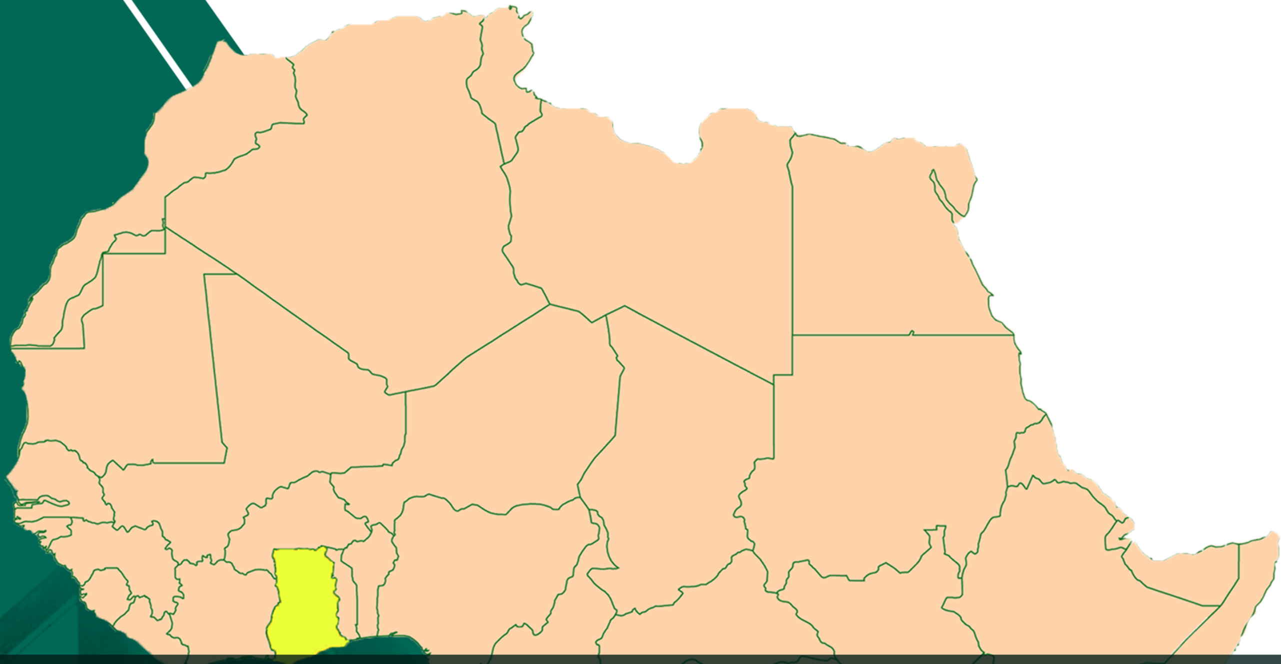
ZIPAR

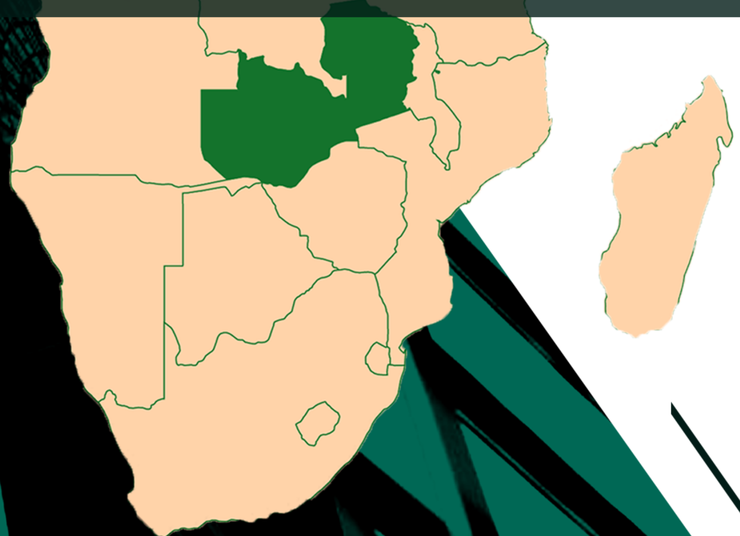
Zambia Institute for Policy Analysis & Research

Working Paper No 38



A Tale of Two Countries: Lessons from Zambia and Ghana in Engaging the IMF

February 2020



BY Nakubyana Mungomba, Rabecca Hatoongo-Masenke & Caesar Cheelo

A Tale of Two Countries:

Lessons from Zambia and Ghana in Engaging the IMF

Zambia Institute for Policy Analysis and Research

Table of Contents

Executive Summary iii

1 Introduction 1

2 Historical Misgivings Prompt Present Day Debate 2

3 Political Economy and Economic Performance in Zambia and Ghana 3

3.1 Political systems and economic governance 4

3.2 Growth and Welfare in Zambia and Ghana 4

3.3 Macroeconomic Stability 6

3.4 Emerging Fiscal and Debt Challenges in Zambia and Ghana 8

3.5 Historic Constraints and Deterioration in External Performance 10

4 IMF Programmes in Ghana and Zambia 12

4.1 Early Engagements: 1960s and 1970s 12

4.2 Embattled Nations: 1980s and 1990s 14

4.3 Poverty Reduction and Growth Engagements: 2000-2009 15

4.4 Prior Actions Leading to IMF Engagement in the 2010s 16

5 Ghana After the IMF vs Zambia without a Programme 18

5.1 Looking into The Future: Macroeconomics Projections to 2024 18

5.2 Engagement with The International Community 22

5.3 What It Boils Down To 23

6 Concluding Views and Lessons for Zambia 25

References 26

Annex 1: Political Systems of Zambia and Ghana Over the Years 29

Annex 2: Ghana Prior Actions for Application to IMF Programme 30

Annex 3: Main Recommendations of the 2017 Article IV Consultation 31

Annex 4: Recommendations of the 2017 Article IV Consultation 33

Table of Figures

Figure 3.1: Real GDP growth rates (%) and Global All Commodities Price Index (%), 1960-2018 4
Figure 3.2: GDP per Capita in Constant (2011) USD Prices ($), 1980-2018 5
Figure 3.3:Zambia and Ghana Exchange Rates (LCU/USD*), 1960-2018 6
Figure 3.4: Inflation and exchange rate changes (%), 1960-2018 7
Figure 3.5: Government Expenditure per Capita in Current USD Prices ($), 2000-2018 8
Figure 3.6: Fiscal Balances (% of GDP), 2000-2018 8
Figure 3.7: General Government Gross Public Debt (% of GDP), 2001-2018 9
Figure 3.8 : FDI Annual Inflows (% of GDP), 1972-2018 10
Figure 3.9: Current Account Balance (% of GDP), 1980-2018 11
Figure 4.1: IMF Arrangements with Zambia (ZMB) and Ghana (GHA) (millions of SDR), 1966-2015 13
Figure 5.1: Overall Fiscal Balance (% of GDP), 2014-2024 19
Figure 5.2: GDP per Capita in Constant (2011) USD Prices ($), and GDP Growth (%), 2014-2024 20
Figure 5.3: Inflation Rates (annual % change), 2014-2024 20
Figure 5.4: Total Gross Public Debt (% of GDP), 2014-2024 21
Figure 5.5: Current account balances (% of GDP), 2014-2024 22
Figure 5.6: Eurobond Yield Rates maturing in 2024 (Zambia) & 2026 (Ghana), Sept 2014-Jun 2019 23

Executive Summary

Zambia's last programme with the International Monetary Fund (IMF) expired in 2011. At that time, the country had established sustained macroeconomic stability and robust growth underpinned by conservative fiscal and monetary policies as well as a conducive business environment for private sector development. In 2015, however, the Zambian economy experienced a number of exogenous shocks which, coupled with a new expansionary fiscal policy stance since 2012, introduced new macroeconomic instabilities, slowed down growth, eroded the fiscal space and threatened the balance of payments position. In response, fiscal authorities initiated talks with the IMF in 2016 towards a Fund-supported programme.

The paper is a combination of retrospective comparative review of the engagement of two developing countries, Zambia and Ghana, with the IMF in relation to financial and economic support programmes, and prospective assessment of the macroeconomic outlooks of the two countries based on the most recent IMF macroeconomic projections available. The main purpose of this paper is to assist Zambian stakeholders including the fiscal, planning and monetary authorities, civil society and the general public to understand the evolution of the relationships between the IMF and each of the two African States as well as the benefits and pitfalls of these varied relationships.

In late October 2016, when the Zambian Government launched the basic concept behind the Economic Stabilization and Growth Programme (ESGP) dubbed Zambia Plus, it announced that the "Plus" was meant to accommodate aid support from development partners like the IMF. Once this was announced, the historic misgivings about the IMF re-emerged in Zambia. A heated debate ensued about the relevance of IMF support to the economic programme and the implication for Zambia's socio-economic development under an IMF-supported programme. Despite these, the authorities remained resolute to pursuing an IMF-supported programme with some of the ESGP policies and reforms being rolled out by the end of 2017 (such as the removal of fuel and electricity subsidies). However, progress on implementing further prior actions stalled with time, and as the Government took longer and longer to implement the necessary changes, international credibility began to slip. Meanwhile, on the other side of the continent, Ghana had also crafted and successfully began to implement its own homegrown programme which was commended by the IMF and played a part in helping the country synch an IMF programme.

Taking a historical view of the political economy and economic performance of Zambia and Ghana, it becomes evident that these two countries have often followed similar trends. Broadly, in terms of macroeconomic stability, the paper explores historical movements in the two countries' exchange rates, inflation, government expenditure, fiscal balances, public debt, foreign direct investments (FDI) and current account balances. For the most part, these variables have moved in similar directions for both countries. For example, inflation rates in both countries have stabilised considerably compared to historical highs; both countries have generally run fiscal deficits over the last couple of decades; and public debt has mounted considerably in both countries following substantial debt cancellation under the Heavily Indebted Poor Countries (HIPC) Initiative. As for external performance, Zambia's kwacha exchange rate against the US dollar has deteriorated much quicker than the Ghanaian cedi; Zambia has generally received more FDI since the 1970s compared to Ghana until a recent convergence in 2009; meanwhile current account balances have often moved in somewhat opposite directions.

Given the similarities in historical economic performance, the paper also examines the two countries' history of engagements with the IMF which go as far back as 1966 for Ghana and 1973 for Zambia. Since then, Ghana has agreed 16 programmes compared to Zambia's 12. However, Zambia has been extended more money accessing agreed amounts totalling approximately SDR 3.4 billion over the years, of which it has drawn SDR 2.34 billion. On the other hand, Ghana has been extended just over SDR 3 billion and used SDR 2.1 billion of that.

Through the 1980s and 1990s, the IMF led structural-adjustment austerity programmes to support both countries' embattled economies at various times. These programmes were sometimes met with backlash to the austerity measures from the people, leading to poor implementation, or occasionally complete abandonment, by the Government. At the turn of the new millennium in the year 2000, both Zambia and Ghana were on IMF packages. However, the IMF and the global community at large had begun to acknowledge that the policies that the IMF prescribed during the structural reform period of the 1980s and 1990s did not always yield favourable results for the recipient, particularly for poor developing countries. Often, conditionalities attached to IMF support had been accompanied by requirements to reduce public expenditure while prioritising debt repayment and other economic policies. As such, the IMF began a process of reviewing its terms of conditionality with the introduction of the Poverty Reduction and Growth Facility (PRGF), a programme aimed at improving the effectiveness of assistance provided and ensuring ownership of poverty reduction strategies by recipient countries.

By 2015, Zambia and Ghana were in similar economic positions with spiralling fiscal deficits, current account deficits putting pressure on the exchange rate, and both countries amassing debt at an unsustainable rate. Despite these similarities, however, Ghana did a better job at fulfilling IMF prior actions – which the Ghanaian authorities set out themselves in a Memorandum of Economic and Financial Policies – and received its most recent IMF funding arrangement in 2015. Meanwhile, an initial mid-term review of Zambia Plus – the country's home-grown stabilisation and growth programme – indicated that insufficient progress was being made in order to garner support from development partners like the IMF. In particular, Zambia continued to accumulate debt at an unsustainable rate, which cast doubt on the country's ability to effect fiscal consolidation.

By 2019, the difference in progress made on recommendations offered by the IMF during 2017 Article IV Consultations in Zambia and Ghana, respectively, still remains noteworthy. While Ghana had largely implemented, or partially implemented, the 2017 Article IV recommendations by the time of the 2019 Article IV Consultation, Zambia's implementation of past policy recommendations was limited. In particular, staff recommendations to Zambia to rein in the fiscal deficit and reduce debt vulnerabilities still remained unimplemented. And with that, at the time of writing this paper, the IMF deal for Zambia remains in abeyance.

On most scores, Ghana emerged from the 2015-2019 IMF programme with an improvement in its economic fundamentals. And while all the gains made cannot be ascribed to the IMF programme alone, it is likely that the programme was a catalyst for meaningful reform in the country. However, the true test of success for Ghana will be how the country carries forward the lessons of fiscal discipline after IMF oversight has been lifted.

Looking at future projections, on face value, Zambia's fiscal and current account balances are projected to fare better than, or be at par with, Ghana by the year 2024. However, the debt stock and debt service burden are also key indicators that the IMF pays close attention to, and has been cautioning Zambia about, with projections showing the country will not fare nearly as well as Ghana. Furthermore, with GDP growth rates projected to be fairly subdued for Zambia, the country's ability to manage this debt burden will be significantly hampered.

In further analysing the IMF projections for the two countries until 2024, the paper suggests that the favourable projections for Zambia could be speaking to a form of "forced consolidation" in which the country simply does not have the fiscal capability to expand the fiscal deficit nor the current account balance in the future. In such a case, an IMF programme becomes imperative to helping create fiscal space, particularly as Eurobond repayments start to fall due. Moreover, what is evident from the case of Ghana is that the IMF programme in the country had a positive influence on fiscal discipline and economic management; the type of influence that Zambia could benefit from.

The lesson for Zambia is therefore that an IMF programme is feasible if the right prior actions are taken. The authorities should, therefore, invest in identifying the types of prior actions that Zambia should undertake in order to satisfy the IMF on credibility, and should pursue those actions diligently. And while IMF projections suggest that the country would undoubtedly survive without an IMF programme, it would likely be at the cost of protracted economic hardship, including a drop in the standard of living for the people.

1 Introduction

Zambia's last programme with the International Monetary Fund (IMF), a Poverty Reduction and Growth Facility (PRGF), expired in 2011 (IMF, 2019e). At that time, the country had established sustained macroeconomic stability and robust growth underpinned by conservative fiscal and monetary policies as well as a conducive business environment for private sector development (ZIPAR, 2018). Furthermore, the fiscal position and external account balances were both quite healthy. Per capita incomes had grown so much that, in 2011, the World Bank reclassified Zambia as a lower-middle-income country. With these developments, the traditional external support from cooperating partners started to shrink and the country began to pursue other financing alternatives.

However, in 2015, the Zambian economy experienced several exogenous shocks which, coupled with a new expansionary fiscal policy stance since 2012, introduced new macroeconomic instabilities, slowed down growth, eroded the fiscal space and threatened the balance of payments position (Cheelo, 2016; Chizonde, 2016). These experiences were not atypical to Zambia. Several other countries experienced similar shocks and faced similar emerging macroeconomic policy challenges. For Zambia, one of the responses of the fiscal authorities was to initiate talks with the IMF in 2016 towards a Fund-supported programme, talks that have remained inconclusive three years later.

This paper is a combination of a retrospective comparative review of the engagement of two developing countries, Zambia and Ghana, with the IMF in relation to financial and economic support programmes and prospective assessment of the macroeconomic outlooks of the two countries based on the most recent macroeconomic projections available. In both the retrospective and prospective reviews, we largely use internationally comparable data from credible international sources. Retrospectively, we explore the respective experiences of the two countries over their economic histories, isolating the macroeconomic conditions that necessitated external IMF support. Zambia is taken as the main case study and Ghana is the comparative country. In terms of looking back in history, we variously cover a fairly long-time horizon, going back to the 1960s and 1970s where data permit. We track the political and macroeconomic conditions and outcomes recorded during these periods. In relation to the prospective assessment, we use a 10-year-period in relation to the most long-term forward look projection from 2014-2024.

The main purpose of this paper is to assist Zambian stakeholders including the fiscal, planning and monetary authorities, civil society and the general public to understand the evolution of the relationships between the IMF and each of the two African States as well as the benefits and pitfalls of these varied relationships. We explore the past approaches of the IMF in its engagements as well as its "new face" and new terms of engagement in the recent past. Our insights are particularly important for Zambia as the country continues to pursue an IMF-supported economic programme since late 2016.

The rest of the paper is organized as follows: Section 2 explains what prompted this paper; Section 3 describes Zambia and Ghana's conditions and performance in relation to key macroeconomic and political indicators; Section 4 highlights each country's history and current status of engagement with the IMF; Section 5 compares the two countries in the year Ghana concludes its most recent IMF engagement, looking five years back and projecting five years forward; and Section 6 closes the paper by delineating the main lessons for Zambia in terms of opportunities and risks with IMF engagement going forward.

2 Historical Misgivings Prompt Present Day Debate

The literature on the effects of IMF programmes and conditionalities on African economics is quite extensive (Heidhues & Obare, 2011; Kawewe & Dibie, 2000; Messkoub, 1996; Naiman & Watkins, 1999; Saasa, 1996). Generally, most observers in the literature argue that the IMF and World Bank's structural adjustment programmes (SAPs) in the 1980s and 1990s yielded some far-reaching negative social and economic impacts in Africa. In fact, developing countries worldwide implementing IMF Enhanced Structural Adjustment Facility (ESAF) programmes in the 1980s experienced lower economic growth than those outside of these programmes (Naiman & Watkins, 1999). African countries subject to ESAF programs fared even worse than those from other regions pursuing these programmes, experiencing declines in per capita incomes. Reportedly, while African countries urgently needed to increase spending on health care, education, and sanitation, IMF SAPs forced them to reduce such spending. As such, the average amount of per capita government spending on education declined between 1986 and 1996. From a historical perspective, therefore, many observers express notable misgivings about the socio-economic effects of the IMF's involvement in Zambia and other African countries in the 1980s and 1990s.

In late October 2016, when the Zambian Government launched the basic concept behind what it initially termed as the economic recovery programme (and later and more formally, the Economic Stabilization and Growth Programme (ESGP) dubbed Zambia Plus), it announced that the "Plus" was meant to accommodate aid support from development partners like the IMF. Once this was announced, the historic misgivings about the IMF re-emerged in Zambia. A heated debate ensued about the relevance of IMF support to the economic programme and the implication for Zambia's socio-economic development under an IMF-supported programme. Despite these, the authorities remained resolute to pursuing an IMF-supported programme, as reflected in the 2018 Budget Address (published 29th September 2017).

As Zambia waited to re-engage with the IMF from October 2017 onwards and negotiate the loan support package, the fiscal authorities published the ESGP 2017-2019 and simultaneously launched the Medium-Term Expenditure Framework (MTEF) 2018-2020 in September 2017. With the implementation period of the ESGP running from 2017 to 2019, some of its policies and reforms had already began to be rolled out by the end of 2017 (such as the removal of fuel and electricity subsidies). This showed that Zambia was able to begin the prior actions of implementing the ESGP minus an IMF aid component. However, progress on implementing further prior actions stalled with time, and as the Government took longer and longer to implement the necessary changes, international credibility began to slip.

Meanwhile, on the other side of the continent, Ghana had also crafted and successfully began to implement its own homegrown programme which was commended by the IMF (IMF, 2014) and played a part in helping the country synch an IMF programme. This paper hopes to present the case of Ghana in the hopes of showing how it is possible to take decisive action that leads to an IMF programme, should Zambia deem that it needs such assistance. And given the similarities in the socioeconomic paths of Ghana and Zambia, it is hoped that the story of the former can motivate the latter.

3 Political Economy and Economic Performance in Zambia and Ghana

This section presents a comparative analysis of selected political economy issues and economic performance in Zambia and Ghana. We explore the key political, economic and public institutional events and episodes that took place in Zambia and Ghana over time up to 2018. We also take account of the external global and regional events that took place over the same reference period, which had a bearing on local circumstances in the two countries. These events and episodes were therefore systematically related to the stylized facts about key socio-economic development results observed in each of the economies.

For ease of exposition, the events are identified and presented under a number of thematic areas. Some of these are closely related to the main macroeconomic policy and outcome elements that the IMF monitors and evaluates towards safeguarding global financial stability and determining its lending programmes (see, Box 3.1).

Box 3.1: Consideration for agreeing on IMF lending facilities

Today, IMF lending serves three main purposes:

First, lending is done to help smooth the adjustment to various shocks, assisting a member country to avoid disruptive economic adjustment or sovereign default. This is something that would be extremely costly, both for the country itself and possibly for other countries through economic and financial ripple effects (known as contagion). The IMF is therefore routinely on the lookout for external shocks to financial and economic systems.

Second, IMF programmes help to unlock other financing, acting as a catalyst for other lenders. This is because the programmes serve as a signal that the country has adopted sound policies, reinforcing policy credibility and increasing investors' confidence. The IMF is therefore constantly looking out for ***macroeconomic (monetary and fiscal) policy soundness*** in national economic systems.

Third, IMF lending helps to prevent a crisis. The experience is clear: capital account crises typically inflict substantial costs on countries themselves and on other countries through contagion. The best way to deal with capital account problems is to nip them in the bud before they develop into a full-blown crisis. The IMF routinely monitors the ***external performance*** of world economies.

Source: adopted, with modifications, from IMF insights (http://www.imf.org/external/about/lending.htm)

3.1 Political systems and economic governance

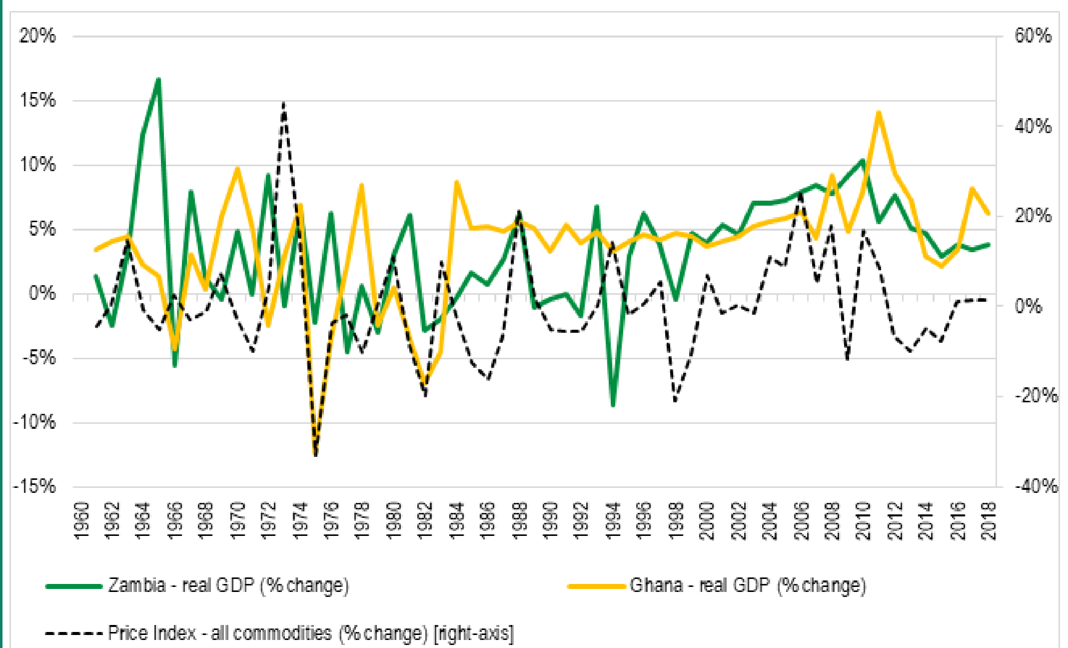
Zambia and Ghana have very similar political histories. Having both been British colonies, Ghana attained its independence on 6th March 1957 while Zambia got its independence on 24th October 1964. Since independence, Zambia has experienced civilian rule, transitioning from a one-party state for the first 27 years, to multi-party rule in 1991. Meanwhile, Ghana experienced alternating military and civilian governments up until 1993. Since then, both countries have had five civilian political administrations taking office. (See Annex 1 for details of transitions in administration)

Today, Zambia and Ghana are both presidential constitutional republican democracies, with well-established multi-party political systems. Over the years, the two countries have seen significant growth in their political dispensations. The political stability that has been built in both countries is an important pre-condition for sound, long-term economic governance, macroeconomic stability, sustained growth and inclusive development.

3.2 Growth and Welfare in Zambia and Ghana

Zambia and Ghana both have relatively small economies by world standards, with Zambia being the smaller of the two. Zambia's average annual nominal GDP outturn over 2012-2016 was US$24.7 billion, 1.7 times smaller than Ghana's average nominal GDP of US$41.8 billion per annum (IMF WEO, 2017). Moreover, the two countries have experienced similar trends in long-term growth. Between 1960 and the mid-1980s, both economies experienced very volatile real growth rates, with notable booms being followed by significant slumps over relatively short periods. Ghana's real growth stabilized ahead of that of Zambia, in 1984; in that year, Ghana's real GDP growth rate rose to 8.6% (Figure 3.1).

Figure 3.1: Real GDP growth rates (%) and Global All Commodities Price Index (%), 1960-2018



Source: constructed from World Bank WDI and UNCTADStat

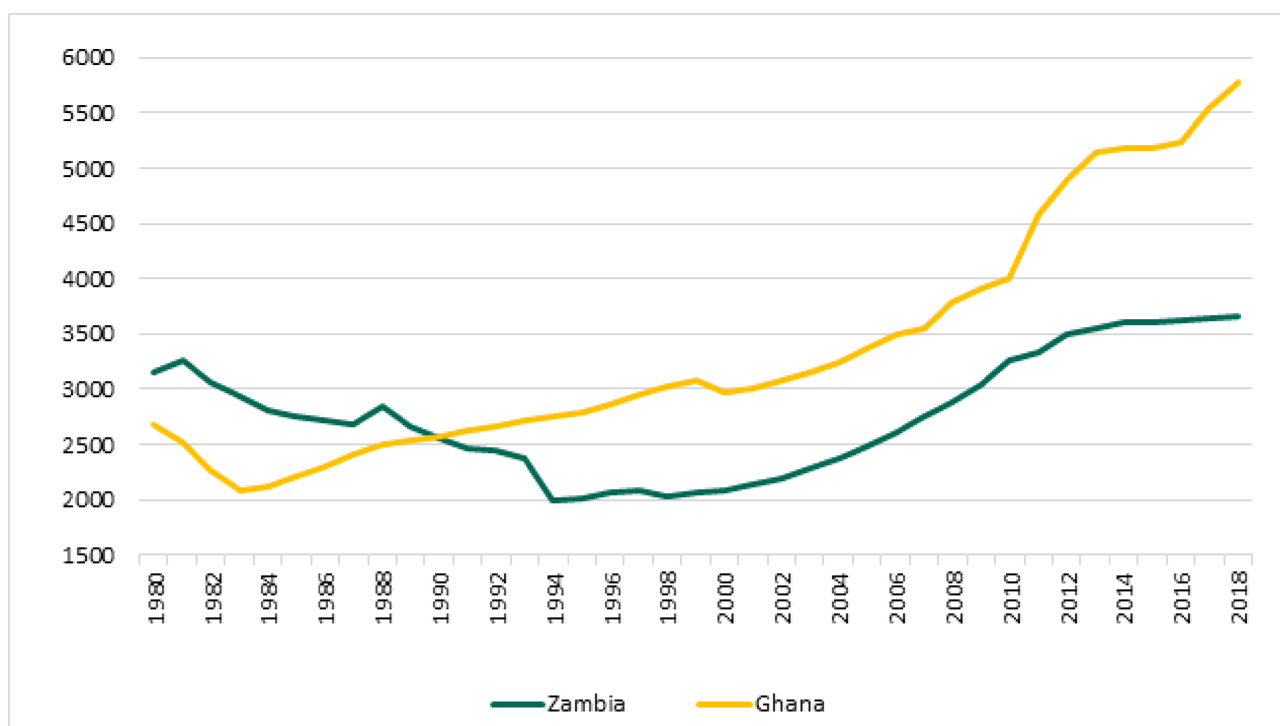
For the next two decades, Ghana's average GDP was 4.7% per year compared to 0.9% per year over 1961-1983; and the standard deviation in the growth rate was 1.1% compared to 5.3% in 1961-1983. With the onset of the global commodity price boom, which ultimately turned into a super-cycle, growth averaged 6.9% per year during 2004-2015. The growth rate remained fairly stable during the period (with a standard deviation of 2.9%).

Zambia's real GDP growth rates averaged 2.4% between 1961 and 1983, with a 5.6% standard deviation, which showed remarkably high volatility, even greater than that of Ghana over the same period. Between 1984 and 2003, Zambia's growth rate remained low (2.2% per year on average) and relatively volatile (3.8% standard deviation). Economic recovery came relatively late for the country. Over 2004-2015, this averaged 7.0%, with a standard deviation averaging 2.1%.

Ghana has a considerably larger economy than Zambia. In 2016, Ghana's GDP was more than twice that of Zambia standing at $42.8 billion compared to Zambia's $20.9 billion in current USD prices. However, Ghana also has a much larger population. Through the 1980s and early 1990s, Zambia's GDP per capita in constant (2011) USD prices outpaced that of Ghana as seen in Figure 3.2. Since 1994, however, there has been more of a convergence in GDP per capita in the two countries until 2012 when GDP per capita appears to have levelled off in Zambia while it continues to grow in Ghana.

In Zambia, GDP per capita fell from $3,260 in 1981 to a low of $1,998 in 1994 owing to continued declines in copper export earnings (due to a drop in the international price of copper), stagnant non-traditional exports, and persistently increasing inflation (as discussed in the preceding section) (Kalinda & Floro, 1992). Meanwhile, Ghana's GDP per capita has grown consistently since 1984, spiking from $4,005 in 2010 to $5,151 in 2013 before flattening out and then starting to rise again in 2016.

Figure 3.2: GDP per Capita in Constant (2011) USD Prices ($), 1980-2018



Source: constructed from IMF WEO, Oct 2019

An interesting feature of both countries is that GDP stability and sustained growth were achieved well before any signs of the global commodity price boom were on the horizon. Zambia achieved general accelerated growth from 1999 onwards, a full five years before the global price boom established itself. The factors that lead to the sustained growth during a period of depressed global commodity prices in both countries are under-researched and therefore not well understood. This could be a key area for further research.

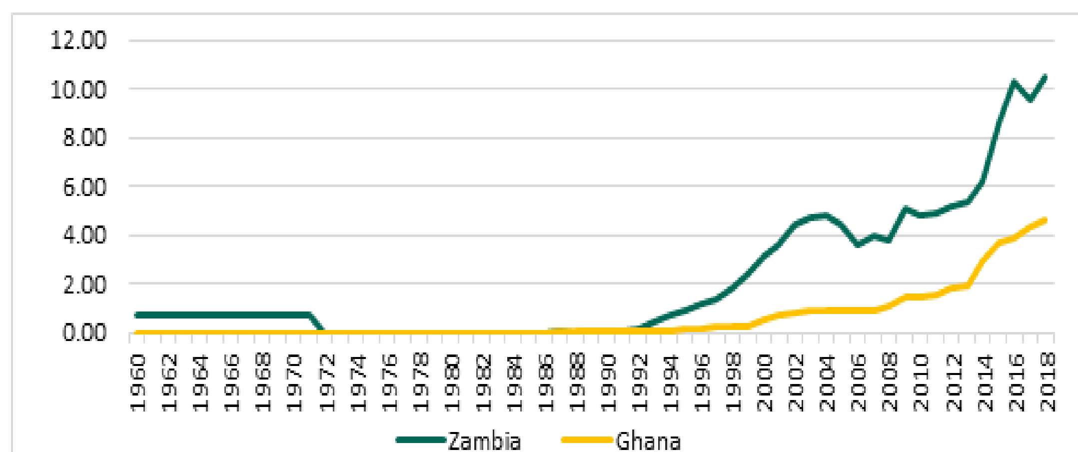
Ultimately, in relation to international prices, both economies experienced growth slowdowns during the global commodity price decline, that is, after 2010/2011. Both economies exhibited more GDP responsiveness to price slumps than to price upswings. While commodity prices significantly influenced GDP in both countries, particularly during the period of the price super-cycle dissipation (2011-2016) the impetus was relatively stronger for Ghana than for Zambia.

3.3 Macroeconomic Stability

Macroeconomic stability is an important cushion against a precarious currency, price and interest rate fluctuations in an economy. Although stability might not be a sufficient condition for economic growth, it is a necessary requirement. Conversely, macroeconomic instability – usually revealed as wide currency fluctuations, inflation, escalating interest rates, out-of-control public spending, large debt burdens and so on – can lead to economic crises that could ultimately result in a deep recession or even a depression. It is for this reason that the fiscal and monetary policies in most modern economies expend sizable time, effort and resource to monitoring and evaluating macroeconomic stability, and implementing stabilization policies when things go off-track.

Volatility in the exchange rate can have adverse impacts on the economy. This can lead to the prices of goods and services becoming unstable, particularly for high import-dependent countries such as Zambia and Ghana, which in turn affects inflation and interest rates. Zambia and Ghana have both followed fixed and flexible exchange rate regimes at similar points in their history. From independence right up until the early 1990s, both countries maintained some form of a fixed exchange rate. When the currencies finally moved to a fully flexible exchange rate regime, they both started seeing rapid rates of depreciation. For Zambia, the move to a floating exchange rate came with the ushering in of the Third Republic and the adoption of new macroeconomic stabilisation policies. Over the period 1991 to 2016, the kwacha depreciated at an average annual rate of 31.1%, compared to 21.8% for the cedi (Figure 3.3).

Figure 3.3:Zambia and Ghana Exchange Rates (LCU/USD), 1960-2018*

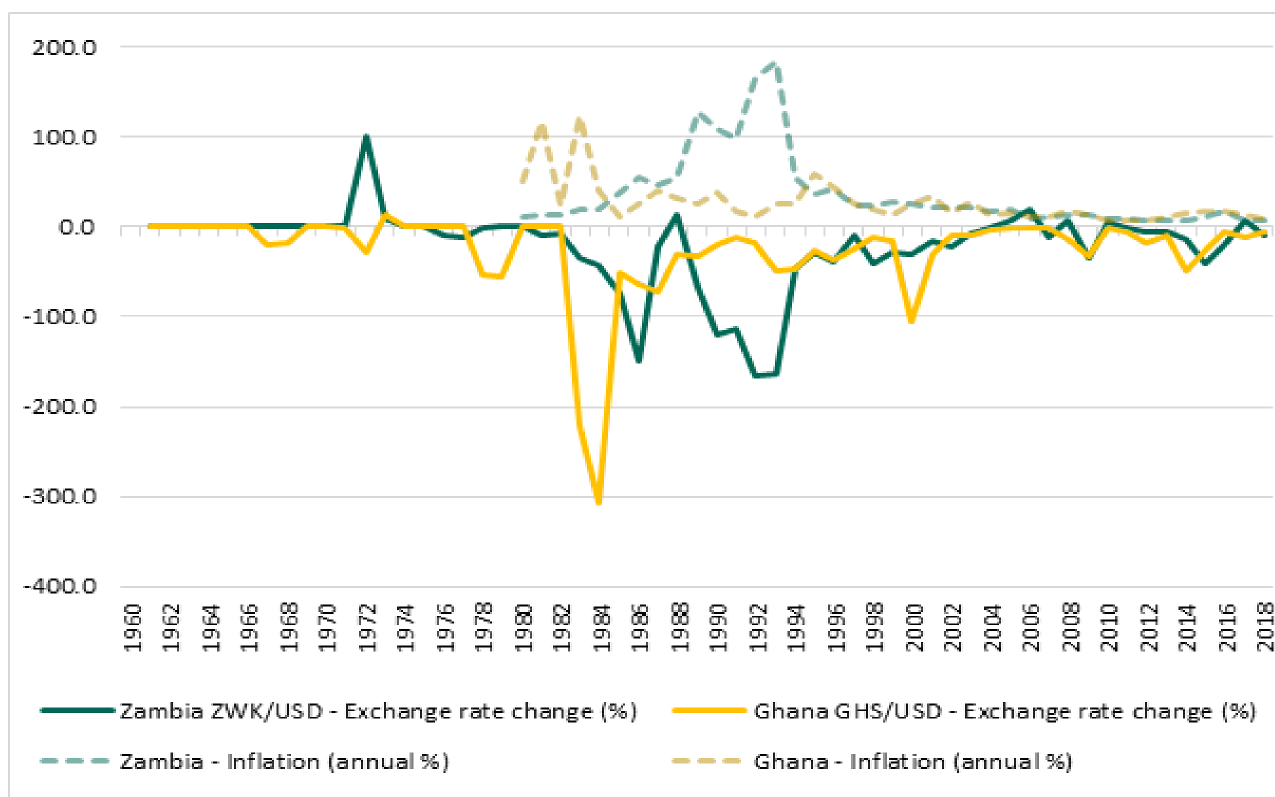


**LCU = Local currency units; USD = United States dollar*

Turning to look at the relationship between the exchange rate and the inflation rate, we see that there is a clear relationship between these two macroeconomic indicators (Figure 3.4). In Ghana, the depreciation observed in 1967-68, 1972, and 1978-79 coincided with political turmoil at the time when the incumbent leaders were deposed and the military took power. Meanwhile, the depreciation of over 200% and 300% noted in 1983 and 1984 respectively followed the implementation of an Economic Recovery Programme (ERP) under the auspice of the IMF and the World Bank. This programme required various broad economic policy changes including currency devaluation, movement to an auction system for exchange rate determination, and increases in domestic currency prices for exports (Loxley, 1990). Zambia adopted a similar programme and entered the auction phase in 1985, although the country was already subject to conditionality by the IMF. This led to the 150% depreciation recorded in 1986.

Zambia's inflation rate increased steadily throughout the 1980s reaching a peak of 183% in 1993 even as the kwacha continued to depreciate, losing 166% of its value in 1992 and 163% in 1993. These inflation spikes were contributed to by the floating of the kwacha, decontrol of prices, and the removal of subsidies (Chibwe, 2014) after the country entered the Third Republic. However, the implementing of tighter fiscal policy helped inflation drop sharply to 54.6% in 1994 and then 34.9% in 1995. From 1997 to 2016, inflation averaged 15.9% with some spikes in the early 2000s when inflation reached 32.9% in 2001 and 26.6% in 2003.

Figure 3.4: Inflation and exchange rate changes (%), 1960-2018

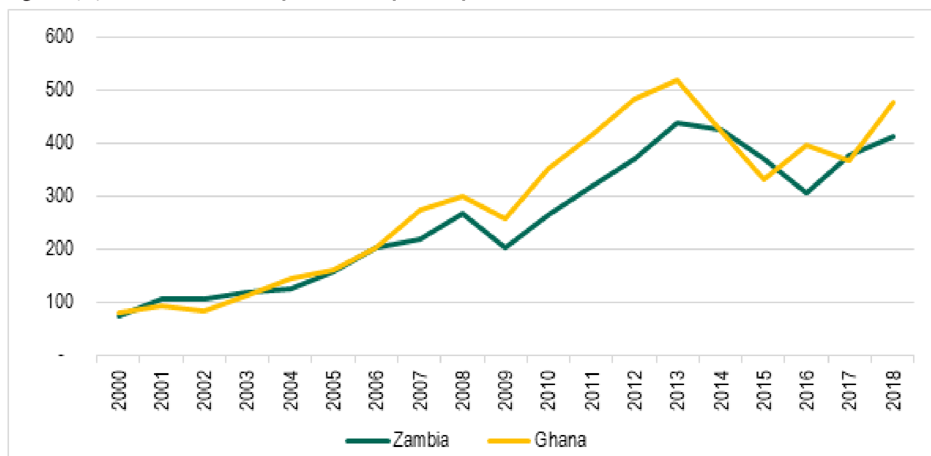


Source: constructed from IMF WEO, Oct 2019 and World Bank WDI 2019

3.4 Emerging Fiscal and Debt Challenges in Zambia and Ghana

Since 2000, we see that both Zambia and Ghana have ramped up their levels of government expenditure per capita. Ghana's spending in that time has increased at a faster rate than Zambia, as seen in Figure 3.5. However, both countries experienced some curbing in this growth in 2009, owing to the Global Financial Crisis (GFC), and again in 2015, due to the global commodity price slump that was particularly dire for economies that depend on commodity export earnings. In general, government spending provides an indication of the size of a country's government. To further explore whether the growth in government spending may have been at an unsustainable pace, we take a look at the two countries fiscal balances.

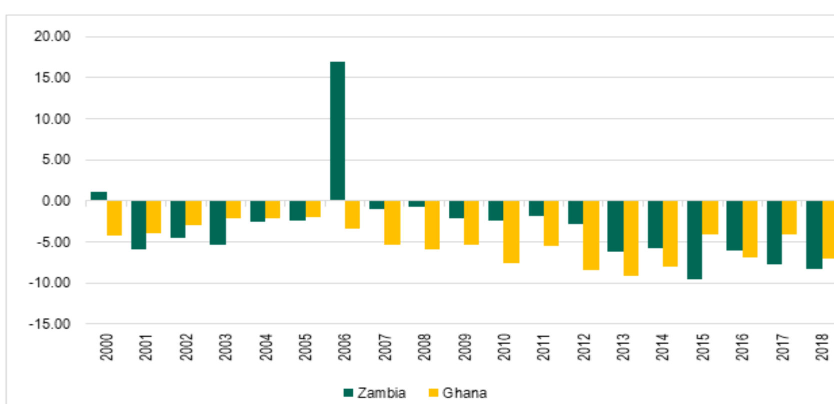
Figure 3.5: Government Expenditure per Capita in Current USD Prices ($), 2000-2018



Source: constructed from IMF WEO, Oct 2019

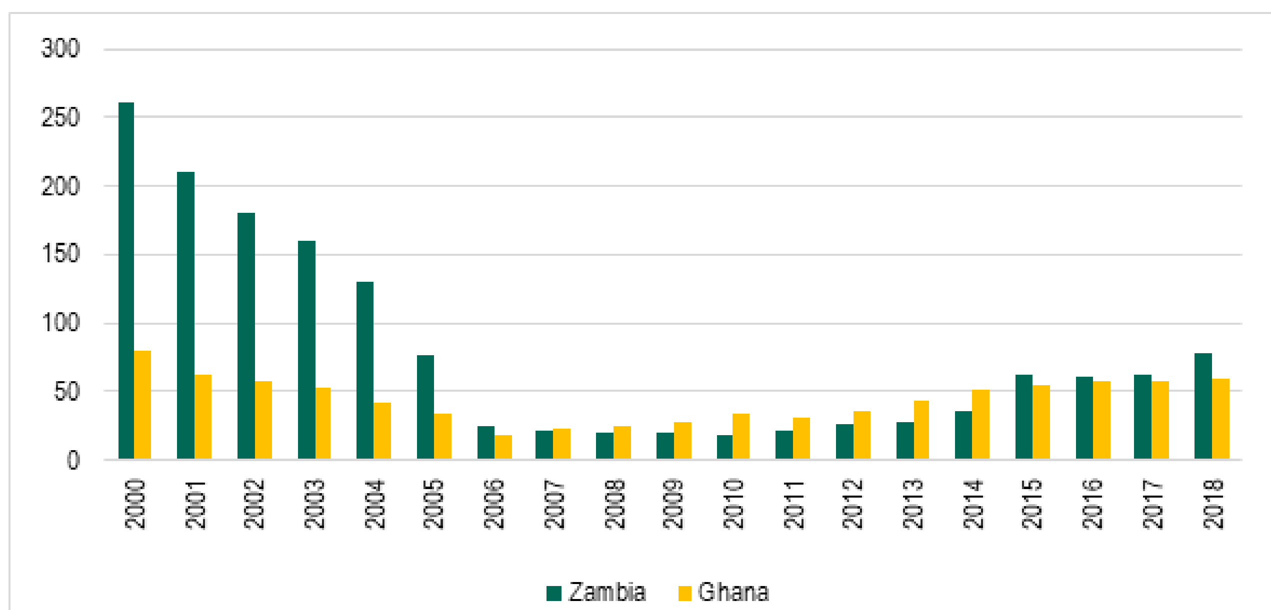
For the period 2000 to 2016, both Zambia and Ghana were running fiscal deficits, with the exception of 2000 and 2006 when Zambia recorded surpluses. The surplus of 16.9% of GDP noted in 2006 for Zambia as seen in Figure 3.6 was partly underpinned by significant increases in export earnings. Overall, however, we see Ghana running considerably higher deficits than Zambia, particularly after 2006. However, it remains to be ascertained whether the escalating fiscal deficits in both countries were used for productive capital expenditure. In Zambia, most of the capital expenditure since around 2009 has gone towards infrastructure development in the form of roads which, depending on what types of roads are built, can be argued to be not particularly productive. In Ghana, the commercial production of crude oil around 2010 underpinned ambitious revenue expectations which led to an expansionary fiscal policy, and consequently unsustainably high budget deficits. Moreover, most of Ghana's crude oil revenue was earmarked and channelled into recurrent expenditure, further exerting pressure on the budget (Martey, 2016).

Figure 3.6: Fiscal Balances (% of GDP), 2000-2018



Over a similar period, gross public debt as a percentage of GDP follows a similar pattern to movements in the fiscal balance. We note that Ghana has consistently had higher debt levels than Zambia barring the convergence in 2006, as seen in Figure 3.7. It is around this time that the two countries were hitting their respective completion points for the Heavily Indebted Poor Countries (HIPC) Initiative supported by the IMF and the World Bank. The HIPC Initiative would result in the cancellation of much of the debt held by some of the world's poorest countries, including Zambia and Ghana. However, soon after this debt relief was given, debt began to mount yet again.

Figure 3.7: General Government Gross Public Debt (% of GDP), 2001-2018



Source: constructed from IMF WEO, Oct 2019

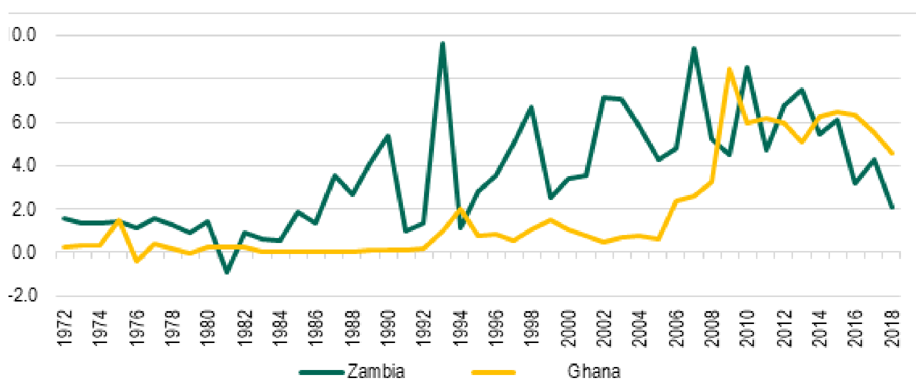
Globally, foreign loans to low-income country governments tripled between 2008 and 2013 with increasing amounts of "aid" being provided in the form of loans (Jones, 2015). In the early 2000s, both Zambia and Ghana were reclassified by the World Bank to lower-middle-income status following a boost in economic growth owing to the commodity boom at the time. However, over the years, high copper prices in Zambia and the discovery of oil in Ghana have encouraged careless international borrowing in turn threatening the debt sustainability of the two countries. As seen in Figure 3.7, by 2018 total public debt as a percentage of GDP was well above 50% for both countries (60% for Ghana and 72% for Zambia). While there is no hard and fast rule of thumb on what is a sustainable level of total public debt to GDP ratio, the levels seen in both countries are becoming worrying, particularly if they continue to mount.

3.5 Historic Constraints and Deterioration in External Performance

The external performance of a country helps determine its competitiveness on the world stage. For both Zambia and Ghana, the indicators of external performance present a mixed bag of results.

With regard to foreign direct investment (FDI) inflows as a percentage of GDP, we see that both countries have seen improvements in this indicator over the years, as shown in Figure 3.8. Since the 1980s, however, these inflows have exhibited much greater volatility for Zambia than for Ghana. While Zambia generally enjoyed higher FDI inflows as a percentage of GDP up until the late 2000s, this trend was reversed in 2014 with Ghana ending up with inflows of 4.5% of GDP in 2018 compared to Zambia's 2.1% of GDP.

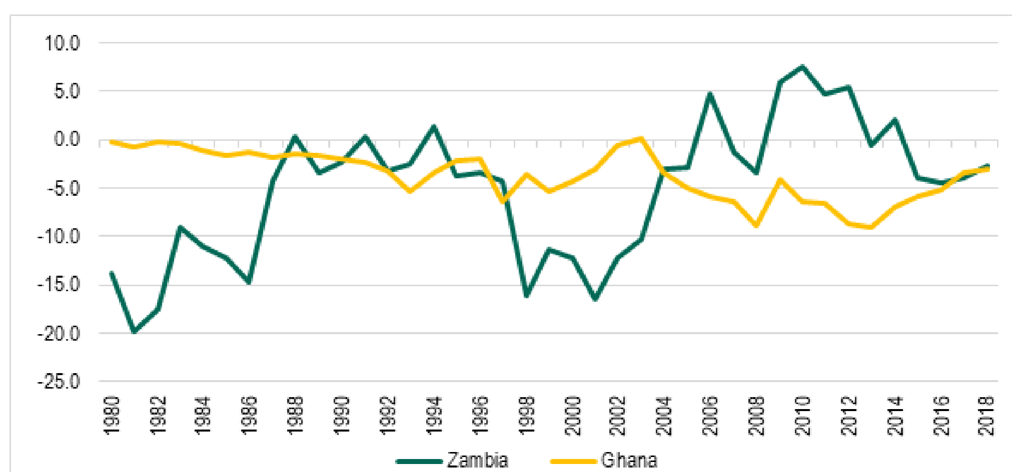
Figure 3.8 : FDI Annual Inflows (% of GDP), 1972-2018



Source: constructed from UNCTAD data

The current account is another important indicator of an economy's external health. It is made up of the balance of trade (i.e. goods and services exports less imports), net income from abroad, and net current transfers. As seen in Figure 3.9, both Ghana and Zambia were generally net borrowers from the rest of the world as their respective current accounts tended to be in deficit from 1980 to 2018. Zambia, however, recorded periods of surplus current account balances, particularly between 2009 and 2014. These surpluses correspond to periods of booming global copper prices, which is Zambia's main source of foreign income. Conversely, when Zambia has sustained fairly large deficits, this has been in line with a fall in global copper prices. For example, in the 1980s, copper prices dropped due to oversupply which saw a corresponding period of current account deficit. By 2016, Zambia's current account balance was in deficit, at -4.5% of GDP, having deteriorated continuously since 2010, before starting to show some improvement.

Figure 3.9: Current Account Balance (% of GDP), 1980-2018



Source: constructed from UNCTAD data

On the other hand, Ghana consistently ran a current account deficit over the period from 1980, except in 2003 when it recorded a marginal surplus of 0.1% of GDP. In the 2000s, Ghana's current account was hit hard by the global financial crisis recording a deficit of minus 11.9% of GDP in 2008 which was again matched in 2013. Since the country re-established a support programme with the IMF, the current account has been improving gradually. This is partly owing to a strong performance in oil exports over the years and partly because of prudent macroeconomic policies. With this continued improvement, Ghana thus closed the period with a deficit of 3.1% of GDP in 2018.

4 IMF Programmes in Ghana and Zambia

Since its establishment, the IMF has worked to foster global monetary and economic cooperation to ensure the stability of the international monetary system. Following the end of the Second World War, the Bretton Woods conference setup an international monetary system based on fixed exchange rates. To manage this system, the IMF was setup in 1944 to manage the payments system between countries to ensure a balance in current accounts so as not to threaten the fixed exchange rate regime. Matters of capital accounts were to be left to the respective member countries to manage themselves (de Carvalho, 2000). Ghana and Zambia joined the Fund in 1957 and 1965, respectively, soon after each country had gained its independence. Since then, the two countries have had several engagements with the IMF, with some programmes being more successful than others.

4.1 Early Engagements: 1960s and 1970s

Ghana entered into its first arrangement[1] with the IMF in 1966. Leading up to this point, the economy had been facing a growing budget deficit owing to unrestrained investments that turned out to be non-viable, high rates of inflation, declining industrial production, and diminishing foreign exchange reserves. Early that year, the military usurped power from the ruling government and the new Ghanaian authorities began work to develop a programme to reduce the budget deficit, check the deterioration in the balance of payments, and rehabilitate the economy. To support the government's programme, the IMF approved four successive one-year stand-by arrangements that would total $76.9 million, of which $74.9 million was drawn by the end of the four years (Bank of Ghana, 1985; IMF, 1966).

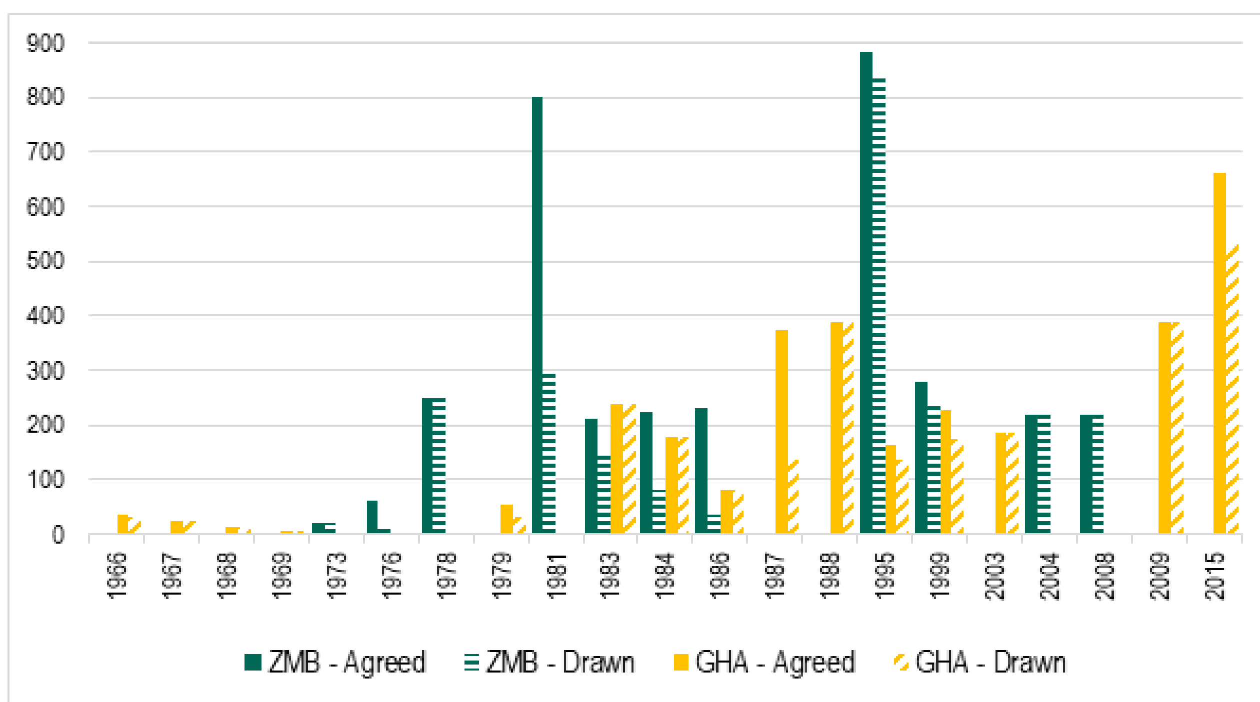
Zambia received its first IMF-supported stabilisation package in 1973 to help support the correction of a worsening budget deficit and support the dwindling foreign reserves. Since gaining independence in 1964, Zambia's economy had been reaping the benefits of a booming copper industry. However, the oil shock of 1973, coupled with the subsequent decline in the price of copper, resulted in a general deterioration in the country's terms of trade. Furthermore, the government's failure to develop a dynamic and diverse economy also led to general economic decline. The 1973 IMF arrangement extended a total of SDR 19 million[2], but the balance of payments continued to deteriorate. A second stand-by arrangement was entered into in 1976, accompanied by several conditionalities including imposing ceilings on the money supply and overall credit, especially government credit, as well as a devaluation of the Zambian kwacha. However, the programme did not yield significant results and less than 1% of the funds extended were drawn upon. Two years later, Zambia requested yet another IMF stand-by arrangement of SDR 317 million which came with its own conditions of further restrictions on credit expansion and an additional devaluation of the currency. (Wallace, 1997)

1 According to the IMF, "a lending arrangement, which is similar to a line of credit, is approved by he IMF Executive Board to support a country's adjustment programme. The arrangement requires the member to observe specific terms and subject to periodic reviews in order to continue to draw upon it."

2 The SDR is the unit of account for the IMF, but it is not a currency per se. Special drawing rights are supplementary foreign-exchange reserve assets defined and maintained by the IMF. As at 31 December, 2019 1SDR = US$1.38 which is the rate used throughout the paper.

Following these initial engagements with the IMF for both Zambia and Ghana, the amounts that have been extended have gotten larger, as seen in Figure 4.1. While Ghana has had more programs with the IMF standing at 16 compared to Zambia's 12[3], Zambia has been extended more money. In terms of agreed amounts, Zambia has had access to a total of approximately SDR 3.4 billion over the years, of which it has drawn SDR 2.34 billion, while Ghana has been extended just over SDR 3 billion and used SDR 2.1 billion of that. The largest single programme amount that has been extended to either country to date was SDR 800 million to Zambia in 1981 under the Extended Fund Facility (EFF)[4]. The SDR 883.4 million shown in Figure 4.1 extended to Zambia in 1995 was the sum of two programs with SDR 181.8 million being extended under the Enhanced Structural Adjustment Facility (ESAF) Commitment[5] and SDR 701.7 million coming under the Extended Credit Facility (ECF)[6].

Figure 4.1: IMF Arrangements with Zambia (ZMB) and Ghana (GHA) (millions of SDR), 1966-2015



Source: constructed from IMF data as at Dec 2019

3 In some cases, more than one arrangement has been agreed in a single year, in which case the agreed amounts have been summed up and presented as a whole in the graphical illustration. In 1987 Ghana entered into two arrangements, and similarly for Zambia in 1995.

4 The EFF is extended to assist countries that face serious medium-term balance of payments problems because of structural weaknesses that require time to address

5 The ESAF was established by the IMF in 1987 to provide low-interest loans to poor countries

6 The ECF provides financial assistance to countries with protracted balance of payments problems and is the Fund's main tool for providing medium-term support to low-income countries

4.2 Embattled Nations: 1980s and 1990s

Since those initial engagements, the IMF has come in to extend various programs for each country respectively over the years. Through the 1980s and 1990s the IMF led structural-adjustment austerity programmes to support both countries' embattled economies at various times. Over this period, Zambia was offered seven support programmes to the tune of SDR2.63 billion being agreed, while Ghana received eight programmes with a total agreed amount of SDR1.66 billion.

For Zambia, the IMF support of the 1980s came in the form of one EFF in 1981 and three standby arrangements in 1983, 1984 and 1986. This was after the deterioration in the Zambian economy had reached crisis proportions in 1982 when trade credits to the country were suspended and world copper prices continued to decline, further exacerbating the worsening terms of trade. Macroeconomic reforms proposed by the IMF in order to reverse the economic recession included the introduction of foreign exchange auctions, liberalization of foreign trade, elimination of price controls, and increase in interest rates. However, the reforms were poorly implemented and short lived after the government received backlash to the austerity measures from the people. In 1987, the government announced its own 'self-help' programme with the theme "Growth from Our Own Resources". (Kalinda & Floro, 1992).

By the late 1980s, Zambia had slipped into an even deeper crisis marked by high inflation, chronic shortage of foreign exchange, constant shortages of essential goods, and difficulty servicing external debt obligations (much of which had been contracted on external terms). It was time to reengage the IMF and face their proposed conditionalities. Zambia received a programme in 1995, which was then followed by another three-year programme in 1999 following setbacks in the economy the previous year due to adverse external developments including a marked fall in copper prices and unfavourable weather conditions.

In parallel, in the late 1970s and early 1980s, Ghana experienced a period of much political turmoil with government changing hands three times between 1978 and 1981. By 1983, the country was in dire economic straits. Real GDP was declining, inflation was high, foreign exchange was in critical short supply, and the balance of payments was not in good shape; conditions that were very similar to the Zambian case in the late 1980s. (Bank of Ghana, 1985)

In April 1983, the Ghanaian government announced a package of economic reform measures, dubbed the Economic Recovery Programme (ERP). The programme was technically home grown, but the history of Ghana's interactions with the IMF meant that the programme was heavily influenced by the thinking of the Fund. The ERP was to be implemented in three separate, but complementary, one-year phases: a stabilisation phase, a rehabilitation phase, and a liberalization and growth phase (Bank of Ghana, 1985; (Herbst, 1993)). This was followed by two further standby arrangements in 1984 and 1986. By several accounts, the implementation of this programme had been a success up to this point. Ghana had implemented most of the agreed-upon conditions and the government generally had a good relationship with the IMF. (Herbst, 1993; Loxley, 1990). This is in contrast to the experience that Zambia was having with the multilateral around the same time.

Following the successful implementation of both the ERP and a Structural Adjustment Programme (SAP) in 1986, the Ghanaian government began to encounter difficulties in implementing additional economic reform in 1992. The Government was extended another programme in 1995, followed by one in 1999 to consolidate the achievements made in macroeconomic stability, as well as accelerate the pace of structural reform (IMF, 1995, 1999).

And so, both Zambia and Ghana entered the new millennium on IMF packages. For Zambia the package was yet another attempt to support the economy and spur growth, as well as support the reduction of the overall budget deficit. For Ghana the package was to consolidate gains that had already been made. But what was evident was that the role of the IMF had shifted from one of simply managing the global payment system and ensuring balance across current accounts. The Bretton Woods agreement was abandoned in the early 1970s with floating exchange rates becoming the regime of choice. From the mid-1980s, as the Fund began to focus more on developing countries, its interventions began to move more towards a strategy of structural reform. (de Carvalho, 2000)

4.3 Poverty Reduction and Growth Engagements: 2000-2009

By the turn of the millennium, the IMF and the global community at large had begun to acknowledge that the policies that the IMF prescribed during the structural reform period of the 1980s and 1990s did not always yield favourable results for the recipient, particularly for poor developing countries. Often, conditionalities attached to IMF support had been accompanied by requirements to reduce public expenditure – even in areas such as health, education, social protection and other critical social services – while prioritising debt repayment and other economic policies. They had also been attached to onerous and devastating liberalization and privatization processes, which saw State Owned Enterprises (SOEs) that could not survive the processes readily closing, with massive job losses and widespread social destitution arising. And so, the IMF began a process of reviewing its terms of conditionality, although in some ways the requirement for a transformation of recipient countries' economic structures also deepened (de Carvalho, 2000). The Poverty Reduction and Growth Facility (PRGF) was introduced to improve the effectiveness of the assistance provided and ensuring ownership of poverty reduction strategies by recipient countries. This facility was designed to support low-income countries' home-grown poverty reduction strategies. Even early on, the programme showed improved growth performance in recipient countries, as well as increased and better-targeted social expenditure (Köhler, 2001).

The next time Zambia received a package from the IMF was in 2004 under the PRGF. At the time, the Zambian economy was improving with economic growth being at its strongest in two decades and inflation on a downward trajectory. The programme would support fiscal consolidation to help limit increases in domestic debt and redirect spending to priority areas over three years (IMF, 2004). In 2008 the Zambian authorities requested yet another three-year arrangement under the PRGF following the successful completion of the 2004 programme the year before. The new arrangement would continue to support economic growth and reduce poverty while safeguarding macroeconomic stability.

For Ghana, soon after the 1999 programme was completed, the country received another three-year programme in 2003 to support the government's economic reform programme under the PRGF. The agreement for the arrangement followed the completion by the government of the Ghana Poverty Reduction Strategy that set out an array of structural measures to address poverty and laid out future spending priorities (IMF, 2003). In 2009, during the global financial crisis, Ghana received another loan under the IMF to help tackle budget imbalances as the country prepared to begin oil production in 2011. Under the programme, government aimed to reduce the fiscal balance substantially, cut public sector borrowing and reverse a deterioration in public debt-to-GDP ratio that had persisted for three years. It was also planned that revenue raised from oil production would be used partly to reduce the fiscal deficit and strengthen debt sustainability, and partly to finance growth promoting infrastructure developments.

4.4 Prior Actions Leading to IMF Engagement in the 2010s

In 2015, Ghana received its most recent funding arrangement under the Extended Credit Facility to the amount of SDR 664.2 million. The programme aimed to restore debt sustainability and macroeconomic stability to support growth while protecting social spending. In the lead up to the agreement, public debt had risen at an unsustainable pace with the country's external position weakening considerably. Some of the challenges that undermined the efforts of the government's attempt at fiscal consolidation leading to the IMF agreement include policy slippages, exogenous shocks, and rising interest costs.

In the lead-up to this agreement, Zambia and Ghana were actually in similar positions, as shown in the earlier macroeconomic summaries in Section 3. The fiscal deficits in both countries were spiralling, and the current account deficit was putting pressure on the exchange rate. Both countries were also amassing debt at an unsustainable rate.

Despite these similarities and differences, however, Ghana did a better job at fulfilling IMF prior actions (outlined in Annex 2) – which the Ghanaian authorities set out themselves in a Memorandum of Economic and Financial Policies – for receiving an arrangement than Zambia. Indeed, an initial mid-term review of Zambia Plus – the country's home-grown stabilisation and growth programme – indicated that insufficient progress was being made in order to garner support from development partners like the IMF (Banda-Muleya et al., 2019).

When a country wishes to borrow from the IMF, it is expected to adjust its economic policies to deal with the problems that led it to seek financial aid in the first place. The country requesting assistance has the primary responsibility of selecting, designing, and implementing the policies that will make the IMF-supported programme successful. Furthermore, the conditionality that is put in place is meant to help the recipient country address any balance of payments issues and ensure the country's ability to repay the loan. Finally, a country's request for funding is approved when the Fund is satisfied that the programme that has been developed to meet conditionality will be carried out with sufficient commitment from the country to implement the programme. (IMF, 2002)

In Ghana, some of the conditions for receiving their 2015 IMF programme included the need for a review of the tax policy, including the removal of some of the tax exemptions extended to SOEs and free zone [7]companies. Ghana was also required to implement some public sector policy reform, including a freeze on public sector employment; reduce the debt burden and develop a medium-term debt management strategy; and eliminate the fiscal dominance of monetary policy to help support fiscal consolidation (Ampah & Buxton, 2015). At the time that Zambia began to court the IMF for a programme, it too tried to implement similar measures to these, but its efforts had not been as convincing as those of Ghana.

While Ghana was gearing up to meet the conditions to receive their 2015 IMF package, Zambia was going through an economic downturn. The economy was hit hard by a collapse in the copper price, electricity shortages, a fall in the value of the kwacha, and rising inflation.

In an effort to get the economy back on track, the newly ushered in Zambian Government began to conceptualise a home-grown economic recovery programme in late 2016 dubbed Zambia Plus. The programme was aimed at strengthening tax policy and administration; increasing budgetary allocation to social protection; improving economic and fiscal governance; improving budget credibility; and improving economic stability through easing of access to credit, lowering lending rates and reducing inflation.

With the economic recovery programme in place, Zambia began to take some action towards fiscal consolidation and stabilising of the economy. The budget presented for the following year, 2017, was one geared towards "fiscal fitness". However, with real GDP growth considerably subdued, the economy was limited in its ability to generate fiscal revenue based on domestic economic activity. Zambia Plus could have been the card that reassured external donors such as the IMF of the country's seriousness for reform. But with the eligibility quota for what Zambia could access from the IMF standing at US$1.3 billion, over three times any amount granted in the past, the Fund would need to be convinced of the fiscal space that this money was being injected into (ZIPAR, 2017). And in this regard, debt accumulation is one key area in which Zambia fell short in convincing the Fund of its prudence.

At the time, public debt had been rising across the region, but Zambia in particular continued to accumulate debt at an unsustainable rate, as already outlined in Section 3.4. For the IMF, this cast doubt on the country's ability to effect fiscal consolidation, particularly the increasing cost of interest payments and the risk of debt distress due to the resulting large fiscal deficits and overly ambitious borrowing. By 2019, the difference in progress made on recommendations offered by the IMF during 2017 Article IV Consultations for both Zambia and Ghana – the last such consultations before those in 2019 – remains noteworthy. While Ghana had largely implemented, or partially implemented, the 2017 Article IV recommendations by the time of the 2019 Article IV Consultation, Zambia's implementation of past policy recommendations was limited (see Annex 3 for Zambia recommendations and Annex 4 for Ghana). In particular, staff recommendations to Zambia to rein in the fiscal deficit and reduce debt vulnerabilities remained unimplemented (IMF, 2019a, 2019f). And with that, at the time of writing this paper, the IMF deal for Zambia remains in abeyance.

7 A free zone is a designated area in which companies are taxed very lightly or not at all in order to encourage economic activity

5 Ghana After the IMF vs Zambia without a Programme

In April 2019, Ghana received the final tranche of its 16th IMF programme which began in August 2015. Early in the programme, consecutive reviews by the IMF indicated that programme performance was "broadly satisfactory" right up until the fourth review in August 2017 when macroeconomic performance was described as being "mixed" (IMF, 2015a, 2016a, 2016b, 2017a). Nonetheless, the outlook for 2017 was promising with increases in oil production driving a growth rebound and inflation declining. But downside risks remained from potential fiscal slippages that could feed into a depreciation of the local currency, compound adverse debt dynamics, and generate inflationary pressure (IMF, 2017a). By March 2019, during the IMF's final review of the ECF, macroeconomic performance was said to have significantly improved in the preceding two years. Growth continued to be robust on the back of oil production; inflation continued to decline; and the fiscal position continued to improve, despite persistent challenges in revenue collection (IMF, 2019b).

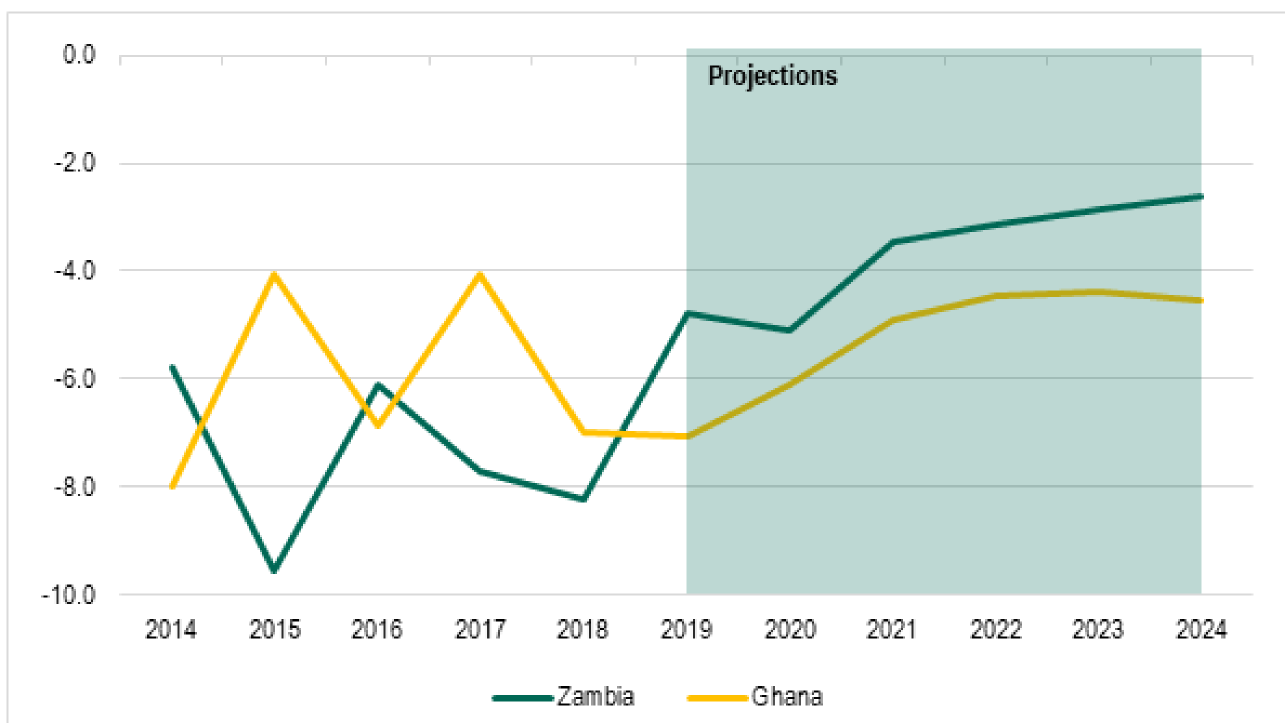
Some have expressed concern regarding the consequences of accepting an IMF programme, the evidence of this paper is that the Fund has been making strides to make its interventions less detrimental to recipient countries. For example, the IMF itself produced evidence that there is a link between higher inequality and lower growth and explores how redistributive objectives can be met in part through fiscal policies (IMF, 2017b). But even as these shortcomings are being acknowledged and addressed, the onus is also on the recipient country authorities to sufficiently manage their engagement with the Fund, as they would with any other partner.

5.1 Looking into The Future: Macroeconomics Projections to 2024

On most scores, Ghana emerged from the 2015-2019 IMF programme with an improvement in its economic fundamentals. And while all the gains made cannot be ascribed to the IMF programme alone, it is likely that the programme was a catalyst for meaningful reform in the country. When Ghana was granted the ECF, it was largely due to persistently high budget deficits which destabilised the macroeconomy. Therefore, in this regard, the programme achieved its intended purpose given the notable improvement in the fiscal balance, halving the deficit from 8% of GDP in 2014 to about 4% in 2015 and 2017. There was a large one-off financial sector cost in 2018 to clean up the banking sector which pulled down the fiscal deficit that year. Nevertheless, the IMF commended the banking sector clean-up as crucial for strengthening the financial sector (IMF, 2019g). Going forward, the IMF projects continued improvement in the fiscal balance for Ghana (Figure 5.1). Meanwhile, Zambia's fiscal balance is also projected to improve in coming years reaching 2.6% of GDP by 2024.[8]

8 This improvement refers to the fiscal balance on cash basis. On a commitment basis, the deficits are slightly larger, as reported in the 2019 Article IV Consultation Staff Report for Zambia (IMF, 2019f)

Figure 5.1: Overall Fiscal Balance (% of GDP), 2014-2024

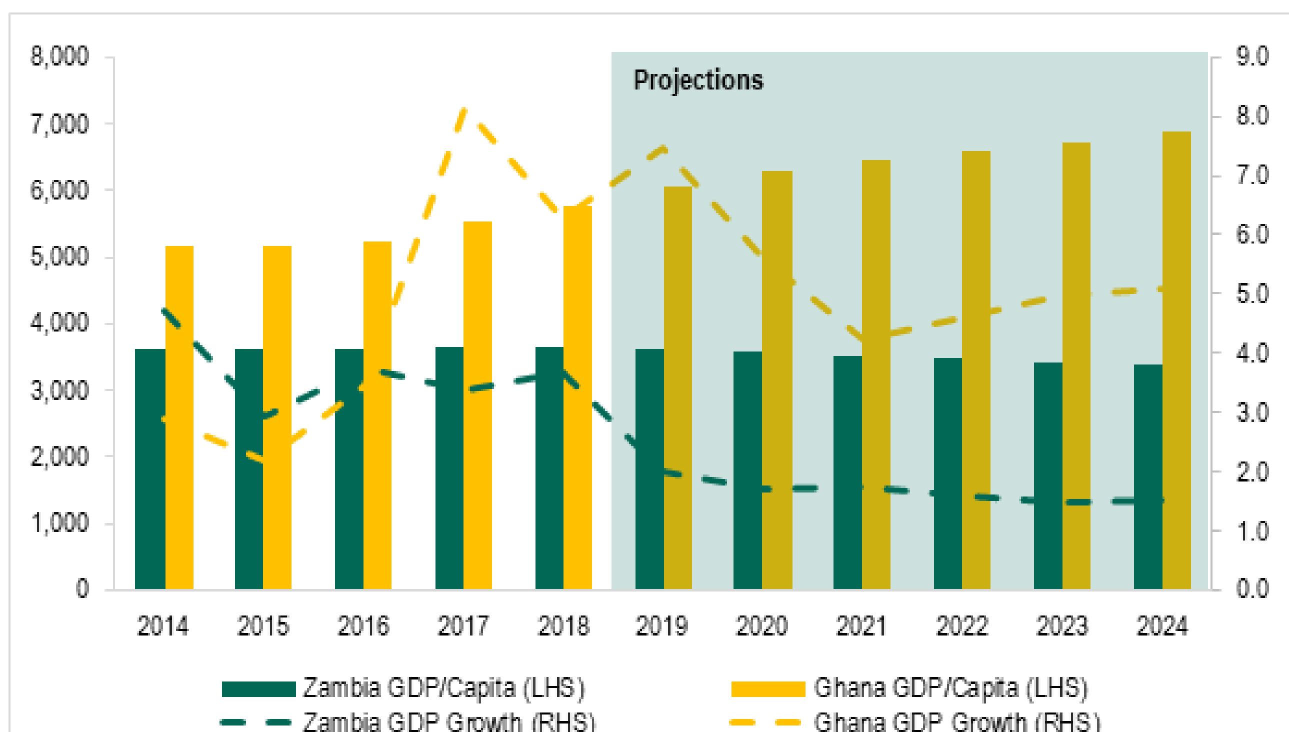


Source: constructed from IMF Fiscal Monitor Database, Oct 2019

Looking at Ghana's other macroeconomic fundamentals in the time since the IMF programme began, we see an increase in terms of GDP per capita over the period 2014 to 2024 when it is projected to reach close to $6,900. Meanwhile, Zambia's prospects for GDP per capita into the future remain flat hovering around $3,500 right up until 2024 (Figure 5.2). Ghana's real GDP growth for 2018 is reported at 6.3% with a projected growth of 5.6% for 2020 after a spike in 2019. The primary impetus for Ghana's projected growth continues to be the discovery of new oil fields. This is compared to Zambia's 3.7% reported growth in 2018 which then falls considerably to the anticipated growth of 2% in 2019. This reduced growth was owing in part to adverse climatic conditions in the country that inhibited the ability to produce hydro-electricity (Zambia's main form of power generation) which in turn adversely affected economic activity. GDP growth is not projected to pick up after this, hovering around 1.5% by 2024 (IMF, 2019d).

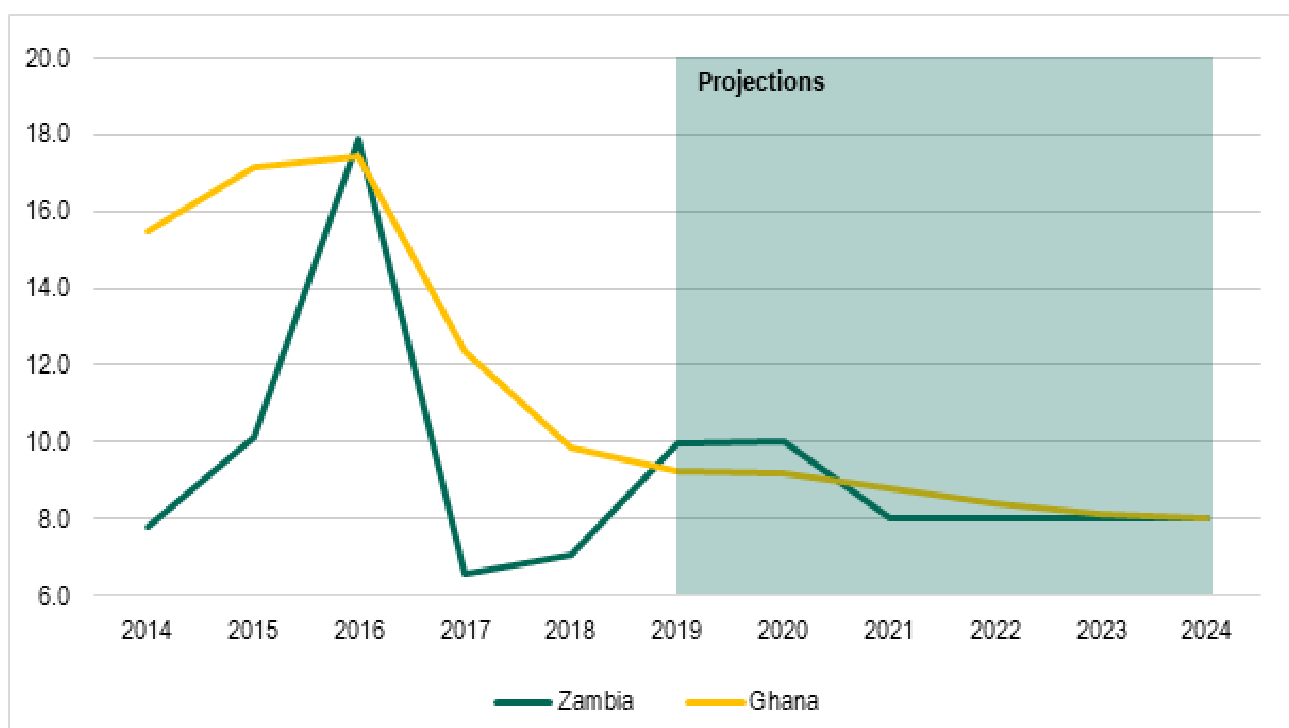
Ghana's inflation has also shown improvement, slowly being brought under control and coming within the Bank of Ghana target range (8 ±2 percent) in 2018. IMF projections indicate that inflation will continue to fall to 8% by 2024 (Figure 5.3). And as the inflation forecast remains favourable for the 24-month forecast horizon, the Bank of Ghana has even considered lowering the target range in order to contain price-growth expectations (Dontoh, 2019). Conversely, Zambia's inflation has been rising since 2017 and is projected to peak around 10% in 2019 and 2020 before being brought back down to 8% by 2024. At the time of writing, inflation stood at 10.8% as at November 2019 with upward inflationary pressures still looming.

Figure 5.2: GDP per Capita in Constant (2011) USD Prices ($), and GDP Growth (%), 2014-2024



Source: constructed from IMF Fiscal Monitor Database, Oct 2019

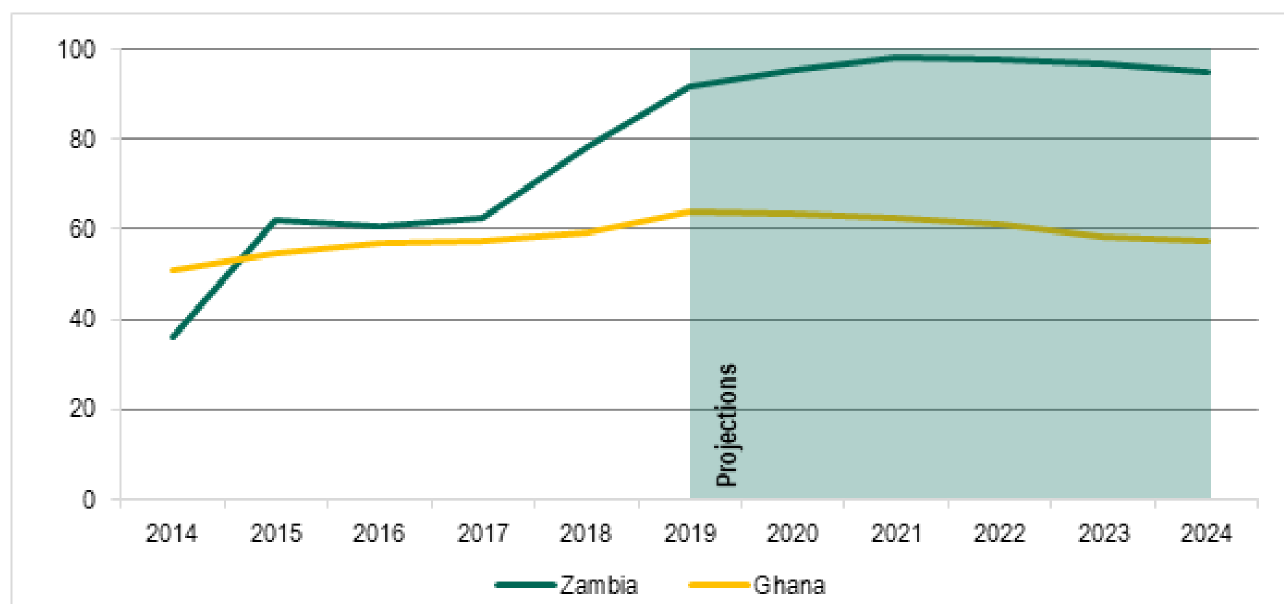
Figure 5.3: Inflation Rates (annual % change), 2014-2024



Source: constructed from IMF Fiscal Monitor Database, Oct 2019

In terms of gross public debt as a percentage of GDP, this has been kept more in check for Ghana compared to that for Zambia which has seen a much sharper increase since 2017 (Figure 5.4). The public debt ratio is projected to start to fall for Ghana starting in 2019 while that of Zambia is projected to continue to increase, albeit at a slower rate, until 2021, before starting to reduce as the payments on Eurobond – a large component of the country's external debt – start to fall due in 2022. Nevertheless, given that the debt to GDP ratios will still remain relatively high for both countries, the risk of debt distress will still remain, particularly for Zambia for whom the ratio is projected to increase beyond, and not fall below, 95% by 2024.

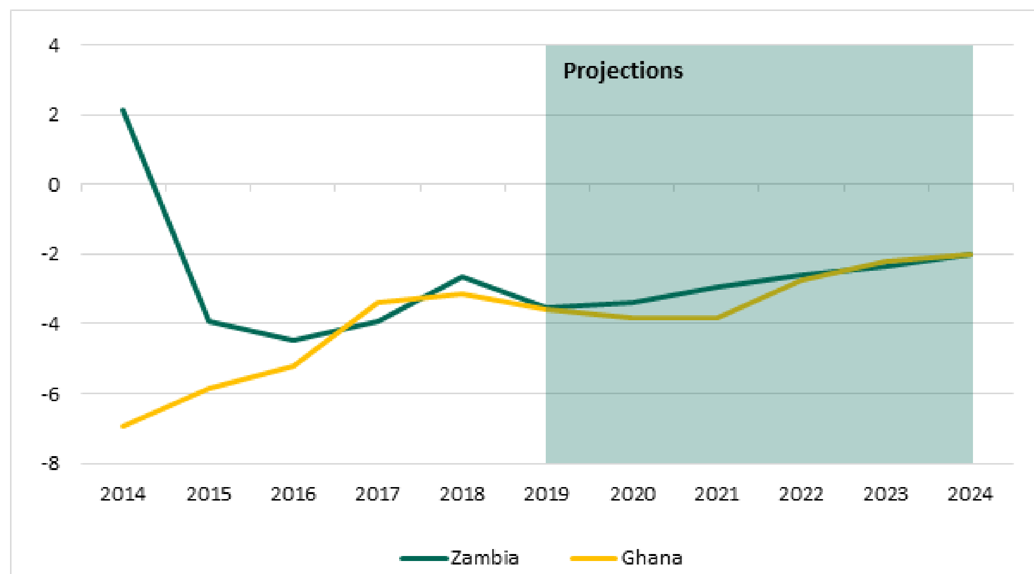
Figure 5.4: Total Gross Public Debt (% of GDP), 2014-2024



Source: constructed from IMF WEO, Oct 2019

Looking at the current account balance, an indicator of external performance, we see that Ghana has generally sustained a larger deficit than Zambia (except in 2017) (Figure 5.5). However, that gap is projected to close by 2022, after an anticipated initial convergence in 2019. Meanwhile, Zambia's current account deficit is expected to start reducing gradually to a deficit of 2% by 2024 after an anticipated widening in 2019 due to higher debt service costs.

Figure 5.5: Current account balances (% of GDP), 2014-2024



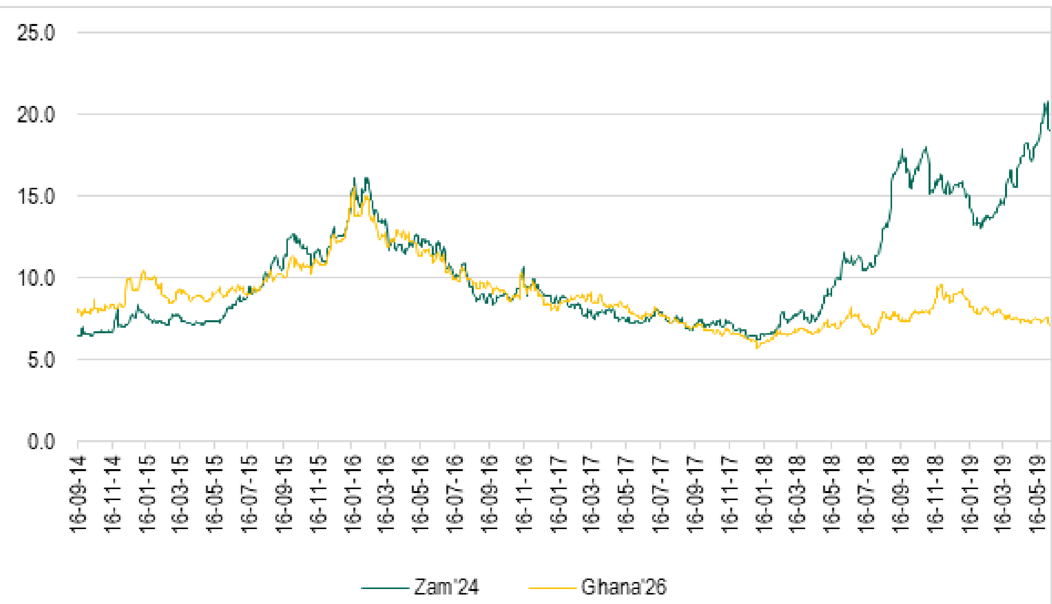
Source: constructed from IMF Fiscal Monitor Database, Oct 2019

5.2 Engagement with The International Community

Even with high levels of debt, however, receiving an IMF programme can help encourage engagements from other external donors, and boost investor confidence. In 2015, after Ghana had secured the IMF programme, the World Bank came in to provide a $400 million Policy-Based Guarantee (PBG) in support of the $1 billion sovereign bond issued by the country late that year. This was the first International Development Association (IDA) Guarantee that provided a backstop for government debt raised for budget support services. This means, was Ghana to fail to make any interest or principal payments, the Guarantee would cover the missed payment(s) up to $400 million. (World Bank, 2015) It is an example of how the World Bank can help countries refinance their existing stock of debt; something that Zambia could stand to benefit from as the country looks for a way out of its debt woes.

Further evidence of the confidence that an IMF deal can instil lies in investor confidence in the Ghanaian economy seemingly being bolstered as with a six-times oversubscription to a $3 billion Eurobond floated in March 2019 (Dontoh & Dzawu, 2019). Indeed, while the yield rates for Eurobonds issued by both countries remained fairly close between 2015 and 2017 (Figure 5.6), these started to deviate in 2018 as an IMF deal remained in abeyance for Zambia and concerns over fiscal mismanagement in the country mounted. Meanwhile, Ghana continued to enjoy lower Eurobond yield rates, likely as a result of the confidence instilled by the IMF having oversight of fiscal affairs in the country.

Figure 5.6: Eurobond Yield Rates maturing in 2024 (Zambia) and 2026 (Ghana) (%), Sept 2014-Jun 2019



Source: constructed from Bloomberg Data

5.3 What It Boils Down To

Indeed, even more generally, the true test of success for Ghana will be how the country carries forward the lessons of fiscal discipline after IMF oversight has been lifted. In particular, as Ghana goes to the polls for a general election in 2020, fiscal discipline will be tested, particularly given characteristic slippages during election cycles in the past. Nonetheless, the economic outlook for the country is positive. The IMF projects real GDP growth for the economy at 7.6% in 2019 (IMF, 2019c), with the discovery of new oil fields in the country. And if Ghana can maintain sound financial policies, it will continue to attract higher investor confidence and lower borrowing costs. There is, however, a need to improve domestic revenue-raising efforts in order to ease the pressure on the fiscus. Therefore, barring any adverse external shocks in commodity prices – given that the economy is still highly dependent on oil and cocoa – all indications are that Ghana should be able to succeed without further IMF oversight (Dontoh & Dzawu, 2019).

All in all, the IMF puts a number of factors into consideration when it comes to granting a programme. While there is a focus on a country's fiscal balance and current account balance, these are not regarded in isolation. On face value, Zambia is projected to fare better than, or be at par with, Ghana by the year 2024 for these two indicators. However, the debt stock and debt service burden are also key indicators that the IMF pays close attention to, and has been cautioning Zambia on, with projections showing the country will not fare nearly as well as Ghana by 2024. Furthermore, with GDP growth rates projected to be fairly subdued for Zambia, the country's ability to manage this debt burden will be significantly hampered. In particular, this is because economic growth is the primary source of domestic revenue, the basis on which a country gains fiscal space to cope with debt.

For all the gains made by Ghana in the last few years, however, it is difficult to say how much of this can be attributed to the IMF programme alone. For example, oil appears to play a large part in future growth projections. This could, therefore, suggest that some of the favourable projections seen for Zambia are also attributed to continued favourable copper prices. However, the favourable projections for Zambia could also speak to a form of "forced consolidation" in which the country simply does not have the capability to expand the fiscal deficit nor the current account balance. For example, if there is no money in the fiscus to pay for goods and services or social sector expenditure. In such a case, an IMF programme becomes imperative to helping create fiscal space, particularly as Eurobond repayments start to fall due. Moreover, what is evident from the case of Ghana is that the IMF programme had a positive influence on fiscal discipline and economic management; the type of influence that Zambia could benefit from.

6 Concluding Views and Lessons for Zambia

Prompted by the varied success that Zambia and Ghana have had in successfully securing an IMF programme of financial and technical support, we undertook a comparative review of the various IMF engagements of the two developing countries. We explored the respective experiences of the two countries over their economic histories, isolating some of the key macroeconomic conditions and outcomes over fairly long-time horizons. The comparison suggests that Ghana and Zambia have many political and economic characteristics in common. Their political histories started at almost the same time in terms of independence. Both economies are mono-primary commodity export dependent and are highly susceptible to global commodity price shocks and other exogenous factors. Both countries have a high affinity for public debt, with Zambia's appetite being considerably larger. A notable political disparity between the two countries is that Ghana experienced many episodes of military intervention (coups) and strife in the 1960s to early 1980s and Zambia did not an any point in its post-independence history.

Regarding exogenous shocks, Ghana and Zambia experienced their most recent episodes at almost the same time, with only a one-year difference (Ghana in 2014 and Zambia in 2015). The two countries experience notable deteriorations in their external economy indicators – such as FDI inward flows and current account balances – in the aftermath of the shocks.

Both economies approached the IMF for a possible IMF programme, but diverged in the nature of their respective prior action responses. The IMF deemed Ghana's post-2014 prior actions as satisfactory and subsequently in 2015, granted the country a programme. Thus, key external economy indicators – FDI inward flows and current account balances – saw notable improvements during 2016-2018. And by the time the programme was concluded in 2019, indications were that economy was well and truly on an upward trajectory, particularly in terms of GPD growth and price (inflation) stability.

On the other hand, Zambia's prior actions were deemed as unsatisfactory on grounds that the country's borrowing plans were still overly ambitious, exposing the country to continued high risks of debt distress. Even an initial mid-term review of Zambia Plus – the country's homegrown stabilisation and growth programme – indicated that insufficient progress was being made to garner support from development partners like the IMF.

The lesson for Zambia is therefore that an IMF programme is feasible if the right prior actions are taken. Moreover, such a programme can help stabilize imbalances in the external economy. The case of Ghana clearly demonstrates this. The Zambian authorities should therefore continue pursuing an IMF programme. They should invest in identifying the types of prior actions that Zambia should undertake in order to satisfy the IMF on credibility, and should pursue those actions diligently. And while IMF projections suggest that the country would undoubtedly survive without an IMF programme, it would likely be at the cost of protracted economic hardship, including a drop in the standard of living for the people. This is particularly true given that the projected GDP growth rates for Zambia up to 2024 will remain subdued and below the current population growth rate of around 3%. And for stakeholders that may as yet harbour doubts about the sincerity of the IMF in their engagements, ultimately the onus falls on the recipient country authorities to sufficiently manage their engagement with the Fund, as they would with any other partner. We therefore recommend a cautious, well-thought out and calculated engagement of the authorities with the IMF.

References

Ampah, S., & Buxton, J. (2015). *The IMF & MCC requirements to Ghana - What does it mean ?* Retrieved from http://www.myjoyonline.com/docs/34278gn economic report.pdf

Banda-Muleya, F., Nalishebo, S., Kalikeka, M., Mungomba, N., Masilokwa, I., & Cheelo, C. (2019). *Toward Stability and Growth: A Review of Pillar I & II of Zambia's Economic Stabilisation and Growth Programme 2017-2019*.

Cheelo, C. (2016). *What Zambia Needs for More and Better Jobs: Balancing between Macroeconomic Stability and Economic Restructuring* (ZIPAR More and Better Jobs Policy Paper No. 3). Retrieved from http://www.zipar.og.zm/research/our-publications/zipar-flagship/88-what-zambia-needs-for-more-and-better-jobs/file

Chibwe, F. (2014). *The Relationship Between Inflation and Economic Growth in Zambia (1980-2011)*. https://doi.org/10.13140/RG.2.1.3920.3929

Chizonde, B. (2016). *The Macroeconomic Determinants of Economic Growth in Zambia: Do Copper prices matter?* (MPRA Paper No. 87854). Retrieved from https://pdfs.semanticscholar.org/b41c/705030505facddcf9388ef83d1f672196184.pdf

Dartey-Baah, K. (2015). Political Leadership in Ghana : 1957 to 2010. *African Journal of Political Science and International Relations*, *9*(February), 49–61. https://doi.org/10.5897/AJPSIR2014.0730

de Carvalho, F. J. C. (2000). The Changing Role and Strategies of the IMF and the Perspectives for the Emerging Countries. *Brazilian Journal of Political Economy*, *20(1)*(77). Retrieved from http://www.rep.org.br/PDF/77-1.PDF

Dontoh, E. (2019, January 28). Ghana Central Bank Cuts Key Rate, Hints at Lower CPI Target. *Bloomberg*. Retrieved from https://www.bloomberg.com/news/articles/2019-01-28/ghana-cuts-key-rate-to-2013-low-as-inflation-seen-in-target

Dontoh, E., & Dzawu, M. M. (2019). Ghana Works to Show It Can Stick to Budget as IMF Deal Ends. Retrieved May 30, 2019, from https://www.bloomberg.com/news/articles/2019-04-01/ghana-sets-out-to-show-it-can-stick-to-a-budget-as-imf-deal-ends

Government of Ghana. (n.d.). Ghana At A Glance - Ghana's Political History From 1957. Retrieved from http://www.ghana.gov.gh/index.php/about-ghana/ghana-at-a-glance

Heidhues, F., & Obare, G. (2011). Lessons from Structural Adjustment Programmes and their Effects in Africa. *Quarterly Journal of International Agriculture*, *50*(1), 55–64. Retrieved from https://tind-customer-agecon.s3.amazonaws.com/d4123b76-e0ea-461e-b580-6ba66f41632f?response-content-disposition=inline%3B filename%2A%3DUTF-8%27%274_Heidhues.pdf&response-content-type=application%2Fpdf&AWSAccessKeyId=AKIAXL7W7Q3XHXDVDQYS&Expires=156441213

Herbst, J. I. (1993). *The Politics of Reform in Ghana, 1982–1991*. Oakland: University of California Press. Retrieved from https://publishing.cdlib.org/ucpressebooks/view?docId=ft2199n7n7;query=;brand=ucpress

IMF. (1966). *Annual Report*. Retrieved from https://www.imf.org/external/pubs/ft/ar/archive/pdf/ar1966.pdf

IMF. (1995, July 3). IMF Approves New ESAF Loans for Ghana [Press Release]. Retrieved from https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr9538

IMF. (1999, May 3). IMF Approves ESAF Loan for Ghana [Press Release]. Retrieved from https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr9916

IMF. (2002). International Monetary Fund: Guidelines on Conditionality. Retrieved from https://www.imf.org/External/np/pdr/cond/2002/eng/guid/092302.pdf

IMF. (2003, May 12). IMF Approves US$258 Million PRGF Arrangement for Ghana [Press Release]. Retrieved from https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr0366

IMF. (2004, June 16). IMF Approves US$320.41 Million PRGF Arrangement for Zambia [Press Release]. Retrieved from https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr04117

IMF. (2014). Ghana - 2014 Article IV Consultation. *IMF Staff Country Reports*, *14*(129). Retrieved from https://www.imf.org/external/pubs/ft/scr/2014/cr14129.pdf

IMF. (2015a). *First Review Under the Extended Credit Facility Arrangement and Request for Waiver and Modifications of Performance Criteria*. Retrieved from https://www.imf.org/~/media/Websites/IMF/imported-full-text-pdf/external/pubs/ft/scr/2015/_cr15245.ashx

IMF. (2015b). *Request for a Three-Year Arrangement Under the Extended Credit Facility Staff Report; Press Release; and Statement by the Executive Director for Ghana*. Retrieved from https://www.imf.org/external/pubs/ft/scr/2015/cr15103.pdf

IMF. (2016a). *Second Review Under the Extended Credit Facility Arrangement and Request for Waiver for Non-observance of Performance Criterion*. Retrieved from https://www.imf.org/external/pubs/ft/scr/2016/cr1616.pdf

IMF. (2016b). *Third Review Under the Extended Credit Facility Arrangement and Request for Waiver for Non-observance of Performance Criterion and Modifications of Performance Criteria*. Retrieved from https://www.imf.org/external/pubs/ft/scr/2016/cr16321.pdf

IMF. (2017a). *2017 Article IV Consultation, Fourth Review Under the Extended Credit Facility Arrangement, Request for Waiver for Non-observance of Performance Criterion, and Request for Extension and Rephrasing of the Arrangement*. Retrieved from https://www.imf.org/~/media/Files/Publications/CR/2017/cr17262.ashx

IMF. (2017b). *Fiscal Monitor Oct 2017 - Tackling Inequality*. Retrieved from https://www.imf.org/en/Publications/FM/Issues/2017/10/05/fiscal-monitor-october-2017

IMF. (2019a). *Ghana 2019 Article IV Consultation - Staff Report. IMF Staff Country Reports* (Vol. 19). https://doi.org/10.5089/9781498314510.002

IMF. (2019b). *Seventh and Eighth Reviews Under the Extended Credit Facility Arrangement and Request for Waivers for Non-observance of Performance Criterion*. Retrieved from https://www.imf.org/~/media/Files/Publications/CR/2019/1GHAEA2019001.ashx

IMF. (2019c). *World Economic Outlook: Growth Slowdown, Precarious Recovery*. Washington DC. Retrieved from https://www.imf.org/en/Publications/WEO/Issues/2019/03/28/world-economic-outlook-april-2019

IMF. (2019d). *World Economics Outlook: Global Manufacturing Downturn, Rising Trade Barriers*. Washington DC. Retrieved from https://www.imf.org/~/media/Files/Publications/WEO/2019/October/English/text.ashx?la=en

IMF. (2019e). Zambia: Financial Position in the Fund as of March 31, 2019. Retrieved April 3, 2019, from https://www.imf.org/external/np/fin/tad/exfin2.aspx?memberKey1=1080&date1key=2099-12-31

IMF. (2019f). *Zambia 2019 Article IV Consultation - Staff Report. IMF Staff Country Reports* (Vol. 19). https://doi.org/10.5089/9781498314510.002

IMF. (2019g, March 20). IMF Executive Board Completes the Last Review of Extended Credit Facility for Ghana [Press Release]. Retrieved from https://www.imf.org/en/News/Articles/2019/03/20/pr1983-ghana-imf-executive-board-completes-the-last-review-of-extended-credit-facility-for-ghana

Jones, T. (2015). The new debt trap How the response to the last global financial crisis has laid the ground for the next, (July).

Kalinda, B., & Floro, M. (1992). Zambia in the 1980s : A Review of National and Urban Level Economic Reforms, (INURD WP 18).

Kawewe, S. M., & Dibie, R. (2000). The Impact of Economic Structural Adjustment Programs [ESAPs] on Women and Children: Implications for Social Welfare in Zimbabwe. *The Journal of Sociology & Social Welfare*, *27*(4 December). Retrieved from https://scholarworks.wmich.edu/cgi/viewcontent.cgi?article=2685&context=jssw

Köhler, H. (2001). The IMF in the Process of Change - Spring Meeting of the International Monetary and Financial Committee. Retrieved from https://www.imf.org/external/np/omd/2001/state.htm

Loxley, J. (1990). Structural Adjustment in Africa: Reflections on Ghana and Zambia. *Review of African Political Economy*, *17*(47), 8–27. Retrieved from http://search.proquest.com/docview/61130746/

Martey, C. K. (2016). Ghana's Monetary and Fiscal Policy Choices in Difficult Times. *Into Africa*, (September), 23–24. Retrieved from http://www.capitalmarketsinafrica.com/ghanas-monetary-and-fiscal-policy-choices-in-difficult-times/

Messkoub, M. (1996). The Social Impact of Adjustment in Tanzania in the 1980s: Economic Crisis and Household Survival Strategies. *Internet Journal of African Studies*, *1*(April). Retrieved from https://www.eldis.org/document/A27409

Naiman, R., & Watkins, N. (1999). *A Survey of the Impacts of IMF Structural Adjustment in Africa: Growth, Social Spending, and Debt Relief*. Retrieved from http://cepr.net/documents/publications/debt_1999_04.htm

Saasa, O. S. (1996). *Policy Reforms and Structural Adjustment in Zambia: The Case of Agriculture and Trade* (Technical Paper No. 35). Retrieved from https://pdf.usaid.gov/pdf_docs/PNABZ697.pdf

Wallace, L. (1997). *Deepening Structural Reform in Africa: Lessons from East Asia*. Washington DC: International Monetary Fund. Retrieved from https://books.google.com/books?hl=en&lr=&id=ZjPs8DaoO2wC&oi=fnd&pg=PR3&dq=Deepening+Structural+Reform+in+Africa:+Lessons+from+East+Asia&ots=uHpsZ-DI84&sig=9foEHPYPRozFSF500V-KVVTIP9U

World Bank. (2015, November 18). New World Bank Guarantee Helps Ghana Secure $1 Billion, 15-Year Bond. Retrieved from http://www.worldbank.org/en/news/feature/2015/11/18/new-world-bank-guarantee-helps-ghana-secure-us1billion-15-year-bond

ZIPAR. (2017). *Economic Distress and the Inevitability of an Economic Recovery Programme*. Lusaka. Retrieved from http://www.zipar.org.zm/research-outputs/our-publications/policy-briefs/45-economic-distress-and-inevitability-of-economic-recovery-programme/file

ZIPAR. (2018). *More and Better Jobs Flagship Project: Final Report* (Policy Paper No. 4). Lusaka. Retrieved from

Annex 1: Political Systems of Zambia and Ghana Over the Years

Zambia – democratic republics, presidential representative, and forms of government				
Republic	*President*	*Political affiliation*	*Took office*	*Left office*
1st Republic	Dr. Kenneth D. Kaunda	Civilian	October 1964	December 1972
2nd Republic	Dr. Kenneth D. Kaunda	Civilian	January 1973	October 1991
3rd Republic	Dr. Frederick T. J. Chiluba	Civilian	October 1991	December 2001
	Levy P. Mwanawasa	Civilian	December 2001	August 2008 (died in office)
	Rupiah B. Banda	Civilian	October 2008	September 2011
	Michael C. Sata	Civilian	September 2011	October 2014 (died in office)
	Edgar C. Lungu	Civilian	January 2015	To date (incumbent)

Ghana – democratic republics, presidential representative, and forms of government				
Republic	*President*	*Political affiliation*	*Took office*	*Left Office*
1st Republic	Kwame Nkrumah	Civilian	July 1960	February 1966 (deposed)
	Lt-Gen Joseph Arthur Ankrah	Military	February 1966	April 1969 (resigned)
2nd Republic	Brig. Akwasi Afrifa	Military	April 1969	August 1970
	Nii Amaa Ollennu	Civilian	August 1970	August 1970
	Edward Akufo-Addo	Civilian	August 1970	January 1972
	Gen. Ignatius Kutu Acheampong	Military	January 1972	July 1978 (deposed)
	Lt-Gen Fred Akuffo	Military	July 1978	June 1979 (deposed)
3rd Republic	Flgt-Lt Jerry Rawlings	Military	June 1979	September 1979
	Hilla Limann	Civilian	September 1979	December 1981 (deposed)
	Flgt-Lt Jerry Rawlings	Military	December 1981	December 1992
4th Republic	Jerry Rawlings	Civilian	January 1993	January 2001
	John Kufour	Civilian	January 2001	January 2009
	John Atta Mills	Civilian	January 2009	July 2012 (died in office)
	John Mahama	Civilian	July 2012	January 2017
	Nana Akufo-Addo	Civilian	January 2017	To date (incumbent)

Source: authors' compilation from various sources, including Dartey-Baah (2015) & Government of Ghana (n.d.)

Annex 2: Ghana Prior Actions for Application to IMF Programme

	Status
i. Adoption of a 2015 Budget consistent with the agreed front-loaded fiscal consolidation path, including the agreed revenue measures underpinning it (i.e., a budget deficit of GHC 7,117 million (equivalent to 5.3 percent of GDP) on a commitment basis).	Completed
ii. Adoption of an agreement establishing a ceiling of 5 percent of previous year's budget revenue for monetary financing of the budget through government overdrafts or loans from Bank of Ghana in 2015 (continuous ceiling).	Completed
iii. Institution and implementation of a strictly rules-based method using market transactions to determine BOG's official exchange rate.	Completed
iv. Implement petroleum products price structure reflecting full cost-recovery, including the VAT on petroleum products.	Completed
v. Announce a medium-term inflation target, endorsed by MOF.	Completed
vi. Cabinet approval and public announcement of additional adjustment measures amounting to GHC 1,265 million to mitigate the impact of lower oil prices and keep total public debt accumulation as approved in the 2015 budget.	Completed
vii. Finalize the validation process of public employees with no bank account that will be removed from the payroll and publish a report on the clean-up, including the number of public employees suspended or under investigation.	Completed
viii. Publication by the inter-ministerial committee on the payroll of the plan to clean-up the payroll and strengthen its management prepared by the Controller General.	Completed

Source: Reproduced from Ghana IMF Country Report No. 15/103, March 2015 (IMF, 2015b)

Annex 3: Main Recommendations of the 2017 Article IV Consultation

Main Recommendations of the 2017 Article IV Consultation	
Fiscal Policy	
Recommendations	**Status**
Debt sustainability. Lower the debt level, including by restraining external non-concessional borrowing, in order to move from high to moderate risk of debt distress rating.	Not implemented. The debt stock increased by about 10 percent of GDP in 2018 and DSA continues to show a high risk of debt distress.
Fiscal consolidation. Reduce the overall fiscal deficit.	Not implemented. The fiscal deficit widened significantly as there were large spending overruns on capital outlays, compounded by continued arrears on VAT refunds and suppliers' credits.
Revenue mobilization. Increase domestic revenues by broadening VAT and CIT tax base, introduce land titling, reducing widespread exemptions/incentives.	Not implemented.
Fuel prices. Recover importation and procurement costs in the supply value chain and reflect changes in international prices and the exchange rate.	Implemented. The Energy Regulatory Board has been reviewing fuel prices every sixty days and has changed the fuel prices when needed to recover procurement costs.
Public investment management. Prioritize infrastructure projects in line with absorptive capacity by setting up an institutional framework for approval of public investment projects, including for large projects.	Not implemented. The government has continued to approve public investment projects without implementing a proper framework for coordinating and managing the identification, preparation, appraisal and implementation of public investment projects to ensure efficiency and value for money.
Public Financial Management. Roll out IFMIS, enhance commitment controls, and implement the Treasury Single Account (TSA) to strengthen transparency and accountability and reduce the risk of accumulating arrears.	Partially implemented. IFMIS was rolled out. However, purchase orders on goods and services are issued outside IFMIS, and expenditure overshooting and arrears accumulation point to weak expenditure controls. There remain a large number of accounts and significant balances outside the TSA (1-2 percent of GDP) held at commercial banks by government entities.
Public Financial Management legislation. Improve transparency and credibility of fiscal policy.	Ongoing. The approval in April 2018 of the new Public Finance Management Act needs to be complemented by approving other critical legislation such as the Planning and Budgeting Bill, the revisions to Loan and Guarantees Act, and the Public Procurement Act.
Monetary and Financial Sector Policies	
Recommendations	**Status**
Monetary policy stance. Maintain a relatively tight monetary policy stance and rebuild reserves buffers.	Partially implemented. BoZ kept its tight monetary stance in 2017, but started unwinding its stance in 2018, in line with reduced inflationary pressures. Reserves have continued to decline, largely reflecting higher external debt payments and a widening current account balance. In May 2019, the BoZ increased its policy rate to 10.25 percent.
Monetary Policy Framework. Grant BoZ formal operational independence to pursue price stability as its primary mandate by amending the BoZ Act.	Ongoing. The amended draft BoZ Act addresses issues related to operational independence of the BoZ and is currently with the Ministry of Finance.

Bank supervision. Strengthen banking supervision capacity and enhance its crisis preparedness.	[Mostly implemented] (See discussion of FSAP.) (IMF, 2019f)
Energy Sector	
Recommendation	**Status**
Finalize the energy sector Cost of Service Study.	Not implemented. Having enacted an interim electric tariff increase of 75 percent for 2017, the Government initiated a Cost of Service Study (COSS) in May 2017, to inform the next adjustment to attain full cost recovery in electricity pricing and pave the way for a reform of the power sector. The COSS has not been yet completed. A ZESCO-proposed a tariff increase was declined in May.

Annex 4: Recommendations of the 2017 Article IV Consultation

Main Recommendations of the 2017 Article IV	
Fiscal Policy	
Recommendations	**Progress**
Achieve primary surplus in 2017 and over the medium term	Primary surplus achieved in 2017. Primary surplus could not be achieved in 2018 and onward due to one-off costs of financial and exceptional energy sector costs.
Increase domestic revenue mobilization	GDP/tax revenue ratio has slightly increased, still below SSA average. Tax exemption bill was submitted to Parliament in April, but not yet adopted into law. Two measures introduced in 2018 (top income tax bracket and tax on luxury vehicles) were reversed in the 2019 mid-term budget. Efforts to improve tax administration continue, with support from Fund TA.
Enhance fiscal transparency	Fiscal rules and Advisory Council were introduced in December 2018, and a fiscal risks statement was published in March.
Clear central government arrears	An arrears clearance plan has been implemented as planned with GhC 0.7 and GhC 1.5 billion arrears to be cleared in 2019 and 2020, respectively.
Implement PFM Reforms	Regulations implementing 2016 PFM Act became effective in April 2019. In addition, the rollout of PFM IT system (IFMIS) is largely completed.
Debt Management	
Improve public debt redemption profile	Public debt profile was smoothed and lengthened through liability management and improved debt management practices.
Strengthen cash management	Implementation of the TSA still ongoing, with progress tracked under the World Bank's PFM project.
Monetary and Exchange Rate Policy	
Recommendations	**Progress**
Refrain from monetary financing	Monetary financing ended for above-the-line transactions. However, the BoG monetized the CBG bond in November 2018. In addition, the BoG Act has not yet been amended to strengthen the prohibition against monetary financing.
Limit FX intervention and deepen FX market	The BoG adopted an internal rules-based framework for FX interventions, and published market-conduct guidelines in February 2019. In addition, the calculation method for the reference rate was revised to exclude BoG trades, and the BoG started to limit trading at the reference rate to ensure market-based pricing of its transactions.
Review liquidity assistance framework	The BoG has begun a review of the ELA framework, with support from IMF TA (April 2019). However, it has not been fully enforcing a revised framework that appropriately collateralizes liquidity assistance.
Eliminate the CFM	The limit of US$10,000 withdrawal per trip and per annual transfer without documentation is still in place.
Financial Sector Policy	
Recommendations	**Progress**
Restore financial sector stability	The authorities implemented a broad financial sector clean-up, resolving nine banks in 18 months, revoking licenses of 386 (deposit-taking) microfinance institutions in May 2019, and another 23 savings and loans companies and finance houses in August 2019. Statutory capital requirements have been increased, supervisory capacity and prudential regulation is being strengthened (including through the alignment of capital requirements with the Basel II/III framework via the new Capital Requirements Directive) and the Ghana Deposit Protection Scheme is expected to be implemented before end-2019. A new Financial Stability Council was established, although it is not yet fully operational.

Strengthen AML/CFT framework	FATF placed Ghana on its "grey list" in October 2018. Several steps are being taken to address strategic deficiencies highlighted in the latest Mutual Evaluation, in line with plans agreed with the FATF's International Cooperation Review Group.
Structural Policies	
Recommendations	**Progress**
Restore energy sector SOE viability	Cabinet adopted the Energy Sector Recovery Program in May, with support from the World Bank. The government has started renegotiation of take-or-pay contracts, and suspended discussions on future PPAs. ESLA bonds continue to be issued to repay legacy debts in the energy sector. The concession agreement for electricity distribution was suspended in July and terminated in October.
Improve SOE governance and transparency	The State Interests and Governance Authority Act was adopted in June. Expanded 2018 SOE report covers 49 entities (from 18 entities in 2017). However, the government created several off-budget entities in the last two years, including to repay energy sector legacy debt (ESLA), finance infrastructure (GAIDC), and monetize future gold revenues to expand education spending (GETFund).

Zambia Institute for Policy Analysis and Research (ZIPAR)
P.O. Box 50782, Lusaka, Zambia
CSO Annex BuildingCorner of John Mbita and Nationalist Road, Lusaka

Tel: +260 211 252559
Fax: +260 211 252566

Email: info@zipar.org.zm
Website: www.zipar.org.zm

www.facebook.com/OfficialZIPAR

Twitter: @ZiparInfo