INTERNATIONAL MONETARY FUND

GHANA

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

March 20, 2015

Approved By
Michael Atingi-Ego and Mark Joseph Flanagan (IMF) and John Panzer (WB)

Prepared by the International Monetary Fund and the World Bank[1]

Based on external public debt indicators, Ghana is now at a high risk of debt distress. Although all indicators but debt service-to-revenue ratio would remain below the policy dependent thresholds[2] by comfortable margins under the baseline, overall debt vulnerabilities have increased since the last DSA where the risk of debt distress was moderate, mainly due to large currency depreciation and higher external indebtedness.[3] However, if fiscal policies are implemented as planned under the program, total public debt is projected to decline from 70 percent in 2014 to 58 percent of GDP in 2019 (following an initial increase to 72 percent of GDP in 2015) and 39 percent in 2034, with total public debt service absorbing around 40 percent of government revenue in the long run. Fiscal consolidation measures, combined with a more ambitious medium-term adjustment and measures to smooth out principal repayments would greatly reduce the risk of further worsening debt and debt-service indicators. Any sizable deviation from the fiscal consolidation program would stall the projected decline in the public debt path and increase further public debt vulnerabilities. High levels of gross financing need are also worrisome. Furthermore, the bullet feature of Eurobonds accentuates Ghana's roll-over risk and its vulnerability to global financial conditions in the medium term.

[1] Prepared in collaboration with Ghanaian authorities. The previous DSA was prepared in April 2014 (IMF Country Report No. 14/129).

[2] The World Bank's Country Policy and Institutions Assessment (CPIA) ranks Ghana as a strong performer (the average CPIA in 2011–13 is 3.79). Thus, the external debt burden thresholds for Ghana are (i) PV of debt-to-GDP ratio: 50 percent; (ii) PV of debt-to-exports ratio: 200 percent; (iii) PV of debt-to-revenue ratio: 300 percent; (iv) debt service-to-exports ratio: 25 percent: and (v) debt service-to-revenue ratio: 22 percent. Given its CPIA is just above the threshold for a high performer (3.75), a deterioration in the CPIA score would further worsen the assessment due to the lowering of these thresholds.

[3] This DSA uses the residency criterion for defining external debt to better capture domestic debt held by nonresidents. The use of the currency criterion (as in the previous DSA) would not change the risk of debt distress.

A. Background and Macroeconomic Assumptions

1. **Ghana's public debt has steadily increased over the past decade, largely through the issuance of local currency-denominated domestic debt.** Against the backdrop of large and sustained budget financing needs, Ghana's domestic debt market has doubled relative to its GDP over the decade. Further, as a rapidly growing frontier market, Ghana has increasingly attracted foreign investors in the domestic debt market since they opened up the market to nonresidents in 2006.[4] External debt also increased gradually including through a series of Eurobond issuances under the relatively benign international financial conditions. The larger increase in external debt (as a percentage of GDP) in 2014 is mainly attributable to a large depreciation of local currency. To reflect properly the increasing vulnerabilities associated with nonresidents' holdings of domestic debt, this DSA uses the residency criterion instead of the currency criterion for defining external debt that was used in the previous DSA. Hereafter, public external debt covers external debt of the central government (including domestic debt held by nonresidents), the main state-owned enterprises (SoEs), and credit facilities contracted by the central bank for a reserve management purpose.[5]

2. **The starting point for the macro-economic assumptions is broadly less favorable than the last Article IV DSA (see Box for detailed discussions on assumptions).** Revisions reflected updated information on the timing of oil production and a worsening in key variables at the start of the projection year, as a result of (i) sharper depreciation in the local currency in 2014; (ii) higher costs of borrowing, consistent with tightened financial conditions and higher inflation; and (iii) a downward revision in real GDP growth in the near term; and (iv) larger fiscal deficit. As a result, several of Ghana's public domestic and external debt indicators for 2014 have deteriorated since the last full DSA.

Table. Key Macroeconomic Assumptions

	2014	2015	2015-20	2021-34
Real GDP Growth	**(annual percentage change)**			
DSA-2014	4.8	5.4	6.2	4.7
Current DSA	4.2	3.5	5.8	5.7
Inflation (GDP deflator)	**(annual percentage change)**			
DSA-2014	13.1	11.2	9.6	6.6
Current DSA	14.7	13.6	9.2	7.0
Real interest rate (foreign debt)	**(percent)**			
DSA-2014	2.4	2.3	2.7	3.8
Current DSA	5.0	3.9	2.9	4.7
Current account balance	**(in percent of GDP)**			
DSA-2014	-10.6	-7.8	-6.9	-6.0
Current DSA	-9.2	-7.0	-5.2	-4.5
Primary fiscal balance	**(in percent of GDP)**			
DSA-2014	-3.6	-2.7	-0.1	-0.3
Current DSA	-3.1	-0.3	1.5	0.4

3. **The envisaged consolidation strategy under the program is expected to have a stabilizing effect on macroeconomic conditions**. Non-oil output growth is set to slow from 4.1 in 2014 to 2.3 percent in 2015 reflecting fiscal and monetary tightening, and power shortages but is forecast to recover gradually and reach 5.5 in 2017. The non-oil sector is projected to grow at an average of 6.4 percent from 2018 onwards. Inflation is expected to slowdown to single digits by 2016 and would reach a lower level in the long term.

[4] Nonresidents can purchase domestic bonds with a maturity of 3 years or longer.

[5] These BoG liabilities do not include swaps contracted with resident banks. A credit line with BIS has also been excluded from the analysis since it is fully collateralized.

Box. Baseline Macroeconomic Assumptions

Real GDP-growth: Real growth has declined to a projected 3.5 percent in 2015, due mainly to fiscal consolidation under the program, a significant decrease in oil prices, and power shortages owing to low water levels in hydro power stations and delayed coming on stream of new power plants. Growth is projected to pick up in 2016 onwards. In the long run, real growth is assumed to stabilize at around 5.7 percent, with new oil discoveries and gas production implying significant upside potential. Non-oil growth is set to decelerate to 2.3 percent in 2015 and pick up to 4.7 percent in 2016, with a long-run steady-state growth rate of 6.5 percent.

Inflation: Inflation reached 17 percent in 2014 and is projected to remain at two-digit levels in 2015. Power shortages might weigh on BoG's efforts to reduce inflation in the near term. However, as fiscal dominance of monetary policy subsides under the fiscal consolidation program, including the elimination of central bank financing to the government by 2016, and BoG restores the effectiveness of its inflation targeting monetary policy framework, inflation should move back to close to BOG's medium-term target of 8 ±2 percent. Inflation rates are projected to converge to around 7 percent over the projection period.

Government balances: The overall cash fiscal balance has been elevated at 9.4 percent of GDP in 2014, with interest expenditures amounting to some 6 percent of GDP. The program envisages an upfront and ambitious fiscal consolidation, including a decline in real wages and a strict payroll scrutiny and limited net hiring, combined with several tax measures. The already-approved 2015 budget envisages adjustments equivalent to some 3 percentage points of GDP. The government is planning to take additional measures to address the revenue shortfall due to lower oil prices in the near-term, while the expected longer-term recovery in oil prices and increased oil/gas production will contribute to maintaining the overall deficits at a sustainable level. The primary surplus is projected to converge close to zero percent of GDP in the long-run.

Current account balance: Over the past years the current account deficit has been unsustainably high at around 10 percent of GDP. The impact on the current account of recent declines in oil prices would be relatively small given that Ghana still imports significant amount of refined oil. With the tightening of fiscal and monetary policies, the current account deficit would improve to about 5 percent of GDP in 2017. In the long-run, with increased oil/gas production and an improvement in oil prices, the deficit is projected to decline gradually to some 3 percent of GDP. Gross international reserves would reach the authorities' target of 4.2 months of imports in 2017 and build up steadily in the outer period to higher levels.

Financing flows: Ghana has enjoyed high FDI inflows over the past years, even under increasing uncertainties surrounding the Ghanaian economy, reaching 8.7 percent of GDP in 2014, mainly driven by the hydrocarbon sector. Thanks to a discovery of new fields, FDI is projected to stay close to 7½ percent of GDP in the medium term, and then gradually decline towards around 3 percent of GDP in the long run. Consistent with Ghana's improving income status and wealth, inflows from grants are projected to decline to less than 1 percent of GDP in the medium to long term. Borrowing is projected to become increasingly nonconcessional and these loans are expected to be used for key infrastructure projects to bring up potential growth rate. A series of issuances of Eurobonds are assumed to rollover maturing Eurobonds, which are assumed to be repaid in amortization payments rather than a bullet payment as with the 2014 Eurobond.

4. **Stable oil production and the onset of natural gas production in 2015 will boost hydrocarbon growth to 22 percent, partly offsetting the deceleration in the non-oil sector.** Crude oil production is projected to increase from 37 million barrels per year in 2014 to 76 million in 2017, and an average of 82 million barrels during 2018–20. Based on the latest WEO projections, the price of oil is projected to decrease to around US$50-55 in 2015 and subsequently recover to around US$70 per barrel by 2019; prices are assumed to stabilize at this level over the medium term in real terms.

B. External Debt Sustainability Analysis

5. **Under the baseline which is consistent with the Fund's program, all the indicators but debt service-to-revenue ratio would remain under the thresholds comfortably.** The PV indicators jump in 2015 and subsequently decrease to sustainable levels over the projection period. Compared with the last DSA, all PV indicators would be worse at the end of the projection. Due to the change of the criterion for external debt, debt services increased to some extent, leading to a worsening of debt-services related indicators.

6. **Under the baseline, the external debt service-to-revenue ratio would breach its indicative threshold in the long term for a protracted period.** Without assuming proactive measures to smooth the amortization of the 2007, 2013, and 2014 Eurobonds, the indicator would hover around the threshold, with large breaches in some years.

7. **The debt outlook is particularly sensitive to shocks to nominal exchange rates and net non-debt creating flows.** Although the breach would still be small and temporary except for the debt service-to-revenue ratio, the relevant debt indicators tend to be worst and the most extreme (in 2024) under standard shocks to exchange rates and net non-debt creating flows. Under the historical scenario where the current account deficit remains at around 8 percent of GDP and net FDIs are quite low—compared with the last 5 years—at 5.6 percent of GDP over the projection period, four indicators would breach the thresholds. Historical scenario suggests the PV to debt-to-GDP ratio would also exceed the threshold in addition to the debt service-to-revenue ratio mainly due to sustained larger current account deficits than in the baseline.

8. **Ghana has been able to tap the international bond market three times since its debut issuance in 2007.** Ghana, along with other frontier markets, has taken advantage of historically low underlying benchmark US Treasury yields to issue its international sovereign bonds in the last couple of years. The issuance of the international bond in 2014 was successful from a market perspective; it attracted considerable investor interest and was oversubscribed against the backdrop of generally low market volatility. However, its yield, at 8.1 percent (with spread of around 550bp), was higher than for bonds issued in the recent past by other SSA countries. Spreads on existing bonds had increased in October 2014 like many other frontier and emerging markets, with a peak of over 850bp in December 2014, and subsequently declined to around 650bp in February 2015.

9. **The large central bank swap operations also present considerable risks.** These dollar-denominated short-term obligations have recently been rolled over on a continuous basis, which creates

additional risk to debt sustainability. BoG plans to unwind these swap operations gradually, especially since some local banks have external liabilities underpinning swaps with BoG.

10. **The stock of external debt contracted by State Owned Enterprises (SOEs) without government guarantee is limited.** Except for the national oil company, SOEs have limited ability to tap international resources without government guarantee, and most of their external debt is contracted by the central government and subsequently on-lent to them, or guaranteed by the central government. In addition to government and government-guaranteed debt, this DSA incorporates non government-guaranteed external debt contracted by a SoE, which amounted to some USD 200 million at end-2014. The use of residency basis partly masks SoE's vulnerabilities associated with their large foreign currency-denominated liabilities from resident banks. [6]

11. **Holdings of domestic debt instruments by non-residents present roll-over and foreign exchange risks caused by accompanying capital outflows.** Non-residents are allowed to participate in the medium- to long-end of the market (bonds with maturities of 3-year and higher). The share of domestic debt held by non-residents has fluctuated around 20 percent of total domestic debt. Domestic bonds of Ghc 1.8 billion and 1.3 billion are coming due in 2015 and 2016, respectively, which could have negative implications for the balance of payments.

C. Public Debt Sustainability Analysis

12. **Ghana's total public debt dynamics would improve under the program** (Table 4, Figure 3). The program assumes more ambitious and frontloaded fiscal consolidation measures than the original authorities' homegrown consolidation strategy. This implies a large reduction in the 2015 fiscal primary deficit (of about 4½ percentage points of GDP on a commitment basis), leading to an overall deficit on a commitment basis of about 2¼ percent of GDP in 2017 (corresponding to a non-oil primary surplus of about 1 percent of GDP, with a cumulative 5.6 percentage points of GDP improvement from 2014), with subsequent changes driven primarily by the profile for oil revenues. Owing to the envisaged front-loaded and more ambitious fiscal consolidation under the program, as well as improved domestic and external borrowing conditions (in line with the external debt sustainability assessment), the total public debt service-to-revenue ratio (including payments on external and domestic debt) would also improve despite worsened initial conditions. It is projected to stabilize at around 40 percent in the long run.

13. **PV of debt-to-GDP ratio remains below public debt benchmark by comfortable margins, but stress tests suggest deteriorations in relevant indicators.** Under the baseline scenario all indicators show sustainable paths whereas they could be on an explosive path under the historical and the most extreme shock scenario. Again, the indicators are sensitive to a shock to real exchange rate depreciation.

14. **Cost and rollover risk of domestic debt are increasing.** Interest rates of both 91 and 182-day treasury bills increased by around 700 basis points (to about 26 percent) in 2014. The share of domestic

[6] SOEs have significant amount of USD denominated obligations with resident commercial banks and possible USD-denominated arrears associated with their commercial activities, the total of which could exceed USD 1 billion.

debt in short term maturities (less than 1 year) has increased from 45 percent as of end-2013 to 56 percent as of end-2014, increasing rollover risk.

15. **Domestic arrears represent an additional risk factor to public debt sustainability.** The total stock of outstanding arrears rose from GhC. 5.2 billion in 2011 to about GhC. 6.2 billion in 2014, and the authorities are planning to eliminate all domestic arrears by end-2017. The bulk of these arrears are concentrated in the SOEs and the statutory funds.

D. Conclusion

16. **Although Ghana is now assessed to be at a high risk of debt distress, active debt management and ambitious fiscal consolidation under the program should improve its debt sustainability.** The standardized exercise shows that only one external debt indicator, debt service-to-revenue ratio, would breach the policy-dependent threshold under the assumptions embedded in the ECF-supported program. Proactive debt management policies reinforced by envisaged revenue enhancement measures could improve this indicator over the medium and long run. As illustrated in stress scenarios, both external and public debt could follow an explosive path, inter-alia, under shocks to exchange rates and capital inflows. Sound macroeconomic management and structural adjustment to enhance growth would also be key to bringing debt firmly on a sustainable path.

17. **Any sizable deviation from the ambitious fiscal consolidation program would decisively stall the projected decline in the public debt path.** Total public debt is already at high levels by international standards and will keep rising on an unsustainable path with unchanged policies. The key downside risks will then be that banks' appetite for government debt would wane, financing needs would rise to levels that cannot realistically be met, domestic arrears would increase, and interest costs would rise further adding to the debt burden. External financing gaps would open up with pressure on the exchange rate eventually leading to a further significant depreciation as well as abrupt adjustment in the fiscal position.

18. **Furthermore, the bullet feature of Eurobonds accentuates Ghana's roll-over risk,** since the principal repayment falls in one specific year or within a short period of time[7], unlike amortizing debt instruments for which the principal repayment is distributed over a longer time horizon. In particular, Ghana will face the risk that benchmark US Treasury yields will be much higher (as US economic conditions normalize and monetary policy is tightened). In that context, risk appetite from international investors could be very different from current conditions and Ghana might not be able to roll-over the needed amounts in the future.

19. **Ghana's government faces large gross financing needs (GFN).** High GFN, defined as the primary deficit plus the stock of short-term debt at the end of the last period, is an indication of the exposure to liquidity risks, including rollover needs associated with sovereign Bonds. The average level of total GFN for Ghana will peak in 2015 at 26 percent of GDP, well above the benchmark of 15 percent of

[7] The 2014 Eurobond has a soft repayment structure over 3 years (i.e. over 2024–26)

GDP for EM countries and higher than in other market-access LICs, before subsequently declining to 13 percent towards the end of projection.

20. **The authorities broadly concurred with the staff's views on debt sustainability analysis with some caveats.** The authorities are concerned about the bullet repayments of Eurobonds and agreed on the importance of having realistic medium- and long-term debt management strategy along with fiscal consolidation. In their view, the analysis underestimates the potential of higher hydrocarbon production, including gas production coming on stream in the next few years, which would boost government revenues in the long-run. Also, they believe that the revised debt management strategy to be adopted by mid-2015, including the use of a sinking fund, would restore the confidence in the market and reduce the interest costs associated with Eurobonds.

Table 1 .Ghana: External Debt Sustainability Framework, Baseline Scenario, 2011-2034 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-2019 Average	2024	2034	2020-2034 Average
External debt (nominal) 1/	**29.1**	**34.1**	**34.9**			**47.4**	**47.6**	**47.3**	**45.6**	**44.4**	**44.0**		**40.7**	**30.6**	
of which: public and publicly guaranteed (PPG)	23.6	28.9	30.4			41.8	43.6	43.3	41.6	40.4	40.0		36.7	26.6	
Change in external debt	2.9	5.0	0.8			12.5	0.2	-0.3	-1.7	-1.2	-0.4		-1.1	-0.7	
Identified net debt-creating flows	-4.1	2.2	0.4			-1.3	-2.1	-4.1	-6.6	-5.9	-4.9		-2.6	-0.2	
Non-interest current account deficit	**7.9**	**10.2**	**9.8**	**7.8**	**2.4**	**6.7**	**4.9**	**4.6**	**3.1**	**2.8**	**2.6**		**2.8**	**2.4**	2.4
Deficit in balance of goods and services	12.4	12.4	13.0			9.6	10.4	8.8	6.6	5.9	5.7		6.5	4.8	
Exports	36.9	40.1	33.4			38.9	33.2	34.5	35.8	35.9	34.9		30.3	26.7	
Imports	49.3	52.5	46.3			48.5	43.7	43.2	42.4	41.7	40.5		36.7	31.5	
Net current transfers (negative = inflow)	-6.6	-5.7	-4.0	-7.6	1.8	-4.9	-5.9	-5.8	-5.2	-4.9	-4.7		-3.7	-2.0	-3.2
of which: official	-0.6	-0.6	-0.2			0.0	-0.7	-0.1	0.0	-0.1	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	2.1	3.6	0.8			1.9	0.4	1.6	1.7	1.9	1.6		0.0	-0.5	
Net FDI (negative = inflow)	**-8.1**	**-7.9**	**-6.6**	**-5.6**	**3.4**	**-8.7**	**-7.5**	**-7.5**	**-7.5**	**-7.5**	**-7.5**		**-5.4**	**-2.6**	-4.6
Endogenous debt dynamics 2/	**-3.8**	**-0.1**	**-2.7**			**0.7**	**0.5**	**-1.1**	**-2.1**	**-1.2**	**0.0**		**0.0**	**0.1**	
Contribution from nominal interest rate	1.0	1.5	2.0			2.5	2.1	1.7	1.8	1.7	1.8		2.2	1.9	
Contribution from real GDP growth	-3.0	-2.2	-2.2			-1.8	-1.6	-2.8	-3.9	-2.9	-1.8		-2.2	-1.8	
Contribution from price and exchange rate changes	-1.9	0.6	-2.5			...	...	...	...	...	...	...	...	...	
Residual (3-4) 3/	**7.0**	**2.8**	**0.3**			**13.8**	**2.3**	**3.7**	**4.9**	**4.7**	**4.5**		**1.5**	**-0.5**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	32.4			43.1	40.8	40.8	39.3	39.1	39.4		38.2	29.2	
In percent of exports	...	...	97.2			110.8	122.8	118.3	109.8	109.1	112.9		126.0	109.3	
PV of PPG external debt	**...**	**...**	**28.0**			**37.5**	**36.8**	**36.8**	**35.3**	**35.1**	**35.4**		**34.2**	**25.2**	
In percent of exports	**...**	**...**	**83.8**			**96.4**	**110.7**	**106.7**	**98.6**	**97.9**	**101.4**		**112.8**	**94.3**	
In percent of government revenues	**...**	**...**	**172.7**			**210.2**	**202.5**	**195.1**	**180.8**	**172.8**	**173.0**		**171.5**	**130.7**	
Debt service-to-exports ratio (in percent)	**9.7**	**10.1**	**12.1**			**18.1**	**22.4**	**15.2**	**17.6**	**14.1**	**13.1**		**20.2**	**20.6**	
PPG debt service-to-exports ratio (in percent)	**6.7**	**7.2**	**9.4**			**14.8**	**19.1**	**13.0**	**15.6**	**12.1**	**10.9**		**17.7**	**17.9**	
PPG debt service-to-revenue ratio (in percent)	**14.3**	**16.8**	**19.4**			**32.3**	**34.9**	**23.8**	**28.6**	**21.3**	**18.6**		**27.0**	**24.8**	
Total gross financing need (Millions of U.S. dollars)	1322.4	2688.8	3480.5			2291.9	2010.6	981.3	886.4	201.8	-212.6		2650.8	8978.4	
Non-interest current account deficit that stabilizes debt ratio	5.0	5.2	9.0			-5.8	4.7	4.9	4.8	4.0	2.9		3.8	3.1	
Key macroeconomic assumptions															
Real GDP growth (in percent)	14.0	8.0	7.3	7.4	2.7	4.2	3.5	6.4	9.2	6.9	4.4	5.8	5.6	6.3	5.7
GDP deflator in US dollar terms (change in percent)	7.8	-1.9	7.9	8.3	10.4	-23.6	-1.9	2.0	1.6	1.9	2.0	-3.0	2.1	2.1	2.1
Effective interest rate (percent) 5/	4.9	5.5	6.7	4.2	1.7	5.7	4.6	3.8	4.2	4.0	4.4	4.5	5.6	6.7	6.0
Growth of exports of G&S (US dollar terms, in percent)	54.7	15.2	-3.6	18.5	15.6	-7.3	-13.3	12.6	15.4	9.1	3.4	3.3	6.4	6.9	6.0
Growth of imports of G&S (US dollar terms, in percent)	39.4	12.8	2.3	19.3	14.9	-16.7	-8.7	7.4	8.8	7.2	3.4	0.3	5.6	6.5	6.1
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	-2.3	5.3	5.8	0.8	-12.2	-13.8	-2.7	-13.9	-14.9	-14.3
Government revenues (excluding grants, in percent of GDP)	17.3	17.2	16.2			17.8	18.2	18.9	19.5	20.3	20.4		19.9	19.3	19.7
Aid flows (in Millions of US dollars) 7/	800.5	646.1	224.0			526.3	825.8	878.6	754.3	407.0	330.9		126.2	54.3	
of which: Grants	800.5	646.1	224.0			277.2	568.2	514.2	404.3	407.0	330.9		99.8	10.7	
of which: Concessional loans	0.0	0.0	0.0			249.1	257.6	364.4	350.0	0.0	0.0		26.4	43.6	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			0.6	1.8	1.6	0.9	0.2	0.0		-0.5	-0.6	-0.5
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			7.6	22.2	21.8	12.6	3.5	1.1		-10.9	-14.7	-11.7
Memorandum items:															
Nominal GDP (Millions of US dollars)	39565.0	41939.3	48586.0			38647.7	39218.8	42527.1	47214.5	51436.8	54728.9		76382.3	171248.3	
Nominal dollar GDP growth	23.0	6.0	15.8			-20.5	1.5	8.4	11.0	8.9	6.4	2.6	7.9	8.6	7.9
PV of PPG external debt (in Millions of US dollars)			12067.4			13279.3	13928.0	15075.9	16182.3	17580.4	18872.8		25514.8	42166.3	
(PVt-PVt-1)/GDPt-1 (in percent)						2.5	1.7	2.9	2.6	3.0	2.5	2.5	1.9	1.5	1.7
Gross workers' remittances (Millions of US dollars)	1941.6	1760.2	1523.9			1531.8	1685.0	1726.2	1765.1	1803.0	1839.9		2036.2	2394.7	
PV of PPG external debt (in percent of GDP + remittances)	...	...	27.1			36.0	35.3	35.4	34.1	33.9	34.2		33.3	24.8	
PV of PPG external debt (in percent of exports + remittances)	...	...	76.6			87.5	98.0	95.5	89.3	89.2	92.5		103.7	89.6	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	8.6			13.4	16.9	11.7	14.1	11.0	10.0		16.3	17.0	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt. PPG debt is based on the residency criterion, thus including domestic debt held by nonresidents.
PPG debt also includes SoE's debt and the central bank's liabilities for a reserve management purpose.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2. Ghana: Public Sector Debt Sustainability Framework, Baseline Scenario, 2011-2034
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate		Projections							
	2011	2012	2013	Average 5/	Standard Deviation 5/	2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average
Public sector debt 1/	42.6	49.6	56.3			70.3	72.2	70.0	64.8	60.6	58.0		50.6	38.9	
of which: foreign-currency denominated	23.6	28.9	30.4			41.8	43.6	43.3	41.6	40.4	40.0		36.7	26.6	
Change in public sector debt	0.3	7.0	6.6			14.0	1.9	-2.2	-5.1	-4.2	-2.6		-1.1	-0.8	
Identified debt-creating flows	-4.3	6.9	4.2			11.7	0.4	-1.6	-5.1	-3.6	-2.2		-0.6	-0.4	
Primary deficit	1.4	8.6	5.5	3.6	2.8	2.7	0.1	-0.3	-1.9	-2.2	-2.4	-0.7	-0.3	-0.1	-0.6
Revenue and grants	19.3	18.7	16.7			18.5	19.6	20.1	20.4	21.1	21.0		20.1	19.3	
of which: grants	2.0	1.5	0.5			0.7	1.4	1.2	0.9	0.8	0.6		0.1	0.0	
Primary (noninterest) expenditure	20.6	27.3	22.2			21.2	19.7	19.8	18.5	18.9	18.7		19.8	19.2	
Automatic debt dynamics	-6.4	-1.6	-1.3			9.1	0.3	-1.4	-3.1	-1.3	0.1		-0.4	-0.3	
Contribution from interest rate/growth differential	-5.2	-3.0	-1.7			0.3	1.0	-1.4	-3.1	-1.3	0.1		-0.4	-0.3	
of which: contribution from average real interest rate	0.0	0.1	1.7			2.5	3.3	2.9	2.8	2.9	2.7		2.4	2.1	
of which: contribution from real GDP growth	-5.2	-3.2	-3.4			-2.2	-2.4	-4.3	-5.9	-4.2	-2.5		-2.7	-2.4	
Contribution from real exchange rate depreciation	-1.2	1.4	0.3			8.8	-0.6	0.0	0.0	0.0	0.0		...	...	
Other identified debt-creating flows	0.8	-0.1	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	1.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-0.2	-0.1	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	4.6	0.1	2.5			2.3	1.5	-0.6	-0.1	-0.7	-0.4		-0.4	-0.4	
Other Sustainability Indicators															
PV of public sector debt	...	...	53.8			66.0	65.3	63.5	58.6	55.3	53.4		48.1	37.5	
of which: foreign-currency denominated	...	...	28.0			37.5	36.8	36.8	35.3	35.1	35.4		34.2	25.2	
of which: external	...	...	28.0			37.5	36.8	36.8	35.3	35.1	35.4		34.2	25.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	14.1	20.5	19.7			24.2	25.9	22.5	20.4	17.4	15.0		14.4	12.9	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	323.2			355.9	333.1	316.3	287.2	262.0	253.6		239.7	194.3	
PV of public sector debt-to-revenue ratio (in percent)	...	...	332.4			370.2	359.6	336.6	299.8	272.2	261.1		241.3	194.4	
of which: external 3/	...	...	172.7			210.2	202.5	195.1	180.8	172.8	173.0		171.5	130.7	
Debt service-to-revenue and grants ratio (in percent) 4/	39.8	39.7	52.9			75.7	78.9	63.9	64.4	53.2	45.9		44.8	40.3	
Debt service-to-revenue ratio (in percent) 4/	44.5	43.2	54.4			78.8	85.2	68.0	67.2	55.3	47.3		45.1	40.3	
Primary deficit that stabilizes the debt-to-GDP ratio	1.0	1.6	-1.1			-11.3	-1.8	1.9	3.2	2.0	0.2		0.8	0.7	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	14.0	8.0	7.3	7.4	2.7	4.2	3.5	6.4	9.2	6.9	4.4	5.8	5.6	6.3	5.7
Average nominal interest rate on forex debt (in percent)	6.6	6.3	7.9	4.3	2.1	6.2	5.2	4.1	4.6	4.4	4.8	4.9	6.2	7.6	6.7
Average real interest rate on domestic debt (in percent)	-3.7	-4.8	0.1	-1.8	4.1	4.7	7.0	7.3	7.7	9.4	8.5	7.4	7.1	5.6	6.0
Real exchange rate depreciation (in percent, + indicates depreciation)	-7.0	6.1	1.2	-4.1	8.1	28.8	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	13.9	16.6	17.4	17.0	4.6	14.7	13.6	9.7	8.8	8.0	7.5	10.4	6.9	6.9	7.0
Growth of real primary spending (deflated by GDP deflator, in percent)	12.2	42.9	-12.9	4.3	14.8	-0.2	-4.0	7.0	1.9	9.3	3.2	2.9	7.8	6.2	5.8
Grant element of new external borrowing (in percent)	...	...	...	...	...	-2.3	5.3	5.8	0.8	-12.2	-13.8	-2.7	-13.9	-14.9	...

Sources: Country authorities; and staff estimates and projections.

1/ The external debt covers the central government, SoEs, and the central bank's liabiliteis contracted for a reserve management purpose. The domestic debt covers the debt stock of the central government.
In this table, *foreign-currency denominated* should be read as "*external*".

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 3. Ghana: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-2034
(In percent)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of debt-to GDP ratio								
Baseline	37	37	37	35	35	35	**34**	25
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	37	38	41	46	51	55	**54**	31
A2. New public sector loans on less favorable terms in 2014-2034 2	37	37	38	38	38	38	**39**	35
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	37	35	36	34	34	35	**34**	25
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	37	28	25	24	24	25	**30**	24
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	37	36	37	36	36	36	**35**	26
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	37	42	48	46	46	46	**38**	25
B5. Combination of B1-B4 using one-half standard deviation shocks	37	25	17	17	17	18	**25**	22
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	37	51	51	49	49	50	**48**	35
PV of debt-to-exports ratio								
Baseline	96	111	107	99	98	101	**113**	94
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	96	113	120	128	142	158	**178**	116
A2. New public sector loans on less favorable terms in 2014-2034 2	96	111	111	106	106	110	**130**	132
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	96	107	103	96	95	99	**110**	92
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	96	72	67	62	63	65	**91**	83
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	96	107	103	96	95	99	**110**	92
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	96	126	138	128	127	131	**125**	94
B5. Combination of B1-B4 using one-half standard deviation shocks	96	64	44	41	42	44	**72**	71
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	96	107	103	96	95	99	**110**	92
PV of debt-to-revenue ratio								
Baseline	210	202	195	181	173	173	**171**	131
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	210	207	219	235	250	269	**271**	160
A2. New public sector loans on less favorable terms in 2014-2034 2	210	203	202	194	187	188	**198**	183
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	210	193	189	176	169	169	**168**	128
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	210	156	133	124	120	121	**150**	126
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	210	196	196	183	175	176	**175**	133
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	210	230	253	235	224	224	**190**	130
B5. Combination of B1-B4 using one-half standard deviation shocks	210	139	93	87	86	87	**127**	114
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	210	282	271	253	242	243	**242**	184

Table 3. Ghana: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-2034 (continued)

(In percent)

Debt service-to-exports ratio

Baseline	15	19	13	16	12	11	**18**	18
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	15	17	11	14	12	11	**24**	19
A2. New public sector loans on less favorable terms in 2014-2034 2	15	19	12	12	9	8	**18**	24
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	15	19	13	16	12	11	**18**	18
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	15	16	11	13	10	8	**11**	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	15	19	13	16	12	11	**18**	18
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	15	19	14	18	14	13	**24**	18
B5. Combination of B1-B4 using one-half standard deviation shocks	15	15	9	10	7	6	**7**	14
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	15	19	13	16	12	11	**18**	18

Debt service-to-revenue ratio

Baseline	32	35	24	29	21	19	**27**	25
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	32	30	21	25	21	19	**36**	26
A2. New public sector loans on less favorable terms in 2014-2034 2	32	35	22	23	15	14	**28**	34
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	32	34	24	29	21	19	**27**	25
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	32	35	21	25	18	16	**19**	24
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	32	35	25	30	22	19	**28**	26
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	32	35	26	32	25	22	**36**	26
B5. Combination of B1-B4 using one-half standard deviation shocks	32	32	19	22	15	13	**13**	22
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	32	50	34	41	31	27	**39**	36
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	-16	-16	-16	-16	-16	-16	**-16**	-16

Sources: Country authorities; and staff estimates and projections.

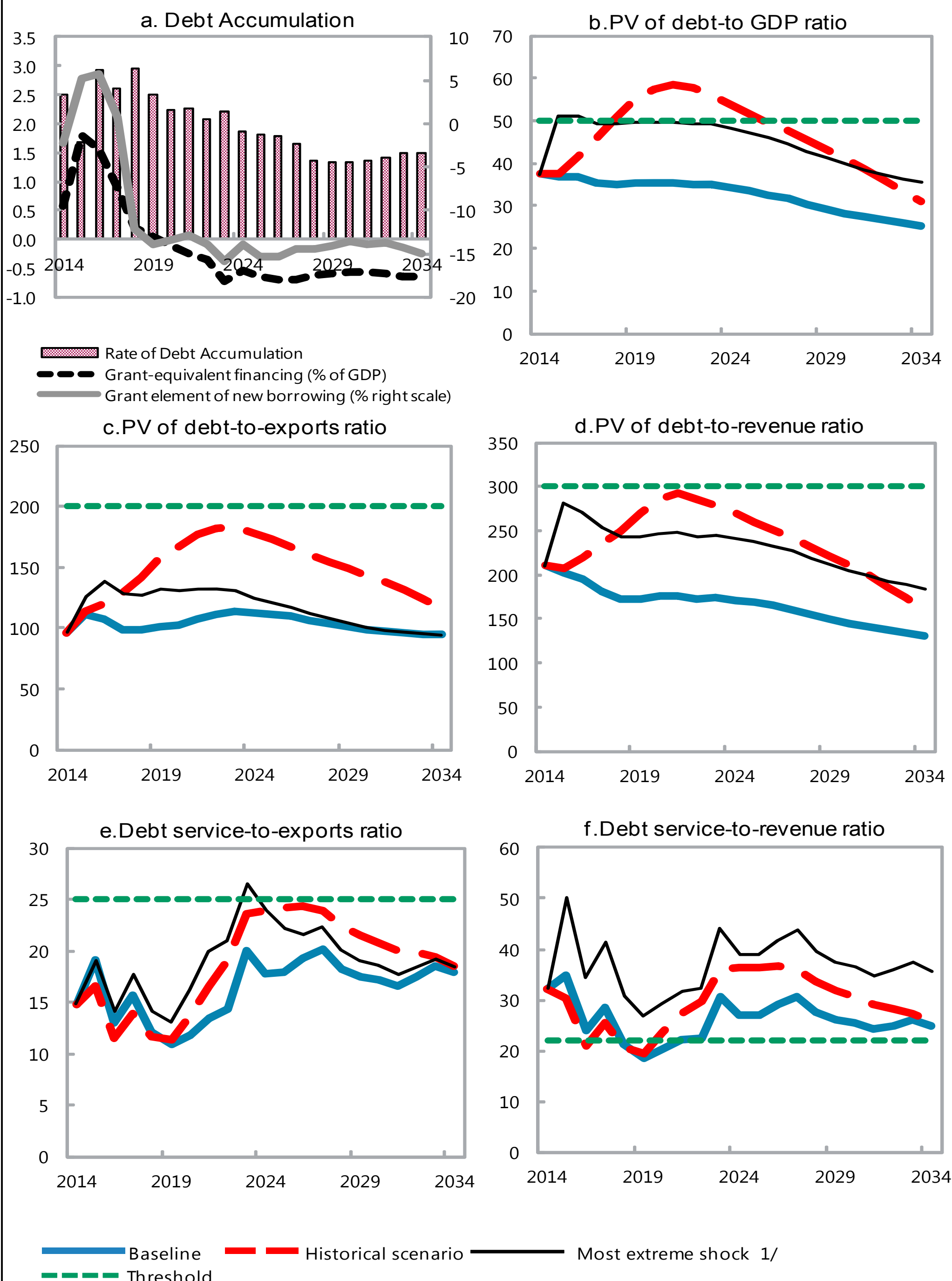
1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming
an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 4. Ghana: Sensitivity Analysis for Key Indicators of Public Debt 2014-2034

	Projections							
	2014	2015	2016	2017	2018	2019	2024	2034
PV of Debt-to-GDP Ratio								
Baseline	66	65	63	59	55	53	48	37
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	66	67	69	71	74	77	92	122
A2. Primary balance is unchanged from 2014	66	68	70	70	72	76	96	127
A3. Permanently lower GDP growth 1/	66	66	65	60	58	57	59	72
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	66	64	64	59	56	54	49	39
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	66	72	78	73	70	68	65	56
B3. Combination of B1-B2 using one half standard deviation shocks	66	69	74	68	64	62	56	42
B4. One-time 30 percent real depreciation in 2015	66	83	81	76	74	73	78	94
B5. 10 percent of GDP increase in other debt-creating flows in 2015	66	77	75	70	67	65	61	52
PV of Debt-to-Revenue Ratio 2/								
Baseline	356	333	316	287	262	254	240	194
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	356	342	344	349	352	368	460	634
A2. Primary balance is unchanged from 2014	356	348	348	343	342	363	480	657
A3. Permanently lower GDP growth 1/	356	336	322	296	274	270	292	376
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	356	329	317	288	263	255	244	203
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	356	369	389	358	330	324	323	291
B3. Combination of B1-B2 using one half standard deviation shocks	356	354	367	334	306	297	279	216
B4. One-time 30 percent real depreciation in 2015	356	425	406	374	350	349	390	487
B5. 10 percent of GDP increase in other debt-creating flows in 2015	356	390	373	342	315	309	305	270
Debt Service-to-Revenue Ratio 2/								
Baseline	76	79	64	64	53	46	45	40
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	76	76	63	67	58	55	74	109
A2. Primary balance is unchanged from 2014	76	79	65	67	58	56	79	116
A3. Permanently lower GDP growth 1/	76	79	64	65	54	48	51	68
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	76	78	64	64	53	46	45	41
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	76	79	67	71	60	58	61	57
B3. Combination of B1-B2 using one half standard deviation shocks	76	77	65	69	57	54	53	45
B4. One-time 30 percent real depreciation in 2015	76	87	76	80	66	61	77	103
B5. 10 percent of GDP increase in other debt-creating flows in 2015	76	79	70	70	58	59	56	53

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

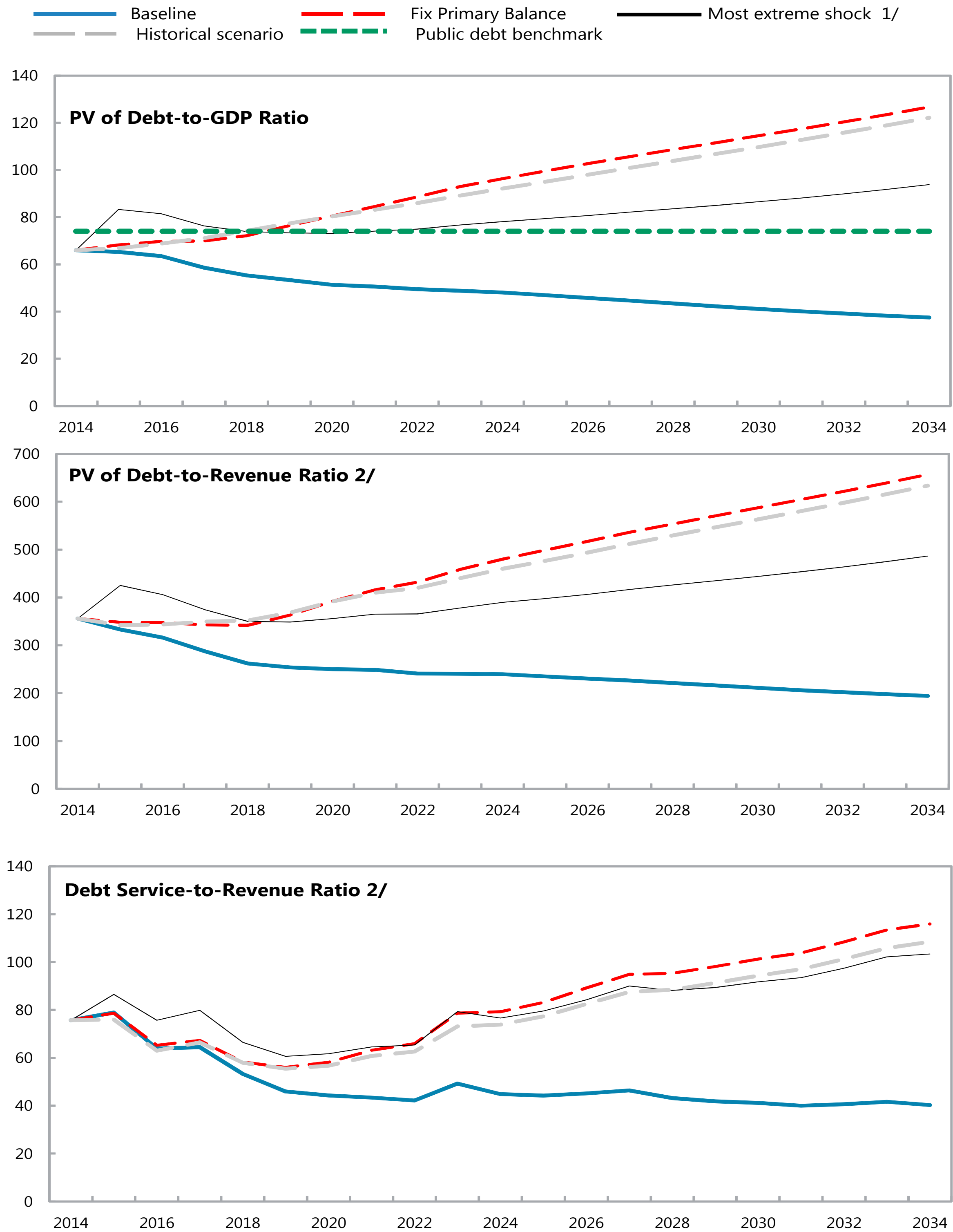
Figure 1. Ghana: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2014-2034 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2024.

Figure 2.Ghana: Indicators of Public Debt Under Alternative Scenarios, 2014-2034 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2024.
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

Press Release No. 15/159
FOR IMMEDIATE RELEASE
April 3, 2015

International Monetary Fund
Washington, D.C. 20431 USA

IMF Approves US$918 million ECF Arrangement Million to Help Ghana Boost Growth, Jobs and Stability

The Executive Board of the International Monetary Fund (IMF) today approved a three-year arrangement under the Extended Credit Facility (ECF) for Ghana in an amount equivalent to SDR 664.20 million (180 percent of quota or about US$918 million) in support of the authorities' medium-term economic reform program.

The program aims to restore debt sustainability and macroeconomic stability to foster a return to high growth and job creation, while protecting social spending. The Executive Board's decision will enable an immediate disbursement of SDR 83.025 million (about US$114.8 million).

At the conclusion of the Executive Board's discussion, Mr. Min Zhu, Deputy Managing Director and Acting Chair, stated:

"After two decades of strong and broadly inclusive growth, large fiscal and external imbalances in recent years have led to a growth slowdown and are putting Ghana's medium-term prospects at risk. Public debt has risen at an unsustainable pace and the external position has weakened considerably. The government has embarked on a fiscal consolidation path since 2013, but policy slippages, exogenous shocks, and rising interest costs have undermined these efforts. Acute electricity shortages are also constraining economic activity.

"The new ECF-supported program, anchored on Ghana's Shared Growth and Development Agenda, aims at strengthening reforms to restore macroeconomic stability and sustain higher growth. The main objectives of the program are to achieve a sizeable and frontloaded fiscal adjustment while protecting priority spending, strengthen monetary policy by eliminating fiscal dominance, rebuild external buffers, and safeguard financial sector stability.

"Achieving key fiscal objectives will require strict containment of expenditure, in particular of the wage bill and subsidies. The government's efforts to mobilize additional revenues will

also help create more space for social spending and infrastructure investment, in particular in the energy sector. The government is rightly adjusting expenditures further to mitigate the shortfall in oil revenue and avoid a larger debt build-up. Moreover, a prudent borrowing strategy will be needed to ensure that financing needs are met at the lowest possible cost.

“The government’s structural reform agenda appropriately focuses on strengthening public financial management and enhancing transparency in budget preparation and execution. Strengthening expenditure control will be critical to avoid new accumulation of domestic arrears. The government should continue to clean up the payroll and improve control of hiring in the public sector to address one of the main sources of fiscal imbalances in the recent past. At the same time, enhanced transparency in the public finances will be critical to garner broad support for reforms.

“The authorities are strengthening monetary operations and gradually eliminating monetary financing of the budget to improve the effectiveness and independence of monetary policy and bring inflation down to single digit territory. Safeguarding financial sector stability will be important for supporting private sector activity.

“Forceful and sustained implementation of the program will be essential to address Ghana’s macroeconomic imbalances and enhance investor confidence in view of downside risks. The frontloaded nature of the fiscal consolidation and expected financial support from development partners should help to mitigate program risks, and foster broad-based, inclusive growth in the medium term.”

Annex

Recent Economic Developments

Ghana has experienced strong and broadly inclusive growth over the last two decades and its medium-term economic prospects are supported by rising hydrocarbon production. However, emergence of large fiscal and external imbalances, compounded by severe electricity shortages, has put Ghana’s prospects at risks. In recent years, a ballooning wage bill, poorly targeted subsidies and rising interest payments outpaced rising oil revenue and resulted in double digit fiscal deficits. These imbalances have led to high inflation, a decline in reserves, a significant depreciation of the Cedi and high interest rates, weighing on growth and job creation.

Growth decelerated markedly in 2014, to an estimated 4.2 percent, driven by a sharp contraction in the industrial and service sectors. This was due to the negative impact of the currency depreciation on input costs, declining domestic demand and increasing power outages. Inflationary pressures rose on the back of a large depreciation of the cedi and the financing of the fiscal deficit by Bank of Ghana (BoG). Despite several hikes in the policy interest rate in 2014 to 21 percent, headline CPI inflation reached 17.0 percent at end-2014, well above the 8 +/-2 percent target range of the BoG.

The fiscal deficit remained high in 2014 despite gradual fiscal consolidation efforts undertaken since mid-2013. In addition, the government started facing increasing financing difficulties. Delays in implementing some adjustment measures and unbudgeted wage allowances resulted in a higher-than-budgeted cash fiscal deficit of 9.5 percent of GDP. Additional domestic arrears were accumulated and the overall fiscal deficit on a commitment basis remained close to 10 percent of GDP. The government has had to resort increasingly to short-term domestic debt, which now carries interest rates at around 25-26 percent, and significant monetary financing. A US$1 billion Eurobond was successfully issued in September 2014, but at significantly higher interest rate than other issuers in sub-Saharan Africa.

The external position weakened through mid-2014, with net international reserves reaching low levels in the third quarter and the exchange rate depreciating sharply. The exchange rate dropped sharply in the first 8 months of the year before recovering on the back of inflows from the September Eurobond and the US$1.8 billion short-term loan contracted by the Cocoa Board. The currency depreciation and the economic slowdown led to a substantial contraction of imports and a narrowing in the current account deficit, which nonetheless ended at 9.2 percent of GDP. For the year as a whole, the balance of payments was broadly balanced, leading to a fragile stabilization in international reserves, with gross reserves partly supported by large BOG's short-term liabilities.

Program Summary

The government's three-year economic reform program seeks to support growth and help reduce poverty by restoring macroeconomic stability through an ambitious and sustained fiscal consolidation, a prudent debt management strategy with improved fiscal transparency, and an effective monetary policy framework.

The program foresees a pick-up in economic growth, starting in 2016, supported by expected increases in hydrocarbon production. Lower inflation and interest rates, combined with a stable exchange rate environment would help support private sector activity. Increased oil exports and lower oil imports on the back of domestic gas production will support the improvement in the current account, which together with the surpluses on the financial and capital account will help build up gross reserves to a more adequate level over the medium term.

The main pillars of the program are: (i) a sizeable and frontloaded fiscal adjustment to restore debt sustainability, focusing on containing expenditures through wage restraint and limited net hiring, as well as on measures to mobilize additional revenues; (ii) structural reforms to strengthen public finances and fiscal discipline by improving budget transparency, cleaning-up and controlling the payroll, right-sizing the civil service, and improving revenue

collection; (iii) restoring the effectiveness of the inflation targeting framework to help bring inflation back into single digit territory; and (iv) preserving financial sector stability. To alleviate the potential adverse impact of the strong fiscal adjustment on the most vulnerable in society and protect real income of the poor, which was dented by three years of high inflation, the government is committed to use part of the resulting fiscal space to safeguard social and other priority spending under the program, including expanding the targeted social safety nets—such as the Livelihood Empowerment Against Poverty (LEAP) program.

The envisaged fiscal consolidation is projected to further dampen non-oil economic growth initially and reduce inflation in 2015, but growth is expected to rebound in the following years. Non-oil GDP growth would decelerate further to 2.3 percent in 2015 before picking up in the following years, reaching 5.5 percent by 2017. On the fiscal side, the program seeks to expand revenue collection, restrain the wage bill and other primary expenditures, while making space for priority spending and for clearing all domestic arrears. Despite lower projected oil revenues, the program aims at turning the primary balance from a deficit of 3.7 percent in 2014 into a surplus of 0.9 percent of GDP in 2015 and 3.2 percent of GDP in 2017.

Table 1. Ghana: Selected Economic and Financial Indicators, 2011–17

	2011	2012	2013	2014	2015	2016	2017
				Est.	Prog.		
	(Annual percentage change; unless otherwise indicated)						
National account and prices							
GDP at constant prices	14.0	8.0	7.3	4.2	3.5	6.4	9.2
Real GDP (nonoil)	8.4	7.3	6.7	4.1	2.3	4.7	5.5
Real GDP per capita	11.2	5.3	4.7	1.6	0.9	3.7	6.5
GDP deflator	13.9	16.6	17.4	14.7	13.6	9.7	8.8
Consumer price index (annual average)	7.7	7.1	11.7	15.5	12.2	10.2	8.4
Consumer price index (end of period)	8.4	8.1	13.5	17.0	12.0	8.6	8.2
Consumer price index (excl. food, annual average)	11.5	11.3	18.1	23.9	11.1	10.4	8.9
Terms of trade	-1.1	2.9	-6.9	-5.9	7.4	-1.5	-3.9
Money and credit							
Credit to the private sector	29.0	32.9	29.0	42.0	22.0	17.8	15.9
Broad money (M2+)	29.3	24.3	19.1	36.8	22.3	23.6	20.9
Velocity (non-oil GDP/M2+, end of period)	3.1	3.1	3.3	2.9	2.8	2.6	2.4
Base money	31.1	36.0	15.1	30.2	18.6	21.3	25.5
Banks' lending rate (weighted average; percent)	25.9	25.7	25.6	29.0	…	…	…
Policy rate (in percent, end of period)	12.5	15.0	16.0	21.0	…	…	…
	(Percent of GDP)						
Gross capital formation	25.6	31.0	22.4	24.7	23.6	24.7	25.4
Government	6.1	6.1	4.8	5.6	4.6	4.7	4.6
Private	19.5	24.9	17.6	18.5	18.5	19.5	20.5
National savings	19.0	16.8	14.9	15.5	16.6	18.5	20.6
Government	5.3	0.9	-1.8	-4.3	-1.8	0.3	2.0
Private[1]	13.6	15.9	15.1	19.8	18.4	18.1	18.6
Foreign savings	-9.0	-11.7	-11.7	-9.2	-7.0	-6.2	-4.9
External sector							
Current account balance	-9.0	-11.7	-11.7	-9.2	-7.0	-6.2	-4.9
External public debt (including IMF)	19.8	21.8	23.3	33.7	36.4	36.3	34.8
NPV of external debt outstanding[2]	…	…	32.4	43.1	40.8	40.8	39.3
percent of exports of goods and services	…	…	97.2	110.8	122.8	118.3	109.8
Gross international reserves (millions of US$)	5,382	5,348	4,587	4,349	4,734	5,822	7,544
Months of prospective imports of goods and	2.9	2.9	2.9	3.0	3.1	3.5	4.2
Total donor support (millions of US$)	1,477	1,132	1,083	1,040	1,247	1,230	1,029
percent of GDP	2.5	2.7	2.2	2.7	3.2	2.9	2.2
Central government budget							
Revenue	17.6	18.5	16.5	18.4	19.2	19.6	20.0
Expenditure	20.1	30.1	26.8	27.8	26.7	25.4	23.7
Overall balance	-4.0	-11.6	-10.4	-9.4	-7.5	-5.8	-3.7
Net domestic financing	3.3	9.2	7.0	4.4	4.8	3.5	2.1
Central government debt (gross)	42.6	49.1	55.1	67.6	69.6	67.5	62.6
Domestic debt	22.8	27.2	31.7	33.8	33.2	31.1	27.8
External debt	19.8	21.8	23.3	33.7	36.4	36.4	34.8
Central government debt (net)	38.7	47.0	51.8	64.6	67.5	65.7	61.1
Memorandum items:							
Nominal GDP (millions of GHc)	59,816	75,315	94,939	113,436	133,344	155,570	184,952
GDP per capita (U.S. dollars)	1,628	1,683	1,901	1,474	1,459	1,542	1,670

Sources: Ghanaian authorities; and Fund staff estimates and projections.

[1] Including public enterprises and errors and

[2] Including domestic debt held by non-residents, external debt incurred by main state-owned enterprises and debt incurred by Bank of Ghana for reserve management purposes.

Statement by Mr. Mojarrad, Executive Director for Ghana and Mr. Abradu-Otoo, Advisor to the Executive Director April 3, 2015

My Ghanaian authorities appreciate the constructive dialogue with staff on the three-year ECF arrangement. After two decades of strong economic growth, which enabled the country to reach middle income status, and significant progress towards attainment of the Millennium Development Goals (MDGs), Ghana's economic performance has weakened recently, compounded by the sharp drop in oil and commodity prices and power shortages. Growth has decelerated, the fiscal and current account deficit widened significantly, leading to a rapid depreciation of the local currency, re-emergence of high inflation, and rising public debt. Recognizing the need to restore macroeconomic balances and address these challenges, in early 2014 my authorities reached consensus with all stake-holders on a home-grown stabilization and reform program, anchored on the second Ghana Shared Growth and Development Agenda (GSGDA II, 2014-2017). Despite some progress, implementation of this program was hindered by intensification of external shocks, including disruptions to gas supply and fall in commodity prices, increased debt service costs, and inadequate policy response, requiring a strengthening of the adjustment process. In this context, my authorities request a three year ECF arrangement to support their efforts for the period 2015-17 aimed at stronger policy adjustment and reform to restore macroeconomic stability and debt sustainability and foster market confidence to help achieve Ghana's transformation objectives.

Recent Economic and Social Developments

Growth in 2014 was adversely affected by the rising macroeconomic imbalances, the large currency depreciation, and high interest rates to ward off the rising inflation. After reaching 8.0 percent in 2012, real GDP growth decelerated to 7.3 percent in 2013 and further to 4.2 percent in 2014. Inflation peaked at 17 percent in December 2014 and is reported at 16.5 percent for February 2015, reflecting the pass-through of the exchange rate depreciation and large increases in administered prices. Import contraction, higher crude oil exports, and recovery in cocoa prices helped narrow the current account deficit, which together with the Eurobond issuance, allowed some stabilization of international reserves. The financial system has weathered the difficult economic conditions quite well.

Despite the difficult conditions, Ghana has stayed on course on its inclusive growth agenda with improved social spending in critical sectors. In 2013, the authorities achieved the MDG on reducing extreme poverty, which declined from 16.5 percent in 2005/06 to 8.4 percent in 2012/13, while overall poverty was also significantly reduced. Success was also achieved in improving access to education alongside reducing gender disparity in primary education and increasing the provision of water resources to the poor. While Ghana has outperformed regional peers in reducing poverty and improving social indicators, as highlighted in the report, my authorities agree that further efforts are needed in areas such as reducing maternal and child mortality rates and increasing access to improved sanitation, and they intend to devote increased attention to address existing gaps.

The Outlook for 2015 and the Medium-Term

Like other small oil exporting countries, Ghana has been affected by the general decline in oil and other commodity prices, which reduced export receipts and fiscal revenues. This, together with the drag from the fiscal consolidation envisioned under the program, will weigh down on growth, which is expected to decline further to 3.5 percent in 2015 before recovering strongly to reach over 9 percent in 2017. With tighter fiscal and monetary policies, inflation is expected to decelerate to 12 percent by the end of the year and decline gradually to reach 8 percent in 2017, the external current account deficit should narrow to 7 percent in 2015 and further to 5 percent by 2017, while gross international reserves should recover to the equivalent of more than 4 months of imports in 2017.

Over the medium term, the coming on stream of new oil and gas fields and expanding services sector will significantly increase production, and harnessing of natural gas for electricity generation will help lower costs and boost thermal power generation to ensure higher and more predictable supply. In August 2014, my authorities signed the second compact of the United States' Millennium Challenge Account, which will support the transformation of the country's power sector and stimulate private investments into the energy sector over the next five years. They have also signed with ENI-VITOL the exploitation agreement of the 'Sankofa' Field gas supported by the World Bank. Going forward, while these developments hold good prospects for invigorating growth, tackling the current imbalances and restoring macroeconomic stability would be critical for sustaining high and inclusive economic growth.

Fiscal Policy and Structural Reforms

The strategy underpinning the program is rightly anchored on the pursuit of a front-loaded fiscal adjustment to restore debt sustainability, rebuild external buffers to increase resilience to shocks, and enhance the effectiveness of monetary policy by limiting fiscal dominance. The fiscal deficit will be progressively brought down from 9 ½ percent of GDP in 2014 to 7 ½ percent in 2015 and further to 3 ½ percent by 2017. The envisaged consolidation will be driven by revenue mobilization, improvements in public financial management, and cuts in low-priority public spending, while shifting expenditure towards infrastructure investments, with focus on ongoing projects. The program also seeks to clear all outstanding arrears over the next three years through

cash payments and securitization of arrears to state-owned enterprises (SOE), of which a quarter will be settled in 2015.

The 2015 budget included important measures to broaden the tax base, including the imposition of a 17.5 percent special petroleum tax, a value added tax on fee-based financial services, and a 5 percent flat tax on real estate. Following the fall in oil prices, the budget has been revised to include expenditure cuts to mitigate the revenue shortfall. These include eliminating subsidies for utilities and petroleum products, reducing expenditures on goods and services, and scaling back domestically financed non-priority capital expenditures, as well as transfers to other government agencies. The remainder of the shortfall will be financed by drawing on the oil stabilization fund.

A key priority is to tackle head-on the heavy burden of the public sector wage bill through the completion of the Single Spine Salary Structure migration and by limiting total nominal increases through the ongoing net freeze in public sector employment and addressing payroll irregularities that were identified through audits. An inter-ministerial committee has been set up to oversee the payroll clean-up exercise (MEFP ¶57) and efforts are underway to strengthen the payroll management to eliminate the incidence of "ghost workers" and strengthen the controls of hiring into the public service. The Government's payroll has been upgraded and integrated with GIFMIS. To enhance transparency in the work of the committee, the authorities intend to publish the implementation progress reports, starting in March 2015. Collaboration with development partners in this area will help ensure success of the payroll reform. The authorities are committed to safeguarding social and other priority spending, including expanding the social safety net.

Over the medium term, the authorities' fiscal structural reform agenda focuses on strengthening revenue collection, improving public financial management, and reforming the civil service. In the revenue area, the focus will be on reducing exemptions and strengthening tax administration, along with improving the management of natural resource revenue. Exemptions granted to SOEs and companies operating in the Free Zones enclave will be eliminated, as will be the powers of the Ghana Investment Promotion Council (GIPC) to grant exemptions. VAT thresholds will also be revised to broaden the tax base, and processes for tax collection and administration will be moved to an electronic platform, which is being established. Improving the management and performance of natural resources revenue will continue with Fund technical assistance, and transparency will be further enhanced in line with the Extractive Industries Transparency Initiative framework, to which Ghana adheres. Building on recent PFM reforms, efforts will focus on finalizing the roll out of the Human Resource Management Information System (HRMIS) to the remaining ministries, departments, and agencies to help avoid past weaknesses in controlling the wage bill. The authorities also plan to strengthen the budget formulation and execution processes and introduce provisions of fiscal responsibility, as highlighted in the MEFP. Finally, a comprehensive civil service reform strategy aimed at increasing productivity, rationalizing the size of the civil service, and reducing the wage bill will be prepared in 2015 with assistance from donors.

The updated DSA concludes that Ghana is at a high risk of debt distress. The authorities are committed to reducing the debt burden through fiscal adjustment and to limiting their borrowing

plans to loans with minimum grant elements in line with the debt limits policy. They have indicated that they will consult fully with staff on projects being considered for market financing. They will develop a comprehensive medium-term debt management strategy consistent with the program's macroeconomic framework and available sources of financing. The strategy will also include the creation of a sinking fund account to manage Ghana's Sovereign Bond commitments and minimize the use of government sovereign guarantees. Discussions have begun in earnest with the World Bank and the African Development Bank on the use of partial risk guarantees offered by these institutions for commercial projects, especially those with high positive returns initiated by the private sector.

Monetary and Exchange Rate Policies

To reduce inflation and inflation expectations, the BoG increased the policy rate in three steps by 500 basis points to 21 percent from February to November 2014. Inflation is expected to ease to 12 percent at end-2015, and to decline gradually thereafter toward the authorities' medium-term objective of 8 ±2 percent. Monetary policy will be made more effective in 2015 by limiting central bank financing of the budget and other public institutions (including SOEs), which will be capped, as agreed under a memorandum of understanding (MOU) between the BoG and the MOF, at 5 percent of previous year's budget revenue, with all existing overdraft balances at the end of each quarter securitized. The MOU also sets a zero ceiling for 2016 onwards, in anticipation of the adoption of a new BoG Law consistent with a modern IT framework.

The authorities are committed to deepening the foreign exchange market and improving its functioning. The Central Bank is moving steadily towards unification of the BoG and the interbank exchange rates and enhancing transparency in the foreign exchange market, and has adopted a strictly rules-based system to determine its reference rate. To deepen the foreign exchange market, BoG will adopt by end-April 2015 a plan to eliminate by June 2016 the compulsory surrender requirements and will stop securing foreign currency funding for priority sector imports.

Financial Sector Policies

The financial system remains robust. Banks'capital, liquidity, and profitability have held up well to the shocks. Although recent economic developments have not fed through to the banking sector, the authorities intend to further strengthen the resilience of the financial system. The central bank, in consultation with the IMF, has contracted external firms to undertake a special diagnostic audit to ascertain asset quality, loan classification, adequacy of existing buffers, and the level of compliance regarding prudential norms across the banking industry. The audit results will help BoG develop the needed regulations in these areas, while strengthening the framework for oversight and supervision of the financial system. Attention is also being given to the promulgation of new banking bills related to banks and specialized deposit-taking institutions, as well as to deposit protection, which will seek to clarify the current legal framework for these institutions and strengthen the central bank's supervisory and resolution powers in line with international best practices.

Conclusion

My Ghanaian authorities are determined to address the current difficulties and challenges under the ECF-supported program, which provides them with the right framework to restore macroeconomic stability and achieve their reform and transformation agenda. Completion of all eight prior actions under the arrangement and the front-loaded fiscal adjustment bode well for strong program implementation. While there are risks to the program, the authorities have indicated that they will stand ready to adjust their policies, as necessary to mitigate them, in consultation with the Fund. My authorities are grateful for the support they have been receiving from management and the Executive Board and look forward to continued fruitful cooperation with the IMF and development partners.