

# THE LIMA DIGEST

JUNE 2023 / VOL. 6



## IMF CONDITIONALITIES

On May 19, 2023 the Ministry of Finance confirmed receipt of the first \$600 million tranche of \$3 billion, for the three-year Extended Credit Facility (ECF). The second tranche of \$600 million will be approved after a successful review of the first program in November or December 2023, with the remaining disbursed in equal tranches of \$360 million after IMF successful semiannual review.

Ghana's IMF program aims to restore macroeconomic stability and debt sustainability, while protecting the vulnerable, preserving financial stability and laying foundation for stronger recovery. This has been designed around two key anchors: (i) achieving moderate risk debt distress over the medium term, and (ii) rebuilding BoG's international reserves to 3 months of import by the end of the program, all of which will require the implementation of ambitious and lasting fiscal adjustment to complement the ongoing comprehensive debt structuring and appropriate tight monetary and flexible exchange rate policies.

## WE LOOK AT SOME IMF CONDITIONALITIES AND ITS POTENTIAL IMPACT ON THE GHANAIAN ECONOMY

### A. Fiscal consolidation to support returns to sustainability

- i. The program's main fiscal goal is to reach a primary balance commitment by 2025 of 1.5% of GDP, with which an adjustment to GDP of roughly 5 percentage points over three years is needed. It is anticipated that this goal will be upheld until at least 2028. Around two-thirds of this modification are expected to be applied in the first year. This plan aims to increase fiscal credibility while acknowledging the limited amount of financial resources available.
- ii. To accommodate a greater development investment in the medium term, from Ghana's low revenue-to-GDP ratio, there is a need to create space for higher development spending over the medium term. The authorities outlined strategies to prioritize domestic revenue mobilization. The aim is to elevate public revenue-to-GDP to over 18.5% by the end of the program from 15.7% in 2022.
- iii. The Government has acknowledged major extra budgetary obligations made by governmental agencies (MDAs) and unpaid bills to energy producers such as independent power producers (IPPs) and fuel suppliers that accrued in 2022 in an effort to increase transparency.

### B. Social Impact, Spending and Policies

Over the medium run, social programs will be continuously strengthened to enhance human capital. The ambitious government initiatives to broaden access to higher education will center on improving learning outcomes. The National Health Insurance Scheme's coverage will also be expanded by the government. These aims are closely related to the government's development objectives to eradicate poverty and improve access to high-quality education.

### C. Structural fiscal reforms to durable anchor sustainability

The implementation of a Medium-Term Revenue Strategy (MTRS) will concentrate on the tax administration and policy actions required to meet the authorities' program revenue goals from 2023 to 2026.

Potential actions to address concerns about efficiency and equity while sustainably generating large revenue include the following:

- (i) eliminating VAT exemptions (expected to account for close to 2% of GDP);
- (ii) overhauling the CIT by gradually eliminating tax holidays and exclusions and enhancing profit-shifting protections;
- (iii) lowering customs exemptions;

## UPCOMING DEADLINES

<b>PAY AS YOU EARN (PAYE), JUNE - GRA</b>	<b>15<sup>TH</sup> JULY 2023</b>
<b>WITHHOLDING TAX, JUNE - GRA</b>	<b>15<sup>TH</sup> JULY 2023</b>
<b>VALUE ADDED TAX, MAY- GRA</b>	<b>30<sup>TH</sup> JUNE 2023</b>
<b>ANNUAL INCOME TAX RETURNS (EXTENSION) GRA</b>	<b>30<sup>TH</sup> JUNE 2023</b>
<b>ANNUAL RETURNS (EXTENSION) - ORC</b>	<b>30<sup>TH</sup> JUNE 2023</b>

## OTHER AVAILABLE DOCUMENTS



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- (iv) boosting progressivity in personal income taxes;
- (v) automatically modifying fuel taxes based on movement in inflation or exchange rates; and
- (vi) implementing the new fiscal system for the extractive sectors.

As part of the IMF conditionalities, an Integrated Tax Administration System (ITAS) will be implemented and fully operationalized by end of 2023. For the successful rollout of the ITAS, the authorities will set up a project governance mechanism where annual tax expenditure reports will be published to promote accountability and transparency.

## D. Debt Management and Restructuring

For the country to re-establish its debt sustainability, the Government of Ghana undertook to restructure its domestic and external debts. This aimed to restore a moderate risk of debt distress under IMF -EB LIC-DSF such that from 2028 the restructuring will lower;

- (i) The ratios of the external debt services to revenues and export below their 18 percent and 15 percent threshold respectively; and
- (ii) The ratio of the present value of overall and external debt to GDP to below 55 percent and 40 percent threshold respectively.

Also, the restructuring targets external debt service relief of US\$10.5 billion during the program period (2023-26) to help close the external financing gap and its domestic component is designed to reduce domestic financing pressures significantly.

## E. Monetary and Exchange Rate Policy

The Bank of Ghana policy goal is to reduce inflation to 6 to 10 percent target by the end of the program, and is determined to continue raising its policy rate as well as keeping a tight grip on monetary

policy until inflation is steadily dropping. Additionally, it will carry out liquidity management activities in line with the inflation aim while taking financial stability risks into account and rebuilding international reserve coverage ratio of at least 3 months of imports.

## F. Financial Sector Stability

The DDE presented a substantial challenge for the financial sectors as most of the banks held about 30 to 50 percent of their assets in government securities. The reduction of coupons and the extension of the maturity meant that the values of the assets declined to about 70 percent of its par value.

The Bank of Ghana, through efforts to preserve banks, will provide reliefs in the short term by lowering cash reserve and adjusted capital requirements for banks and other financial sector institutions, however individual banks will be expected to submit their credible timebound plans to rebuild capital buffers on a phased basis in line with timelines set out in the financial sector strategy which will be reviewed and finalized by banks for Bank of Ghana approval by end of September 2023.

## Conclusion

To restore macroeconomic stability and lay the groundwork for an inclusive recovery, a thorough reevaluation of macroeconomic policy and extensive structural reforms are required. Restoring macroeconomic stability through tighter macroeconomic policies and public debt restructuring is the government's top objective. The government's policy also aims to address enduring structural flaws that have decreased the economy's shock-resilience and contributed to the crisis. A settlement of the debt problem and steadfast program execution should finally nurture a rebound and lower inflation.

Source from IMF ECF program document.

([https://www.imf.org/en/Publications/Search?#q=ghana%20ecf&sort=relevancy&f:country=\[Ghana\]](https://www.imf.org/en/Publications/Search?#q=ghana%20ecf&sort=relevancy&f:country=[Ghana])))



## SNAPSHOT OF THE ECONOMY OF GHANA

INFLATION (as at 10 May 2023)

42.2%

MONETARY POLICY RATE (as at May 2023)

29.5%

GHANA REFERENCE RATE (as at 7 June 2023)

26.89%

## EXCHANGE RATE AS AT 13TH JUNE, 2023

	BUYING	SELLING
BANK OF GHANA	10.97	10.98
ABSA BANK	10.70	11.82
ECOBANK	10.70	11.95
STANBIC BANK	10.80	11.90
CAL BANK	10.60	11.99
GCB BANK	10.85	11.85



QUOTES

"The best way to sharpen a knife is not to whet one side of it only, and neither can you solve a riddle by considering only one end of it."

Ama Ata Aidoo

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## REGULATORY COMPLIANCE & COMPANY SECRETARIAL SERVICES (RCCSS)

Our RCCSS Department assists in registrations with all relevant statutory bodies, obtaining any licenses or permits and facilitating regular renewals to ensure compliance. Our range of services include but not limited to;

## GENERAL SERVICES

- Registration and renewal of GIPC Permits, filing of monthly and annual reports, Petroleum Commission Permits and

Minerals Commission Permits;

- Forex authorization from Bank of Ghana and Renewal of tax exemptions
- Registrations, payments and filing of Pensions returns (SSNIT, Tier 2) and obtaining SSNIT clearance certificates:

## IMMIGRATION SERVICES

- Work and residence permits (including dependents), noncitizen card applications and renewals, filing of annual returns at Ghana Immigration Service, and other Immigration

## COMPANY SECRETARYSHIP SERVICES

- Attending board meetings, taking minutes, preparing and filing requisite resolutions;
- Filing all relevant documents at ORC and RGD.

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