement System (GhIPSS) went live with one of the first interoperable mobile money switch in Africa. Interoperability has increased the convenience and value proposition of digital financial services (DFS) for many financial consumers. Another notable government initiative was the introduction of the E-zwich biometric card in 2018. E-zwich cards can be used at any E-zwich enabled point of sale terminal or ATM, at any bank, and also for payments, including salaries and pensions, which can be loaded onto a cardholders account.

But more can be done to leverage innovative digital technology, as is recognized in the Government's National Financial Inclusion and Development Strategy (NFIDS). As a compliment to the NFIDS, the Government has also developed its DFS Policy, which establishes a three-year roadmap (2018–2020). The roadmap aims to build on technological advances and ecosystem evolutions to create a resilient, inclusive, and innovative DFS ecosystem in Ghana that bolsters social development and a robust economy that supports a thriving private sector.

Enhancing Financial Inclusion

In support of the Government's efforts, the financial sector analysis in this Economic Update concludes with five specific recommendations for enhancing financial inclusion in Ghana:

- ***Digitize government and utility payments.*** There remain significant opportunities in the payments space for driving financial inclusion, specifically in the area of government collections and utility payments;
- ***Link informal channels with formal financial services.*** Since informal groups, which are largely organized, play a critical role in the provisions of financial services in Ghana, there is an opportunity to increase formal financial inclusion by linking them for formal financial services providers;
- ***Promote agent banking.*** Many banks and non-bank financial institutions are yet to take advantage of agent banking and other low-cost models to increase their footprint throughout the country;
- ***Improve financial capability.*** Improved financial literacy programs could stimulate demand for services as it would arm the financial consumers with the information needed to identify the benefits and risks of financial products; and
- ***Leverage data to improve access to finance.*** The Government should take the lead in developing sound policies and/or legal frameworks to mandate data-sharing.

GLOBAL AND REGIONAL ECONOMIC CONTEXT

1

In the face of global economic headwinds, Ghana's economy continued its rapid expansion in 2018 with an estimated 6.3 percent annual growth. The country's average inflation rate reached single-digit levels in 2018 and was the lowest in five years. However, financial stability was tested by tighter financing conditions as some banks came under pressure. Heightened vulnerabilities in the financial sector triggered a swift response from the authorities. The Government sustained its fiscal consolidation efforts in 2018 despite challenges, and the current account deficit narrowed further. The Ghanaian cedi was stable for the first half of 2018 but came under considerable pressure in the second half of the year, and the pressure continued in the first quarter of 2019. Medium-term growth prospects remain strong at 6–7 percent. Fiscal consolidation is expected to slow in 2019 but the overall stance will likely remain intact over the medium term. Further reducing the vulnerabilities in the financial sector is an urgent agenda and will require additional efforts in 2019, and over the medium term. Key downside risks to the outlook include fiscal slippages in the lead up to the 2020 elections, financial sector vulnerabilities, and unfavorable external financing conditions.

Global growth slowed in 2018 and the outlook is weak. According to the latest World Bank, Global Economic Prospects Report (January 2019), global financing conditions have tightened, industrial production has moderated, trade tensions remain elevated, and some large emerging market and developing economies have experienced significant financial market stress. As a result, global growth in 2018 was at a low 3 percent, and is expected to remain subdued at 2.9 percent in 2019, and 2.8 percent over the 2020 to 2021 period. Faced with these headwinds, the recovery in emerging market and developing economies has lost momentum. Downside risks have become more acute and include the possibility of disorderly financial market movements and an escalation of trade disputes. Debt vulnerabilities in emerging market and developing economies, particularly low-income countries, have increased. More frequent severe weather events would raise the possibility of large swings in international food prices, which could deepen poverty. In this difficult environment, it is of paramount importance for emerging market and developing economies to rebuild policy buffers while laying a stronger foundation for future growth by boosting human capital, promoting trade integration, and addressing the challenges associated with informality (World Bank 2019).

Financial and exchange rate market volatility has increased, which led to an appreciation of the U.S. dollar in 2018. Investor concerns about softening growth prospects and a search for higher-yielding safe assets have led to a further compression of the U.S. yield curve, despite higher inflation and ballooning U.S. government deficits driven by fiscal stimulus measures. Global equity markets dropped in the final quarter of 2018, partly reflecting a deterioration in market sentiment regarding global activity and trade policy shifts. Divergent monetary policy among major economies also contributed to a significant appreciation of the U.S. dollar in 2018.

Emerging markets and developing economies (EMDE), experienced significant capital outflows in 2018. The appreciation of the U.S. dollar, together with increased investor risk aversion and renewed attention to external vulnerabilities, contributed to significant capital outflows in many EMDEs. Since the U.S. dollar started strengthening in April 2018, EMDE currencies fell by an average of about 10 percent—the most significant episode of sustained depreciation since early 2016. Cumulative portfolio outflows from EMDEs also surpassed those seen after the 2013 "Taper Tantrum", reflecting a broad-based sell-off in both equity and bond funds.

While financial market stress was most pronounced in Turkey and Argentina, many other EMDEs, including Ghana, also suffered from deteriorating market sentiment. Countries with current account deficits financed by volatile capital flows, as well as countries with large short-term external debt, were most severely impacted, pointing to heightened investor focus on external vulnerabilities. Elevated domestic debt, above-target inflation, and idiosyncratic factors such as policy uncertainty played a role as well. As in previous episodes, EMDEs with more liquid currency and equity markets were particularly affected by shifting market sentiment and contagion effects. EMDEs sovereign credit ratings have continued to deteriorate, with some falling below investment grade, reflecting concerns about rising debt and deteriorating growth prospects. Yields on EMDEs debt issued in international bond markets rose by 140 basis points in 2018—the third largest increase over the last two decades.

As a result, growth in EMDE is expected to slow in 2019. With softening global trade and tighter financing conditions EMDEs growth is expected to slow to 4.2 percent in 2019—0.5 percentage point below previous World Bank Global Economics Prospects (GEP) forecasts, partly reflecting the lingering effects of recent financial stress in some large economies (e.g., Argentina, Turkey), with a sharply weaker-than-expected pickup in commodity exporters accompanied by a deceleration in commodity importers. EMDEs growth is projected to plateau at an average of 4.6 percent in 2020–21, as the recovery in commodity exporters levels off. Per capita growth rates will remain anemic in several EMDE regions—most notably, in those with a large number of commodity exporters—likely impeding further poverty alleviation (World Bank 2019).

In the same vein, sub-Saharan growth is estimated to have decelerated from 2.5 percent in 2017 to 2.3 percent in 2018; below the regional population growth rate for the fourth consecutive year (World Bank 2019b). The slowdown of growth is attributed to weaker exports from the region's larger oil exporters with lower productions resulting from volatile oil prices on the world market. The sub-Saharan African economies continues to face challenging conditions as prospects of the advanced economies and EMDEs also continue to be downgraded. Preliminary data suggest that sub-Saharan growth continued to moderate in the first quarter of 2019 reinforcing the weak conditions that ended 2018 in Nigeria, Angola and South Africa. Manufacturing and mining sectors continued to remain flat in South Africa as the country's power crises continues unabated, while regulatory uncertainty and maturing oil fields in Nigeria and Angola pose greater constraints to oil production. On the demand side, Purchasing Manager's Indices (PMI) in Ghana, Kenya, Nigeria, Zambia and Uganda showed some moderation in the first quarter of 2019. Despite the slow start, growth is expected to recover from the 2.3 percent level in 2018 to 2.8 percent in 2019, supported by exports and private consumption, on the demand side, while expected rebound in agriculture, mining and services will spearhead the supply side growth. The regional GDP growth is expected to reach 3.3 percent in 2020 (World Bank 2019b).

Meanwhile, commodity prices are expected to stabilize in 2019 after marked volatility over most of 2018. Global price developments are particularly important for Ghana in three areas: crude oil, gold, and cocoa.

- **Crude oil prices** fluctuated markedly in the second half of 2018, mainly due to supply factors, with sharp declines toward the end of the year. Prices for crude oil averaged US$68 per barrel (bbl), slightly lower than initial 2018 forecasts, but about 30 percent higher than in 2017. While robust global oil consumption contributed to this increase, supply-side factors were the main drivers of price movements throughout the year. Oil prices are expected to average $67/bbl in 2019 and 2020, $2/bbl lower than initial projections; however, uncertainty around the forecast is high. While growth in oil demand is expected to remain robust in 2019, the expected loss in growth momentum across EMDEs could have a greater impact on oil demand than expected. The outlook for supply is uncertain and depends to a large extent on production decisions by OPEC and its non-OPEC partners (World Bank 2019).

- **Prices for precious metals** declined by 2 percent in 2018 and are projected to decline by another 1 percent in 2019, primarily driven by weakening demand. Gold demand, which experienced the largest decline since 2009 over the first half of 2018, has been weak both for use as a production input and for investment purposes. The appreciation of the U.S. dollar and tightening monetary policy in some advanced economies has reduced the attractiveness of gold as an investment asset. Supply, on the other hand, increased in 2018, supported by stronger-than-expected mine production. Looking forward, strengthening supply and weak demand are expected to push gold prices marginally lower in 2019 (World Bank 2018a).
- **Cocoa prices** plunged nearly 13 percent in the third quarter (quarter-on-quarter) of 2018 in response to upwardly revised estimates of global output. Most of the growth in cocoa production is expected to come from West Africa, including Ghana and Côte d'Ivoire, the world's largest producers. Despite the recent weakness, cocoa prices are expected to gain 2 percent in 2019 as consumption is expected to outpace production (World Bank 2018a and Figure 2.1.2).

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

2

Ghana is one of the fastest growing economies in Africa driven by mining and oil sectors

Real Sector

Ghana was the second-fastest growing economy in Africa in 2017, with growth of 8.1 percent, driven by the mining and oil sectors. Oil production rose strongly because the Offshore Turret Remediation Project was deferred from 2017 to 2018 and new oil fields were added. In addition to this one-off effect in the oil sector, gold output was high, while cocoa production levels remained stable. Overall, the industry sector growth was the highest in 2017 at 15.7 percent, followed by agriculture growth of 6.1 percent and services with an outturn of 3.3 percent. Non-oil growth remained at 4.6 percent, same as in 2016, as marginal expansions in the services and agriculture sectors offset slower growth in non-oil industry in 2017 (Figure 2.1.1). The decline in the growth of the non-oil industry sector was attributed to contractions in mining and quarrying, as well as construction activities.

Real GDP continued to expand in 2018, albeit at a slower rate than in 2017; the expansion was largely spurred by the mineral component of the industry sector. Growth estimates released by the Ghana Statistical Service (GSS) in April 2019 indicate that Ghana's economy grew by 6.3 percent in 2018, 0.1 percentage point above the world bank's projection. (Figures 2.1.2–2.1.4). The industry sector, which has a GDP share of 34.0 percent, recorded the highest growth of 10.5 percent in 2018, compared to 15.7 percent in 2017 (Figures 2.1.1 to 2.1.4). The mining and quarrying subsector (which grew by 23.3 percent) was also a major determinant of industry sector and overall growth in 2018. The strong growth of the mining sector is attributed to the recent increase in investments in the sector (which led to higher production in 2018). For instance, in 2017, the year-on-year growth in investment within the mining sector was over 17 percent representing an increase from US$907 million in 2016 to $US1.09 billion. The good developments in 2018 were also partly attributed to favorable price developments in 2018 in some key commodity markets.

Agriculture growth was high in 2018 and a key supportive sector to overall growth. The second sector in terms of growth performance was agriculture, supported by sustained expansion in the forestry and logging, crops, and livestock sub-sectors. The services sector on the average, grew by 1.8 percent in the first three quarters of 2018 but improved to 2.8 at the end of the year. The financial and insurance subsectors experienced a continuous contraction since the first quarter of 2017 ending the year at –7.9 percent in 2018, attributed to the uncertainty in the sector with regards to undercapitalized banks and vulnerable special deposit institutions. The non-oil sector grew by 4 percent in the first quarter, 5 percent in the second quarter and ended the year at an overall growth of 6.5 percent (Table 2.1).

Still, the services sector remains the dominant sector in Ghana's economy. In 2018 the services sector accounted for 46.3 percent of GDP, slightly above the 46 percent of GDP in 2017. Industry, the second largest sector continued to consolidate its position with its share increasing from 32.7 percent in 2017 to 34 percent in 2018, attributed to increased mining activities. Agriculture's share of GDP at 19.7 percent, was at the lowest since 2013. (Figure 2.1.5).

TABLE 2.1: 2018 Quarterly GDP Growth

	Q1	Q2	Q3	Q4	Q1–Q4
GDP Growth	5.4	5.4	7.4	6.8	6.3
Agriculture	4.7	4.8	5.5	4.4	4.8
Industry	10.4	11.1	11.7	8.9	10.5
Services	1.4	0.5	3.5	5.4	2.8
Non-oil GDP	4.0	5.0	8.5	8.4	6.5

Source: Ghana Statistical Service.

On the expenditure side of GDP, exports have driven overall growth in 2018. Exports growth for 2018 remained high at 10.3 percent in 2018, even though this was lower than the 2017 levels of 16.5 percent (which benefitted from one-off effects of increased oil exports); imports growth remained relatively high at 4.6 percent in 2018 compared to the 2014–2016 average of 0.1 percent. Government consumption expanded significantly in 2018 (by more than 70 percent), after a of 35.5 percent contraction in 2017. This was primarily due to the base effect of steep expenditure cuts in 2017 and a gradual easing of the government's stance on fiscal consolidation in 2018. Overall consumption growth for 2018 was 4.9 percent compared with 5.8 percent in 2017, as household consumption weakened in 2018. Total investment continued to decline for the second successive year in 2018, with negative growth of –5.5 percent, as major investments recorded in both the oil and the mining sectors in 2016 could not be replicated in 2017 and 2018. Overall domestic demand (including investments and consumption) grew by 2.4 percent in 2018, representing a slowdown from the 2017 levels of 4.1 percent.

Inflation has fallen to a single digit in line with the medium-term target

Ghana's average inflation rate for 2018 was the lowest in five years. Inflation fell from its peak of 19.2 percent in March 2016 to 9.4 percent in December 2018. On annual basis, Ghana's average inflation rate in 2018 was 9.8 percent, which is lower than the level in 2017 (12.4 percent) and within the medium-term target range set by the BoG of 6–10 percent. Although inflation rates for the first quarter were marginally above the central bank's target range, those for the subsequent quarters were within the BoG limits ending the year at 9.4 percent—the first time this was achieved in the last five years (Figure 2.1.6). The favorable price developments in 2018 were driven by continued monetary restraint by the BoG and the reductions in non-food inflation. Lower services costs for health, education, and communications, accounted for the lower non-food inflation path. On an annual basis, both non-food and food inflation declined in 2018. Inflation continues to be in single digits in the first four months of 2019; gradually rising from 9 percent in January to 9.5 percent in April 2019 on the back of rise in non-food inflation.

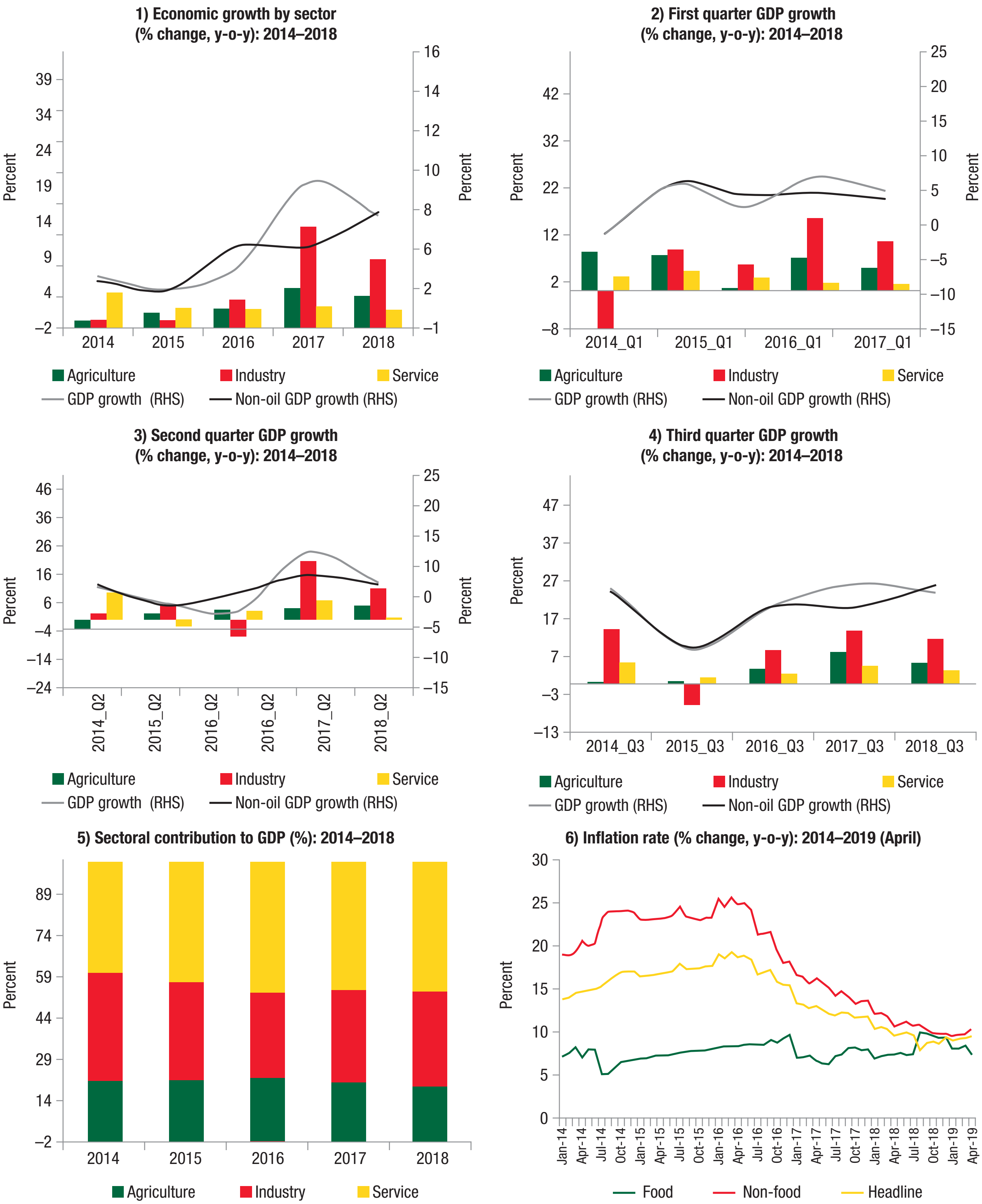
Financial and Monetary Sector

The Ghanaian cedi came under pressure in 2018 as portfolio flows reversed …

The BoG monetary policy remained focused on keeping inflation in the targeted range of 6 to 10 percent over the medium term. The moderation in inflation created room for monetary policy easing[1]. Consequently, the Central Bank cut its policy rate from 21.5 percent in July 2017 to 20 percent in September 2017, and further to 17 percent in March 2018. In January 2019, the central bank further reduced the rate to 16 percent—the lowest rate since 2013. The weighted average interbank rate, the interest rate on short-term loans made between commercial banks, eased further to 16.2 percent in October 2018 from 20.9 percent a year ago, in line with the monetary policy rate. The average lending rates of banks also declined to 26.9 percent in October 2018 from

[1] The effectiveness of the monetary policy framework on the inflation rate is mixed in Ghana. Available data show a good correlation between the policy rate and inflation. However, due to lingering structural difficulties, such as over-dependence of the economy on a variety of imports and the inability for the economy to rapidly diversify, the exchange rate tends also to be a strong determinant of domestic prices.

FIGURE 2.1: Real Sector



Source: 2.1–3: Ghana Statistical Service; 2.4–6: Ghana Public Expenditure Review, World Bank, 2017d. (calculations based on SRID and World Bank data).
Notes: 2.4: Expressed as the ratio of the food to nonfood price indices.

29.1 percent a year ago, consistent with the increase in credit to the private sector.

The Ghanaian cedi remained stable in the first half of 2018 but came under considerable pressure in the second half of the year and in the first quarter of 2019. Between January and May 2018, the cedi depreciated (cumulatively) only by 1.3 percent but the pressure on the cedi remained relatively strong after May as external financing pressures rose, and the US dollar strengthened and yields on US treasury instruments increased, causing investors to rebalance their portfolios. As a result, at the end of 2018, the cedi had depreciated against the dollar by 8.9 percent. The BoG intervened in 2018 to slowdown the depreciation, and as a result, gross international reserves declined by US$250 million. This policy was discontinued in an effort to stop the loss of reserves. As a result, 2019 first quarter depreciation of the Ghanaian cedi intensified. The cedi depreciation reached its lowest point on March 15, when year-to-date depreciation reached 11.1 percent. With the successful issuance of three Eurobonds in a total value of US$3 billion on March 19, 2019, the increased foreign exchange reserves signaled enough buffer to reverse the downward trend. As a result, the Ghanaian cedi bounced back and by mid-April it had appreciated by 6 percent over the March 15 low-point. Nevertheless, the cedi is still down by 7.1 percent on a year-to-date basis in 2019.

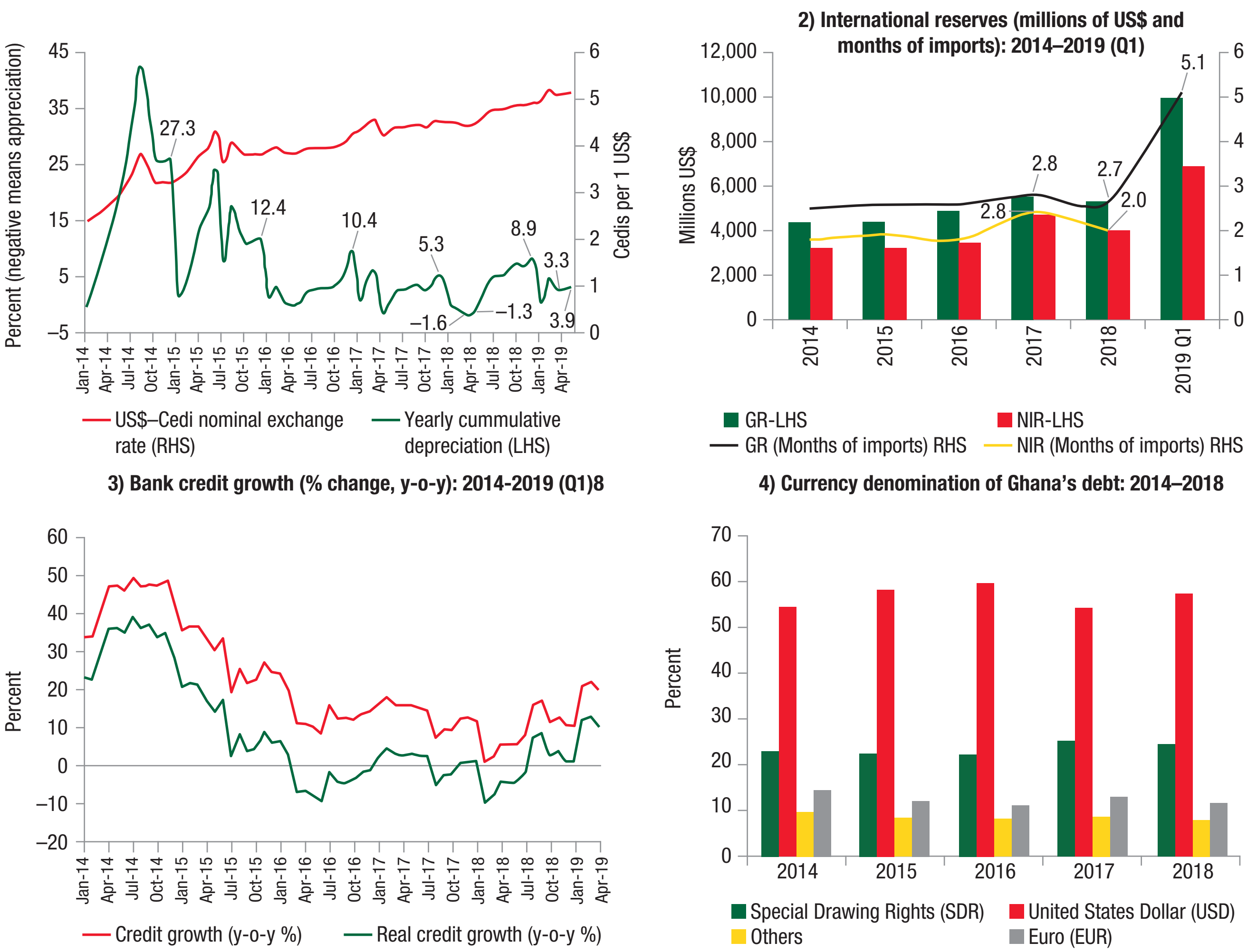
… and international reserves have declined

International reserve buffers have been rebuilt since 2016, but both gross and net international reserves declined in 2018. The stock of Ghana's gross international reserves at the end of 2018 was US$5.3 billion (equivalent to 2.7 months of imports), down from US$5.5 billion (equivalent to 2.8 months of imports) at the end of 2017. Over the same period, net international reserves declined from US$4.6 billion (equivalent to 2.4 months of imports) to US$3.9 billion (equivalent to 2.0 months of imports) (Figure 2.2.2). The large gap between net and gross reserves reflects the anticipated short-term foreign exchange outflows associated with the 2019 bond redemption cycle. Closing the gap between the market and official exchange rates and limiting the foreign exchange market interventions would be important steps to prevent further decline of international reserves. With the issuance of the US$3 billion Eurobond in March 2019, the international reserves have significantly improved in 2019 (Figure 2.2.2). Gross International Reserves improved from US$ 6.7 billion (equivalent to 3.4 months import cover) in January 2019 to US$9.9 billion (equivalent to 5.1 months of imports) in March. This, however, marginally decreased to US$9.3 billion (equivalent to 4.7 months of imports) in April 2019, as the BoG responded to pressures on the cedi.

The financial sector came under stress in 2018 …

Heightened financial sector vulnerabilities resulted in the resolution of five domestically owned banks in 2018, with substantial fiscal costs to the government. The government closed five domestically owned universal banks—uniBank, Royal Bank, Beige Bank, Sovereign Bank, and Construction Bank, in August 2018, and transferred their assets and liabilities to a bridge bank (the CBG). The CBG was capitalized by the Government in the amount of US$100 million (0.15 percent of GDP). The Government also issued a domestic bond in an amount equivalent to US$1.65 billion (2.5 percent of GDP) to cover the gap between the liabilities and the good assets assumed by the CBG. In early 2018, the Government also issued a bond to capitalize both the UT Bank and Capital Bank in an amount equivalent to US$500 million (0.75 percent of GDP) that allowed the GCB to take over all depositors formerly with the two banks. The total fiscal cost of these interventions amounted to 3.4 percent of GDP in 2018. The fiscal deficit including the financial sector clean-up in 2018 reached 7.2 percent of GDP (compared to 3.8 percent without the financial sector

FIGURE 2.2: Monetary Sector



Sources: 3.1: Ghana Statistical Service; 3.2: Bank of Ghana; 3.3 IMF (2019); 3.4: Ministry of Finance.

clean-up). As the clean-up cost extends to 2019, the 2019 fiscal deficit (including the financial sector clean-up) is projected to reach 5.6 percent of GDP (compared to 4.0 percent of GDP without the financial sector clean-up) (Annex 1).

… and financing conditions have tightened

The BoG has increased the minimum capital requirement to strengthen the banking sector, but areas of vulnerabilities remain. The average gross NPL ratio declined from 21.6 percent in December 2017 to 18.2 percent in December 2018, in part due to the closure of problem banks, write-offs of NPLs, and settlement by the Government of some energy sector SOEs' debt. Average after-tax profitability–measured by the return on equity–stood at 18.5 percent in December 2018. The bank-wide capital adequacy ratio (CAR) stood at 20 percent in December 2018—well above the regulatory minimum of 10 percent and the BoG's recommended level of 13 percent. However, some banks remain vulnerable to high NPLs. All commercial banks were required to meet the new minimum capital of GH¢400 million by end 2018, raised from GH¢120 million. An additional area of vulnerability in the financial sector comes from specialized deposit-taking institutions (SDIs). The liberal licensing of financial institutions over the years, often without thorough due diligence, allowed lightly capitalized institutions and unfit owners to operate deposit-taking businesses, putting small savers at risk. The Government—through the BoG—has put in place resolution and recovery plans for these SDIs and revoked the licenses of 386 institutions.

In a marked shift from 2017, tight financing conditions affected the local bond market in 2018. Yields on short-term securities increased, while auctions for longer maturities were either canceled or went largely undersubscribed, reflecting the authorities' reluctance to accept higher yields. For instance, while the 5-year GoG bond yield declined between October 2017 and October 2018 by 175 bps to 16.5 percent, rates on the 2-year and 3-year GoG bonds both increased by 250 and 125 basis points respectively to settle at 19.5 percent. Rates on the secondary bond market also increased, reflecting tight financing conditions. As a result, issuances of existing long-dated instruments with relatively shorter remaining maturities were opportunistically used to cover financing needs—with the downside of clustering redemptions into the next 18 months (IMF 2019). Private sector credit growth increased by 10.6 percent in 2018 over the 2017 levels (Figure 2.2.3), reflecting the decline in the average lending rate from 29.2 percent in 2017 to 26.9 percent in 2018. The main recipients, in terms of the total share of credit were: services (20.7 percent); commerce and finance (17.9 percent); and construction (10.3 percent). Developments in credit growth in the first four months of 2019 show even a further expansion in credit growth as credit expanded from 10.4 percent year-on-year growth to 22.1 percent in March and slightly dipped to a growth of 19.8 percent in April 2019. The 2019 April credit growth compares favorably with the 5.6 percent growth recorded a year ago.

Fiscal Sector

Fiscal consolidation has gained traction …

In 2017, the government launched a concerted fiscal consolidation effort aimed at reducing the large fiscal deficits. The fiscal deficit was reduced from 6.1 percent in 2016[2] to 4.8 percent of GDP in 2017 (Annex 1), achieved primarily through spending cuts (1.1 percent of GDP) imposed on both recurrent and capital expenditures. The Government also amended the law to cap transfers to Earmarked Funds at 25 percent (compared to 33.5 percent in 2016) of tax revenues to bring about more discretion for fiscal adjustments in times of need. The sizable reduction in the fiscal deficit was achieved despite the fact that revenue (including grants) underperformed by 0.9 percent of GDP in 2017. As the primary balance shifted from a deficit of 1.1 percent of GDP in 2016 to a surplus of 0.5 percent of GDP (–0.4 percent without oil revenue) in 2017, the debt-to-GDP ratio fell from 56.8 percent in 2016 to 55.5 percent in 2017.

The Government sustained its fiscal consolidation efforts in 2018, although achieving revenue targets remains a challenge. The total Revenue and Grants outturn for the 2018 fiscal year were estimated at 15.7 percent of GDP—4.6 percentage points below the revised annual target (Annex 1 and Figure 2.3.1). This weaker-than-expected outturn reflects two key factors: first, most revenue categories performed below their targets;[3] and second, there were no receipts from gas, contrary to initial projections because the Volta River Authority (VRA) was unable to settle their bills

[2] The Government finalized and published the results of a GDP rebasing exercise in October 2018. Accordingly, the size of the economy increased by about one quarter, compared to the previous GDP measure. This document uses rebased GDP figures, unless otherwise noted. Given the increase in nominal GDP, many figures expressed as a share of GDP have decreased.

[3] In July 2018, when it became clear that the revenue underperformance and insufficient constraint on expenditure over the first 5 months of the year was insufficient to maintain fiscal targets, the Government announced a series of measures to address the situation through the mid-year budget review: The *revenue measures* to be implemented after the review included conversion of the Ghana Education Trust Fund value added tax rate of 2.5 percent to a straight levy of 2.5 percent; imposition of luxury vehicle tax on vehicles with capacity of 3.0 liters and above; and introduction of an additional band of GH¢10,000 and above per month at a rate of 35 percent on personal income tax. On the *expenditure side*, there were reductions in Domestically Financed CAPEX (0.3 percent GDP) and increases in Wages and Salaries (0.1 percent of GDP), Goods and Services (0.1 percent of GDP), and Domestic Interest Payments (0.1 percent GDP). The net effect of the expenditure adjustments resulted in downward revision of total Expenditure (including arrears clearance) by 0.1 percent of GDP—from GH¢62,010 million (25.7 percent GDP) to GH¢61,657 million (25.5 percent GDP).

with Ghana Gas, and as a result, Ghana Gas has not paid the Government its participation interests. In response to the low revenue, the Government made cuts to both the recurrent and capital expenditures, a strategy it also implemented in 2017**.** As a result, the total expenditure (including arrears clearance) was 19.9 percent of GDP, 3.2 percentage points below the revised annual budgeted amount, significantly offsetting the revenue underperformance. Consequently, the 2018 fiscal deficit on a cash basis (excluding financial sector clean-up and bank capitalization) narrowed to 3.8 percent of GDP (Figure 2.3.2; and Annex 1), in line with the target set under the IMF program. The primary balance (excluding the financial sector cost) further improved from the 2017 level to 1.9 percent of GDP but this reduces to 0.5 percent of GDP without oil revenue. The trend continued in 2018 as the primary balance further increased to a surplus of 1.9 percent of GDP (however, the primary balance including financial services cost and excluding oil revenue was a deficit of 2.6 percent of GDP [Annex 1]). 2019 fiscal data has not been released by the time of writing this report.

… but contingent liabilities are building up in SOEs …

A number of State-Owned Enterprises (SOEs) build up liabilities that are not separately accounted for in the budget. The market value of all Government stakes in SOEs was estimated at US$9.1 billion (in 2016), equivalent to about 20 percent of GDP (GoG-Deloitte 2018). The state's investment performance varies and returns on invested capital in SOEs are not always positive; in fact, between 2012 and 2016, they were positive on average only in one year (with 1.3 percent ROIC in 2014). In addition, due to lack of proper oversight, SOEs are building up liabilities that are not accounted for in the budget. For instance, the Energy sector accumulated approximately US$2.7 billion of arrears in 2018 (about 4.2 percent of GDP) and the amount is expected to grow, due to a significant revenue shortfall, which was US$789 million (about 1.2 percent of GDP) in 2018. In addition, the decision by the previous Government to fast-track IPP contracting (through noncompetitive processes) led to power purchase agreements (PPAs), well in excess of demand. If no corrective measures are taken, the capacity charge for the excess capacity, could rise to as high as US$680 million per year (1 percent of GDP). This represents a sector-wide unsustainable financial situation that needs to be urgently addressed to avoid a large negative fiscal impact. The Government's commitment to develop a comprehensive Energy Sector Recovery Program (ESRP), is an important first step to bring the sector back to financial sustainability.

… and domestic resource mobilization remains weak.

There is an urgent need to fundamentally improve revenue mobilization, through tax compliance and broaden the tax base. An effective domestic resource mobilization strategy is an urgent imperative for the Government as the reduction of expenditures, including public investment, in response to revenue underperformances may not be sustainable given the pressures to implement election promises (World Bank 2018b). Better use of taxpayer information through the integration of data and analytical reporting could help the Ghana Revenue Authority improve tax compliance. In addition, accelerating the process of bringing together the Total Revenue Integrated Processing System (TRIPS) and the Ghana Customs Management Systems (GCMS) into an Integrated Data Warehouse could substantially improve the effectiveness of tax administration. Furthermore, streamlining tax incentives as recommended in the 2017 World Bank's Public Expenditure Review could reduce tax expenditures, which have a considerable fiscal cost (5.2 percent of GDP; World Bank 2017). New tax measures should be reviewed against their social and economic objectives to allow prioritization of the tax regime. For instance, zero-rating tends to reduce prices more than outright VAT exemptions and hence, zero-rating may serve as a policy option in a case where Government intends to reduce tax burden on consumers. On the other hand, tax expenditures targeting consumer goods that produce no positive social or economic spillovers should be rationalized.

The rebasing of the GDP has helped the debt situation …

Fiscal policy outcomes over the past years have had a clear and real impact on debt levels in Ghana. While Ghana was one of the first countries to benefit from HIPC/MDRI debt relief, recent macro-fiscal dynamics have resulted in a marked increase in debt levels. Prior to the debt relief, Ghana's debt averaged 145.8 percent of GDP on average between 2000 and 2003. Debt relief reduced Ghana's public debt-to-GDP ratio to 78.5 percent by 2005 and to 26.2 percent by 2006. However, Debt-to-GDP (rebased GDP) reached 57.2 percent in 2018;[4] and the ratio is expected to peak at 58.9 percent in 2019 despite the nearly 25 percent increase in GDP due to the rebasing in September 2018. (Figure 2.3.6). Contingent liabilities from energy SOEs represent a material risk to debt sustainability as shown in the latest 2019 IMF/World Bank Debt Sustainability Analysis (DSA). The downward trend in the debt-to-GDP ratio was interrupted in 2018, reflecting the realization of significant contingent liabilities in the banking sectors.

…but Ghana remains at high risk of debt distress

The latest 2019 IMF/World Bank DSA maintains Ghana's high risk of debt distress. The baseline assumes real GDP growth of about 5.5 percent over the medium term and 4.3 percent over the long term; moderation of inflation in line with the authorities' target of 8 ± 2 percent; sustainable fiscal position with an average primary surplus of 1.6 percent of GDP and a long-term surplus of 0.4 percent of GDP; and a current account deficit of about 5 percent over the medium term, eventually falling to around 4 percent of GDP over the long term. Under these assumptions, Ghana will remain at a high risk of debt distress. This is despite the fact that the external debt indicators have significantly improved relative to the previous DSA on account of a rebased GDP, but vulnerabilities associated with debt service remain. Two out of four indicators–debt service to exports and debt service to revenue—are in breach of the thresholds under the baseline. The debt outlook remains sensitive to standard shocks under the DSA. The standard stress tests suggest that Ghana is particularly vulnerable to a decline in exports, confirming the need to diversify the economy and increase resilience to external shocks (Figures 2.3.4–2.3.5).

Ghana issued its seventh, three-tranche (7-years, 12-years and 31-years) Eurobond on March 20th, 2019, which amounted to US$3 billion. The coupon rates were 7.85 percent for the 7-year (US$750 million) bond; 8.13 percent for the 12-year (US$1.25 billion) bond and 8.95 percent for the 31-year (US$1 billion) bond (See Table 2.3). Out of the US$3 billion total bond issued, US$2 billion will be used for budgetary financing while US$1 billion for liability management operations. It is anticipated that the Eurobond issuance will not significantly raise the foreign currency-related debt (which fell in the second half of 2018 due to exit of non-residents from the market). Furthermore, it is expected to contribute to higher reserves, thus, also mitigating public-sector exchange rate risk. And indeed, the downward trend of the exchange rate halted in the same week that the issuance took place. Bids submitted exceeded US$21 billion (six times)—compared to just over US$8 billion in bids recorded in 2018. This reflects how well Ghana has performed on the international capital market since the country's debut Eurobond issue in 2007. At US$21 billion demand, this was the highest ever order-book for bonds issued in Sub-Saharan Africa. Also, the 31-year bond has the longest-ever tenor for bonds issued by an African sovereign. The particularly high demand is likely related to the interest rate; Benin, for instance, issued a EUR328 million 7-year bond on the same day with a rate of 5.75 percent (Table 2.2).

[4] The December 2018 stock comprises external debt of GH¢86.2 billion (US$ 18.0 billion) and domestic debt of GH¢ 86.9 billion (US$ 17.9 billion).

TABLE 2.2: Government of Ghana International Bond Issuance

Eurobond Issue	Year	Amount (US$ Million)		Yield	Maturity
First	2007	750		8.50%	10 years
Second	2013	1000		7.88%	10 years
Third	2014	1000		8.13%	12 years
Fourth	2015	1000		10.75%	15 years
Fifth	2016	750		9.25%	6 years
Sixth	2018	2000	1000	7.63%	10 years
			1000	8.63%	30 years
Seventh	2019	3000	750	7.85%	7 years
			1250	8.13%	12 years
			1000	8.95%	31 years

Source: Ministry of Finance and Bloomberg.

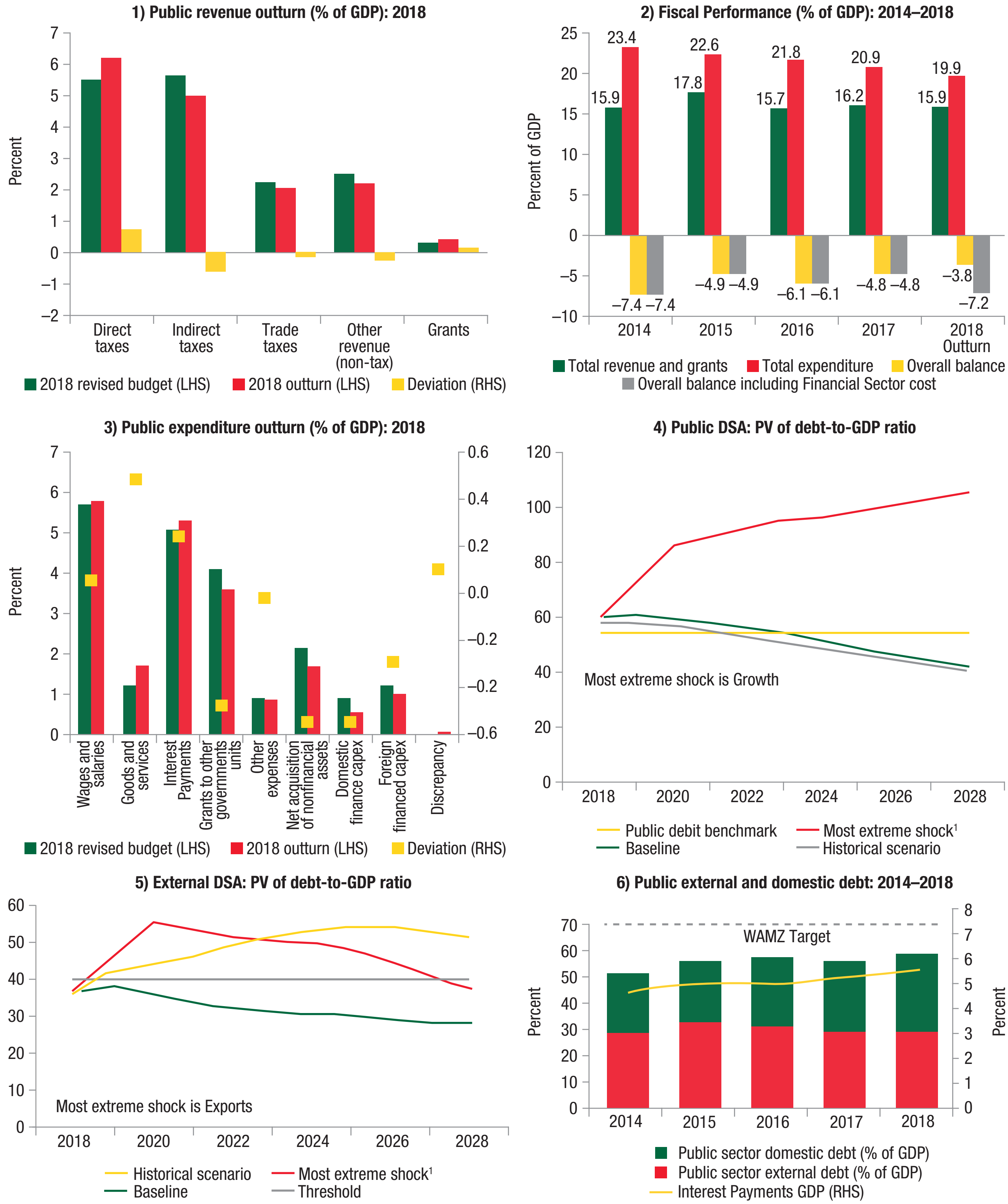
Interest rate risks are a still a concern for both external and domestic debt with mixed developments in recent times. While the weighted average interest rates for domestic debt has fallen from 20.0 percent in 2016 to 16.4 percent as at end September 2018, that of external debt has increased marginally, by 0.2 percent as at end September 2018. The domestic debt portfolio showed an increase of its Average Time to Maturity (ATM) from 7.2 in December 2017 to 7.8 years in September 2018. The ATM of the external debt also improved from 9.1 years at the end of 2017 to of 10.0 years as at end September 2018. The Average Time to Re-fixed (ATR) of the total debt portfolio as at end September 2018 improved to 8.7 years, an improvement from 7.2 years in 2016 (Table 2.3). The share of the overall public debt portfolio requiring re-fixing within one year declined from 25.9 percent in 2017 to 24.7 percent in September 2018 largely due to the re-profiled short-term domestic debt and the relatively small proportion of variable-rate external debt. This is further expected to reduce to 17.2 percent in 2019 (Table 2.3).

In addition, over half of the total government debt is exposed to exchange rate risk. As at September 2018, Ghana's debt portfolio carrying exchange rate risk had fallen to 49.1 percent from December 2017 level of 52 percent but is project to rise to 54.6 percent in 2019, with issuance of the US$3 billion Eurobond in March 2019 (Table 2.3). In 2018, like all other years, the main exposure is to the U.S. dollar (57 percent of the total external debt), followed by the SDR (24.4 percent) and then the Euro, accounting for 11.1 percent (Figure 2.3.4). The composition of external debt is in line with the strategic benchmark of 65 percent U.S. dollar exposure (+/– 5 percent). However, the overall share of foreign exchange denominated debt in the portfolio fell significantly in 2018 due to reduced net portfolio inflow due to favorable developments of the U.S. market. Even though the nominal exchange rate was relatively stable in 2018, with recent depreciation of the cedi in the first quarter of 2019 (Figure 2.2.1) as an example, combined with the relatively higher proportion of external debt, Ghana's public debt portfolio is still vulnerable to exchange rate volatility.

External Sector

Ghana's merchandise trade balance shifted to surplus, and the current account deficit almost halved in 2017. Merchandise exports grew by 24.2 percent while imports fell by 1.7 percent, resulting in a trade surplus and a narrowing of the current account deficit from 6.7 percent of GDP in 2016 to 3.4 percent of GDP in 2017 (Figures 2.4.1–2.4.2).

FIGURE 2.3: Fiscal Sector



Source: 2.1–3: Ghanaian Ministry of Finance; 2.4–5: Joint IMF-World Bank DSA (March 2019, forthcoming); 2.6; IMF and Ghanaian Ministry of Finance.

Note: 2.4–5: [1] The most extreme stress test is the test that yields the highest ratio on or before 2028. Public DSA includes domestic and external public debt.

TABLE 2.3: Comparison of Debt Risk Indicators, 2016 and 2017

		2016	2017	2018	2019
		Dec	Dec	Dec	Proj
Cost of debt	Weighted Av. IR (percent)	11.4	10.6	10.7	10.5
Refinancing risk	ATM (years)	7.7	8.2	8.7	9.3
	Debt maturing in 1yr (percent of total)	28.1	17.7	17.6	12
Interest rate risk	ATR (years)	7.2	7.9	8.5	8.3
	Debt re-fixing in 1yr (percent of total)	38.7	25.9	24.1	17.2
	Fixed rate debt (percent of total)	87.5	90	91.9	87.8
FX risk	FX debt (percent of total debt)	55.7	52	48.5	54.6
	ST FX debt (percent of reserves)	23	14.8	14.1	17.2
	Local currency debt (by non-resident)	23	14.8	14.1	15.3

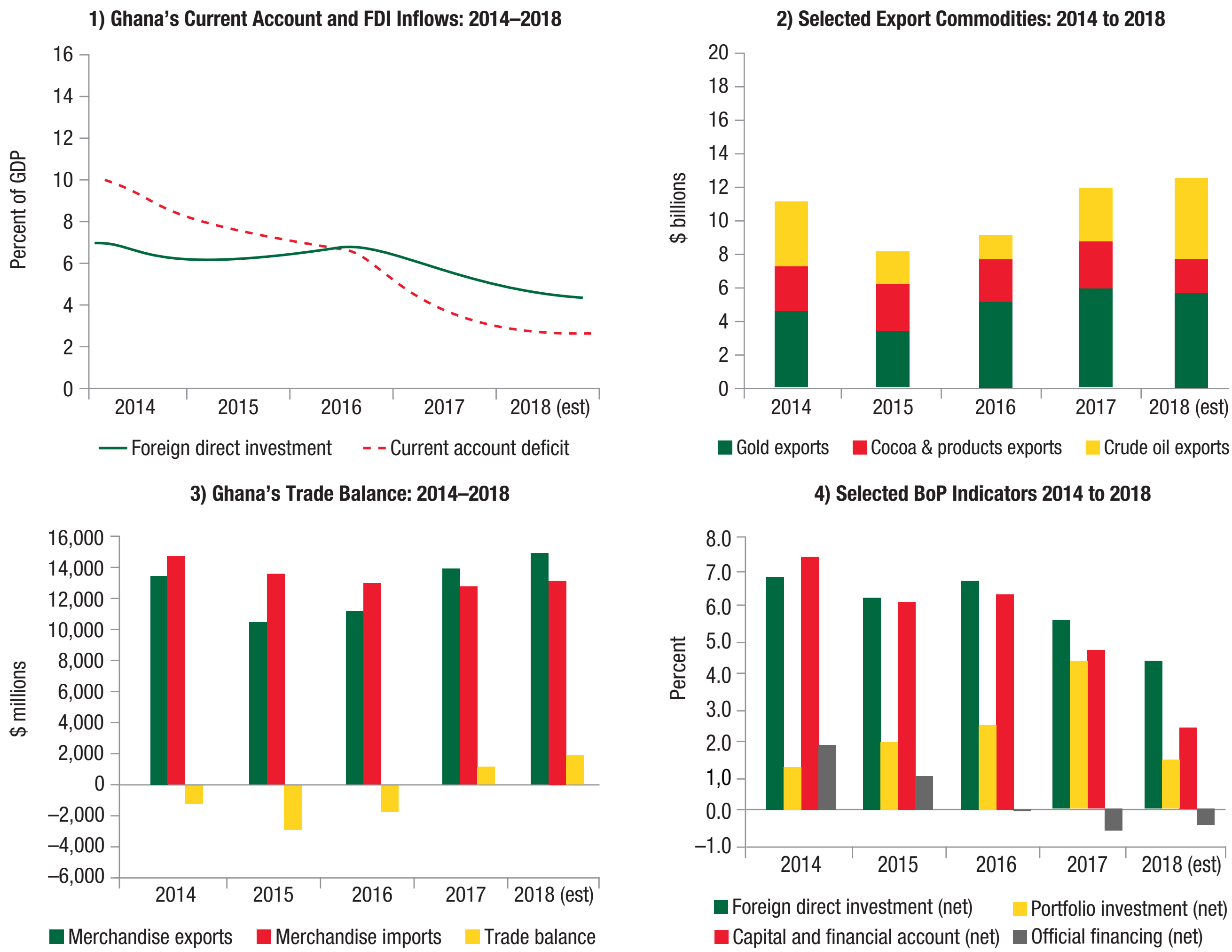
Source: Ministry of Finance.

Ghana's merchandise trade data in 2018 continued to record surpluses indicating stronger performance in earnings from oil. Ghana's external position continued to improve at the end of 2018, which reflects continued increases in oil exports (Figure 2.4.3). The trade balance for 2018 showed a surplus of US$1,779 million compared to a smaller surplus of US$1,151 million recorded in 2017. The value of merchandise exports was US$14,868 million compared to US$13,836 million recorded for the same period in 2017, representing 7.5 percent growth, year-on-year. The increase was attributable to improvement in export receipts from oil and non-traditional exports which benefited, to a large extent, from higher volumes of exports. Trade data in the first quarter of 2019 was similar to trends in 2018. Trade balance at the end of March 2019 was US0.8 billion (equivalent to 1.2 percent of GDP) compared to US$0.7 billion (1.1 percent of GDP) recorded in April 2018. This was mainly as a result of decrease in value of both oil and non-oil imports (from US$3.3 billion in April 2018 to US$3.2 billion in 2019), while exports remain at same levels a year ago. The capital and financial account continued to improve in the first quarter of 2018 increasing to US$2.9 billion (4.2 percent of GDP) from December 2018 levels of US$1.5 billion (2.3 percent GDP); and March 2018 levels of a deficit of US$0.6 billion (0.9 percent GDP). As a result, the current account balance narrowly expanded to a surplus of 0.4 percent of GDP in March 2019 compared to a surplus of 0.3 percent in 2018; while the country's reserves improved significantly at the end of March 2019 (see Paragraph 15).

The current account has improved with the trade balance turning into surplus.

The improvement of the current account of the balance of payments continued into 2018, but lower than expected capital inflows led to a drawdown in international reserves. The current account deficit of 3.2 percent of GDP was primarily financed by Foreign Direct Investment, which fell slightly to 4.5 percent of GDP in 2018 (from 5.6 percent of GDP in 2017). Lower than expected foreign capital inflows narrowed the capital and financial account to an estimated surplus of only 1.7 percent of GDP. This was driven by a rapid decline in inflows through portfolio investment (Figure 2.4.4), which was 1.4 percent of GDP in 2018 (down from 4.4 percent of GDP in 2017). In 2018, just like many EMDEs, Ghana was on the receiving end of stifled portfolio investments net inflows as foreign investors sought to rebalance

FIGURE 2.4: External Sector



Source: 4.1–2 and 4.4: Bank of Ghana; 4.3: World Bank, Bank of Ghana and IMF.

their portfolio due to favorable developments of the U.S. market leading to their repatriation of coupons and principals. Official financing (aid) registered a net outflow in 2018 in the order of 0.5 percent of GDP, compared to 0.6 percent in 2017. As a result, both gross and net international reserves declined (More details from BoP statistics are shown in *Annex 2*).

Macroeconomic Outlook and Economic Policy Challenges

Economic growth will remain strong, with inflation in single digits.

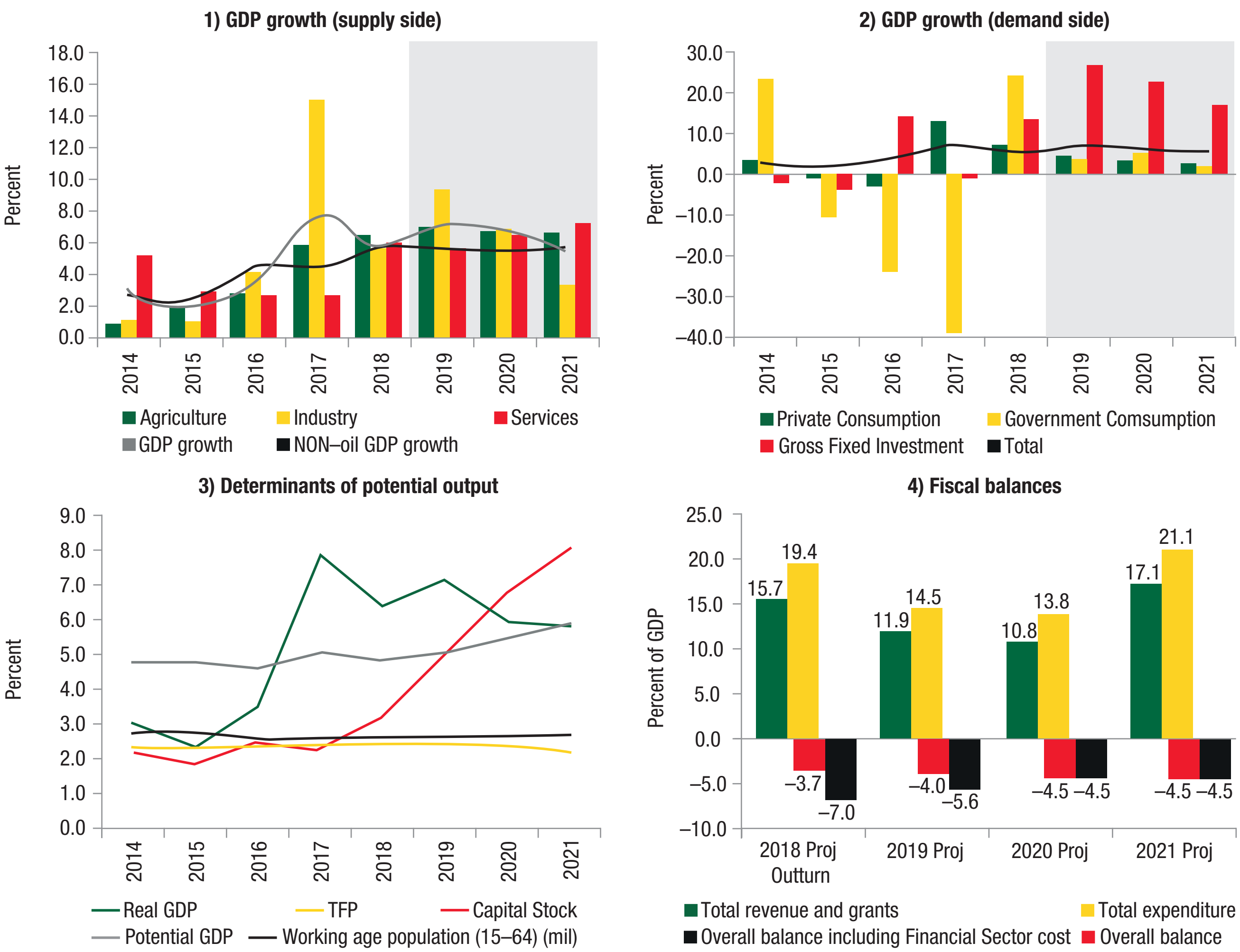
Ghana's medium-term economic prospects is positive, with economic growth expected to accelerate to 7.6 percent in 2019[5]. The primary driver of growth is the oil sector, reinforced by non-oil growth, which is expected to remain strong at 6.2 percent as policy interventions in agriculture and industry are expected revitalize the productive sectors. Further reforms in

[5] First quarter 2019 growth data is not yet published; but the Stanbic IBTC Bank Ghana Purchasing Managers' Index (PMI), a leading indicator for economic sentiment, increased slightly from 51.3 points in February to 51.5 in March 2019. A reading above 50 points indicates improving business sentiment; the increasing trends reflected sustained growth in new orders in March, amid signs of improving demand (FocusEconomics, May 2019).

the regulatory environment for the private sector, and efforts to facilitate regional and international trade will support the agribusiness sector and strengthen the link between private sector development and jobs creation. Overall, real GDP growth is expected to average nearly 7 percent between 2019 and 2021 as the impact of the short-term increase of oil and gas production fades, while an average of 6.5 percent growth is projected for the non-oil sector over the medium term (Figures 2.5.1–2.5.2). To facilitate the transition toward a more diversified economy, there is a need to invest Ghana's current natural resource wealth in non-natural resource sectors for sustainable growth in the medium-to-long-term. The government needs to improve on the economy's competitiveness for private sector-led investments in the non-oil sector for growth. Without that, total factor productivity is projected to decline marginally over the medium term and the growth momentum will gradually come from more capital accumulation (Figure 2.5.3).

Inflation is projected to remain within the BoG target range of 6–10 percent over the medium term, subject to the normalization of exchange rate pressures. Annual inflation rates are projected to remain in single digits over the medium term as the fiscal deficit is contained within the 5 percent cap of

FIGURE 2.5: Economic Outlook



Source: 5.1: World Bank and Ministry of Finance; 5.2: Ghana Statistical Service and World Bank; 5.3: World Bank and Ministry of Finance; 5.4: Ghana Statistical Service and World Bank.

the fiscal rule, and non-food inflation remains low as reserve buffers are rebuilt. This will allow the central bank to continue the gradual lowering of the policy rate to facilitate increases in domestic credit to the private sector in line with the medium-term growth objective. The lower inflation-cum-lower interest rate environment will be supported by better coordination of monetary and fiscal policy. This will allow the inflation targeting framework adopted by the BoG to be more effective in maintaining low inflation in line with the medium-term target, based on low and stable inflation expectations in the economy. It will be important to gradually lower inflation even below the lower range of the BoG target to ensure that the poor, who are primarily engaged in non-oil economic activities can sufficiently increase their real incomes to escape poverty. The inflation outlook, is however, subject to recent flipping of the cedi's performance against the U.S. dollar. In the first quarter of 2019, the cedi cumulatively depreciated against the dollar by 3.9 percent compared to a cumulative appreciation of 1.9 percent for the same period in 2018. (Figure 2.3.2). The performance of the cedi, therefore, provides significant risk to the inflation outlook which is already relatively high, close to the central bank's upper band target of 10 percent.

Fiscal consolidation will slow but remain within the fiscal rule over the medium-term.

Fiscal consolidation is expected to slow in 2019 (largely due to the financial sector clean-up) but to remain intact over the medium term. For 2019, the Government projected total revenues, including grants of 17.1 percent of GDP. This represents a growth of 20 percent over the nominal level for 2018, well above the projected inflation rate of 8 percent. The forecast for non-oil revenue in 2019 is 15.5 percent of GDP to be achieved through gains from ongoing reforms in revenue administration and improved tax compliance. Non-interest expenditure is expected to fall over the medium term as Government continues measures to control the wage bill and transfer payments, but interest payment is expected to rise, in line with the higher interest rates and the depreciation of the cedi (Table 2). The overall fiscal deficit for 2019, excluding financial sector clean-up cost, is projected at 4.0 percent of GDP—marginally above the outturn of 3.8 percent for 2018 (Figure 2.5.4).

Government revenues in 2019 are supported by measures, which the Government started implementing in the second half of 2018. Revenue measures introduced in the 2018 midyear budget are expected to be fully realized in 2019. To complement collection efforts of the Ghana Revenue Authority (GRA), a medium-term revenue policy is expected to be rolled out in 2019. Several revenue-enhancing strategies will be adopted in 2019 including the intensification of revenue compliance. An Exemptions Bill under preparation is expected to rationalize exemptions and strengthen the power of the Minister for Finance to minimize exemptions. The Government is also committed to broadening the tax base with the mandatory rollout of the Tax Identification Number (TIN) by sanctioning state and private entities that fail to enforce these TIN requirements. Over the medium term, the Government, with support under the World Bank Ghana Economic Strengthening Project, will be able to use Third-party data/intelligence from National Identification Authority, Driver Vehicle Licensing Authority, Law Enforcement Agencies among others, to bring more persons into the tax net.

The overall fiscal deficit is not expected to exceed 4.5 percent of GDP over the medium term—in line with the fiscal responsibility law passed in 2018. The Government has put in place various mechanisms to internalize fiscal restraint since 2016. This includes the enactment of the Public Financial Management Act (PFMA) in 2016 which mandates the adoption of numerical fiscal rules. In line with the PFMA, the Government passed a Fiscal Responsibility Act in December 2018, resulting in the legal establishment of the fiscal rule by setting a ceiling to the overall cash budget deficit at 5 percent of GDP. A Fiscal Responsibility Advisory Council was also established

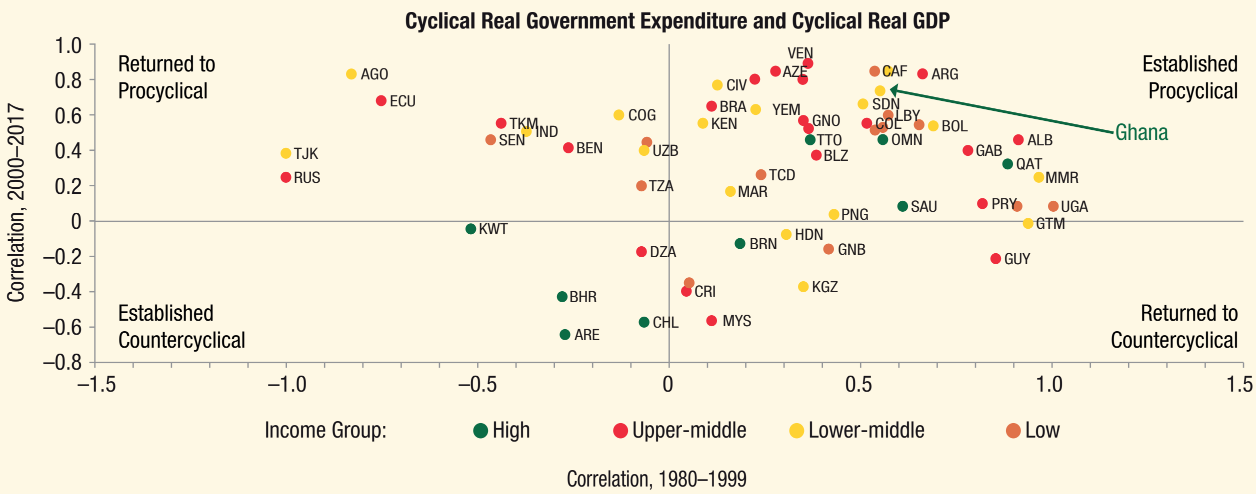
BOX 2.1: Procyclicality, the Election Cycle and the Fiscal Responsibility Law

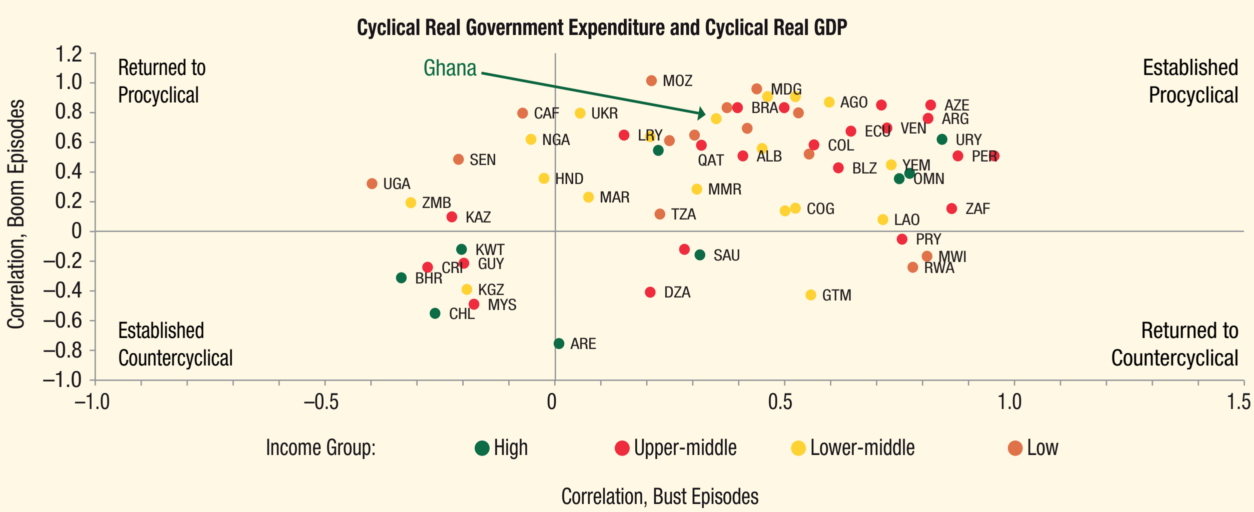
Ghana has suffered from large fiscal volatility around election cycles for the past two decades. This volatility has been identified as one of the key challenges for Ghana's future development path in the 2018 World Bank Systematic Country Diagnostic (SCD). Fiscal deficits increased sharply and above 5 percent of GDP in all but one election year since 2000 (that is, 2004). And the level of overshooting in fiscal election cycles has increased over the past decade with the discovery of offshore oil fields in 2007 (World Bank SCD 2018: p.32). Between 2005 and 2012, public expenditure rose rapidly—related to increased spending on wages due to the introduction of the single spine salary structure (World Bank 2017)—from 20 to 30 percent of GDP.

Fiscal policy in Ghana is notably procyclical. Procyclical policy reinforces rather than smoothens economic cycles. The cyclicality of public expenditure can be measured as the correlation between the cyclical components of real government expenditure and real GDP (the business cycle). Ghana was among the most procyclical countries over the period 1980 to 1999, with a correlation of 0.7 (Box Figure 1a). And there is a clear bias toward overspending during good times, which explains why procyclicality is higher in boom than in bust periods (Box Figure 1b). Strikingly, Ghana has become even more procyclical in the recent period 2000–17, while many countries were able to leave fiscal procyclicality behind.

The procyclicality is related to both the commodity and electoral cycles. The dynamics of the cyclicality over the business cycle can be assessed through estimating a time-varying measure of the fiscal pro-cyclicality using the Local Gaussian Weighted OLS method (Box Figure 1c). There is a clear relation of procyclicality and the commodity and electoral cycles; between 1990 and 2016, four phases of procyclicality can be observed: *First*, a substantial reduction of procyclicality in the 1990s following

BOX FIGURE 1: Procyclicality of Government Expenditure in Ghana



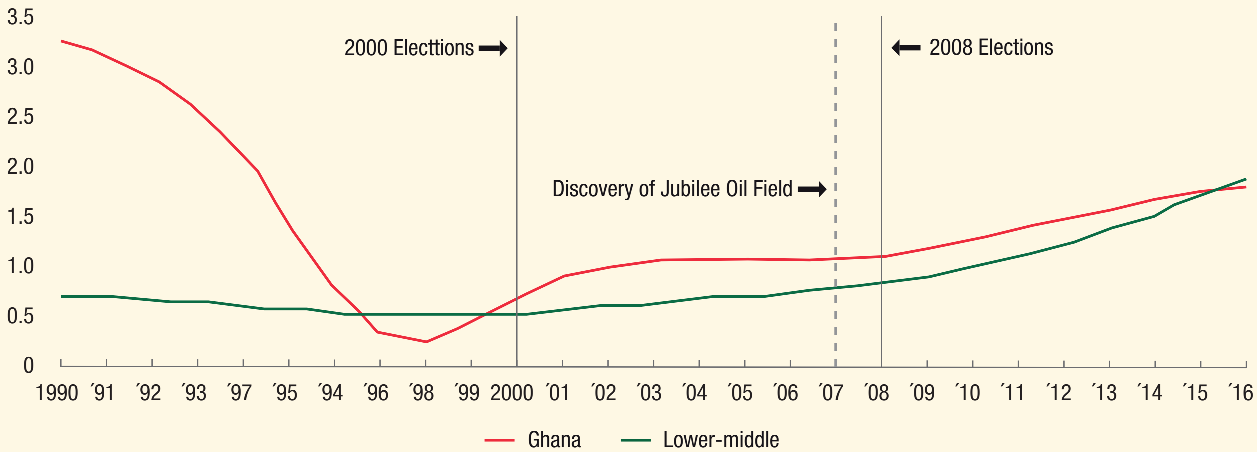


(continued on next page)

BOX 2.1: Procyclicality, the Election Cycle and the Fiscal Responsibility Law *(continued)*

BOX FIGURE 1: Procyclicality of Government Expenditure in Ghana

Time-varying GDP Elasticity of Government Expenditure: Ghana and the Average of lower-middle income among Commodity- Exporting EMDEs



Source: World Bank staff own calculations, using data from IMF (WEO).
Notes: (1) Definition of four quadrants follows the logic of the country classification of Frankel et al. (2013) in their 1960–2009 analysis: Established countercyclical: Historically always been countercyclical; Established procyclical: Historically always been procyclical; Returned to procyclical: Historically been countercyclical but turned procyclical over last decade; Returned to countercyclical: Used to be procyclical, but countercyclical over the last decade. (2) Cyclical components estimated using Hodrick-Prescott (HP) filter 100. The group of countries displayed in panels (a) and (b) are commodity-exporting EMDEs.

the fiscal reforms of the 1980s. *Second*, procyclicality increased sharply in the run-up to the 2000 election. *Third*, procyclicality trends remained stable over most of the 2000s, when fiscal policy was conducted under a "quasi-fiscal rule" during the beginning of John Kufuor's government. *Fourth*, the discovery of oil in 2007 and the approaching 2008 elections set the procyclicality on a rising trend all the way to 2017.

In an attempt to overcome the fiscal election cycles, Ghana introduced a fiscal responsibility law and a Fiscal Council in December 2018. The law establishes a *de facto* 5 percent cap on fiscal deficits in any given year. While this is a relatively high annual ceiling (the West Africa Monetary Zone primary convergence criteria for fiscal deficit is 4 percent of GDP), it is a suitable target to contain excessive fiscal over-expenditure in election years, where deficits tend to overshoot. While the exact implementation of the Fiscal Council, which ideally would be an independent body, is still the subject of public discourse in Ghana, the establishment of the law and the council are critical steps toward a sustainable long-term fiscal path.

The next election cycle (2020) will likely fall into a boom phase. In a stark contrast to the mere 3.4 percent real GDP growth in the last cycle (2016), growth is expected to be above 6 percent over the period 2019 to 2021 (World Bank 2019a), and potentially higher if oil output can be increased in the short-term. The macro-fiscal economy is largely back on track after years of adjustment, supported by the World Bank and the IMF. This means that Ghana will go into the next fiscal election cycle in 2020 from a much stronger position than in 2016. There are downsides as well, of course, as witnessed by the recent banking sector resolutions, which cost the equivalent of 3.4 percent of GDP in 2018. But the medium-term fiscal outlook is still positive. With the fiscal responsibility law and the fiscal council now in place, the 2020 election provides a unique opportunity to break the ever-increasing fiscal election cycles as strong economic growth in the medium term does not require additional fiscal stimulus in 2020.

to act as an advisory body to the President. While the deficit ceiling is relatively high to act as an annual guidepost, and the exact role of the Fiscal Council (which ideally should be an independent body with sanctioning authority) is still the subject of public discourse in Ghana, the establishment of the law and the council are critical steps toward a sustainable long-term fiscal path (see Box 2.1). Importantly, these efforts need to be complemented by policies to increase domestic revenue, another area of focus for the Government,[6] and prudent expenditure management; a booming economy in 2020 will not require additional, procyclical fiscal stimulus. With the new institutional mechanisms now in place, the 2020 election provides a unique opportunity to break the ever-increasing fiscal election cycles.

The current account will narrow further, but the financial sector will remain challenging.

Ghana's external position is expected to remain at current levels over the medium term with a current account deficit of between 3 and 3.5 percent between 2019 and 2021. Ghana's trade balance is expected to remain in surplus over the medium-term supported by high volumes of oil and precious minerals (which could offset possible marginal declines in their prices); as well as projected marginal price increases of cocoa. For the year 2019, even though the trade surplus is expected to narrow, relative to the 2018 levels, improvements in the net services and income accounts as well as net transfers are expected to help maintain the lower current account deficit of the balance of payments at 3.2 percent of GDP. The current account deficits will be adequately covered by foreign direct investment (FDI), as well as official and private financing to result in net additions to reserves. Thus, gross reserves are expected to increase from US$5.3 billion in 2018 (2.7 months of imports) to US$7.1 billion in 2021 (2.9 months of imports), falling just short of the recommended three-month import cover.

Financial sector challenges are expected to remain over the medium term. In 2019, the Government will need to continue with the ongoing interventions to fully resolve these challenges (see Section 3 for the state of Ghana's financial sector and specific interventions planned by government for 2019 and the medium term). Improving financial inclusion will be an important element to deepen the financial sector. Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs. Chapter 2 of this Economic Update focuses on the specific challenges for a more inclusive financial sector.

[6] The Government anticipates that enhanced revenue administration would reduce exemptions and increase tax compliance in a way that would boost overall tax revenues by about 0.5 percent of GDP over the medium term. The law on tax exemptions is expected to be passed by the Parliament in 2019. Total expenditure is expected to rise by just under 2 percentage points of GDP in 2019 but increases thereafter are expected to be relatively modest. The two main drivers on the expenditure side will be interest payments and capital spending. The earnest expansion of the GIFMIS financial module to cover four Statutory Fund Agencies and 216 MMDAs in 2018 is an indication of the Government's commitment to better control spending and meet it fiscal targets following the end of the IMF program.

FINANCIAL SECTOR DEVELOPMENT AND FINANCIAL INCLUSION

3

Alongside the rapidly increasing financial sector since 2010, the share of Ghanaians with access to formal financial services—a measure of financial inclusion—has increased. Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs. But access to financial services is heterogeneous across regions and key demographics. Rural access to formal financial accounts is low, but almost doubled between 2011 and 2017, due to a rising market share of NBFI. Women are less financially included than men in Ghana. Yet, excluding women from access to financial services means widespread lost opportunity for their households and the economy as a whole. Not surprisingly, the poor have significantly lower access to formal financial services than the non-poor. Insufficient financial literacy is an important long-term factor for low savings rates in Ghana, and more broadly, financial illiteracy suppresses consumers' demand for financial services. In addition, persistently high interest rates in Ghana are a major barrier to affordable access. But despite all the challenges, there has been significant growth in the number of financial access points over the past five years, primarily related to the spread of mobile money. This indicates the potential of DFS and payments to further enhance financial inclusion in Ghana. In the meantime, Ghana has a banking sector that has been facing serious soundness challenges, which after years of build-up culminated in 2018 with a series of necessary and expensive banking resolutions. Bringing the financial sector back on track is urgent and will require additional efforts in 2019, and over the medium term.

The State of the Financial Sector in Ghana

Reducing financial sector vulnerability will require more effort in 2019

The financial sector in Ghana has grown rapidly since 2010 but remains bank-dominated and relatively shallow. Total financial sector assets grew from 53 percent of GDP in 2010 to 78 percent in 2017. Universal banks are dominant, with assets equivalent to 46 percent of GDP in 2017, followed by the fund management sector with 15 percent, and pension funds with 12 percent. A significant part of the financial sector is state owned, and the level has increased in 2018. As of 2016, there were 15 banking institutions that were at least partially state owned, and the financial SOEs represented one-fourth of all active state-entities in Ghana (GoG-Deloitte 2018). As of 2018, the state owned four major banks, two of which are among the three largest in Ghana. While private credit to GDP (18 percent in 2017) is on par with the Sub-Saharan median, it is below the level implied by Ghana's level of income (FinStats 2018). Likewise, domestic credit to the private sector is low in Ghana (World Bank 2018d).

The banking sector is affected by high, albeit declining non-performing loans (NPLs). The bank-wide capital adequacy ratio (CAR) stood at 20 percent in December 2018, up from 18 percent a year earlier and well above the regulatory minimum of 10 percent and the BoG's recommended level of 13 percent. The increase in CAR was in part due to the new minimum capital that came into force on December 31, 2018. The system is liquid, with the ratio of liquid assets to short-term liabilities of 34 percent in December 2018, largely stable since 2014. Average after-tax profitability–measured by the return on equity–stood at 18.5 percent in December 2018. The average gross NPL ratio declined from 21.6 percent in December 2017 to 18.2 percent in December 2018, in part due to the closure of problem banks, write-offs of NPLs, and settlement by the Government of the energy sector SOEs' debt. The private sector, being the largest recipient of outstanding credit balances also accounted for the greater proportion of banks' NPLs, only slightly decreasing from the December 2018 levels of 97.1 percent to 96.9 percent in February 2019. The proportion of banks' NPLs attributable to the public sector declined from 7.3 percent in December 2017 to 2.9 percent in December 2018 but has slightly increased to 3.1 percent attributed to increases related to public enterprises. Most private sector non-performing loans were debts of indigenous enterprises accounting for 75.4 percent of total NPLs in February 2019.

The authorities have taken commendable steps to address soundness challenges in the banking sector. In the August of 2018, BoG closed five domestically owned universal banks – uniBank, Royal Bank, Beige Bank, Sovereign Bank, and Construction Bank, with their assets and liabilities transferred to a bridge bank (the CBG). The CBG was capitalized by the Government of Ghana, and a domestic bond was issued to cover the gap between the liabilities and the good assets transferred to the CBG. Earlier in 2018, the Government also issued a bond to cover the gap between the liabilities and the good assets of UT Bank and Capital Bank and facilitate their purchase and assumption by GCB. The total fiscal cost of these interventions amounted to 3.4 percent of GDP in 2018. Finally, in January 2019, the authorities closed two more banks – Premium Bank and Heritage Bank.

In addition to closing troubled banks, BoG has taken other measures to strengthen the banking sector. All commercial banks were required to meet a new minimum capital of GH¢400 million by end-2018, raised from GH¢120 million. This led to three mergers, downgrading of one bank to a Savings and Loans, one voluntary winding up, and the establishment of the Ghana Amalgamated Trust (GAT), a vehicle to pool funds from investors to acquire equity stakes in five indigenous banks to enable them to comply with the new minimum capital requirement. With the new capital levels, banks are expected to be able to engage in relatively larger transactions, both individually and through syndications. BoG is also strengthening supervision, including through enforcement of prudential standards, implementation of a new capital requirements directive, introduction of risk management and corporate governance directives, among others.

In addition to banks, there are many (non-bank) SDIs and informal institutions, which often serve the least financially included segments of the population. These institutions are primarily regulated by BoG[7] and include Microfinance Companies (MFCs), Micro Credit Companies (MCCs), and Financial NGOs—jointly classified as Microfinance Institutions (MFIs); Rural and Community Banks (RCBs); Susu Collectors; Savings and Loans Companies (S&Ls); and Finance Houses (FHs). As a group, SDIs account for around 14 percent of banks. In terms of size, S&Ls and FHs are relatively larger and focus on consumer lending, while RCBs are owned and governed by local communities and tend to have broader outreach, offering savings, credit, and payment services to less included groups such as women, the poor, and rural residents. Moreover, there are informal financial services providers such as Village Savings and Loans Associations (VSLAs).

Many SDIs are not operating in a safe and sound manner and are in violation of prudential norms. Not all the SDIs are currently active because they have either stopped reporting or have folded. Others are financially distressed, facing liquidity and/or solvency challenges. The BoG estimates that about a third of the 707 MFIs and RCBs are distressed or have folded, putting more than 700,000 depositors at risk (BoG 2017). Given that the most distressed entities have no recoverable assets, their resolution entails fiscal costs. Moreover, a considerable number of active MFIs do not comply with the minimum capital requirement.[8] In response to these challenges, BoG revoked licenses

[7] S&Ls and FHs are under the BoG's Banking Supervision Department while the remaining institutions are under BoG's Other Financial Institutions Supervision Department. The RCBs are also under the oversight of the ARB Apex Bank, with delegated functions from the BoG. Susu collectors and individual money lenders are supervised by Ghana Cooperative Susu Collectors Association on behalf of the BoG.

[8] As of June 30, 2017, the minimum capital requirements were GH¢7 million for S&Ls and FH; GH¢ 0.5 million for MFCs, MCCs, and RCBs; and GH¢0.3 million for FNGOs. The new minimum capital requirements are GH¢15 million for S&Ls and FHs (effective December 31, 2018); GH¢ 2 million for MFCs and MCCs (effective June 30, 2018); GH¢1 million for RCBs (effective December 31, 2017); and GH¢0.3 million for FNGOs (unchanged). Individual money lenders and Susu collectors are not subject to minimum capital requirements.

of 347 Microfinance Companies and 39 Micro-credit Companies on 31 May 2019. At the same time, Bank of Ghana is strengthening its regulatory and supervisory framework for SDIs, including reviewing licensing and supervisory policies and directives, reviewing capital requirements and encouraging consolidation, enhancing governance, and increasing resources available for supervision (BoG 2019).

Reducing financial sector vulnerability is urgent and will require additional efforts in 2019, and over the medium term. In total, in 2019, the government will have to spend an additional GH¢5.5 billion (equivalent to 1.6 percent of GDP) to solve all challenges related to the MFIs, Savings and Loans, and the introduction of another resolution bond for the CBG to support the closure of two additional banks that took place in January 2019 (IMF 2019). The resolution of SDIs, which includes MFIs, S&Ls, and FHs follows action plans developed by BoG. The Government is planning a phased approach of the SDI-resolution agenda. The implementation of these action plans and stronger supervision and regulation of the sector will help mitigate vulnerabilities. The Government has also established a Financial Stability Council integrating financial regulators and Ghana Deposit Protection Corporation to, among other things, assess the vulnerability of the financial system on an ongoing basis. To help strengthen resilience and stability of the banking system, the authorities are expected strengthen the regulatory and supervisory framework and introduce roll-out a deposit insurance scheme. The reform agenda for SDIs is supported by the World Bank.

A Case for Financial Inclusion

More financial inclusion is good for the economy …

Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs. With access to a financial account, people no longer need to rely on and transact solely in cash or use their mattresses as savings cabinets (World Bank 2018c). Financial access connects people into the formal financial system, making day-to-day living easier. As account holders, people are more likely to use other financial services, such as credit and insurance, to start and expand businesses, invest in education or health, manage risk, and weather financial shocks, which can improve the overall quality of their lives. Ultimately, more and better financial intermediation will have a positive impact on growth, mostly through lower transaction costs and better distribution of capital and risk across the economy (World Bank 2014).

Alongside the rapidly increasing financial sector since 2010, the share of Ghanaians with access to formal financial services has increased. According to Consultative Group to Assist the Poor (CGAP 2015) 58 percent of Ghanaians had access to formal financial services in 2015, up from 41 percent in 2010 (Figure 3.1.1). While banks contributed 36 of the 58 percentage points in formal access, they only contributed 2 of the 17 percentage points increase between 2010 and 2015; conversely, mobile money alone accounted for 7 percentage points of the increase, and mobile money and other NBFIs—regulated MFIs, credit unions, insurance companies, etc.—jointly accounted for the remaining 8 percentage point increase. The share of Ghanaians with a registered financial account (bank, NBFI, or mobile money account) was 48 percent in 2015. More recent data (Findex 2017), shows that the percentage of Ghanaians with registered financial accounts increased to 58 percent in 2017, while the percentage with mobile money accounts increased from 13 to 39 percent between 2014 and 2017 (Figure 3.1.2).

Yet, some regions and key demographics have only limited access to financial services. In terms of regions, the five poorest regions (Upper West, Northern, Volta, Upper East, and Brong Ahafo) remain the least financially included, despite the largest gains in financial inclusion taking place in these areas between 2010 and 2015. Similarly, rural residents, women, and the poor have less access to financial accounts compared to the average population and their respective counterparts (Figure 3.1.3).

… yet rural access is low, the poor and women are largely excluded from financial services.

Rural access to formal financial accounts is low, but almost doubled between 2011 and 2017, due to a rising market share of NBFIs. People living in remote areas usually face a physical distance to financial access when banks or other access points are simply too far away to reach, unless long bus rides can be afforded (World Bank 2012). Yet, rural access in Ghana almost doubled, between 2011 and 2017, from 26 to 51 percent (Figure 3.1.4). Much of the growth in rural access has come from formal accounts being offered by NBFIs, that have grown their footprints in underserved regions of the country, in a combination of mobile money and other non-bank formal institutions (World Bank 2016). In fact, rural residents—such as women and the poor—rely more heavily on NBFIs and informal financial services than do urban residents, men, and the non-poor.

Almost one-third of all adults in Ghana used informal financial services in 2015. According to CGAP (2015), 29 percent of adult Ghanaians used informal financial services and products, which are not regulated by the Government. VSLAs are one important type of informal financial institutions. They are typically groups of around 30 members and often take the form of rotating savings and credit associations, in which members make deposits into a group fund and take turns borrowing funds for investment purposes or household needs. According to Savings Groups' Information Exchange, there are 10,832 savings groups in Ghana, comprised of 282,001 members (an average of 26 members per group).[9] Of these members, women are the largest participants, comprising 76.4 percent or approximately 214,320 members. These groups have approximately US$13 million in savings and US$8.7 million in outstanding loans. The dropout rate among members is relatively low at 2.9 percent.

***Women* are less financially included than men in Ghana.** The exclusion of women from financial services is a prevalent phenomenon at the global level for a variety of reasons, including the fact that women often may not be aware of the services available to them or may be prevented from making use of them. In addition, it is far too common that women lack collateral for loans, making them ineligible to access financial services (Grandolini 2015). In Ghana, female inclusion continues to fall below the national average. In 2017, 54 percent of women had an account with a formal financial institution, compared to 58 percent for the general population and 62 percent of men. The percentage difference between female inclusion and inclusion of the general population has widened according to the Findex survey (one percentage points difference in 2014 compared to a four percentage points in 2017), suggesting that men are now being included at a faster rate than women.

Excluding women from access to financial services means widespread lost opportunity for their households and the economy as a whole. Access to financial services helps women shape household spending decisions (often toward education and health-related causes), make investments, and manage economic risk. A 2018 study on Ghana showed that women who were provided the ability to utilize a commitment savings account prioritized savings to ensure their ability to smooth household consumption and respond to shocks. The women in the sample also maintained pressure on their partner to meet current needs and invest in children and property for the future (Friedson-Ridenour et al. 2018).[10] A literature

[9] The data captures only 49 projects, mainly facilitated or implemented by CARE, Plan International, and World Vision. Therefore, the actual number and reach of savings groups in Ghana is much higher.

[10] More Ghana-specific insights will come from an analysis of the latest household survey (GSSL7). The World Bank plans to produce a new Ghana Poverty Assessment over the next 18 months based on the latest survey.

FIGURE 3.1: Financial Inclusion in Ghana

Source: 1.1: CGAP (2015); 1.2–5: World Bank, Findex (2011, 2014, and 2017); and 1.6: IMF Financial Access Survey (2017).
Notes: 1.1: Nationally and regionally representative survey (N=3,002), covering adults (15+); 1.2–5: Nationally representative survey (N=1,000), covering adults (15+); and 1.6: Levels per 100,000 adults.

review of global experiences (Klapper 2015), illustrates other yet similar examples of the power of financial access for women. In Burkina Faso and Senegal, access to insurance helped women farmers to increase yields and better manage food security (Delavallade et al. 2015). In Niger, mobile cash transfers strengthened women's bargaining power, boosted spending on nutritious foods, and allowed women to spend more time on productive tasks by reducing the need to travel to receive cash payments (Aker et al. 2015). Women-headed households in Nepal spent 20 percent more on education after receiving a savings account (Prina 2015).

***The poor* have significantly lower access to formal financial services than the non-poor.** According to Findex (2017) only 48 percent of the poorest 40 percent had a financial account, compared to 64 percent of the richest 60 percent. This finding is not surprising since globally, poverty is the leading cause for being "unbanked." According to World Bank (2012), almost two-thirds of the global financially excluded population cite poverty as the main obstacle; the poor in most cases have no income to afford the cost of opening or maintaining an account nor do they have the possibility to build up savings. This is particularly true for women. In Ghana, the poor tend to rely more on informal financial services than the non-poor (Findex 2017).

The share of the population that save in a formal financial institution fell between 2014 and 2017. While the share of those saving at a financial institution (including in rural areas) increased between 2011 and 2014, it fell between 2014 and 2017. Similarly, the share of the respondents who had saved in the 12 months preceding the survey, declined from 55 percent in 2014 to 50 percent in 2017 (Figure 3.1.5). This finding is likely associated to the fact that the macro-fiscal situation in Ghana was uncertain over this period in an economy that had lost the dynamism to provide widespread opportunities for its people; inflation rates were high (19.2 percent in 2016), and economic growth was low (only 3.6 percent in 2016). The World Bank's recent SCD found that the period between 2012 and 2016 has, for the first time in decades, seen an economy unable to generate poverty-reducing economic growth (World Bank 2018d). It is therefore not surprising that savings fell in that period.

Low financial literacy and high interest rates are key issues for financial inclusion

Low financial literacy is an important long-term factor for low savings rates and suppressed demand for financial services in Ghana. Baidoo et al. (2018) show that financial literacy is key to promoting domestic savings in the country and hence, according to the authors, the issue requires more policy attention. Indeed, financial illiteracy has an even more profound impact that goes beyond savings. Financially illiterate consumers are not actually able to demand the services they need on the market. So, with a sizable proportion of the adult population still underserved by formal financial institutions, there is an argument for stimulating demand among these groups, through targeted financial literacy and education campaigns. In a crowded market with many formal and informal financial institutions offering their services, financial inclusion-related issues arise from the relationship between providers and their consumers, not only related to the use of services, but also to the low level of financial capability in general.

Persistently high interest rates are a major barrier to access. High interest rates partially reflect a high default risk as implied by high NPL rates posted by banks. In that context, leveraging data to support the development of credit markets is critical to market growth and better service provision for both individuals and SMEs. The aggregation of data on transaction history of customers presents a significant opportunity to better ascertain the viability of a particular customer or business when it comes to the provision of credit facilities. Similarly, social media platforms, are developing data analytics tools that can predict financial behavior of individuals, which could be leveraged for developing fit for purpose credit products. However, the sharing of data throughout the financial sector in Ghana is not uniform. While some DFS providers are employing data analytics to develop alternative credit profiles, significant segments of the market remain at a data disadvantage, limiting their ability to develop and sell credit-based products. The result is an underdeveloped credit market, which presents significant risk for default and offers services at sustained high interest rates that constrain borrowing and fuel over-indebtedness.

Despite all the challenges, there has been significant growth in the number of access points over the past five years, primarily related to the spread of mobile money. The penetration of select access points—ATMs, branches, and mobile money agents—has continued to increase since 2013 (Figure 3.1.6). However, the penetration of mobile money agent locations throughout Ghana is far greater than traditional access points such as ATMs and branch networks, highlighting the importance of new technology to advance the financial inclusion agenda.

Digital Financial Services and Payments

Digital innovations play a key role for a more financially inclusive economy …

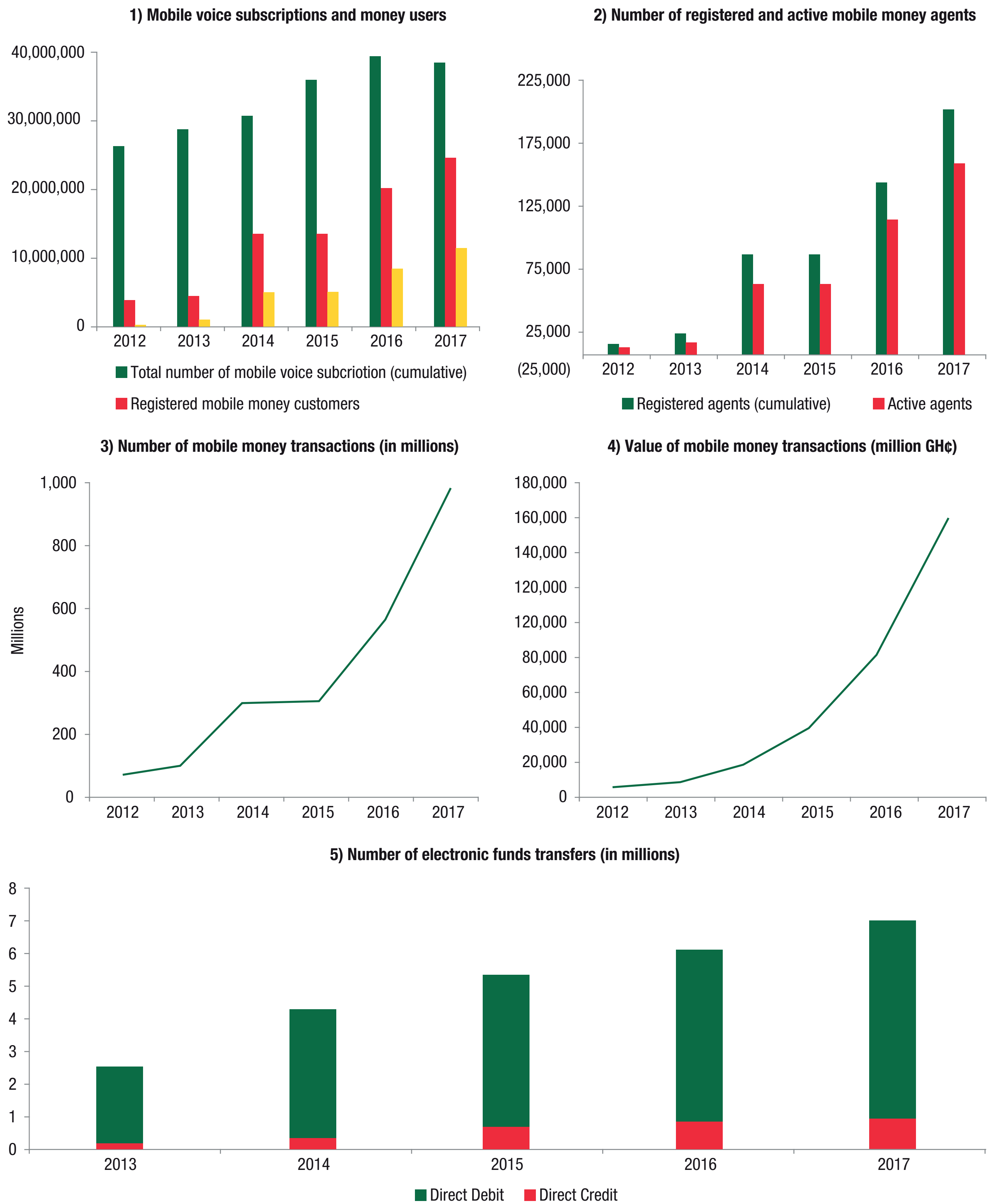
Mobile phone penetration has created opportunities for the expansion of financial services and increased the role of non-financial institutions. Ghana is the fastest growing mobile money market in Africa. The total number of mobile voice subscriptions grew 39 percent from 25.6 to 37.4 million between 2012 and 2017 (Figure 3.2.1). In tandem, registered mobile money accounts increased six-fold between 2012 and 2017, from 3.8 million to 23.9 million. Active mobile money accounts increased significantly from 345,434 to 11.2 million between 2012 and 2017. As a result, the number and value of mobile money transactions skyrocketed since 2012 to 982 million and GH¢156 billion in 2017, respectively[11] (Figures 3.2.3 and 3.2.4). The market share is very skewed with one provider accounting for over 80 percent of the market. While registered mobile money customers and usage increased in tandem with mobile phone penetration, they remain significantly below mobile phone ownership, demonstrating that there is space for mobile money to contribute even more to financial inclusion. The expansion of the agent distribution network was critical to the success of mobile money. The number of active agents increased from 5,900 in 2012 to 151,745 in 2017 (Figure 3.2.2). This expansion of agents offered users more cash-in and cash-out opportunities and increased the overall convenience of using mobile money.

Banks have recently contributed the least to increasing financial inclusion across the country. Much of this is the result of their lack of focus on offering financial solutions to everyday Ghanaians, but instead focusing on corporate banking and high net worth individuals. However, the growth of mobile money has demonstrated the potential of retail financial services. Recognizing that mass market banking presents a significant opportunity for growth, many banks are now also utilizing digital channels to broaden their reach and customer base. Liberalization of the Unstructured Supplementary Service Data (USSD) channel has been critical to the market, allowing banks to also leverage the mobile phone as a channel for delivering financial services. Multiple banks have developed mobile banking services, deploying solutions developed by domestic fintech companies.

Other forms of electronic payment instruments are also growing, albeit at a slower rate than mobile money. Transactions at ATMs and POS terminals facilitated by the national switch have grown consistently since 2012 (Figure 3.2.5), with over 2.3

[11] The rate of growth of the volume of mobile money transactions rose sharply after 2015, following a shift in regulatory approach by the Bank of Ghana (switch from a model that mandated a group of banks to partner with a group of Mobile Network Operators (MNO)s and agents were required to be shared, to a model that allows MNOs to operate independently through subsidiaries regulated and supervised by BoG).

FIGURE 3.2: Voice Subscriptions and Mobile Money Statistics



Source: Bank of Ghana (2018).

million being undertaken in 2017 alone. Similarly, direct credit transactions, which are transfers from one bank account into another, through the central electronic fund transfer system of Ghana, have also continued to increase. While banks have not been a driving force for increased financial inclusion in Ghana, they are seeing existing accounts being utilized more by existing customers, suggesting a deepening of financial inclusion and literacy among their current customer base.

The government has facilitated interoperability across payment instruments by establishing a mobile money switching solution. In May 2018, the GhIPSS went live with the one of the first interoperable mobile money switch in Africa. An extension of the existing GhLink switch, the new system allows customers to push and pull funds across mobile money providers and between mobile money providers and banks. Recognizing the importance of payment systems and financial inclusion to improved economic growth and performance, the Government has shown a high level of commitment in driving digitization and innovation in payments. This commitment is within the context of a very active and burgeoning fintech space, where the rate of innovation across providers has driven the usage of mobile money accounts and other forms of transaction account**.**

Interoperability has increased the convenience and value proposition of DFS for many financial consumers. As active usage increases, so has the range of products and services riding on the DFS infrastructure. Customers are beginning to access micro-credit directly from their mobile phones, without having to enter a bank branch; similarly, international remittances from relatives overseas are being terminated directly onto mobile wallets, significantly increasing convenience and efficiency for beneficiaries. Partnerships between different financial institutions have been essential for much of the use-case development observed in Ghana. For instance, a leading bank and mobile money provider have come together to offer savings accounts linked to mobile money wallets that offer customers competitive annualized interest rates.

… and the Government has taken some initiatives to encourage financial innovation.

Another notable government initiative was the introduction in 2008 of the E-zwich biometric card. E-zwich cards can be used at any E-zwich enabled point of sale **terminal** or ATM, at any bank, and also for payments, including salaries or pensions, which can be loaded onto a cardholders account. The uptake and usage of the E-Zwich card has been increasing, but it is constrained by limited merchant acceptance. As of December 2018, 2.7 million E-Zwich cards had been issued, with 7.7 million transactions worth GH¢5.6 billion (2 percent of GDP). However, only 53 percent of the cards have residual value because most E-zwich transfers are immediately "cashed out." Although not as significant as the growth seen in use of mobile money, direct credit, or check-based transactions, there has been substantial growth in the number of E-zwich cards issued, (both in volume and in value of transactions) since 2010. The number of cards issued in 2018 when compared to 2010 has grown by 5 times, while the value of transactions moving through the system have seen significant growth of over 60 times the value transacted in 2010.

The success of DFS in driving financial inclusion has encouraged the Government to develop both a vision and strategies to expand financial inclusion in Ghana. Working with development partners such as the World Bank and CGAP, the GoG has developed a NFIDS that covers the 2017–2023 period. In addition, with a growing FinTech market, a DFS policy has also been developed, setting out a clear vision for establishing a truly digital economy in Ghana. Importantly, both the NFIDS and the DFS policy highlight clear opportunities and growth areas going forward.

The NFIDS (2017–2023) outlines reforms to increase financial inclusion from 58 percent

in 2015 to 85 percent in 2023. The reforms are structured around five mutually reinforcing priority areas or pillars of financial sector development: (i) Financial Stability; (ii) Access, Quality, and Usage of Financial Services; (iii) Financial Infrastructure; (iv) Financial Consumer Protection; and (v) Financial Capacity. In particular, the NFIDS acknowledges Ghana's financial stability challenges and seeks to address them as a pre-condition for promoting sustainable financial inclusion and development. The increase in access to financial services is expected to create economic opportunities and contribute to poverty reduction.

As a compliment to the NFIDS, the government has also developed its DFS Policy, which establishes a 3-year roadmap (2018–2020). The roadmap aims to build on technological advances and ecosystem evolutions to create a resilient, inclusive, and innovative DFS ecosystem that bolsters social development and a robust economy that supports a thriving private sector. The DFS seeks to achieve two goals by 2020: *First*, all Ghanaians will have access to a broad range of suitable and affordable DFS—including payment, credit, savings, insurance, and investment. Payment flows will have been digitized and formalized, thereby shrinking the informal economy, increasing government revenues, and making monetary policies more effective. *Second*, businesses and government will have achieved greater transparency and efficiency to contribute to the economic growth of the nation.

The ongoing rollout of the biometric centralized national ID system will provide the supporting infrastructure to facilitate the financial inclusion of the remaining 42 percent of adult Ghanaians. Currently there are nine separate identity databases across various public-sector entities. The rollout of the new centralized system will accelerate digital payments by adopting a unified approach to identification and authorization of transactions. In fact, 22 percent of Ghanaians identified the lack of documentation as the reason for not having a financial account (Findex 2017).

Opportunities to Improve Financial Inclusion

Digitizing government and utility payments will be critical.

There remain significant opportunities in the payments space for driving financial inclusion, specifically in the area of government collections and utility payments. While government to person payments are nearly all electronic, there are untapped opportunities for digiting government collections, the majority of which are still paid in cash. Similarly, digitizing payments of electricity and water, which are almost exclusively still paid in cash, will bring significant convenience to millions of people, deepening financial inclusion further. Current approaches remain piecemeal and clear direction from Government is needed to further push existing projects in these areas. To do so, financial and technical support to the Ministries, Departments, and Agencies (MDAs), and utilities is required to update their internal accounting systems. This would allow full integration via open application program interfaces (APIs) into institutions such as GhIPSS, allowing for individuals to use their bank account or mobile wallets to pay for government services or utility bills.

In 2014, the GoG launched the Ghana E-Payment Portal (GEPP) but the one-stop-shop idea for digitizing G2P payments has yet to take off. The GEPP has been rolled out in only twelve Municipal and District Assemblies and only very few services are offered, such as the marriage registration fee payment under Accra Metropolitan Assembly (AMA) services. Those services that are offered generally require only one-off payments. Coupled with the fact that a transaction fee is charged to customers for use of the portal, it is not surprising that there is low uptake of these services. Whether a centralized approach as seen with GEPP or bespoke solutions for individual MDAs is taken, it is evident that there is a need for a policy mandating the digital payment of all fees and fines to Government.

Collections of taxes from small payers—which are almost exclusively done via cash payments—offer a significant opportunity to leverage a large volume of payments to support financial inclusion efforts. GEPP began accepting payment of taxes online in 2017, commencing with large taxpayers; however, issues with service delivery have limited tax transactions via the portal. The Small Tax Offices (STOs) of the Ghana Revenue Authority, which are responsible for processing a significant volume of tax payments from individuals, business, and informal sector, almost conduct all transactions in cash. Therefore, mandating that such transactions be conducted digitally would not only support the financial inclusion efforts but would also address ongoing challenges such as fiscal leakages, while increasing the operational efficiency of tax offices by freeing up staff to better focus on increasing the overall tax base of the country.

Digitization of utility payments such as water and electricity bills has started but is still not complete. According to the World Bank, 79 percent of the Ghanaian population has access to electricity in 2016. The distribution is provided by two separate state monopolies: the Electricity Company of Ghana (ECG)—now Power Distribution Services (PDS)—for Southern Ghana and urban areas (overall 70 percent market share; ECG 2017) and the Northern Electricity Distribution Company for the rural Northern part of Ghana. For post-paid households (those that pay for electricity after it has been used) there are digital options for making payments, including via a bank account or mobile wallet. For pre-paid customers, who account for the largest share of households, payment cards can only be used at ECG pay points or from third party vendors. As with small tax payments this can only be done via checks or with cash.

The water sector[12] lags significantly, with few opportunities to make digital payments. While digitization efforts are ongoing, the process needs to be simplified and standardized to ensure migration from cash-based payments. Just shifting a fraction of the customers to digital payments would be a significant achievement for the GoG, as studies have shown that access to energy and water offers a significant incentive for customers to register for and actively use digital payment channels (BTCA 2017).

Linking informal channels with formal financial services is key.

Since informal groups play a critical role in the provision of financial services, there is an opportunity to increase formal financial inclusion by linking them to formal financial services providers. There have been programs in the past attempting to create linkages between VSLAs and the formal financial sector. Typically, linkage programs help to create or train VSLA groups on how to operate as a group and support formal financial services providers design and offer products suitable to VSLAs. For example, one common approach is to help groups open accounts in banks or in other financial institutions, therefore substituting for traditional 'lock box' used to keep group money safe.

Mobile money is increasingly being used to improve the VSLA business model. Through partnerships between financial institutions and mobile money operators, VSLA groups can store and access their money in e-wallets on their phones and split up the electronic pin among multiple group members to ensure the security of funds. Interoperability between a mobile provider and a bank account has also enabled VSLA groups to move funds between banks, mobile wallets, and the group itself. This also helps ease the burden and risk of moving cash between a group and a financial institution. Such linkages can help VSLA members get their foot in the door of formal financial institutions and to build their capacity to utilize formal financial services, so when members are ready to join as individuals, they can do so by opening a savings or transaction account.

[12] The Ghana Water Company services urban areas; the Community Water and Sanitation Agency services rural communities.

Overall, the effectiveness of linkages depends on the availability of access points (including a network of bank and mobile money agents) and a stronger consumer protection framework. Thus, there is a complementarity between linkages and the promotion of agent banking. Without effective consumer protection, linkages expose VSLAs members to abusive and predatory practices by some financial services providers. Therefore, it is essential to educate consumers about their rights and to put in place a reliable recourse mechanism.

Promoting agent banking can increase institutional footprints across the country.

Many banks and other non-bank financial institutions are yet to take advantage of agent banking and other low-cost models to increase their footprint throughout the country. High costs of setting up brick and mortar branches and lower levels of economic activity in some rural areas of Ghana have eroded the business case for improving financial access to communities in these regions. To set up one branch location can cost between GH¢300,000 and GH¢600,000, with an additional GH¢10,000–30,000 per month in operational costs. In comparison, the cost of starting an agent outlet is estimated at GH¢10,000. In addition, given their physical and cultural proximity to financially underserved communities, agents are better suited than traditional bank branches to drive financial inclusion, particularly in rural areas. A recent study conducted in Senegal by the World Bank, shows that, compared to branches, agent banking lowers transaction costs and encourages individuals to visit the agents often and to save more (Buri et al. 2018).

The industry is yet to respond to regulatory developments allowing them to authorize agents to act on their behalf. By authorizing retail businesses (shops, pharmacies, etc.) and individuals to act as agents on behalf of financial institutions, agent banking enables the provision of financial services in remote areas on a scale that is commensurate with transaction levels. Recognizing the opportunity, the BoG issued Agent Guidelines in July 2015 to guide the recruitment and management of agent networks by banks and electronic money issuers. However, the adoption of the agent banking model has been slow, despite a successful rollout of agent banking by a leading indigenous bank. It is clear that further promotion of agent banking is needed.

Financial literacy and better use of data can stimulate demand for services.

Improved financial literacy programs could stimulate demand for services. In Ghana, many consumers have been victims of predatory practices as they seek high investment returns offered by MFIs; others have been using digital credit products without fully understanding their rights and obligations as consumers. Literacy and education programs should be tailored to the needs of target groups, and emphasize knowledge of financial products, financial concepts, and basic numeracy skills. Given the growth in the use of DFS, it is important to increase the digital literacy of the public to safeguard customers' rights and prevent instances of misuse or fraud. A concerted effort to improve the overall level of financial literacy in Ghana will give consumers a better understanding of why financial services can be of benefit to achieving economic empowerment.

The Government should take the lead in developing sound policies and/or the legal frameworks to mandate data-sharing. There is a role for Government in mandating data-sharing or data portability to help level the playing field, allowing for new entrants into the market to create competition and lower transaction costs. Leveraging the concept that the individual is the owner of their own data, as outlined in the Data Protection Act 2012, the GoG could facilitate the introduction of a limited data-sharing regulation between data controllers and other regulated credit institutions, on the basis that explicit consumer consent is obtained prior to the sharing of any individuals information. As outlined in MoF (2018), there is a clear role for the Ministry of Communication and the BoG in moving this forward and in obtaining buy-in from other stakeholders such as the current data controllers in the Ghanaian market (MNOs, Social Media platforms, banks). This would build on information already provided by credit bureaus and the collateral registry.

In conclusion, universal financial access is an attainable target in Ghana with the use of innovative technology and approaches. This is needed as access to financial services is heterogeneous across regions and key demographics. The analysis found, not surprisingly, that the poor have significantly lower access to formal financial services than the non-poor. Insufficient financial literacy is an important long-term factor for low savings rates in Ghana, and more broadly, financial illiteracy suppresses consumers' demand for financial services. In addition, persistently high interest rates in Ghana are a major barrier to affordable access. But despite all the challenges, there has been significant growth in the number of financial access points over the past five years, primarily related to the spread of mobile money. This indicates the potential of DFS and payments to further enhance financial inclusion in Ghana. In the meantime, Ghana has a banking sector that has been facing serious soundness challenges, which after years of build-up culminated in 2018 with a series of necessary and expensive banking resolutions. Further reducing vulnerabilities in the financial sector is urgent and will require additional efforts in 2019, and over the medium term. The GoG must lead the implementation of the approaches outlined in NFIDS and DFS Policy; this should be done in collaboration with the private sector. With the successes already realized in the payment space with mobile money, the demand for effective financial solutions has been proven. Investments should now be made to improve internal systems and processes of MDAs, generating new use cases that will bring greater convenience to customers.

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ANNEX 1: SELECTED FISCAL INDICATORS

SELECTED FISCAL INDICATORS, 2014-21 CASH BASIS (PERCENT OF GDP)

Categories	2014	2015	2016	2017	2018	2019 Proj.	2020 Proj.	2021 Proj.
Overall Balance (excl. finsec clean-up cost)	–7.4	–4.9	–6.1	–4.8	–3.9	–4.0	–4.5	–4.5
Overall Balance (excl. finsec clean-up & Bank Capitalization costs)	–7.4	–4.9	–6.1	–4.8	–3.8	–4.0	–4.5	–4.5
Overall Balance (incl. finsec clean-up & Bank Capitalization costs)	–7.4	–4.9	–6.1	–4.8	–7.2	–5.6	–4.5	–4.5
Primary Balance (excl. finsec clean-up cost)	–2.9	0.2	–1.1	0.5	1.4	1.6	1.7	1.6
Primary Balance (excl. finsec clean-up & Bank Capitalization costs)	–2.9	0.2	–1.1	0.5	1.5	1.6	1.7	1.6
Primary Balance (incl. finsec sec clean-up cost)	–2.9	0.2	–1.1	0.5	–1.7	0.0	1.7	1.6
Primary Balance (excl. finsec clean-up & Bank Capitalization costs; and oil revenue)	–3.9	–0.5	–1.5	–0.4	0.0	0.0	–0.2	–0.4
Primary Balance (incl. finsec clean-up & Bank Capitalization costs and excl. oil revenue)	–3.9	–0.5	–1.5	–0.4	–3.4	–1.6	–0.2	–0.4
Total revenue and grants	15.9	17.8	15.7	16.2	15.9	17.1	17.1	17.3
o/w Oil Revenue	1.0	0.6	0.4	0.9	1.5	1.6	2.0	2.0
Taxes	12.0	13.4	12.0	12.6	13.4	13.3	13.5	13.8
Direct taxes	5.5	4.8	4.2	5.2	6.3	6.4	6.7	6.7
Indirect taxes	4.1	5.5	5.7	5.2	5.0	4.7	4.6	4.9
Trade taxes	2.8	3.1	2.0	2.1	2.0	2.2	2.1	2.2
Tax Refund					–0.7	–0.7	–0.7	–0.7
Other revenue (Incl Non-Tax & ESLA)	3.4	2.9	3.2	3.0	2.9	3.6	3.6	3.9
Grants	0.5	1.5	0.5	0.6	0.4	0.3	0.2	0.1
Total expenditure	23.4	22.6	21.8	20.9	19.9	21.1	21.6	21.9
Compensation of employees	7.1	7.2	6.8	6.5	6.6	6.6	6.2	6.3
o/w Wages and salaries	6.1	5.9	5.6	5.6	5.8	5.6	5.3	5.4
Goods and services	1.1	0.8	1.5	1.0	1.5	1.7	1.7	1.9
Interest payments	4.6	5.0	5.0	5.3	5.3	5.6	6.2	6.2
Domestic	3.9	4.1	3.9	4.3	4.5	4.2	4.7	4.7
Foreign	0.6	1.0	1.1	1.0	1.1	1.4	1.5	1.4
Subsidies	0.3	0.0	0.0	0.0	0.04	0.1	0.1	0.1

(continued on next page)

SELECTED FISCAL INDICATORS, 2014-21 CASH BASIS (PERCENT OF GDP) *(continued)*

Categories	2014	2015	2016	2017	2018	2019 Proj.	2020 Proj.	2021 Proj.
Social transfers	0.0	0.0	0.0	0.0	0.06	0.0	0.0	0.0
Grants to other government units	3.1	3.8	4.0	3.6	3.6	4.0	3.8	3.7
Other expense	3.1	2.4	1.6	2.3	0.9	0.9	1.0	0.6
Net acquisition of nonfinancial assets	3.9	4.0	3.6	2.5	1.6	2.2	2.5	3.1
Domestic financing	0.8	0.7	1.0	0.4	0.5	0.8	1.2	1.6
Foreign financing	3.1	3.3	2.6	2.1	0.7	1.3	1.3	1.5
Discrepancy	0.1	–0.5	–0.7	0.0	0.0	0.0	0.0	0.0
Overall Balance (excl. finsec clean-up)	–7.4	–4.9	–6.1	–4.8	–3.9	–4.0	–4.5	–4.5
Overall Balance (excl. finsec clean-up & Bank Capitalization cost)	–7.4	–4.9	–6.1	–4.8	–3.8	–4.0	–3.5	–4.5
Overall Balance (incl. financial sector clean-up)	–7.4	–4.9	–6.1	–4.8	–7.2	–5.6	–4.5	–4.5
Financing	7.4	4.9	6.1	4.8	3.7	4.0	4.5	4.5
Foreign (net)	3.8	3.3	1.4	0.0	1.5	2.8	1.1	0.7
Borrowing	4.6	4.8	3.5	1.9	3.1	4.4	2.5	1.9
Amortization (due)	–0.9	–1.5	–2.1	–1.9	–1.6	–1.5	–1.4	–1.2
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	4.0	1.7	5.2	4.7	2.8	1.1	3.8	4.2
Other financing	–0.2	–0.1	–0.1	–0.1	0.0	0.4	0.0	0.0
Ghana petroleum funds	–0.1	0.2	–0.1	–0.1	–0.3	–0.1	–0.1	–0.1
Sinking fund	0.0	–0.1	–0.4	0.3	–0.3	–0.2	–0.3	–0.3
Contingency fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

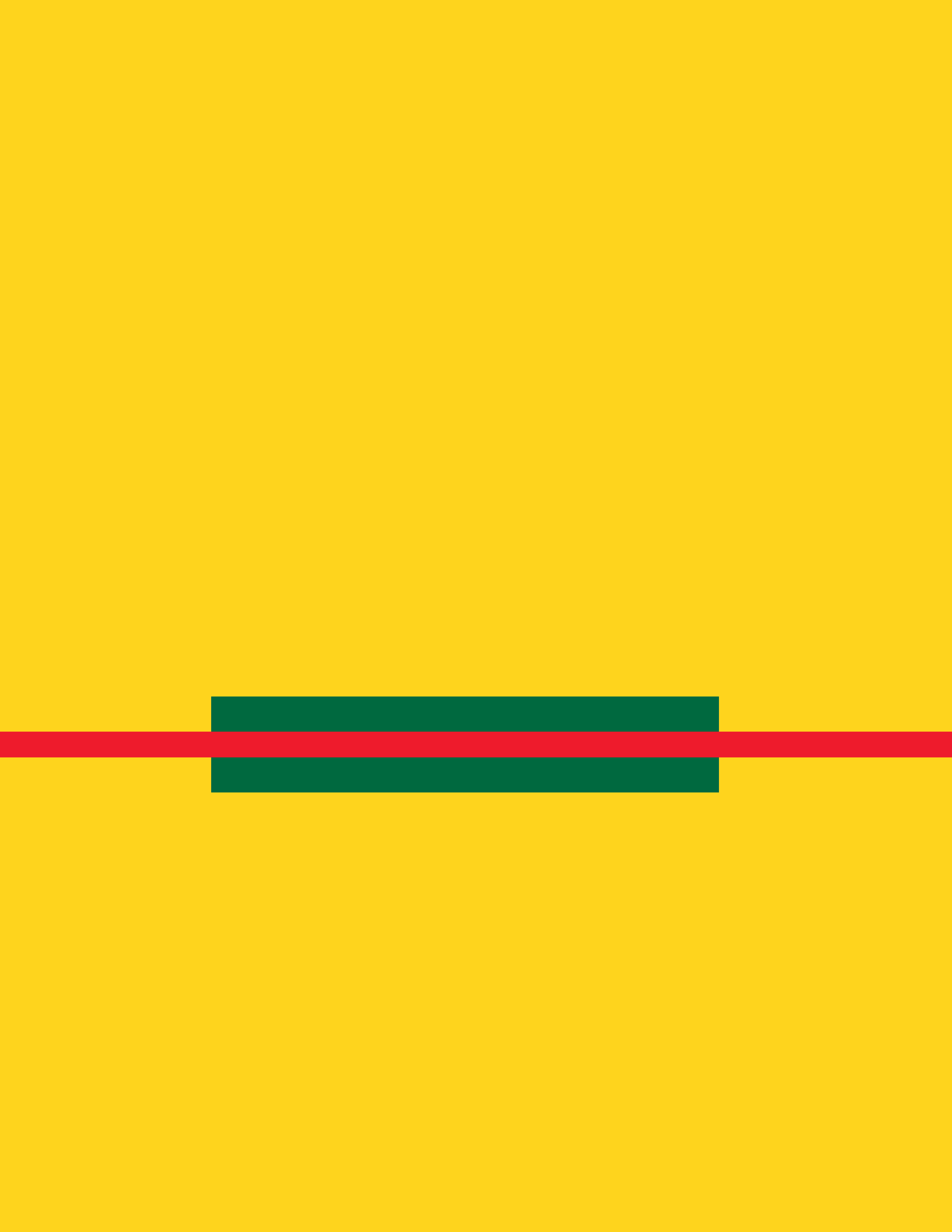
Source: IMF and World Bank staff calculations, April/May 2019.

ANNEX 2: BALANCE OF PAYMENT STATISTICS

BALANCE OF PAYMENTS, 2014–21 (US$ MILLION UNLESS OTHERWISE INDICATED)

Indicator	2014	2015	2016	2017	2018 Est.	2019 Proj.	2020 Proj.	2021 Proj.
Trade balance	–1,387	–3,107	–1,773	1,151	1,779	1,807	1,431	1,735
Exports	13,213	10,358	11,137	13,836	14,868	15,670	16,133	17,244
Of which: cocoa	*2,613*	*2,764*	*2,572*	*2,711*	*2,092*	*2,128*	*2,191*	*2,254*
Of which: gold	*4,388*	*3,213*	*4,919*	*5,786*	*5,461*	*5,805*	*5,922*	*6,648*
Of which: oil	*3,725*	*1,931*	*1,345*	*3,115*	*4,573*	*4,748*	*4,941*	*4,641*
Imports	14,600	–13,465	–12,910	–12,684	–13,089	–13,863	–14,702	–15,509
Of which: oil	*–3,694*	*–2,047*	*–1,825*	*–2,029*	*–2,538*	*–2,059*	*–2,077*	*–2,092*
Services (net)	–2,602	–1,167	–1,293	–2,972	–2,510	–2,171	–2209	–2,926
Income (net)	–1,717	–1,132	–1,256	–2,651	–3,926	–4,300	–4,435	–4,421
Of which: interest on public debt	*–552*	*–777*	*–1,052*	*–1,147*	*–1,404*	*–1,662*	*–1,726*	*–1,983*
Transfers (net)	2,008	2,570	1,457	2,424	2,581	2,629	2,682	2,736
Current account balance incl. grants	–3,698	–2,836	–2,866	–2,131	–2,075	–2,035	–2,531	–2,577
Current account balance incl. grants (% of GDP)	–9.5	–7.7	–6.7	–3.7	–3.2	–3.0	–3.5	–3.3
Capital and financial account (net)	3,649	2,937	3,268	2,739	1,554	2,221	3,438	3,309
Financial account (net)	3,649	2,463	3,015	2,497	1,047	2,086	3,404	3,298
Foreign direct investment (net)	3,357	2,971	3,471	3,239	2,908	3,413	3,035	3,649
Portfolio investment (net)	595	940	1,264	2,536	929	2,000	1,854	683
Other investment (net)	–303	–1,448	–1,741	–3,278	–2,790	–3,327	–1,485	–1,033
Official financing (net)	932	472	–31	–389	–322	–141	–334	–336
Private financing (net)	–1,081	–1,455	–1,501	–2,086	–2,643	–2,793	–793	–650
Errors and omissions	–12	–433	–66	150	–339	0	0	0
Overall balance	–37	–332	335	758	–860	186	908	733
Financing	37	332	–335	–758	860	–185	–908	–733
Changes in net reserves	85	106	–335	–1,100	672	–522	–908	–733
Of which: use of IMF credit (net)	–12	172	164	–74	213	38	–90	–118
Financing gap	—	–226	0	0	290	—	—	—
Exceptional financing	—	226	0	0	0	—	—	—
Nominal GDP (US$ Millions)	48,573	47,473	51,209	58,128	65,191	68,258	72,264	77,628

Source: IMF and World Bank staff calculations, April/May 2019.



ANNEX 3: GROSS DOMESTIC EXPENDITURE

GROSS DOMESTIC EXPENDITURE GROWTH, 2014–2018 (PERCENT)

Item	SN	SN	2014*	2015*	2016*	2017*	2018*
Household final consumption expenditure	1	1	4.1	–0.3	–2.6	11.3	–0.3
General government final consumption expenditure	2	2	24.5	–8.9	–21.9	–35.9	73.7
Consumption	*3*	*3= 1+2*	*6.8*	*–1.6*	*–5.3*	*5.8*	*4.9*
Gross fixed capital formation	4	4	–1.1	–2.7	12.2	–1.8	–5.0
Change in stock: Reforestation	5	5	1.6	1.0	1.0	1.8	9.8
Change in stock: Crude Oil	6	6	46.6	41.7	158.9	69.0	–37.2
Change in stock: Livestock	7	7	–20.2	6.0	3.6	5.7	4.9
Total Investment	*8*	*8= 4+5+ 6+7*	*–1.2*	*–2.4*	*12.9*	*–0.7*	*–5.5*
Total Domestic Demand	*9*	*9= 3+8*	*4.8*	*–1.8*	*–1.2*	*4.1*	*2.4*
Exports of goods and services	10	10	–5.8	–0.3	14.8	16.5	10.3
Imports of goods and services	11	11	–14.4	7.9	–1.1	7.9	4.6
Net Exports	*12*	*12= 10–11*	*36.6*	*–39.4*	*44.8*	*41.0*	*59.5*
Statistical discrepancy	*13*	*13=15–14*		*–112.4*	*138.8*	*125.2*	*71.3*
Gross Domestic Expenditure	*14*	*14*	*2.9*	*2.2*	*3.4*	*8.1*	*6.3*

Source: Ghana Statistical Service.

ANNEX 4:
NON-PERFORMING LOANS

DISTRIBUTION OF LOANS AND NPLS BY ECONOMIC SECTOR (PERCENT), 2017–2019 FEBRUARY)

	Feb-17		Feb-18		Dec-18		Feb-19	
	Share in Total Credit	Share in NPLs	Share in Total Credit	Share in NPLs	Share in Total Credit	Share in NPLs	Share in Total Credit	Share in NPLs
a. Public Sector	**14.0**	**2.9**	**11.3**	**7.3**	**8.6**	**2.9**	**9.3**	**3.1**
i. Government	1.5	1.1	2.4	1.0	3.0	1.0	3.6	1.0
ii. Public Institutions	5.1	0.1	2.2	0.4	1.2	0.3	1.2	0.3
iii. Public Enterprises	7.4	1.7	6.7	5.8	4.4	1.6	4.5	1.7
b. private Sector	**86.0**	**97.1**	**88.7**	**92.7**	**91.4**	**97.1**	**90.7**	**96.9**
i. Private Enterprises	71.0	90.9	68.0	85.6	66.3	87.0	67.7	85.6
o/w Foreign	8.8	12.6	8.0	8.5	9.9	9.6	10.9	10.2
o/w Indigenous	62.2	78.3	60.0	77.0	56.4	77.4	56.7	75.4
ii. Household	13.7	5.6	18.7	6.6	22.9	9.4	20.6	9.6
iii. Others	1.2	0.6	2.0	0.6	2.2	0.6	2.5	1.8

Source: Bank of Ghana.

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