



GHANA

September 2015

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR WAIVER AND MODIFICATIONS OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GHANA

In the context of the First Review Under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on August 31, 2015, following discussions that ended on June 30, 2015, with the officials of Ghana on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on August 18, 2015.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the World Bank.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Ghana.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Ghana*
Memorandum of Economic and Financial Policies by the authorities of Ghana*
Technical Memorandum of Understanding*
Supplemental Letter of Intent to the IMF by the authorities of Ghana*
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: <http://www.imf.org>
Price: \$18.00 per printed copy

International Monetary Fund
Washington, D.C.



INTERNATIONAL MONETARY FUND



Press Release No. 15/393
FOR IMMEDIATE RELEASE
August 31, 2015

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes First Review of Ghana's ECF and Approves US\$116.6 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Ghana's economic performance under the program supported by an Extended Credit Facility (ECF) arrangement.¹ Completion of the review enables the disbursement of SDR 83.025 million (about US\$116.6 million), bringing total disbursements under the arrangement to SDR 166.05 million (about US\$233.1 million).

In completing the review, the Executive Board also granted waivers for the nonobservance of performance criteria regarding gross credit to government, and non-accumulation of external arrears, based on their minor and temporary nature and the corrective measures put in place by the authorities. The Executive Board also approved the authorities' request for modifications of performance criteria.

Ghana's three-year arrangement for SDR 664.20 million (about US\$918 million or 180 percent of quota) was approved on April 3, 2015 (see [Press Release No.15/159](#)). It aims to restore debt sustainability and macroeconomic stability in the country to foster a return to high growth and job creation, while protecting social spending.

Following the Executive Board's discussion on Ghana, Mr. Zhu, Acting Chair and Deputy Managing Director, said:

“Implementation of the ECF-supported program by the Ghanaian authorities has been broadly satisfactory, despite an unfavorable economic environment. In particular, the government's fiscal consolidation efforts are on track and it is encouraging that the government decided to liberalize the prices of fuel products, which bodes well for expenditure control, eliminating the need for fuel subsidies and the incurrence of arrears.

¹ The ECF is a lending arrangement that provides sustained program engagement over the medium to long term in case of protracted balance of payments problems.

“The government should firmly continue with its fiscal consolidation efforts to fully restore macroeconomic stability and mitigate financing risk. In this regard, it is crucial to continue the policy of controlling the wage bill by adhering to the net hiring freeze, excluding for health care and education, while further implementing the payroll clean-up plan. The government should continue to adhere to the domestic arrears clearance plan and avoid incurring any new arrears. Implementing structural reforms to strengthen expenditure control will support these efforts. At the same time, the government should use the resulting fiscal space to enhance its social protection programs to mitigate the potential impact of the fiscal consolidation on the poor.

“To avoid the risk of fiscal overruns in connection with next year’s election, it is imperative to identify the full cost related to the elections as early as possible and provision for it in the 2016 budget, while ensuring that the fiscal targets will be achieved. It is also important that the ongoing wage negotiations result in a wage agreement consistent with the medium-term wage bill envelope. Further enhancing revenue performance will also be key for continued fiscal consolidation.

“The government’s medium-term debt management strategy is a welcome step to help reduce near-term financing risks. The externally-oriented financing envisaged in 2015 will help reduce the pressure on the domestic debt market. However, the government should complement this strategy by striving to deepen the domestic debt market, as well as by seeking to borrow externally on concessional terms as much as possible.

“The monetary policy stance will have to remain tight to help bring inflation down, against the background of exchange rate volatility. Bank of Ghana (BoG) should stand ready to tighten monetary policy further if inflationary pressures do not recede as expected. The decision to introduce new liquidity management instruments is encouraging, as it will improve monetary policy transmission and make the inflation targeting framework more effective. Moreover, prompt implementation of two new banking laws currently under review by Parliament will help safeguard financial sector stability.”



GHANA

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR WAIVER AND MODIFICATIONS OF PERFORMANCE CRITERIA

August 18, 2015

KEY ISSUES

Program performance has been broadly satisfactory. All but one performance criteria were met at end-April 2015 and structural benchmarks were largely completed, some with delays. However, there was non-observance of the continuous performance criterion on the ceiling on gross credit to government by Bank of Ghana (BoG) in April by a small margin and the indicative targets on inflation and social protection spending were missed, the latter because of a very slight delay in some spending.

Policy discussions: Discussions focused on fiscal policies needed to achieve the ambitious fiscal consolidation objectives in 2015 and over the medium-term; the public debt management strategy to minimize financing risks and improve the debt profile, which will require a more externally oriented financing mix in the short term (and a commensurate increase in the limit on non-concessional borrowing); improvements in monetary policy operations and potential adjustments in policy stance to bring inflation down; fiscal structural reforms to support fiscal consolidation; and policies to support economic growth recovery.

The economic environment remains challenging and risks are tilted to the downside. Economic growth prospects will depend on how fast the ongoing electricity crisis will be addressed. A new decline in commodity prices (oil, cocoa and gold) would weigh on the fiscal and external balances. While fiscal consolidation is on track, tighter conditions on both the domestic securities market and international capital markets may pose financing risks for the budget. Beyond 2015, the final ruling in 2017 of the International Tribunal over oil-related operations in a disputed area between Ghana and Ivory Coast may impact oil production in the medium-to-long run.

Staff recommends completion of the first review. Staff also supports the authorities' request for a waiver for the non-observance of the continuous performance criterion on the ceiling on gross credit to government by BoG and for modifications of performance criteria, including higher limits on external non-concessional borrowing. The authorities have consented to publication of the staff report and the Letter of Intent and attachments.

Approved By

A. Aemro Selassie
(AFR) and
Dhaneshwar Ghura
(SPR)

The first review under the ECF arrangement took place in Accra during June 17-30, 2015. The IMF staff team included Joël Toujas-Bernaté (head), Wendell Daal, Javier Arze del Granado (all AFR), Keiichi Nakatani (SPR), Salvatore Dell’Erba (FAD), Eriko Togo (MCM), and Samir Jahjah (Resident Representative). Mr. Mojarrad (Executive Director) and Mr. Abradu-Otoo (OED) participated in the discussions. The IMF team met with President Mahama; Finance Minister Seth Terkper; Bank of Ghana Governor Kofi Wampah; Dr. Kwesi Botchwey, Chairman of the National Development Planning Commission; the Finance Committee of the Parliament, other senior officials, and representatives of the private sector, the donor community and civil society.

CONTENTS

RECENT DEVELOPMENTS, PROGRAM PERFORMANCE AND OUTLOOK	4
A. Recent Economic Developments	4
B. Program Performance	6
C. Macroeconomic Framework for 2015, Medium-Term Outlook and Risks	7
POLICY DISCUSSIONS	12
A. Fiscal and Debt Management Policies	12
B. Monetary Policy and Financial Sector Stability	13
C. Structural Reforms	15
D. Policies for Growth	16
PROGRAM MODALITIES AND FINANCING ASSURANCES	17
STAFF APPRAISAL	20
FIGURES	
1. Real Sector Indicators	8
2. Fiscal Indicators	9
3. External Indicators	10
4. Monetary and Fiscal Indicators	11
TABLES	
1. Ghana: Selected Economic and Financial Indicators, 2011–17	22
2A. Ghana: Summary of Budgetary Central Government Operations, 2012–17 (GFS 2001, Cash Basis)	23

2B. Ghana: Summary of Budgetary Central Government Operations, 2012–17 (GFS 2001, Cash Basis) _____	24
2C. Ghana: Summary of Budgetary Central Government Operations, 2012–17 (GFS 2001, Commitment Basis) _____	25
2D. Ghana: Summary of Budgetary Central Government Operations, 2012–17 (GFS 2001, Commitment Basis) _____	26
3. Ghana: Monetary Survey, 2011–15 _____	27
4. Ghana: Balance of Payments, 2011–17 _____	28
5. Ghana: Proposed Schedule of Reviews and Purchases Under the ECF Arrangements, 2015–18 _____	29
6. Ghana: Indicators of Capacity to Repay the Fund, 2015–2027 _____	30

ANNEXES

I. Risk Assessment Matrix _____	31
II. Public Debt Management in Ghana _____	33

APPENDICES

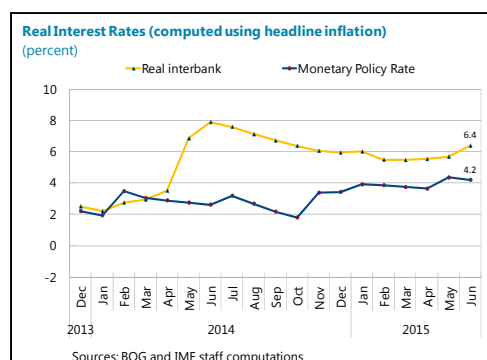
I. Letter of Intent _____	36
Attachment 1. Memorandum of Economic and Financial Policies, 2015–17 _____	38
Attachment II. Technical Memorandum of Understanding _____	64

RECENT DEVELOPMENTS, PROGRAM PERFORMANCE AND OUTLOOK

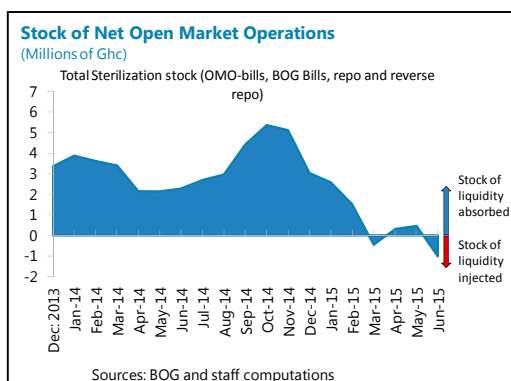
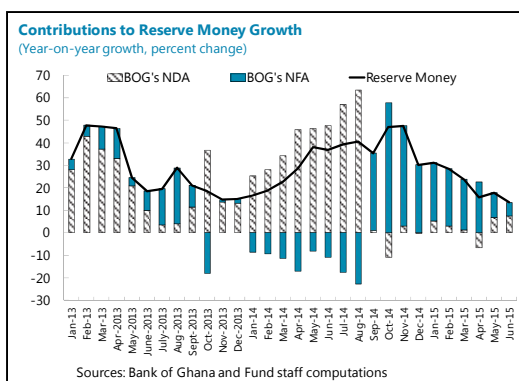
A. Recent Economic Developments

1. **Against the backdrop of still heightened macroeconomic imbalances, economic activity remains subdued.** In 2014, the non-oil economy was substantially affected by the large depreciation of the Cedi and the electricity crisis, which dampened manufacturing production. Preliminary estimates for 2015-Q1 show a deceleration in year-on-year growth to 4.1 percent (from 4.5 in 2014-Q4). The services sector, in particular transport and trade, accounted for most of the growth deceleration, while growth in the agriculture and industry sectors remained subdued.

2. **Headline inflation has remained elevated, while real interest rates have been broadly stable.** After a modest decline at the beginning of 2015, following a 10 percent reduction in domestic fuel prices, headline inflation increased again, reaching 17.1 percent in June. Core inflation (excluding food and energy) displayed an increasing trend up to 23 percent in May but has decelerated slightly in June. The Monetary Policy Committee raised the Monetary Policy Rate (MPR) by 100 basis points in May and maintained it at the same level in July. The policy rate was increased further by 200 basis points to 24 percent in August, in the context of the introduction of a new instrument to inject liquidity, in order to maintain monetary conditions unchanged. As a result, real interest rates have remained positive and broadly stable since end-2014. The gap between the MPR and the overnight interbank rate has remained large until recently – the interbank rate went up to 24.9 at end-July—but should narrow substantially going forward.

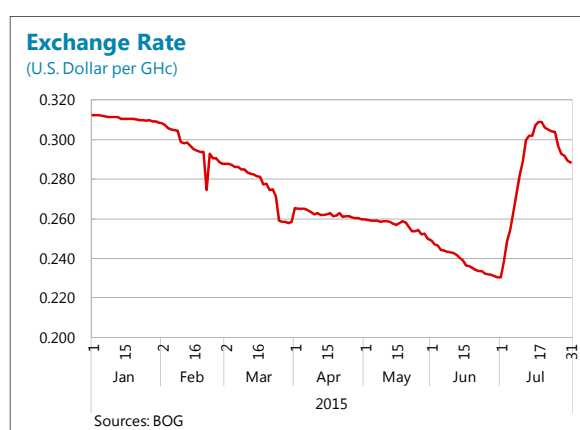
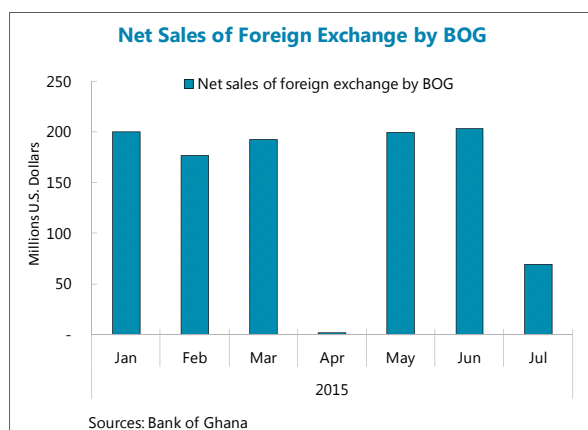


3. **Structural liquidity of the banking system has changed from excess liquidity to liquidity shortage over the past year.** Growth in monetary aggregates decelerated significantly since end-2014. As a result BOG sterilization operations have declined substantially.



4. **The current account is improving but less than expected.** Poor cocoa harvest and sluggish gold production have led to lower-than-projected exports, whereas non-oil imports rebounded from recent historic low levels adding pressures to the foreign exchange market. The capital and financial account exhibited lower capital outflows, with its balance in line with the program. In line with the seasonal pattern, gross international reserves dropped by US\$1.1 billion by end-June to US\$3.2 billion (2.1 months of imports).

5. **Sharp gains in the currency in July largely reversed the large steady depreciation of the Cedi in the first half of 2015.** The cedi depreciated by 23 percent in nominal effective terms in the first half of the year reflecting balance of payments pressures and limited interventions by BoG. Since end-June, the currency significantly appreciated (24 percent in nominal effective terms in July). This followed BoG's announcement to intensify intervention in the foreign exchange market (although BoG's interventions actually declined in July), resumption of disbursements from key development partners, indications that fiscal consolidation was on track, and confirmed expectations of foreign exchange inflows in September-October from a new Eurobond and cocoa crop financing.



6. **Through end-April 2015, the overall fiscal performance was better than projected.** The overall cash deficit was equivalent to 2 percent of (annual) GDP against a projection of 2.6 percent of GDP. Budgeted revenue performance was in line with the program, with higher VAT on imported goods and taxes on petroleum products and strong collection of corporate taxes, while sluggish economic activity fed into lower-than-projected domestic VAT collection and personal income taxes. An unanticipated transfer of BoG dividend (0.4 percent of GDP) contributed to larger than programmed total revenue. The wage bill and domestically-financed capital spending were contained as planned, and interest payments on domestic debt were lower than budgeted while foreign-financed capital spending and external debt interest cost were higher than expected due to the large depreciation of the currency. At the same time the fiscal reports indicate that the government is current on its commitments so far this year, accumulating no new arrears, while clearing domestic arrears as planned.

7. **The end-2014 stock of arrears was revised upward.** The revision equivalent to 0.2 percent of GDP reflects two largely offsetting changes: (i) previously unrecorded securitization at end-December 2014 of government arrears to the social security fund (by GH¢ 914 million, or 0.9 percent

of GDP); this also led to an upward revision in the 2014 fiscal cash deficit from 9.4 to 10.3 percent of GDP—and (ii) new arrears of about GH¢ 1.3 billion (1.2 percent of GDP) stemming from:

- An audit of the outstanding claims from the bulk oil importers (BDCs), which identified an amount of GH¢ 687 million (about 0.7 percent of GDP) due to BDCs for foreign exchange losses and price under recoveries during 2011–13; and
- A reconciliation of cross debt with the utility companies, resulting in net additional arrears of the government to the electricity company of GH¢ 567 million (0.5 percent of GDP) at end-2014.

8. **Domestic market financing continued to be skewed towards short-term T-bill**

issuances. Net issuances of domestic government securities during the first half of 2015 were dominated by 3- and 6-month T-Bills, while the stock of longer maturity securities declined on aggregate. Accordingly, the weighted average time to maturity of the domestic marketable debt stood at 10 months and continues to represent a significant roll-over risk for the government debt portfolio. Meanwhile, Bank of Ghana (BoG) holdings of T-bills have mostly been paid off and no new T-bills have been purchased by BoG. Domestic financing became more challenging during the second quarter when net issuances of securities turned negative at a time when banks' liquidity tightened, forcing the government to use its cash balances at BoG to cover its deficit. On international capital markets, after spiking at end-2014, Ghana's spreads have been fairly stable between 600-650bp.

B. Program Performance

9. **Program implementation was broadly satisfactory.** All but one end-April performance criteria (PC) were met, while the structural benchmarks were largely implemented, some with delay (MEFP ¶¶14-17, and Tables 1 and 2).

- *On the quantitative PCs:* BoG's gross credit to government was missed by a small margin, due to a delay in transferring resources between two government accounts (MEFP ¶14).
- *On the indicative targets:* The inflation target was not met while some social protection spending was slightly delayed to the beginning of May (MEFP ¶16).
- *On the structural benchmarks:* (i) A plan to eliminate the compulsory surrender requirements of foreign exchange was adopted by the BoG's Board at end-July—originally scheduled for end-April 2015—after incorporating further elements and recommendations of Fund staff; (ii) the audit of the payroll security system was completed by mid-May, but the final report was completed by mid-July; (iii) the benchmark at end-June related to the biometric validation of employees on the mechanized payroll was partially implemented, while the publication of the public audit of payroll management is delayed (MEFP ¶17).

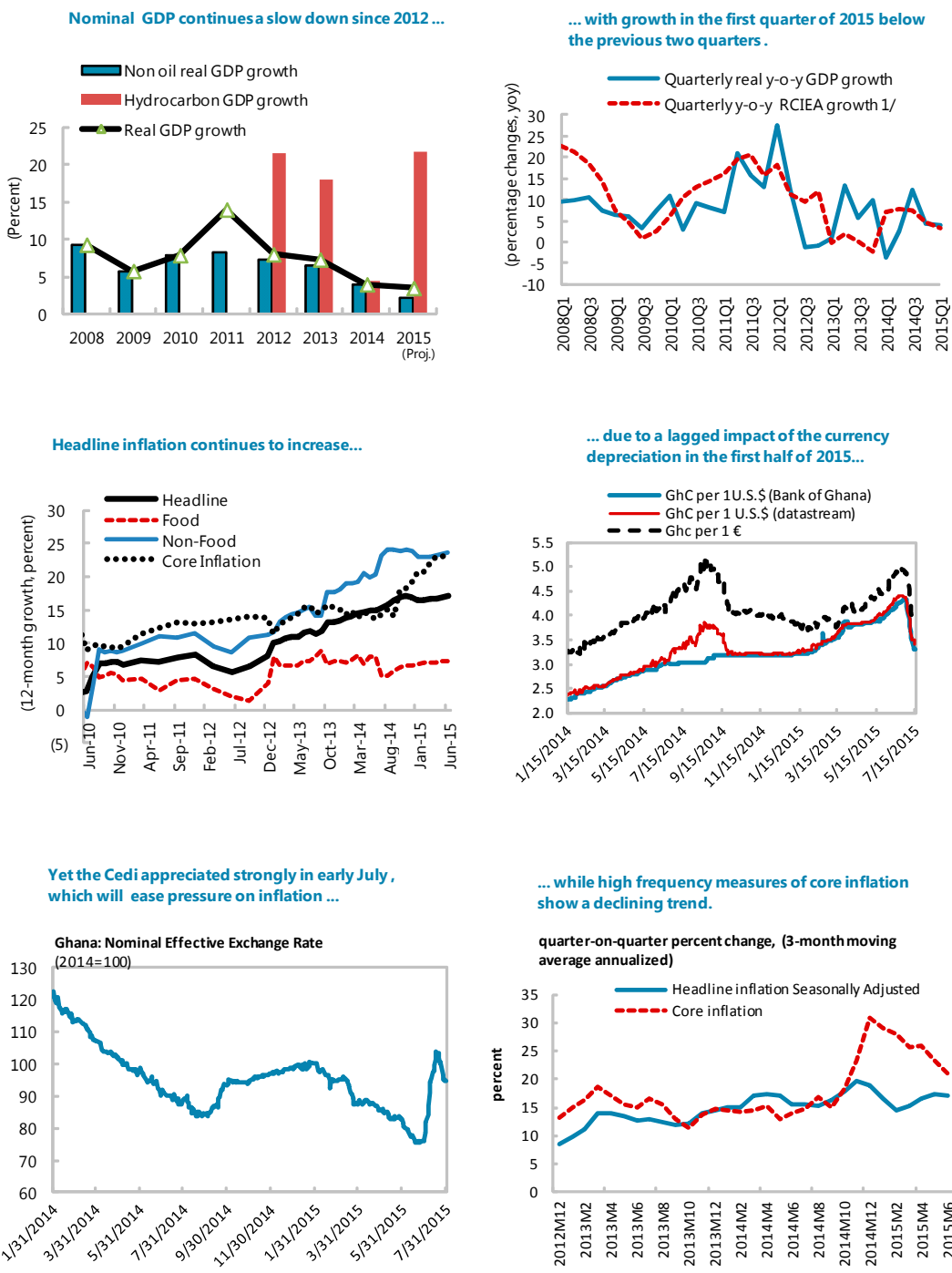
C. Macroeconomic Framework for 2015, Medium-Term Outlook and Risks

10. The macroeconomic outlook has been slightly revised to take into account recent developments:

- The growth projections were maintained broadly as programmed, with a further slowdown in 2015, as the electricity crisis is expected to persist through most of 2015, before a rebound in 2016–17 to be supported by normalized electricity provision and increased hydrocarbon production.
- Average inflation in 2015 was revised upward in view of developments during the first half, including the larger depreciation of the exchange rate. Inflation is projected to decline more rapidly during the second half of the year when assuming that the exchange rate will remain more stable following its sharp appreciation in July.
- After a slight increase in 2015Q2, oil prices were projected at the time of the discussions for the review to be higher than programmed for 2015 as a whole (\$58/bbl against the program assumption of \$53/bbl), a more positive prospect for budget revenue but fairly neutral for the balance of payments.
- The improvement in the current account deficit in 2015 is projected to be smaller than previously envisaged, partly due to disappointing non-oil commodity exports (in particular gold) and some rebound in non-oil imports. However, with larger net financial inflows, in particular a larger Eurobond than originally programmed (US\$ 1.5 billion, up from US\$ 1 billion), net international reserves are now projected to increase in 2015 against an originally programmed slight decline. Over the medium-term, the current account deficits are projected to improve to around 5 percent of GDP by 2017–18, reflecting a recovery in oil prices and cocoa production.

11. **The outlook remains difficult and risks are tilted to the downside (see Annex I).** In the short term, economic growth will depend on how fast the electricity crisis will be addressed and whether reportedly weaker cocoa harvest and gold production will recover. A new decline in commodity prices (oil, cocoa and gold) would weigh on the fiscal and external balances. While fiscal consolidation is on track, tighter conditions on the domestic securities market may pose financing risks for the budget. Conditions on international capital markets may also become less favorable following the expected tightening of the US monetary policy. Steady implementation of the program should attenuate these risks. Beyond 2015, the final ruling in 2017 of the International Tribunal over oil-related operations in a disputed area between Ghana and Ivory Coast may impact oil production in the medium-to-long run.

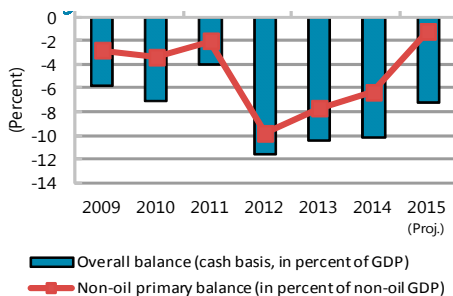
Figure 1. Ghana: Real Sector Indicators



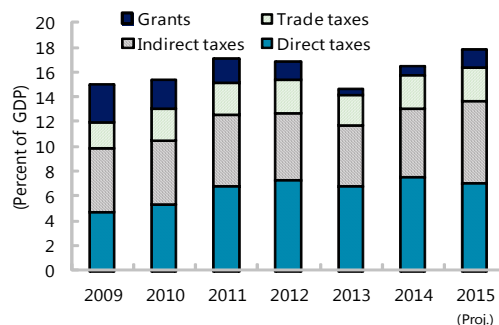
Source: Ghanaian authorities and IMF staff estimates and projections.
 1/ The RCIEA is the Bank of Ghana's composite index of real economic activity.

Figure 2. Ghana: Fiscal Indicators

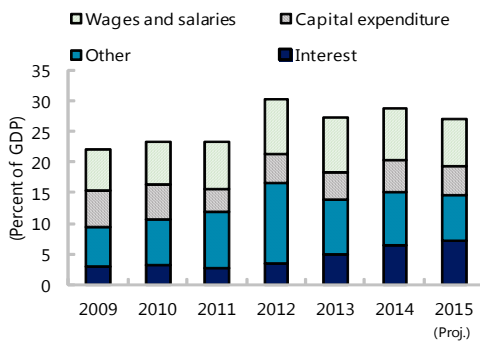
A significant fiscal consolidation is envisaged in 2015 ...



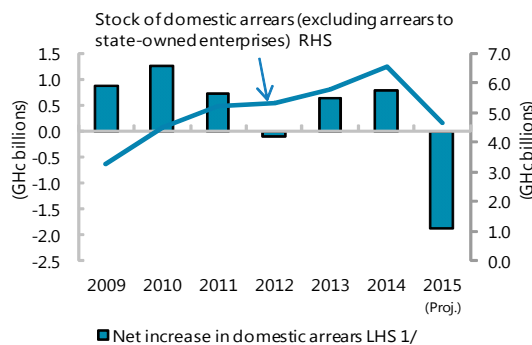
... reflecting both, an increasing tax revenues ...



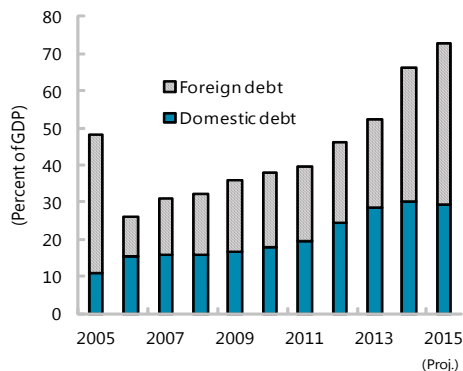
... and containing spending despite increasing interest payments, ...



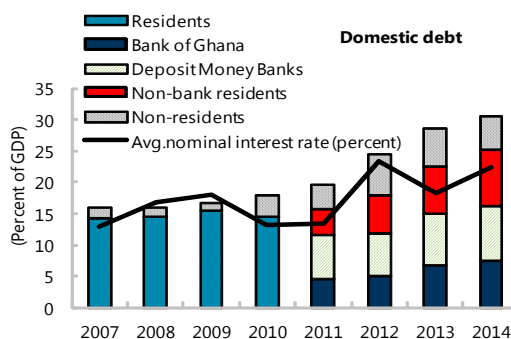
... as well as a significant reduction in the stock of arrears.



Government debt now exceeds pre-HIPC levels, ...



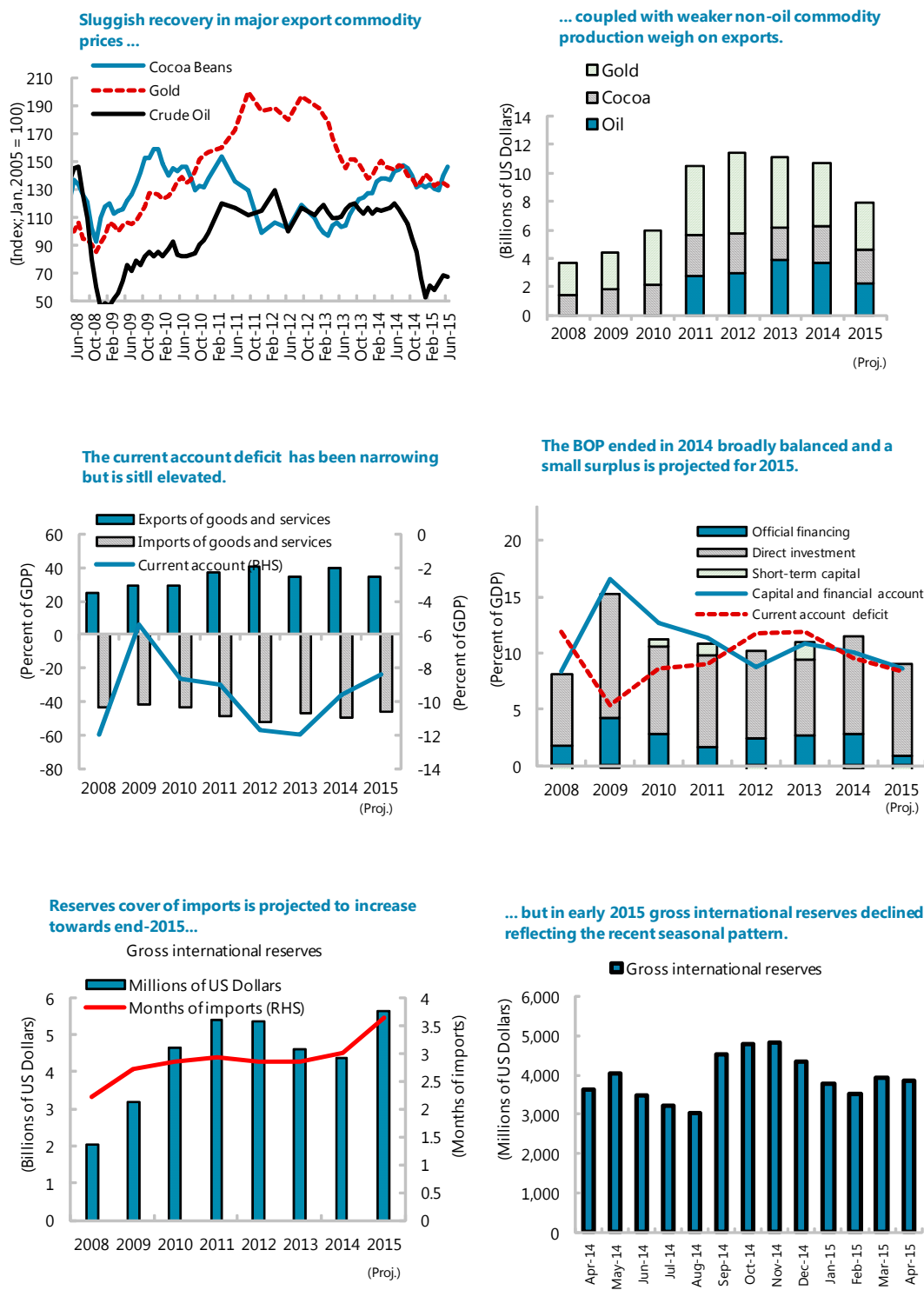
... with non-banks and non-residents holding a sizeable share, while interest rates increased again.



Source: Ghanaian authorities and IMF staff estimates.

1/ Includes deferred wages and arrears to state-owned enterprises.

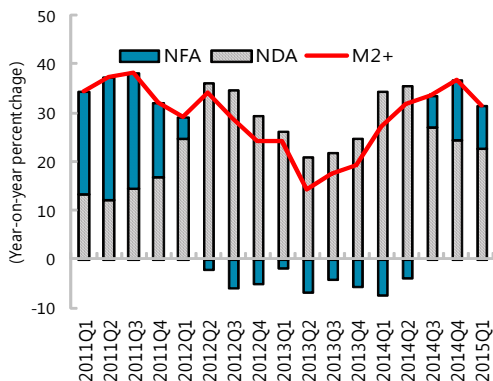
Figure 3. Ghana: External Indicators



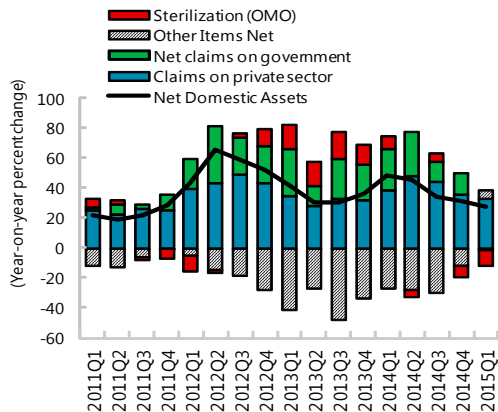
Source: Ghanaian authorities and IMF staff estimates.

Figure 4. Ghana: Monetary and Financial Indicators

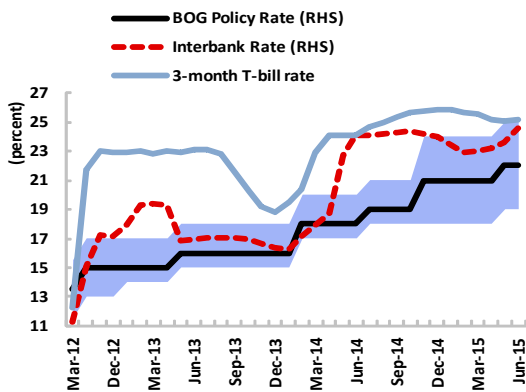
Money y-o-y growth decelerated due to weaker growth in NFA and NDA in the first quarter of 2015 ...



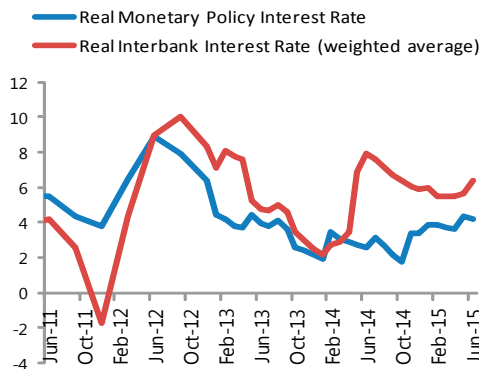
while NDA was primarily driven by private sector credit growth ...



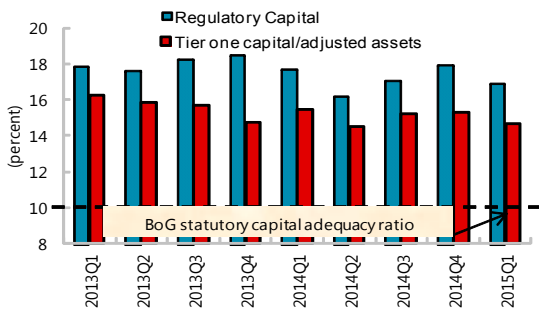
The interbank rate remains above the policy rate despite the hike in May ...



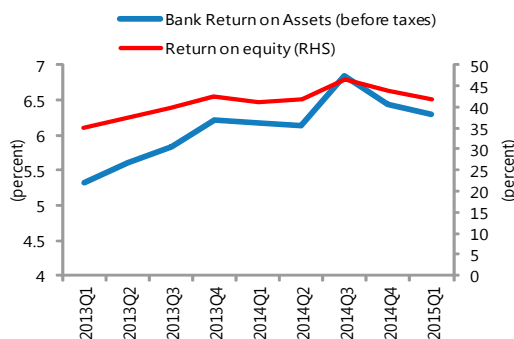
... with real interest rates remaining largely positive although the real interbank rate declined somewhat since mid-2014.



On average, banks are well capitalized, but capital decreased in the first quarter of 2015...



... while returns remain strong but have weakened during the last two quarters.



Source: Ghanaian authorities; DataStream; and IMF staff estimates.

POLICY DISCUSSIONS

A. Fiscal and Debt Management Policies

12. **The government reiterated its commitment to achieving the fiscal consolidation plans for 2015—a 3 ½ percent of GDP improvement in the cash primary balance.** While economic prospects for the year will remain subdued mainly as a result of the ongoing energy crisis, the government is now aiming for a slightly lower 2015 fiscal deficit on the back of expected higher oil revenues.

- *Revenues.* Based on the tax measures in place and January-April performance, the government expects overall non-oil tax revenue to perform in line with the budget, while oil revenues are expected to continue over-performing, reflecting slightly higher than programmed oil prices in the second half of the year (about US\$58/bbl), and the BoG dividend would add to non-tax revenues.
- *Expenditures.* The government intends to continue with its policy of expenditures restraint, in particular containing the wage bill within the budget envelope through strict limits on net hiring in the public sector (which will remain frozen except for education and health care sectors). To avoid the recurrence of fuel subsidies and possible new arrears to oil importers, the government liberalized petroleum prices as of July 1st, 2015. After finalizing the assessment of the full impact of the June 2015 flood disaster, the government plans to use up to half of the unanticipated BoG dividend to cover the flood damage.
- *Arrears clearance strategy.* While staying current on its expenditure commitments, the government intends to continue clearing domestic arrears according to plan and use the remainder of the unanticipated BoG dividend to clear part of the newly identified arrears with the BDCs. Accordingly, the end-2015 stock of domestic arrears will be as originally programmed. The government is also planning to conduct an audit of the BDCs claims related to foreign exchange losses and price under-recoveries in 2014 and early 2015, and incorporate the eventual newly identified arrears in its arrears clearance strategy.
- *Deficit.* The government is now aiming for an overall cash fiscal deficit of about 7.3 percent of GDP, supported by a 50 percent saving of the additional oil revenue. This would result in a substantial improvement in the primary fiscal balance on a commitment basis, from a deficit of 4½ percent of GDP in 2014 to a surplus of about 1 percent of GDP this year.

13. **The government's fiscal consolidation targets for the near and medium term remain unchanged under program.** The government is about to start preparing the 2016 budget, which will aim for an overall fiscal deficit of about 5¾ percent of GDP. In this regard, the government intends to continue with its policy of expenditure restraint, in particular containing the wage bill, maintaining zero subsidies and strengthening expenditure control, while ensuring no accumulation of arrears. The government will also need to step up revenue-enhancing measures through

improvements in tax compliance and tax policy measures aimed at broadening the tax base, including by reducing tax exemptions. The medium-term fiscal consolidation target remains unchanged, with an overall (cash) deficit of 3¾ percent of GDP by program-end.

14. **The financing mix for the remainder of 2015 will be more externally oriented.** While the gross financing needs during the first half of the year were almost entirely domestically financed, program grants and loans disbursements of close to US\$ 500 million are expected in the second half of the year. Together with the planned issuance of a new Eurobond, these should contribute to ease pressures on the domestic debt market and reduce roll-over risks of government debt. In addition, the 2-year notes will be opened to non-resident investors, currently only permitted to invest in securities 3-years and longer. While the authorities would have preferred to use some proceeds of the new Eurobond to buy back part of the Eurobond maturing in 2017 for external debt management purpose, staff advised not to buy back the Eurobond maturing in 2017 at this stage given the currently tight domestic liquidity conditions and use all the proceeds to reduce domestic financing pressures and rebuild international reserves. The government will thus aim to achieve a net domestic issuance on a proceeds basis of GH¢ 1.1 billion in the second half of the year, which will also enable building cash buffers in preparation for its transition towards zero gross financing from the BoG. In all, the government plans to issue GH¢ 2.0 billion in net domestic financing for 2015, compared to GH¢ 7.3 billion (on proceeds basis) in 2014, of which GH¢ 2.3 billion was underwritten by BoG.

15. **Over the medium term, the financing mix will gradually revert towards greater domestic financing.** With the anchoring of inflation expectations and stabilization of the Cedi, domestic real interest rates are expected to decline. The debt management strategy adopted by the government (SB, June 2015) will initially aim at lengthening maturities, and gradually increasing domestic issuance volumes thus reducing reliance on external commercial financing. At the same time, work will continue to deepen the domestic debt market in the primary and secondary markets, the money market, and market infrastructure, to enhance the efficient functioning of the domestic market, expand the investor base and increase their absorptive capacity. These actions will improve the risk-reward profile of Ghana's government debt as an investment asset (see Annex II).

B. Monetary Policy and Financial Sector Stability

16. **BoG increased the monetary policy rate to maintain tight monetary conditions and help bring inflation in line with program targets.** Following the increase in the policy rate in May and its realignment in August, thereby maintaining real interest rates largely positive, both BoG and Fund staff's inflation forecast analysis suggest that inflation would decline to the program target by end-2015 and reach BoG's inflation target of 8 percent by end-2016, when assuming the exchange rate to remain broadly stable in real terms at its end-July level. While expecting fiscal consolidation and elimination of power shortages to curb inflationary pressures, BoG indicated that it will continue to stand ready to tighten monetary policy further if inflationary pressures do not recede as expected.

17. **BoG introduced new measures to ensure consistency between monetary operations and inflation targeting objectives.** In July, BoG announced that it would introduce a new 7-days fixed rate and full allotment reverse repo facility for liquidity injection at the monetary policy rate. This instrument was formally introduced on August 13. It is aimed at facilitating banks operations in periods of low liquidity in the interbank market. Linking this instrument to the policy rate will help to bring the interbank rate closer to the monetary policy rate, hence strengthening the signaling effect of the latter and its role as the monetary policy operational target.

18. **The reforms to improve monetary operations pose a challenge for the current design of the program.** The introduction of the new liquidity management instruments runs the risk of increasing the volatility of BoG's net domestic assets (NDA). The authorities noted that this would make it much more challenging to control reserve money and avoid possible non-observance of the NDA performance criterion under the program. Staff indicated that strengthening monetary operations and ensuring the effectiveness of the inflation targeting framework, with interest rate as the primary operational target, was a key objective of the program to achieve sustained stabilization. It recalled that a performance criterion on NDA was included initially as a safeguards mechanism. Setting the policy rate at an appropriate level to bring inflation down to BoG's target should also minimize risks of non-observance of the NDA target. Staff will stand ready to review the monetary program design based on the effectiveness of the inflation targeting framework and monetary policy operations.

19. **Reforms to strengthen and deepen the foreign exchange market are underway.** BoG adopted at end-July 2015 a strategic plan to eliminate the compulsory surrender requirements of foreign exchange by mid-2016. BOG will develop a detailed action plan for implementation with IMF technical assistance in September. This should contribute to deepening the foreign exchange market and reducing volatility of the exchange rate.

20. **BoG will continue working to enhance prudential supervision and financial sector stability.** Completed drafts of the Banks and Specialized Deposit-Taking Institutions Bill and the Deposit Insurance Bills are currently being reviewed by a parliament committee (MEFP ¶136) and are expected to be adopted when Parliament reconvenes in the fall. In a next step, BOG should monitor and take measures to ensure full compliance of the new laws and regulations by the banks. Banks appear to remain well capitalized over the first half of 2015 but profitability has declined slightly while non-performing loans and liquidity indicators reportedly remain broadly stable. A special diagnostic audit to review banks' asset classification and valuation, provisioning and restructuring practices is being conducted. This will determine whether a revision of loans classification and provisioning practices will be needed and new requirements introduced to rectify any potential provisioning shortfalls or prudential non-compliance. Important reforms are also being undertaken in the financial sector to strengthen the stability of micro-financial institutions, as well as enhance regulatory and supervisory practices at the sub-region level (MEFP ¶40–43).

21. **A new Bank of Ghana Act will strengthen supervisory powers and the autonomy of BoG.** The new act is being drafted by a committee with a time-bounded action plan and would incorporate key recommendations of the safeguards assessment update, completed in April 2015

(MEFP 138–39). The safeguards assessment update noted that BoG's autonomy has been significantly compromised by monetary financing, which was exacerbated by the absence of clear limits on credit to government. Amendments to the BoG Act (a structural benchmark) will strengthen the provisions on government financing, along with other measures to enhance BoG's autonomy. Regarding the external audit and financial reporting, the 2014 financial statements were audited timely, although not yet published, and the BoG is consulting with the Auditor General to appoint an audit firm for 2015.

C. Structural Reforms

Tax Policy and Tax Administration Reform

22. **The authorities have started, with the assistance of the World Bank, to develop a tax expenditures assessment.** The authorities intend to use the results of this study to produce a statement of tax expenditures in the 2016 Budget. To limit loss of tax revenues, the authorities have started to review the exemptions granted to SOEs, with a view to eliminate them. The Ghana Revenue Authority (GRA) has approved a new strategy plan, and will be working with AFRITAC-West2 to develop an operational plan, starting September 2015.

Public Financial Management Reform

23. **The authorities have approved a new strategy for public financial management reforms.** They intend, with assistance from AFRITAC-West2, to develop an implementation plan, which will identify priorities and quantify the needed resources. They are in the process of starting the review of the legal framework with stakeholders, which will be based on the recommendations provided by an IMF Technical Assistance mission. They plan to share with parliament for information the Pre-Budget Statement, which will shed light on the fiscal constraints in the forthcoming Budget.

Payroll Management and Control

24. **The implementation of the payroll clean-up is ongoing:**

- Following the suspension of salaries of 2,690 employees with no bank account at end-November, the authorities have further suspended the salaries of 27,805 employees with no social security number in June (a slight delay from the original April deadline).
- The biometric validation of employees will continue to be improved. The authorities have so far completed a biometric registration of all employees on the payroll by matching the biometric database available at the Controller and Accountant General's Department (CAGD) with the payroll databases; this resulted in the suspension of 1,277 employees who did not have matching data. The automatic validation of employees on the mechanized payrolls is expected to be enhanced by June 2016, once the biometric database in use at the Social Security and National Insurance Trust (SSNIT) is fully interfaced with the payroll database.

- The security of the payroll systems has been assessed by an independent audit in May, which concluded that the key issues identified by a previous audit have been addressed.
- The authorities have started implementing other initiatives to tighten control of the payroll. In particular, the recruitment of employees cannot precede the date of financial clearance as approved by the Ministry of Finance (MOF). Furthermore, the system that allows the electronic validation of payments by Heads of Department before salaries are paid has been rolled-out in six regions. It is expected to be rolled-out to all regions by August 2015. The Bureau of National Investigations has started examining possible cases of frauds, without finding so far any law infraction.

Treasury and Cash Management

25. The authorities have started to implement reforms to strengthen control of cash holdings and speed-up payment execution. A Cash Management Operational Framework is in place, which provides weekly information on cash flows and two-week-ahead forecasts. A Cash Management Committee, composed by the CAGD, the GRA and the Debt Management Division of the MOF, meets weekly to optimize the use of available cash holdings to meet public spending needs and debt service. To further develop the existing framework, and improve coordination with debt management, the authorities have requested joint technical assistance from the IMF. A strategy to implement the Treasury Single Account is currently being revised, for submission to Cabinet by August 2015.

Public Sector Reform

26. The authorities have started a consultation process to develop a strategy for Civil Service Reform. The strategy intends to focus mainly on increasing accountability and productivity in the public sector. A task force has started the review process, guided by a time-bound plan which is expected to deliver the new strategy by December 2015. They hired an external consultant to review past reports related to public service reform initiatives. The authorities are seeking development partners' collaboration to support the design and implementation of their plan.

D. Policies for Growth

27. **The government reiterated its commitment to implement measures to improve power, industry and agriculture sectors.** The energy crisis is a major bottleneck to economic growth, while poor investment in the agriculture sectors limits job creation for a fast growing workforce.

- In the energy sector, the government is concentrating its efforts (i) to develop gas production and infrastructure for its distribution, essential to attract private investment in energy generation; an important project (Sankofa) will benefit from a partial World Bank guarantee; and (ii) to reform the utility company ECG through a long-term concession to improve the viability of the company and make it a viable partner to independent power producers. In the short term,

the government is implementing fast-track private financed power projects which should fill the current shortfall in power generation and largely address by end-2015/early 2016 the ongoing electricity shortages.

- To support rural developments, the government continues to target universal access to electricity in the country, and to develop irrigation schemes. To support export-led growth and job creation, the government is planning to set up a Ghana EXIM bank, in particular to support agriculture sector.

PROGRAM MODALITIES AND FINANCING ASSURANCES

28. **Program modalities.** While most of the quantitative performance criteria (PC) and structural benchmarks for the remainder of the year will remain unchanged under the program, the authorities have requested and staff is proposing to revise the following (MEFP ¶82, Table 1):

- The PC on gross credit to government by BoG for August and December will be increased by GH¢ 1.2 billion, in view of the upward revision to the outstanding stock at end-2014 to include large overdrafts accumulated in 2014 in the form of negative deposits (these negative deposits were mistakenly excluded from the end-2014 stock of gross credit to government). While gross credit at end-2015 would now be much lower than at end-2014 (as opposed to a programmed increase), this will allow restoring some government cash buffers, which were largely used to repay part of the 2014 overdrafts. Net credit to government is projected to be close to zero for the year as a whole if the government will be able to raise financing on the domestic and international markets as planned.
- The PCs on net international reserves and net domestic assets at end-December will be revised upward and downward, respectively, to reflect the larger amount of Eurobond envisioned this year.
- The definition of net international reserves will be revised to exclude BOG deposits with the Ghana International Bank, London in line with IMF guidelines on international reserves. Consequently the PCs on net international reserves for August 2015 and December 2015 will be revised to conform to the new definition.
- The indicative target for inflation will be revised upward for end-August to account for the higher inflation trend observed up to June 2015. The revisions are consistent with BoG's revised inflation forecasts for 2015.
- The debt limit on non-concessional loans for the remainder of 2015 will be revised upward from US\$1 billion to US\$2.5 billion (see text table below) to accommodate for a larger Eurobond issuance and projects critical for national development national development goals mainly in the areas of transportation, agricultural development and electricity sector. With a high risk of debt

distress, non-concessional borrowing should remain exceptional under the new debt limits policy (DLP). Increasing the total amount of the Eurobond by US\$ 500 million will allow for a lengthening of the average maturity of public debt and should reduce interest bills on public debt under reasonable assumptions for future exchange rate depreciation and international capital market conditions.¹ The authorities have identified key projects necessary to achieve national development goals in the areas of transportation and agricultural development. The projects are closely linked to the key areas specified in the authorities' development strategy (GSGDA II), aiming at addressing Ghana's immediate production and supply bottlenecks but cannot be financed with available concessional resources. The total amount of new contracting of non-concessional loans for projects by end-2015 would amount to US\$ 850 million, including US\$350 million associated with the national oil company, GNPC's oil field development.² Further, the World Bank provided budget support of US\$ 150 million with a grant element close to but lower than 35 percent. Five potentially concessional loans are currently under negotiations, and limits of US\$ 100 million would be set on concessional external borrowing as an indicative target in line with the new DLP.³

29. Financing needs for the remainder of the year are expected to be fully covered.

Program financing from development partners is on track, as some donors already started disbursing in June while others have confirmed their envisaged disbursements during the remainder of the year. In addition, the envisaged US\$ 1.5 billion Eurobond will help reduce the pressure on the domestic bond market. Multilateral and bilateral donors stand ready to continue supporting Ghana beyond 2015. A further improvement in the current account balance and reserve buffers generated by a new Eurobond would enhance financing assurances over the next 12 months.

¹ All Eurobond issuance will remain subject to these two conditions (i.e. lengthening of average maturity of public debt and reduction in its cost) being met.

² Out of the new contracting of loans totaling US\$500million (excluding GNPC), disbursements are supposed to be made over a 3-year period. These disbursements are within the disbursement envelope from new loans assumed in the original DSA.

³ Given that offers of concessional loans from donors are expected to be limited in view of Ghana's income status and relatively moderate pace of actual disbursements under concessional loans, this would not threaten the debt sustainability and an IT would be more appropriate than a PC.

Text table. Summary Table of Projected External Borrowing Program
April 3, 2015 to December 31, 2015

PPG external debt	Volume of new debt in 2015		PV of new debt in 2015 (program purposes)	
	USD million	Percent	USD million	Percent
By sources of debt financing	2557.4	100	2422.7	100
<i>Concessional debt, of which</i>	76.3	3	44.4	2
Multilateral debt	50.0	2	28.3	1
Bilateral debt	26.3	1	16.2	1
Other	0.0	0	0.0	0
<i>Non-concessional debt, of which</i>	2481.1	97	2378.3	98
Semi-concessional	516.1	20	413.3	17
Commercial terms	1965.0	77	1965.0	81
By Creditor Type	2557.4	100	2422.7	100
Multilateral	200.0	8	132.7	5
Bilateral - Paris Club	227.9	9	195.3	8
Bilateral - Non-Paris Club	199.5	8	164.7	7
Other	1930.0	75	1930.0	80
Uses of debt financing	2557.4	100	2422.7	100
Infrastructure	484.2	19	416.8	17
Social Spending	23.2	1	23.2	1
Budget Financing	1700.0	66	1632.7	67
Other	350.0	13.7	350.0	14.4
Memo Items				
<i>Indicative projections</i>				
Year 2	1299.8		1126.6	
Year 3	878.1		466.1	

STAFF APPRAISAL

30. **Staff commends the authorities for the broadly satisfactory program implementation so far.** The fiscal performance in particular has been encouraging and staff welcomes the authorities' decision to liberalize the prices of petroleum products, which bodes well for expenditure control—eliminating the need for fuel subsidies and the incurrence of arrears.

31. **The economic outlook remains challenging and is subject to downside risks to growth and inflation.** Properly addressing the energy crisis, which has been hampering economic activity, with additional power generation from private-financed power plants by end-2015/early-2016 will be critical for supporting a rebound in growth next year. The recent reversal of depreciation of the exchange rate combined with a continued tight monetary policy stance should help to curb inflation in the coming months.

32. **The government needs to pursue firmly its fiscal consolidation efforts to fully restore macroeconomic stability and mitigate financing risks.** Continuing to adhere strictly to the policy of a net hiring freeze, excluding for health care and education, combined with sustained implementation of the payroll clean-up plan will be key to control the wage bill. Tariffs for utilities should continue to be adjusted to full cost recovery in order to avoid subsidies and accumulation of arrears. At the same time, it will be important to adhere strictly to the targets on social protection spending to mitigate the potential impact of fiscal consolidation on the poor. It is also critical that the government continue with its arrears clearance plan and swiftly complete the audit of the 2014 claims of oil importers regarding foreign exchange losses and price under recoveries to incorporate the identified additional arrears in its clearance strategy.

33. **For next year, the government will have to contain the risk of fiscal overruns in an election year.** In this regard, the government should identify the costs related to the 2016 elections as early as possible and provision for this in the 2016 budget, including the compensatory measures to ensure that the fiscal targets will be achieved. Containing the wage bill will continue to be a critical element of the government's fiscal consolidation strategy, and it is important that the ongoing wage negotiations result in a wage agreement consistent with the medium-term wage bill envelope. Further enhancing revenue performance will also be a key element of continued fiscal consolidation.

34. **Staff welcomes the authorities' medium-term debt management strategy prioritizing ways to reduce near-term refinancing risks.** The greater share of external financing in the financing mix for 2015 will significantly reduce pressures on the domestic debt market, which has become tight, and improve the profile of the total debt portfolio. At the same time, the authorities will need to rebuild cash buffers to mitigate domestic debt roll-over risks. The renewed impetus to deepen the domestic debt market will, over the medium term, enhance the absorptive capacity of the investor base and improve the attractiveness of Ghana's government debt to long-term investors.

35. **Given Ghana's high debt vulnerabilities, the authorities should continue seeking as concessional terms as possible for external loans**, including from bilateral and multilateral development partners. Non-concessional loans should remain exceptional and assessed on a loan-by-loan basis in terms of the national developmental agenda and their impact on debt sustainability.
36. **A tight monetary policy stance will be needed to gradually bring inflation down towards BoG medium-term target.** BoG should stand ready to tighten policy more aggressively if inflationary pressures do not recede as expected. Staff welcomes recent decisions to introduce new liquidity management instruments, which should contribute to improve monetary policy transmission and support more effective implementation of the inflation targeting framework. At the same time, the authorities should pursue reforms aimed at deepening the foreign exchange market, which, combined with smoothing interventions of BoG backed by increased external reserves, should help to reduce the volatility of the exchange rate over time.
37. **The authorities should ensure prompt implementation of two new banking laws currently under review by parliament.** Prompt provision of supporting regulations and effective communication to all institutions and the public of the main elements of the new laws will be important. The authorities will also need to build on the ongoing audit of loan classification and provisioning to ensure uniform and high standard practices by banks.
38. **Progress on structural reforms needs to be accelerated to sustain the ongoing fiscal consolidation.** The authorities need to progress faster on tax policy and administration reforms to successfully raise the tax yield. Limiting and improving control over exemptions is an important step to limit abuses and to facilitate the work of tax administration. The tax authority's intention to use more systematically third party information will improve tax audit targeting. Tighter expenditure controls, supported by ongoing improvements in cash management, will help prevent accumulation of arrears and help transitioning to zero financing from BoG from next year.
39. **Staff recommends completion of the first review under the ECF arrangement.** Staff also recommends a waiver for the non-observance of the PC on gross credit to government based on the minor nature of the non-observance (MEFP ¶14) and the corrective actions (a transfer between accounts was made to bring it under the ceiling in June). Staff recommends approval of the authorities request to modify the PCs on gross credit to government, net international reserves, and net domestic assets, as well as their request to modify the limits on non-concessional borrowing.

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	4.0	3.5	5.7	9.4
Real GDP (nonoil)	8.4	7.3	6.7	4.0	2.3	4.7	5.5
Real GDP per capita	11.2	5.3	4.6	1.4	0.9	3.1	6.7
GDP deflator	13.9	16.6	15.6	16.7	14.3	9.0	8.4
Consumer price index (annual average)	7.7	7.1	11.7	15.5	15.3	10.1	7.8
Consumer price index (end of period)	8.4	8.1	13.5	17.0	12.0	8.0	7.6
Consumer price index (excl. food, annual average)	11.5	11.3	18.1	23.9	11.1	10.4	8.9
Terms of trade	-1.5	2.9	-6.9	-6.3	9.7	-0.7	-4.1
Money and credit							
Credit to the private sector	29.0	32.9	29.0	42.0	28.4	11.8	10.4
Broad money (M2+)	29.3	24.3	19.1	36.8	22.5	16.7	16.3
Velocity (non-oil GDP/M2+, end of period)	3.1	3.1	3.2	2.9	2.8	2.7	2.7
Base money	31.1	36.0	15.1	30.2	18.6	18.3	18.2
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	22.8	24.8	23.8	25.2	25.7
Government	6.1	6.1	4.9	5.7	4.7	5.3	4.9
Private	19.5	24.9	17.9	18.5	18.5	19.5	20.5
National savings	19.0	16.8	13.5	15.2	15.4	18.0	20.3
Government	5.3	0.9	-1.8	-5.2	-1.1	0.9	2.5
Private ¹	13.6	15.9	15.4	20.4	16.6	17.1	17.7
Foreign savings	-9.0	-11.7	-11.9	-9.6	-8.3	-7.2	-5.5
External sector							
Current account balance	-9.0	-11.7	-11.9	-9.6	-8.3	-7.2	-5.5
External public debt (including IMF)	19.8	21.8	24.0	36.0	43.2	42.2	40.1
NPV of external debt outstanding ²	...	...	...	39.1	42.8	42.3	40.5
percent of exports of goods and services	...	...	...	99.0	124.6	123.9	112.3
Gross international reserves (millions of US\$)	5,382	5,348	4,587	4,349	5,605	6,903	8,311
Months of prospective imports of goods and services	2.9	2.9	2.9	3.0	3.6	4.1	4.7
Total donor support (millions of US\$)	2,040	2,496	1,245	1,092	1,137	1,222	1,103
percent of GDP	3.4	6.0	2.6	2.8	3.0	2.9	2.4
Central government budget							
Revenue	17.6	18.5	16.7	18.4	19.7	20.5	20.6
Expenditure	20.1	30.1	27.3	28.6	27.0	26.4	24.3
Overall balance	-4.0	-11.6	-10.5	-10.2	-7.3	-5.8	-3.7
Net domestic financing	3.3	9.2	7.1	5.2	2.4	3.6	2.8
Central government debt (gross)	42.6	49.1	56.2	69.0	72.8	70.5	66.3
Domestic debt	22.8	27.2	32.3	33.0	29.6	28.2	26.2
External debt	19.8	21.8	24.0	36.0	43.2	42.2	40.1
Central government debt (net)	38.8	47.0	52.9	66.1	70.4	68.0	64.0
Memorandum items:							
Nominal GDP (millions of GHc)	59,816	75,315	93,416	113,344	134,073	154,450	183,196
GDP per capita (U.S. dollars)	1,628	1,683	1,870	1,473	1,401	1,534	1,659

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

¹ Including public enterprises and errors and omissions.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.

**Table 2A. Ghana: Summary of Budgetary Central Government Operations,
2012–17 (GFS 2001, Cash Basis)**

	2012	2013	2014	2015		2016		2017	
			Est.	Program	Proj.	Jan-Apr Prog.	Jan-Apr Est.	Proj.	
	(In percent of GDP)								
Revenue	18.5	16.7	18.4	19.2	19.7	5.7	6.0	20.5	20.6
Taxes	15.4	14.2	15.8	16.4	16.3	4.9	4.9	17.3	17.6
Direct taxes	7.4	6.7	7.5	6.9	7.0	2.0	2.0	7.7	7.8
Indirect taxes	5.4	5.0	5.5	6.6	6.6	2.0	2.1	6.8	6.9
Trade taxes	2.6	2.5	2.7	2.9	2.7	0.8	0.8	2.8	2.8
Other tax revenues	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.2	0.2
Other revenue	1.4	1.9	1.8	1.3	1.8	0.4	0.9	1.8	2.0
Grants	1.5	0.5	0.7	1.4	1.5	0.3	0.2	1.3	0.9
Expenditure	30.1	27.3	28.6	26.7	27.0	8.3	8.1	26.4	24.3
Expense	24.5	22.7	23.1	22.1	22.3	6.9	6.5	21.1	19.4
Compensation of employees	12.0	11.0	9.7	9.5	9.5	3.1	3.1	8.7	8.0
Wages and salaries ¹	8.9	8.9	8.3	7.7	7.7	2.6	2.5	7.3	6.6
Deferred wage payments	2.5	0.9	0.5	0.3	0.3	0.1	0.2	0.0	0.0
Social Contributions	0.7	1.2	0.9	1.5	1.5	0.5	0.4	1.5	1.4
Purchases of goods and services	1.8	1.0	1.6	1.1	1.3	0.2	0.3	1.2	1.1
Interest	3.2	4.7	6.2	7.2	7.0	2.2	2.1	5.9	5.2
Domestic	2.5	4.1	5.4	6.0	5.8	1.8	1.6	4.8	4.2
Foreign	0.7	0.7	0.9	1.2	1.2	0.4	0.5	1.2	1.0
Subsidies	1.1	1.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Social transfers	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.1	0.1
Grants to Other Government Units ²	2.6	2.2	2.1	3.2	3.3	1.0	0.8	3.5	3.7
Other expense ³	3.8	2.5	3.1	0.9	1.1	0.3	0.2	1.5	1.3
Net acquisition of nonfinancial assets	4.8	4.6	5.4	4.6	4.7	1.4	1.5	5.3	4.9
Domestic financing ⁴	1.4	1.8	1.1	1.3	1.4	0.3	0.0	1.4	1.4
Foreign financing	3.4	2.8	4.3	3.3	3.4	1.1	1.4	3.9	3.4
Discrepancy	0.9	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net lending / borrowing (overall balance)	-11.6	-10.5	-10.2	-7.5	-7.3	-2.6	-2.0	-5.8	-3.7
Net financial transactions	-11.6	-10.5	-10.2	-7.5	-7.3	-2.6	-2.0	-5.8	-3.7
Net acquisition of financial assets	-1.0	-0.4	0.2	-0.4	-0.1	0.0	-0.2	0.4	0.3
Net incurrence of liabilities	10.6	10.1	10.3	7.1	7.2	2.6	1.9	6.3	4.0
Domestic	8.2	6.7	5.2	4.8	2.4	2.0	1.2	3.6	2.8
Debt securities	8.9	8.7	5.2	4.8	2.4	2.0	1.2	3.6	2.8
Bank of Ghana	1.4	2.7	1.4	0.9	0.0	0.0	-0.3	0.0	0.0
Deposit Money Bank	1.2	2.7	1.5	1.5	0.6	0.5	0.7	1.4	0.8
Nonbanks	6.3	3.4	2.3	2.4	1.8	1.5	0.8	2.2	2.0
Loans	-0.7	-2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	2.4	3.4	5.2	2.3	4.8	0.6	0.7	2.6	1.2
Loans	3.2	4.3	6.4	4.4	7.0	0.8	1.2	4.4	4.0
Amortization	-0.8	-0.9	-1.2	-2.1	-2.2	-0.2	-0.5	-1.8	-2.8
Memorandum items:									
Oil revenue	1.3	1.7	2.5	0.9	1.2	0.4	0.4	1.6	2.0
Non-oil revenue	16.9	15.8	16.4	17.9	18.2	4.0	3.9	19.1	19.7
Primary balance	-8.4	-5.8	-3.9	-0.3	-0.3	-0.4	0.0	0.1	1.5
Non-oil primary balance (percent non-oil GDP) ⁵	-10.4	-8.2	-6.9	-1.3	-1.6	-0.6	-0.3	-1.6	-0.6
Nominal GDP (millions of Ghc)	75,315	93,416	113,344	133,344	134,073	133,344	134,073	154,450	183,196

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

¹ Excludes deferred wage payments which are reported on an independent line.

² Starting in 2015, it includes earmarked public sector investment through GIIIF.

³ Includes payments of cash arrears and promisory notes to statutory funds.

⁴ Starting in 2015, it excludes earmarked public sector investment through GIIIF.

⁵ Excluding oil revenue and mandated oil revenue-financed expenditures, including transfers to GNPC.

Table 2B. Ghana: Summary of Budgetary Central Government Operations, 2012–17
(GFS 2001, Cash Basis)

	2012	2013	2014	2015			2016	2017	
				Est.	Program	Proj.			Jan-Apr Prog.	Jan-Apr Est.	Proj.
(Millions of GHc, unless otherwise specified)									
Revenue	13,935	15,630	20,879	25,608	26,477	7,552	8,105	31,685	37,704
Taxes	11,575	13,284	17,855	21,822	21,913	6,492	6,608	26,785	32,162
Direct taxes	5,536	6,302	8,487	9,136	9,411	2,730	2,747	11,966	14,334
Indirect taxes	4,048	4,651	6,278	8,796	8,885	2,707	2,775	10,528	12,698
Trade taxes	1,990	2,331	3,091	3,889	3,617	1,054	1,086	4,292	5,130
Social Contributions	138	159	218	183	183	61	32	256	293
Other revenue	1,062	1,749	1,990	1,671	2,380	572	1,172	2,708	3,583
Grants	1,160	438	815	1,932	2,001	428	293	1,937	1,666
Expenditure	22,675	25,458	32,424	35,607	36,204	11,052	10,825	40,715	44,536
Expense	18,418	21,166	26,232	29,519	29,848	9,221	8,778	32,572	35,631
Compensation of employees	9,050	10,312	11,034	12,684	12,684	4,168	4,165	13,489	14,613
Wages and salaries ¹	6,666	8,334	9,449	10,286	10,286	3,413	3,341	11,212	12,121
Deferred wages	1,872	846	568	371	371	100	288	0	0
Social Contributions	512	1,132	1,018	2,026	2,026	654	536	2,277	2,492
Purchases of goods and services	1,322	938	1,777	1,519	1,749	224	459	1,875	1,974
Interest	2,436	4,397	7,081	9,577	9,350	2,975	2,765	9,163	9,554
Domestic	1,880	3,788	6,111	8,034	7,734	2,399	2,114	7,344	7,651
Foreign	556	609	970	1,543	1,616	576	652	1,819	1,903
Subsidies	809	1,158	474	50	50	25	0	50	50
Social transfers	0	1	0	167	168	82	0	199	230
Grants to Other Government Units ²	1,974	2,032	2,354	4,331	4,358	1,321	1,113	5,483	6,850
Other expense ³	2,827	2,328	3,513	1,190	1,490	427	276	2,313	2,360
Net acquisition of nonfinancial assets	3,584	4,303	6,096	6,088	6,356	1,832	1,995	8,144	8,905
Domestic financing ⁴	1,050	1,646	1,265	1,689	1,834	334	57	2,183	2,603
Foreign financing	2,535	2,657	4,830	4,399	4,522	1,497	1,938	5,960	6,303
Discrepancy	672	-11	97	0	0	0	51	0	0
Net lending / borrowing (overall balance)	-8,740	-9,828	-11,546	-10,000	-9,727	-3,500	-2,720	-9,030	-6,832
Net financial transactions	-8,740	-9,828	-11,546	-10,000	-9,727	-3,500	-2,720	-9,030	-6,832
Net acquisition of financial assets	-781	-385	176	-487	-110	0	-206	635	512
Net incurrence of liabilities	7,959	9,443	11,722	9,512	9,618	3,500	2,514	9,665	7,344
Domestic	6,186	6,231	5,847	6,440	3,201	2,680	1,544	5,633	5,130
Debt securities	6,694	8,131	5,847	6,440	3,201	2,680	1,544	5,632	5,130
Bank of Ghana	1,067	2,510	1,581	1,261	0	0	-363	0	0
Deposit Money Bank	909	2,476	1,700	1,978	745	681	886	2,238	1,539
Nonbanks	4,718	3,144	2,565	3,201	2,456	1,999	1,020	3,395	3,591
Loans	-508	-1,900	0	0	0	0	0	0	0
Foreign	1,773	3,212	5,874	3,073	6,417	820	970	4,033	2,214
Loans	2,397	4,033	7,205	5,872	9,348	1,069	1,646	6,742	7,351
Amortization	-624	-821	-1,331	-2,799	-2,931	-249	-675	-2,710	-5,137
Memorandum items:									
Oil revenue	970	1,633	2,785	1,204	1,654	516	575	2,426	3,649
Non-oil revenue	11,805	13,559	17,278	22,472	22,822	6,609	7,237	27,323	32,389
Primary balance	-6,303	-5,431	-4,465	-423	-378	-525	46	133	2,721
Non-oil primary balance ⁵	-7,273	-7,064	-7,250	-1,626	-2,032	-1,041	-530	-2,293	-927
Nominal GDP (millions of GHc)	75,315	93,416	113,344	133,344	134,073	133,344	134,073	154,450	183,196

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

¹ Excludes deferred wage payments which are reported on an independent line.

² Starting in 2015, it includes earmarked public sector investment through GIIF.

³ Includes payments of cash arrears and promisory notes to statutory funds.

⁴ Starting in 2015, it excludes earmarked public sector investment through GIIF.

⁵ Excluding oil revenue and mandated oil revenue-financed expenditures, including transfers to GNPC.

Table 2C. Ghana: Summary of Budgetary Central Government Operations, 2012–17
(GFS 2001, Commitment Basis)

	2012	2013	2014	2015		2016	2017
				Est.	Program Proj.		
	(In percent of GDP)						
Revenue	18.5	16.7	18.4	19.2	19.7	20.5	20.6
Taxes	15.4	14.2	15.8	16.4	16.3	17.3	17.6
Direct taxes	7.4	6.7	7.5	6.9	7.0	7.7	7.8
Indirect taxes	5.4	5.0	5.5	6.6	6.6	6.8	6.9
Trade taxes	2.6	2.5	2.7	2.9	2.7	2.8	2.8
Other tax revenues	0.2	0.2	0.2	0.1	0.1	0.2	0.2
Other revenue	1.4	1.9	1.8	1.3	1.8	1.8	2.0
Grants	1.5	0.5	0.7	1.4	1.5	1.3	0.9
Expenditure	30.7	27.8	29.3	25.5	25.6	24.9	23.0
Expense	24.4	22.6	23.5	21.0	20.9	19.6	18.2
Compensation of employees	11.1	11.6	10.5	9.2	9.2	8.7	8.0
Wages and salaries ¹	8.9	8.9	8.3	7.7	7.7	7.3	6.6
Deferred wage payments	1.1	0.6	0.3	0.0	0.0	0.0	0.0
Social Contributions	1.2	2.1	1.8	1.5	1.5	1.5	1.4
Purchases of goods and services	2.1	1.1	1.6	1.1	1.3	1.2	1.1
Interest	3.5	4.7	6.2	7.2	7.0	5.9	5.2
Domestic ²	2.8	4.1	5.4	6.0	5.8	4.8	4.2
Foreign	0.7	0.7	0.9	1.2	1.2	1.2	1.0
Subsidies	2.9	1.2	2.1	0.0	0.0	0.0	0.0
Social transfers	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Grants to Other Government Units ²	3.2	3.1	3.2	3.2	3.3	3.5	3.7
Other expense ³	1.4	0.9	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets	5.4	5.2	5.7	4.6	4.7	5.3	4.9
Domestic financing ⁴	2.1	2.3	1.4	1.3	1.4	1.4	1.4
Foreign financing	3.4	2.8	4.3	3.3	3.4	3.9	3.4
Discrepancy	0.9	0.0	0.1	0.0	0.0	0.0	0.0
Net lending / borrowing (overall balance)	-12.2	-11.1	-10.9	-6.3	-5.9	-4.3	-2.4
Net financial transactions	-12.2	-11.1	-10.9	-6.3	-5.9	-4.3	-2.4
Net acquisition of financial assets ⁵	-1.0	-0.4	0.2	-0.4	-0.1	0.4	0.3
Net incurrence of liabilities	11.1	10.6	11.0	6.0	5.8	4.8	2.7
Domestic ⁶	8.8	7.2	5.8	3.7	1.0	2.1	1.5
Debt securities	8.9	8.7	5.2	4.8	2.4	3.6	2.8
Bank of Ghana	1.4	2.7	1.4	0.9	0.0	0.0	0.0
Deposit Money Bank	1.2	2.7	1.5	1.5	0.6	1.4	0.8
Nonbanks	6.3	3.4	2.3	2.4	1.8	2.2	2.0
Unidentified financing	0.0	0.0	1.5	0.0	0.0	0.0	0.0
Loans	-2.4	-2.2	0.0	0.0	0.0	0.0	0.0
Other accounts payable ⁶	2.4	0.7	0.7	-1.2	-1.4	-1.5	-1.3
Foreign	2.4	3.4	5.2	2.3	4.8	2.6	1.2
Loans	3.2	4.3	6.4	4.4	7.0	4.4	4.0
Amortization	-0.8	-0.9	-1.2	-2.1	-2.2	-1.8	-2.8
Gross financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Oil revenue	1.3	1.7	2.5	0.9	1.2	1.6	2.0
Non-oil revenue	16.9	15.8	16.4	21.0	18.2	19.1	19.7
Primary balance	-8.7	-6.3	-4.6	0.9	1.1	1.6	2.8
Non-oil primary balance (commitment, percent non-oil GDP) ⁷	-10.7	-8.8	-7.6	-0.1	-0.1	0.0	0.9
Nominal GDP (millions of GHc)	75,315	93,416	113,344	133,344	134,073	154,450	183,196

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

¹ Excludes deferred wage payments which are reported on an independent line.

² Includes new arrears classified under this definition. Starting in 2015, it includes earmarked public sector investment through GIFF.

³ Includes promissory notes to statutory funds.

⁴ Includes new project-arrears. Starting in 2015, it excludes earmarked public sector investment through GIFF.

⁵ Net transfers to Oil Fund and divestiture receipts (net).

⁶ Reflects net change in arrears stock.

⁷ Excluding oil revenue and mandated oil revenue-financed expenditures, including transfers to GNPC.

Table 2D. Ghana: Summary of Budgetary Central Government Operations, 2012–17
(GFS 2001, Commitment Basis)

	2012	2013	2014	2015		2016	2017
			Est.	Program	Proj.	Proj.	
(Millions of GHC, unless otherwise specified)							
Revenue	13,935	15,630	20,879	25,608	26,477	31,685	37,704
Taxes	11,575	13,284	17,855	21,822	21,913	26,785	32,162
Direct taxes	5,536	6,302	8,487	9,136	9,411	11,966	14,334
Indirect taxes	4,048	4,651	6,278	8,796	8,885	10,528	12,698
Trade taxes	1,990	2,331	3,091	3,889	3,617	4,292	5,130
Social Contributions	138	159	218	183	183	256	293
Other revenue	1,062	1,749	1,990	1,671	2,380	2,708	3,583
Grants	1,160	438	815	1,932	2,001	1,937	1,666
Expenditure	23,110	25,955	33,191	34,046	34,343	38,402	42,176
Expense	18,346	21,143	26,677	27,957	27,987	30,259	33,271
Compensation of employees	8,387	10,863	11,883	12,313	12,313	13,489	14,613
Wages and salaries ¹	6,666	8,334	9,449	10,286	10,286	11,212	12,121
Deferred wages	846	568	371	0	0	0	0
Social Contributions	876	1,961	2,064	2,026	2,026	2,277	2,492
Purchases of goods and services	1,592	1,019	1,777	1,519	1,749	1,875	1,974
Interest	2,660	4,397	7,081	9,577	9,350	9,163	9,554
Domestic ²	2,103	3,788	6,111	8,034	7,734	7,344	7,651
Foreign	556	609	970	1,543	1,616	1,819	1,903
Subsidies ²	2,206	1,158	2,338	50	50	50	50
Social transfers	0	1	0	167	168	199	230
Grants to Other Government Units ²	2,428	2,907	3,598	4,331	4,358	5,483	6,850
Other expense ³	1,072	798	0	0	0	0	0
Net acquisition of nonfinancial assets	4,093	4,824	6,418	6,088	6,356	8,144	8,905
Domestic financing ⁴	1,558	2,167	1,588	1,689	1,834	2,183	2,603
Foreign financing	2,535	2,657	4,830	4,399	4,522	5,960	6,303
Discrepancy	672	-11	97	0	0	0	0
Net lending / borrowing (overall balance)	-9,175	-10,325	-12,312	-8,438	-7,866	-6,717	-4,473
Net financial transactions	-9,175	-10,325	-12,312	-8,438	-7,866	-6,717	-4,473
Net acquisition of financial assets ⁵	-781	-385	176	-487	-110	635	512
Net incurrence of liabilities	8,395	9,940	12,488	7,951	7,756	7,352	4,984
Domestic ⁶	6,621	6,728	6,614	4,878	1,339	3,320	2,770
Debt securities	6,694	8,131	5,847	6,440	3,201	5,632	5,130
Bank of Ghana	1,067	2,510	1,581	1,261	0	0	0
Deposit Money Bank	909	2,476	1,700	1,978	745	2,238	1,539
Nonbanks	4,718	3,144	2,565	3,201	2,456	3,395	3,591
Unidentified financing	0	0	1,700	0	0	0	0
Loans	-1,844	-2,043	0	0	0	0	0
Other accounts payable ⁶	1,772	641	768	-1,561	-1,862	-2,313	-2,360
Foreign	1,773	3,212	5,874	3,073	6,417	4,033	2,214
Loans	2,397	4,033	7,205	5,872	9,348	6,742	7,351
Amortization	-624	-821	-1,331	-2,799	-2,931	-2,710	-5,137
Gross financing gap	0	0	0	0	0	0	0
Memorandum items:							
Oil revenue	970	1,633	2,785	1,204	1,654	2,426	3,649
Non-oil revenue	11,805	13,559	17,278	22,472	22,822	27,323	32,389
Primary balance	-6516	-5928	-5232	1139	1484	2446	5081
Non-oil primary balance ⁷	-7,486	-7,561	-8,017	-65	-170	20	1,432
Nominal GDP (millions of GHC)	75,315	93,416	113,344	133,344	134,073	154,450	183,196

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

¹ Excludes deferred wage payments which are reported on an independent line.

² Includes new arrears classified under this definition. Starting in 2015, it includes earmarked public sector investment through GIF.

³ Includes promissory notes to statutory funds.

⁴ Includes new project-arrears. Starting in 2015, it excludes earmarked public sector investment through GIF.

⁵ Net transfers to Oil Fund and divestiture receipts (net).

⁶ Reflects net change in arrears stock.

⁷ Excluding oil revenue and mandated oil revenue-financed expenditures, including transfers to GNPC.

Table 3. Ghana: Monetary Survey, 2011–15¹

	2011	2012	2013	2014	2015		
					April	Prog.	Proj.
(In millions of GHC, unless otherwise indicated)							
I. Depository Corporation Survey							
Net foreign assets	7,880	6,953	5,670	8,991	6,767	11,135	13,047
Net Domestic Assets	10,315	15,667	21,267	27,852	32,700	33,933	32,086
Domestic Claims	15,665	22,662	31,349	41,942	45,530	50,392	49,367
Net Claims on Central Government	5,181	7,716	11,327	14,345	14,430	17,583	15,086
Claims on Other Sectors	10,485	14,945	20,023	27,597	31,100	32,809	34,281
Claims on Public Non-financial Corporations	1,342	2,719	2,206	3,032	5,842	3,348	3,387
Claims on Private Sector	9,150	12,161	15,689	22,281	25,325	27,176	28,610
Other	-7	65	2,128	2,284	-67	2,284	2,284
Other Items (Net)	-5,350	-6,995	-10,083	-14,090	-12,830	-16,460	-17,281
Money and quasi-money (M3)	18,195	22,620	26,937	36,843	39,467	45,068	45,133
Broad money (M2)	14,241	17,503	20,692	27,530	28,032	32,706	32,706
Foreign exchange deposits	3,954	5,117	6,245	9,313	11,435	12,362	12,427
II. Central Bank							
Net foreign assets	6,670	5,781	5,943	8,678	6,574	9,382	11,472
Net domestic assets	-890	2,079	3,108	3,107	4,794	4,595	2,505
Net Domestic Claims	287	5,252	6,639	4,876	7,140	7,050	5,765
Claims on Other Depository Corporations	-2,299	-694	-1,727	-5,507	-2,938	-4,594	-4,618
Net Claims on Central Government	1,943	4,140	5,306	6,888	6,525	8,149	6,888
Claims on Other Sectors ²	643	1,806	3,060	3,496	3,553	3,496	3,496
Other Items (Net) ³	-1,177	-3,172	-3,531	-1,769	-2,346	-2,455	-3,260
Base money ⁴	5,780	7,860	9,051	11,785	11,368	13,977	13,977
Currency In Circulation (net of cash in vaults)	3,763	4,919	5,500	6,896	6,555	8,106	8,089
Currency in Banks (Cash in Vault)	481	637	698	846	713	942	944
Bank Deposits in BOG ⁴	1,359	2,030	2,430	3,274	3,179	4,228	4,244
Liabilities To Other Sectors	176	275	424	769	922	700	700
Memorandum items:	(In 12-month percentage change; unless otherwise indicated)						
Base money	31.1	36.0	15.1	30.2	15.7	18.6	18.6
M2	29.3	22.9	18.2	33.0	26.3	18.8	18.8
M2+ ⁵	32.2	24.3	19.1	36.8	33.0	22.3	22.5
Credit to the private sector	29.0	32.9	29.0	42.0	33.8	22.0	28.4
M2-to-GDP ratio (in percent)	23.8	23.2	22.2	24.3	20.9	24.5	24.4
M2-to-Non-Oil GDP ratio (in percent)	25.4	25.1	24.1	26.1	22.4	26.1	26.1
Base money multiplier (M2/base money)	2.5	2.2	2.3	2.3	2.5	2.3	2.3
Credit to the private sector (in percent of GDP)	15.3	16.1	16.8	19.7	18.9	20.4	21.3

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

¹ End of period.² Include public enterprises and the local government.³ Including valuation and Open Market Operations (OMO).⁴ Bank of Ghana's definition does not include foreign currency deposits.⁵ Includes foreign currency deposits

Table 4. Ghana: Balance of Payments, 2011–17

	2011	2012	2013	2014	2015		2016	2017
				Est.	Prog.	Proj.		Proj.
	(In millions of U.S. dollars)							
Current account	-3,545	-4,914	-5,704	-3,698	-2,759	-3,139	-3,049	-2,579
Trade balance	-3,052	-4,211	-3,848	-1,387	-2,788	-3,003	-2,470	-1,491
Exports, f.o.b.	12,785	13,552	13,752	13,213	11,011	10,775	12,179	14,516
Of which: cocoa	2,871	2,829	2,267	2,613	2,386	2,405	2,541	2,556
Of which: gold	4,920	5,643	4,966	4,388	3,610	3,281	3,555	3,588
Of which: oil	2,779	2,976	3,885	3,725	2,064	2,277	2,963	4,999
Imports, f.o.b.	-15,838	-17,763	-17,600	-14,600	-13,799	-13,778	-14,649	-16,007
Of which: oil	-3,165	-3,331	-3,550	-3,694	-2,496	-2,118	-2,499	-2,812
Services (net)	-1,860	-976	-2,444	-2,602	-1,310	-1,433	-1,629	-1,953
Income (net)	-1,230	-2,132	-1,351	-1,717	-986	-1,165	-1,368	-1,595
Of which: interest on public debt	-223	-224	-416	-552	-619	-784	-837	-823
Transfers	2,597	2,405	1,939	2,008	2,325	2,461	2,418	2,461
Official transfers	229	258	80	10	269	242	33	4
Other transfers	2,369	2,148	1,859	1,999	2,056	2,219	2,385	2,457
Capital and financial account	4,480	3,652	5,157	3,890	2,477	3,241	4,218	3,816
Capital account	445	283	349	0	299	299	479	401
Financial account	4,034	3,368	4,808	3,890	2,177	2,942	3,739	3,415
Foreign direct investment (net)	3,222	3,293	3,226	3,357	2,941	3,109	3,522	3,969
Portfolio investment (net)	118	1,122	659	836	500	1,531	574	278
Other investment (net)	695	-1,047	923	-303	-1,264	-1,698	-356	-832
Medium and long term (net)	291	648	127	-149	-508	-1,217	-226	-262
Official (net)	650	958	857	932	301	324	474	438
Government Oil Investments		-24	-381	-145	143	31	-174	-131
Amortization	-239	-360	-316	-473	-837	-706	-742	-785
Disbursements	1,926	2,690	1,554	1,550	995	1,000	1,390	1,354
Private (net)	-359	-310	-730	-1,081	-809	-1,541	-700	-700
Short-term (net)	404	-1,695	796	-155	-757	-481	-130	-570
Errors and omissions	-203	178	111	-228	0	212	0	0
Overall balance	732	-1,084	-436	-37	-283	313	1,169	1,237
Financing	-732	1,084	436	37	283	-313	-1,169	-1,237
Changes in net reserves (-, incr.)	-732	1,084	436	37	50	-544	-1,380	-1,398
of which: Use of Fund credit (net)	184	156	-28	-12	297	289	168	159
Residual gap					-232	-230	-211	-161
Exceptional financing					232	230	211	161
Memorandum items:	(Percent of GDP)							
Current account	-9.0	-11.7	-11.9	-9.6	-7.0	-8.3	-7.2	-5.5
Trade Balance	-7.7	-10.0	-8.0	-3.6	-7.1	-8.0	-5.8	-3.2
Official transfers	0.6	0.6	0.2	0.0	0.7	0.6	0.1	0.0
Capital and Financial Account	11.3	8.7	10.8	10.1	6.3	8.6	10.0	8.1
Foreign direct investment (net)	8.1	7.9	6.7	8.7	7.5	8.3	8.3	8.5
Overall Balance	1.8	-2.6	-0.9	-0.1	-0.7	0.8	2.8	2.6
Gross Foreign Assets ¹								
Millions of U.S. Dollars	5,383	5,442	5,632	5,461	5,453	6,610	7,783	9,221
Months of imports	2.9	2.9	3.5	3.8	3.6	4.3	4.6	5.2
Gross International Reserves ²								
Millions of U.S. Dollars	5,382	5,348	4,587	4,349	4,734	5,605	6,903	8,311
Months of Imports	2.9	2.9	2.9	3.0	3.1	3.6	4.1	4.7
Net International Reserves ³								
Millions of U.S. Dollars	4,829	4,160	3,286	3,249	3,151	3,744	5,124	6,522
Months of Imports	2.6	2.2	2.0	2.2	2.1	2.4	3.0	3.7
Nominal GDP in U.S. Dollars	39,565	41,939	47,806	38,616	39,219	37,679	42,295	46,921
Oil-Net Exports	-1.0	-0.8	0.7	0.1	-1.1	0.4	1.1	4.7
Non-Oil Current Account	-8.0	-10.9	-12.6	-9.7	-5.9	-8.8	-8.3	-10.2

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

¹ Includes foreign encumbered assets and oil funds.² Excludes foreign encumbered assets and oil funds.³ Revised definition does not include swaps with resident banks as short-term foreign liabilities.

Table 5. Ghana: Proposed Schedule of Reviews and Purchases Under the ECF Arrangements, 2015–18¹

Amount of Purchase		Availability Date	Conditions
Millions of SDR	Percent of Quota		
83.025	22.50	April 3, 2015	Executive Board approval of the three-year ECF arrangement
83.025	22.50	July 15, 2015	Observance of the performance criteria for April 30, 2015, and completion of the first review under the arrangement
83.025	22.50	November 15, 2015	Observance of the performance criteria for August 31, 2015, and completion of the second review under the arrangement
83.025	22.50	April 15, 2016	Observance of the performance criteria for December 31, 2015, and completion of the third review under the arrangement
83.025	22.50	October 15, 2016	Observance of the performance criteria for June 30, 2016, and completion of the fourth review under the arrangement
83.025	22.50	April 15, 2017	Observance of the performance criteria for December 31, 2016, and completion of the fifth review under the arrangement
83.025	22.50	October 15, 2017	Observance of the performance criteria for June 30, 2017, and completion of the sixth review under the arrangement
83.025	22.50	March 15, 2018	Observance of the performance criteria for December 31, 2017, and completion of the seventh review under the arrangement
664.200	180.00	Total under the ECF arrangement	

¹In addition to the generally applicable conditions under the ECF arrangement. Total access under this arrangement is 180 % of quota.

Table 6. Ghana: Indicators of Capacity to Repay the Fund, 2015–2027

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Projections												
Fund obligations based on existing credit (in millions of SDRs)													
Principal	42.8	46.3	53.7	77.5	77.5	64.1	58.3	40.4	16.6	16.6	8.3	0.0	0.0
Charges and interest	0.1	0.1	0.1	0.1	0.7	0.5	0.4	0.2	0.2	0.1	0.1	0.1	0.1
Fund obligations based on existing and prospective credit (in millions of SDRs)													
Principal	42.8	46.3	53.7	77.5	77.5	64.1	99.8	115.2	124.5	132.8	124.5	74.7	41.5
Charges and interest	0.1	0.1	0.1	0.1	2.2	2.0	1.8	1.5	1.2	0.9	0.6	0.3	0.2
Total obligations based on existing and prospective credit													
In millions of SDRs	42.8	46.4	53.7	77.6	79.6	66.1	101.6	116.7	125.8	133.7	125.1	75.0	41.7
In millions of US\$	60.0	65.2	76.1	110.5	114.1	94.7	145.5	167.1	180.1	191.5	179.2	107.5	59.7
In percent of gross international reserves	1.1	0.9	0.9	1.1	1.0	0.8	1.1	1.2	1.2	1.2	1.1	0.6	0.3
In percent of exports of goods and services	0.5	0.4	0.4	0.6	0.6	0.5	0.7	0.8	0.8	0.8	0.7	0.4	0.2
In percent of debt service ¹	3.9	4.0	4.5	6.4	6.4	5.2	7.3	8.1	7.8	7.6	6.5	3.6	1.9
In percent of GDP	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.2	0.1	0.1
In percent of quota	11.6	12.6	14.6	21.0	21.6	17.9	27.5	31.6	34.1	36.2	33.9	20.3	11.3
Outstanding Fund credit													
In millions of SDRs	625.4	745.1	857.5	863.0	785.5	721.4	621.6	506.5	381.9	249.1	124.5	49.8	8.3
In millions of US\$	875.9	1050.5	1217.6	1232.1	1130.1	1037.9	894.3	728.6	549.5	358.3	179.2	71.7	11.9
In percent of gross international reserves	15.6	15.2	14.7	12.4	10.0	8.3	6.6	5.1	3.7	2.3	1.1	0.4	0.1
In percent of exports of goods and services	6.6	7.1	7.1	6.6	5.8	5.2	4.3	3.5	2.5	1.6	0.7	0.3	0.0
In percent of debt service ¹	56.4	63.8	72.2	71.9	63.7	57.5	44.7	35.2	23.7	14.1	6.5	2.4	0.4
In percent of GDP	2.3	2.5	2.6	2.4	2.1	1.8	1.4	1.1	0.8	0.5	0.2	0.1	0.0
In percent of quota	169.5	201.9	232.4	233.9	212.9	195.5	168.5	137.2	103.5	67.5	33.8	13.5	2.2
Net use of Fund credit (in millions of SDRs)													
Disbursements	206.305	119.71	112.39	5.535	-77.49	-64.11	-99.82	-115.16	-124.54	-132.84	-124.54	-74.72	-41.51
Repayments	249.1	166.1	166.1	83.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	42.8	46.3	53.7	77.5	77.5	64.1	99.8	115.2	124.5	132.8	124.5	74.7	41.5
Memorandum items:													
Nominal GDP (in millions of US\$)	37,679	42,295	46,921	51,232	54,992	58,287	62,527	66,666	71,215	76,839	82,847	89,673	97,231
Exports of goods and services (in millions of US\$)	13,177	14,713	17,230	18,633	19,543	20,048	20,666	21,084	21,681	22,917	24,090	25,802	27,729
Gross international reserves (in millions of US\$)	5,605	6,903	8,311	9,971	11,340	12,484	13,489	14,348	14,856	15,505	16,267	17,256	18,423
Debt service (in millions of US\$)	1,552.8	1,646.1	1,686.0	1,713.6	1,774.3	1,805.6	2,000.1	2,068.1	2,315.7	2,533.3	2,764.5	2,974.5	3,165.7
Quota (millions of SDRs)	369	369	369	369	369	369	369	369	369	369	369	369	369

Sources: IMF staff estimates and projections.

¹ Total debt service includes IMF repayments.

Annex I. Risk Assessment Matrix

Nature/Source of Main Threats	Likelihood of Severe Realization of Threats in the Next 1–3 Years <i>(high, medium or low)</i>	Impact if Realized <i>(high, medium or low)</i>
<p>1. Failure to rollover maturing domestic bonds and surges in global financial market volatility, triggered by a deterioration of market confidence and/or market expectations on Fed tightening</p>	<p>Medium</p> <ul style="list-style-type: none"> • Government will need to rollover a substantial amount of domestic bonds maturing in the second half of the year. • The government is increasingly relying on foreign financing of the deficit, including Eurobonds and foreign participation in the domestic bond market. • Staff projects issuance of US\$ 1.5 billion Eurobond this year. Low demand for this bond could raise its cost if there is any decline in market's confidence in the authorities' economic program or increasing rates in the U.S. makes Ghana's rates of return less appealing to investors. 	<p>High</p> <ul style="list-style-type: none"> • Failure to rollover and/or meet the required budget financing would generate a financing gap. • Foreign reserve cover is low and the current account deficit high. Increased capital outflows could erode the coverage ratio, exerting increased exchange rate pressures. • A recurrence of currency depreciation could further increase inflationary pressures and raise the cost of foreign debt service. • Economic growth and imports would have to decline to bring about the required adjustment in the current account deficit.
<p>2. Sustained decline in commodity prices, triggered by deceleration of global demand and coming-on-stream of excess capacity (medium term).</p>	<p>Medium</p> <ul style="list-style-type: none"> • Commodity exports account for 85 percent of total merchandize exports. Further fall in commodity prices, in particular oil, gold or cocoa, could result in a sharp contraction of exports and a further widening of the current account deficit—though part of this would be offset by lower profit and dividend payments. • Additional drop in gold prices would also reduce production and fiscal revenue. 	<p>High</p> <ul style="list-style-type: none"> • A further increase in the current account deficit would reduce an already low reserve buffer, triggering increased exchange rate pressures. • Significant currency depreciation could raise inflationary pressures and the cost of foreign debt service. Economic growth and imports would decline.
<p>3. Delayed fiscal adjustment in 2016 election year</p>	<p>Medium</p> <ul style="list-style-type: none"> • A revenue shortfall or spending overrun (e.g., from higher wages or election costs) could compromise the 2016 fiscal target, with little room for discretionary 	<p>High</p> <ul style="list-style-type: none"> • Failure to achieve the budget targets would prolong a situation of high real interest rates, depreciation pressures, and double-digit inflation.

	tightening.	<ul style="list-style-type: none"> Debt dynamics could worsen, reducing capacity to handle shocks and crowding out space for infrastructure and social priority spending.
4. Continued elevated inflationary pressures	<p>Medium</p> <ul style="list-style-type: none"> Inflationary pressures have risen, fueled by a depreciating currency during the first half of 2015 and power shortages. While the depreciation has been largely reversed in July, inflationary pressures may persist if power shortages are not addressed as envisaged and/or in case of other supply-side shocks. 	<p>Medium</p> <ul style="list-style-type: none"> Not receding inflationary pressures would require a further monetary policy tightening to prevent second-round effects, raising funding costs for the government. A generalized increase in inflation would disproportionately affect lower income groups.
5. Deepening of energy crisis; triggered by lack of rain needed in the north areas of the country and Burkina Faso or delays in the beginning of production of private energy providers.	<p>Medium</p> <ul style="list-style-type: none"> Insufficient amount of rain this year has reduced significantly electricity production of energy at the Akosombo dam and other dependent downstream. Government strategy relies in the successful establishment of privately-owned plants. Constant blackouts have affected manufacturing growth and led to dismissals of workers. 	<p>Medium</p> <ul style="list-style-type: none"> Failure to solve the energy crisis by the end of this year would likely result in further deceleration of GDP growth particularly in the industrial sectors. Give the context of high debt and inflation there is no space for expansionary policy to offset the impact on growth by stimulating the economy.

Annex II. Public Debt Management in Ghana

Review of 2014 Financing Outturn

1. **The actual financing outturn relative to the financing planned in the budget deviated significantly in 2014.** The actual outturn for external disbursements fell short by GH¢ 480 million, while repayments exceeded the anticipated amounts by GH¢ 349 million due to the sharp depreciation of the cedi. Domestically, the budget planned for a net borrowing of GH¢ 3.1 billion. However, the actual net borrowing was GH¢ 7.3 billion, comprising GH¢ 4.1 billion from the domestic debt market and GH¢ 3.2 billion in non-marketable debt.¹
2. **The financing mix in 2014 exerted excessive pressures on the domestic debt market.** Of the GH¢ 7.3 billion net domestic financing, commercial banks purchased GH¢ 1.8 billion, the non-bank sector financed GH¢ 2.9 billion, non-resident investors marginally increased their holdings by GH¢ 218 million, and the residual GH¢ 2.3 billion was absorbed by the BOG. The significant monetary financing of the fiscal deficit contributed to high and rising inflation. In an environment of rising interest rates, the 2014 net financing from the domestic market comprised entirely of T-bills. This significantly increased the refinancing risk of the government's domestic debt portfolio.

The 2015-2017 Medium-term Debt Management Strategy

3. **The government developed the medium-term debt management strategy (MTDS) for the period 2015–17.** The strategy represents the GOG's policy statement with regards to how the gross borrowing requirement will be financed over the medium term, taking due account of the costs and risks. The financing mix implied by the strategy suggests that external financing including the issuance of new Eurobonds over the medium-term will play an important role. The current elevated domestic financing costs, the high refinancing risk, and the difficulty the GOG faces in placing longer maturity debt, suggests that near term financing from domestic sources must be curtailed.
4. **Consistent with the macroeconomic framework, the baseline domestic interest rate over the medium term is expected to decline from current levels.** Nominal and real interest rate is expected to fall as policies to control inflation and stabilize the exchange rate take effect. A decline in the domestic inflation rate and the resumption of economic growth will reduce the risk premium demanded by investors. The external financing cost is expected to decrease moderately as credit risk spreads tighten with improvements in economic fundamentals, but the expected interest rate increase in the US will partly offset the effect of spread compression.
5. **Increasing the share of external financing will increase external vulnerabilities of the public debt portfolio.** However, the financing mix adopted by the authorities is endogenous to

¹ About a third of this was purchased by SNNIT and the rest comprised securitization of overdraft facility at the BOG.

moderating the exchange rate depreciation, as pressures on the domestic debt market and the risk of recourse to BOG financing of the fiscal deficit will be reduced, and inflation expectations gradually become anchored. However, exchange rate depreciation due to exogenous shocks cannot be ruled out. On balance, the cost and risk trade-off is tilted in favor of assuming greater exchange rate risk to reduce debt vulnerabilities arising from elevated domestic interest rate risk and refinancing risk.

6. **The planned Eurobond issuance may benefit from a credit enhancement from an IDA guarantee.** The Executive Board of IDA has approved a policy based guarantee (PBG) of up to US\$400 million in coverage. This will allow issuance of the Eurobond at reduced interest cost and with longer maturity compared to a Eurobond issuance without a guarantee.

Performance of Domestic Financing during H1 2015

7. **The practice of financing the budget deficit with T-bills continued into the first half of 2015.** During the period, a total net financing of GH¢ 0.9 billion was raised. Of this, 91-day T-bill accounted for GH¢ 0.6 billion, 182-day T-bills accounted for GH¢ 1.1 billion, while GH¢ 0.7 billion in marketable debt with maturities greater than 1 year and another GH¢ 0.1 billion in non-marketable debt were retired. As a result, refinancing pressures in the domestic debt market continued to mount. No new non-marketable debt was issued.

8. **During the first half of the year, four auctions were held in the 3- and 5-year maturities for a total gross proceeds of GH¢ 1.3 billion.** These, however, fell short of the GH¢ 2.9 billion target. Non-resident participation remained high, between 70 to 80 percent on average.

9. **The second quarter saw liquidation of government securities by the banking system contributing to a net negative domestic financing.** Although the commercial banks financed about 30 percent of the total net financing needs in the first quarter, they reduced their net investments in government securities in the second quarter as liquidity in the banking system tightened. Domestic non-bank investors and non-residents provided net credit to the government, but not sufficiently to offset the net liquidation by the commercial banks.

10. **Yields have declined slightly.** Interest rates on the 91-day T-bills started the year at 25.84 percent and ended in June at 25.31 percent, with a weighted average interest rate of 25.45 percent during the period. This compares with a weighted average interest rate of 25.74 percent for Q1. The yield on the 3-year note fell from 25.4 percent in the last auction held in August 2014, to 23.5 percent in May 2015.

Financing Plan for the second half of 2015

11. **The financing plan for the remainder of the year is consistent with the debt management strategy.** During the first half of the year, external financing consisted of a grant disbursement from the EU. The rest of the financing needs were entirely covered domestically. The financing mix for the remainder of 2015 will be externally oriented. Program and project grants and

loan disbursements of US\$ 1.2 billion are expected during the remainder of the year. Together with the planned issuance of a new Eurobond, pressures on the domestic debt market would significantly dissipate. In addition, the 2-year notes will be opened to non-resident investors, currently only permitted to invest in securities with original maturities 3-years and longer. The government will aim at achieving a net domestic issuance on a proceeds basis of GH¢ 1.7 billion in the second half of the year, which will also enable them to build cash buffers in preparation for its transition towards zero gross financing from the BOG in 2016. In all, the government plans to issue GH¢ 2.0 billion in net domestic financing for 2015, compared to GH¢ 7.3 billion (on proceeds basis) in 2014, of which GH¢ 2.3 billion was underwritten by BOG.

Appendix I. Letter of Intent

Accra, August 17, 2015

Ms. Christine Lagarde
Managing Director
International Monetary Fund (IMF)
Washington, D.C. 20431

Dear Ms. Lagarde,

1. In support of its policies, the government requests that the Executive Board of the IMF completes the first review of Ghana's ECF arrangement and approves disbursement of the second tranche of the loan, based on the successful implementation of all but one performance criteria and a satisfactory implementation of key structural reforms—as set forth in the attached MEFP.

2. Considerable progress was made in implementing the envisaged fiscal consolidation. The fiscal deficit was substantially reduced for the first five months of the year, compared to the same period last year. At the same time, good progress was made in implementing the ambitious public sector reform agenda, including in debt and cash management. Implementation of the payroll plan is also on course. The central bank tightened its monetary policy through increases in its policy rate.

3. The economy has come under severe stress due to a combination of unfavorable cocoa and gold production, and an ongoing energy crisis. Lower exports and a lack of market confidence have added significant volatility to the exchange rate putting pressures on interest and foreign capital spending. To maintain the fiscal targets as envisaged under the program and to prevent further increase in the public debt, the government has taken the decision not to spend higher revenue projected for the remainder of the year as well as to reduce low priority capital expenditure—as set in the budget mid-year review. The central bank confirmed its commitment to bring inflation down to its medium target, through setting its policy rate at an appropriate level. The central bank stands ready to take any further action required to combat inflation.

4. The MEFP describes corrective policies adopted by the government in response to the non-observance of the end-April 2015 performance criterion under the ECF for the continuous performance criterion on the central bank financing of the government deficit, and we request a waiver of non-observance for this PC. The government also requests that the IMF Executive Board approve the modifications to the performance criteria as set in the MEFP. These include: an increase in the ceiling on non-concessional borrowing to allow for the implementation of critical infrastructure projects and in line with the new debt limit policy; an increase in the continuous PC on gross credit to government (following a technical revision of the stock at end-2014), a decrease in the end-December 2015 PC on net domestic assets of the Bank of Ghana, and adjustments in the August 2015 and December 2015 PCs on net international reserves to reflect the larger amount of the Eurobond envisaged this year and a revision of the definition requested by the Fund to better

reflect guidelines on international reserves.

5. The government believes that the measures and policies set forth in the attached MEFP and in the mid-year review of the 2015 Budget Statement and Economic Policy are appropriate and sufficient to achieve the objectives of its program, but it stands ready to take any additional measures that may be necessary to that end. We will consult with the IMF on the adoption of such measures in advance of any revision of the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

6. The government consents to make public the content of the IMF staff report, including this letter, the attached MEFP and TMU, and the debt sustainability analysis (DSA) performed by IMF and World Bank staff. It therefore authorizes the IMF to publish these documents on its website once the IMF Executive Board approves the completion of the first review under the three-year arrangement under the ECF.

Sincerely yours,

/s/

Seth Emmanuel Terkper
Minister for Finance

/s/

Henry Akpenamawu Kofi Wampah
Governor of Bank of Ghana

Attachments:

Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Appendix I—Attachment 1

Memorandum of Economic and Financial Policies, 2015–17

1. This memorandum updates and reports developments on Ghana’s economic and financial policies for the period 2015–2017 which is being supported by the International Monetary Fund under a three-year ECF arrangement. It summarizes the government’s assessment of Ghana’s current economic situation and program performance (Section I), government’s program and policies that will be adopted to address the challenges that the country faces (Section II), developments in the structural reforms (Section III); policies to support growth (section IV); program risks (section V); and program monitoring (Section VI).

I. RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

Growth and Inflation

2. Economic growth decelerated to 4.0 percent in 2014, broadly as estimated before. Shortages in electricity supply, coupled with increasing input costs from the depreciation of the Cedi contributed to a contraction in the industry sectors and a significant slowdown in the services sectors. Within industry, manufacturing and water sectors experienced a contraction while the petroleum and mining, electricity, and construction sectors slowed down markedly. The outbreak of Ebola in the West-African region, and the resulting moratorium of international conferences in Ghana contributed to a contraction in the hotel and restaurant sector. Oil output was revised slightly downward. Preliminary national accounts estimates indicate that the economy expanded by 4.1 percent in the first quarter of 2015 compared to a contraction of 3.8 percent in first quarter of 2014. The Agriculture Sector recorded the highest growth of 7.4 percent, the Services sector followed with 4.7 percent whilst industry recorded a growth rate of 0.9 percent. On June 3rd, severe flooding in the capital city Accra caused some property damage (including infrastructure) and resulted in at least 150 deaths, the worst tragedy in recent history.

3. Inflation pressures persist. The decline in international oil prices and the 10 percent reduction in domestic fuel prices contributed to a slight decline in headline inflation in January 2015. Subsequently, however, inflation inched up again to 17.1 percent in June 2015 fueled by the depreciation of the Cedi of 23 percent in nominal effective terms between December 2014 and June 2015. Core inflation (excluding food and energy) accelerated from 19 percent at end-2014 to 23 percent in May before slightly easing in June.

Fiscal Performance

4. Despite setbacks, fiscal performance during January–April of 2015 was satisfactory. The overall fiscal deficit on a cash basis was substantially lower than budgeted, with a primary surplus against a projected deficit. Strong revenue performance benefited largely from tax administration and policy measures and the sharper-than-expected depreciation as reflected by larger-than-

budgeted indirect tax revenues, stemming from higher VAT on imported goods, petroleum products tax, and export tax, as well as strong collection of corporate income tax. In addition, an unanticipated transfer of BOG's dividend (0.4 percent of GDP) also contributed to the strong revenue performance.¹ At the same time the government contained current spending, including maintaining the wage bill within the budget envelope, while foreign capital spending was higher than budgeted reflecting a delayed foreign loan disbursement that was originally expected in December 2014. Some mandatory payments to Social Security and most statutory funds were delayed and paid in the subsequent month due to liquidity constraints.

5. While no new arrears were accumulated so far in 2015 and higher-than-programmed arrears has been cleared, additional arrears as of end-2014 were identified in audits and reviews of claims from oil importers and cross debts among utility companies. In 2014 the Bulk Distribution Companies (BDCs) submitted a request for US\$327 million in respect of forex losses payable by Government. In order to address disagreements between the BDCs and Government, an independent auditor was appointed to audit the claims submitted by the BDCs. The Audit has been completed and a final report issued. Based on consensus reached on the audit, Government has accepted a total of US\$181 million as the amount due the BDCs in respect of forex losses for the period. A portion of the amount will be paid in 2015 and the remaining paid in subsequent years. In order to avoid the recurrence of forex losses in respect of petroleum imports and sale by BDC's, Government is implementing a policy of liberalizing the pricing of petroleum products.

Financing and Public Debt

6. The government has raised GHc 0.9 billion in net financing from the domestic debt market during January-April 2015. However, net issuances became negative during the second quarter. Domestic market financing continued to be skewed towards T-bill issuances, while modest maturity extension through the net issuances of 3- and 5-year notes was achieved. Maturing BOG holdings of T-bills have mostly been paid off, and no new T-bills have been purchased by the BOG. Net financing from BOG was lower than projected. Combined with the effect of the exchange rate depreciation, public debt has increased to GHc 88.7 billion as at end-April 2015. The weighted average time to maturity of the marketable domestic debt stood at 10 months, and continues to represent a significant rollover risk for the government debt portfolio. In addition, recent observed uncovered auctions pose risk to deficit financing of the Budget. There was no increase in non-marketable domestic debt during the period.

Monetary and Financial Sector Developments

7. The Monetary Policy Committee (MPC) increased its benchmark policy rate by 100 basis points to 22 percent in May 2015, but decided to keep it unchanged in July. Although the committee recognized still elevated inflation and inflation expectations, it considered that pressures

¹ Even excluding BOG dividend the fiscal outcome would have been in line with the program.

in the medium term were receding with tight monetary policy, continuing fiscal consolidation, and the recovery of the cedi in July. The committee announced also the introduction of a new 7-day reverse repo instrument at the monetary policy rate, which was then re-aligned on August 13.

8. The response of money market rates has been mixed. The shorter end of the market saw the 91-day Treasury bill rate decline by 9 basis points in May but increase by 8 basis points in June, remaining at 25.2. At the longer end of the market, while the rate on the 3 year bond went up by 100 basis points in the month to 23.5 percent in May, that for the 1-year, 2-year, 5-year and 7-year bond rates remained unchanged at 22.5 percent, 23 percent, 21percent and 18 percent respectively.

9. Growth in monetary aggregates decelerated. Reserve money growth declined significantly on a year-on-year basis from 30 percent in December 2014 to 16 per cent in April and 13 percent in June 2015. In line with the trends in reserve money growth, Broad Money growth also declined from 33 percent in December 2014 to 27 percent in April 2015. Growth in the broader measure of money supply (M2+), defined to include foreign currency deposits, slowed down from 37 percent in December 2014 to 33 per cent in April 2015. This growth is expected to decline further to 28 percent by December 2015. Reflecting tighter liquidity conditions in 2015, private credit growth slowed to 33 percent in April from 42 percent at end-2014. In real terms the growth in credit declined from 22 percent to 14 percent during the same period.

Exchange Rate Developments

10. The domestic currency weakened against the major currencies during the first half of the year but recovered strongly in July. The cedi depreciated against the US dollar by close to 30 percent during the first half of the year. Some factors that fueled the cedi depreciation are the outflows of foreign exchange from a higher-than projected trade deficit fueled by the oil price decline and lower production levels of cocoa and gold. It may also have been exacerbated by speculative activities on the foreign exchange market, following similar depreciation trends during the same period in 2014. However, the steady depreciation during the first half of the year was largely reversed in July, following BoG's announcement to intensify intervention in the foreign exchange market, resumption of disbursements from key development partners, indications that fiscal consolidation was on track, and confirmed expectations of foreign exchange inflows in September-October from a new Eurobond and cocoa crop financing. BoG is closely monitoring current developments in the foreign exchange market and will take appropriate measures when necessary to contain any potential excessive volatility. To better comprehend the dynamics in the foreign exchange market, BoG has requested technical assistance from the Fund to assess the current situation and advise on ways to deepen the market.

Financial Sector Developments

11. The impact of the shocks from the cedi depreciation during the first half of the year and slowdown in growth has been well contained by the banking system. The banking system continues to remain generally well capitalized, liquid, and profitable, though there is substantial variation

across banks. Nonperforming loans (NPLs) have remained stable in early 2015. The BoG has commissioned an audit into the system of provisioning of loans by banks to confirm the NPL trends.

External Sector

12. The current account improved significantly compared with last year but not as much as envisaged in the program. A poor harvest of cocoa and lower gold production partly due to the energy crisis have led to somewhat lower-than-projected exports. Despite the rapid depreciation of the currency, non-oil imports were slightly larger than projected, with a rebound from historic low levels recorded in 2014. The capital and financial account deficit has been broadly in line with the program projection.

13. The overall balance of payments recorded a large deficit of some US\$ 850 million—around US\$ 150 million higher than projected for the first quarter. The relatively high BoP deficit reflects to some extent the seasonal pattern of Ghana’s balance of payments. As a result, BoG’s gross international reserves declined by about US\$400 million in Q1. Meanwhile, from January to June, BoG has contracted two external bridge loan facilities equivalent to the amount of currency swaps with domestic banks repaid during the period, leaving BOG foreign currency liabilities broadly unchanged.

Quantitative performance criteria and structural benchmarks

14. All performance criteria (PC) at end-April 2015 were met with the exception of BOG’s gross credit to government (continuous ceiling for 2015) that was technically missed by a small margin. This was because the balance on the Government’s domestic debt restructuring (DDR) account which was earmarked to reduce gross claims on government was not transferred to reduce the overdraft to Government, although the account had been tagged. Following discussions with IMF staff, the amount in the DDR account has been transferred into the Government overdraft account, thereby avoiding any future confusion about the determination of this PC.

15. A correction was made to the PC’s on gross credit to government initial stock in 2014 in order to properly account for all government accounts with negative balances (equivalent to overdraft), as defined in the TMU. The original estimate mistakenly did not include these negative balances as they were aggregated within total government deposits. While the revised initial stock in 2014 increased by GH¢6.1 billion, in April Bank of Ghana in consultation with the Ministry of Finance and IMF staff transferred resources from accounts with positive balances to accounts with negative balances in order to reduce the size of the latter. As a result, the stock of gross credit to government has declined by almost Ghc 5 billion between December 2014 and April 2015. While the PC was missed for the reasons explained above, the government did not receive any gross financing from BOG during this period as initially envisaged in the program design. On the contrary, the government’s cash buffers in the form of (positive) deposits at BOG declined substantially, leaving minimal cash buffers.

16. The PC targets on net international reserves for August 2015 and December 2015 are requested to be revised in order to reflect a revision of the definition of international reserves requested by the Fund in order to better adhere to standard guidelines. The revised definition excludes the total amount of Bank of Ghana deposits with Ghana International Bank, London, from the definition of foreign assets.
17. Inflation remained higher than the program's indicative target while some social protection spending was slightly delayed until after end-April. Some delays in small payments due to an official creditor were resolved and did not give rise to arrears.
18. Structural benchmarks were largely met, some with delays. In particular:
- a. A first draft plan to eliminate the compulsory surrender requirements of foreign exchange was completed before the end-April 2015 target. A revision of the plan addressing comments from the IMF was completed and adopted by the BoG Board in end-July. Further implications of the reform need to be addressed and a detailed action plan will be developed, drawing from in-depth analysis of a planned IMF TA mission.
 - b. The benchmark at mid-May related to the audit of the payroll security system was met with a delay. The interim audit of the security system was completed by Mid-May, but a preliminary draft of the assessment was provided only in mid-June. The final draft was completed by mid-July.
 - c. The benchmark at end-June related to the biometric validation of employees on the mechanized payroll is partially met, while the publication of the public audit of payroll management is delayed. While the payroll databases have been matched with the biometric databases, a full integration to allow automatic validation will require more resources, and will be finalized by June 2016. The public audit of the payroll management has started on a limited scale. To avoid duplication of resources, the revised plan is to use the comprehensive HR audit being undertaken by the PSC, with private sector support, to update the payroll by end-year.

II. THE GOVERNMENT'S ECONOMIC PROGRAM

Macroeconomic Framework for 2015 and the Medium-Term Objectives

19. **Outlook for 2015.** Real GDP growth for 2015 is projected to further decelerate to 3.5 percent mainly on account of fiscal consolidation, the energy crisis and a weak cocoa harvest. The 2015 first quarter provisional growth of 4.1 percent, however, increases the probability of exceeding the 2015 growth target. Given the persistence of inflation and the depreciation of the cedi during the first half of the year, the average inflation projection was revised upwards to 15.5 percent. Following the sharp appreciation in July, the year-end inflation projection was kept unchanged. The ruling of the international tribunal is not expected to have an immediate impact on the estimated oil production in 2015-17 until the final decision is taken in 2017.

20. For 2015 as a whole, the current account deficit is expected to be reduced from last year, but not as much as previously expected, from 9.6 percent of GDP in 2014 to 8.2 percent of GDP. Financial account would contribute to reserve build-up towards the end of the year through the forthcoming Eurobond issuance and annual external borrowing by Cocoa Board.

21. **Medium term Outlook.** Medium-term projections remain broadly unchanged. As electricity shortage should be largely addressed by end-2015 with emergency power projects, non-oil growth is projected to rebound in 2016 and reach an average of about 6 percent over the medium term. Oil production is projected to increase in 2016 and 2017, contributing to real hydrocarbon GDP growth of 22 and 18 percent, respectively. Accordingly, real GDP growth for 2016 is targeted at 5.7 percent. With tighter fiscal and monetary policies, the year-end inflation is expected to decelerate to 8 percent and projected to remain within BoG's medium term target range (8 +/- 2 percent). The current account deficit would decline to around 5.5 percent of GDP by 2017, and net reserve cover rise to the equivalent of 3.5 months of goods and services imports.

Fiscal Policy for the Second Half of 2015 and the Medium Term

22. The government will continue with its fiscal consolidation efforts, despite the unfavorable macroeconomic condition including the weakening currency.

- a. Overall revenues (excluding BoG dividend) are expected to perform in line with the budget for the remainder of the year, while the composition may change. Based on the revenue performance in the first 4 months of the year, we expect the positive performance in import duties, corporate taxes, and oil revenues to continue in the second half of the year. Upward adjustment of the oil revenues reflects higher oil prices and larger-than-expected depreciation.
- b. The government intends to continue containing domestic primary spending, in particular to keep net hiring within the budget envelope for the wage bill. Larger-than-expected depreciation during the first half of the year has increased foreign interest payment, as well as foreign-financed capital spending resulting from higher disbursement in cedi terms of foreign loans.
- c. While staying current on its expenditure commitments, the government intends to continue clearing domestic arrears according to plan and use the unanticipated BoG dividend to partly clear the additional arrears stemming from the audited BDCs claims, while the remainder will be used to cover the payments of the damage caused by the recent flooding.
- d. Supported by higher oil revenues, the government is now aiming for a 2015 fiscal deficit of about 7.3 percent of GDP. The government plans to save at least 50 percent of the additional oil revenue stemming from the higher-than-projected oil prices compared with the program (latest oil price projections remain substantially lower than envisaged originally in the 2015 budget).
- e. The Government is in the process of assessing the full impact of the flood disaster. Initial work done indicates costs in the areas of building and repair of bridges and roads as well as the

payment of hospital bills, provision of relief items and resettlement costs. The budget will cover up to GHc 300 million of these flood-related costs.

23. Domestic prices of petroleum products were liberalized as of July 1. The goal of the price liberalization policy is to ensure full cost recovery of petroleum pricing. The policy expects that taxes and levies will remain the same. Margins will be determined by industry players and the role of the National Petroleum Authority (NPA) will be purely regulatory, ensuring that the right standards are kept in the industry. The Bulk Oil Distribution Companies (BDCs) and their banks will be responsible for the foreign exchange needs of the BDCs with Bank of Ghana playing a monitoring role.

24. The utility tariff policy will continue to aim as a primary objective at ensuring that electricity, natural gas and water tariffs at any particular point are cost effective. This is achieved through a biannual tariff review process and quarterly tariff review mechanism under an automatic adjustment formula. The Public Utilities Regulatory Commission (PURC) is planning a major tariff review which is to take effect from October, 2015. It will look at the electricity generation mix to determine the fuel and price mix (which has changed substantially following the relative decline in hydro power generation in recent years), other costs and growth in demand with a five-year tariff outlook. These elements will constitute revised components determining the quarterly automatic adjustments going forward.

25. The government will continue to face financing challenges, particularly domestic financing, over the short to medium term. The financing mix for the remainder of 2015 will be more externally oriented. While the gross financing needs during the first half of the year were almost entirely financed domestically, program financing and the planned issuance of a new Eurobond should contribute to ease pressures on the domestic debt market and reduce roll-over risks of government debt. In addition, the 2-year notes will be opened up to non-resident investors, currently only permitted to invest in securities 3-years and longer. The government will aim to achieve a net domestic issuance on a proceeds basis of GH¢ 1.1 billion in the second half of the year, which will also enable building cash buffers in preparation for its transition towards zero gross financing from the BoG. Over the medium term, the financing mix will gradually revert towards greater domestic financing. Work will continue to deepen the domestic debt market in the primary and secondary markets, the money market, and market infrastructure, to enhance the efficient functioning of the domestic market, expand the investor base and increase their absorptive capacity, and improve the risk-reward profile of Ghana's government debt as an investment asset.

26. The donor support has been unlocked since the approval of the Fund's program. So far the EU has released about US\$ 180 million and the World Bank will disburse US\$ 150 million shortly, while the African Development Bank is set to release around US\$50 million in September. Additional disbursements from bilateral donors during the remainder of the year will bring total program financing to close to US\$ 500 million, as expected.

27. The objective of fiscal policy for 2016 will be to continue the strong fiscal consolidation efforts in order to put public debt on a more sustainable path by enhancing revenue mobilization and strictly containing expenditures. The non-oil tax revenue performance will be enhanced by

about $\frac{3}{4}$ percentage points of GDP through improvements in tax compliance and administration, reduction in exemptions and additional tax policy measures, if needed. On the expenditure side the wage bill ratio to GDP will be reduced through the enhanced implementation of wage measures and reforms. The estimated cost for elections will be reflected along additional measures to fully offset its impact on the fiscal balance. The implementation of structural reforms will support consolidation efforts. Overall, the Government aims to reduce the fiscal deficit (on a cash basis) from an estimated 7.3 percent of GDP in 2015 to $5\frac{3}{4}$ percent in 2016 and further down to 3.7 percent in 2017.

Arrears Clearance Strategy

28. With the revision of the stock of arrears, the arrears clearance strategy has been revised slightly. Currently, about GH¢1.6 billion is programmed for clearance in 2015, while GH¢1.7 billion and GH¢2.1 billion are programmed for clearance in 2016 and 2017 respectively. Of the newly identified arrears to the BDCs, the government intends to use part of the proceeds from the BoG dividend payment to clear about GH¢300 million in 2015. The government has reached an agreement with the utility company, Electricity Company of Ghana (ECG), to clear the identified stock of arrears over the next 5 years in quarterly installments of GH¢36 million each. This is to ensure that the plan for clearance stays within Government's medium term strategy for arrears clearance.

Debt Management Strategy

29. With the technical assistance of the IMF and World Bank, the government has developed a medium-term debt management strategy (MTDS) which was approved by cabinet in May. The MTDS aims to support fiscal consolidation and monetary tightening through a financing mix that minimizes cost while taking due account of the risks. In this regard, the government considers it crucial to reduce domestic financing pressures to smooth the transition towards no monetary financing, while facilitating the monetary tightening needed to anchor inflation expectations and stabilize the exchange rate.

30. The management of domestic interest rate risk and refinancing risk will be the Government's risk priorities. The MTDS therefore is oriented towards reduced domestic financing in 2015, particularly 91-day T-bills, while aiming to lengthen domestic debt maturities, including through the introduction of the 1- and 2-year notes to non-resident investors. Externally, the strategy will continue to maximize concessional borrowing, while limiting non-concessional borrowing to projects critical for national development and raising a Eurobond to refinance expensive existing debt.

31. To ease domestic financing constraint over the medium term, the government is implementing reforms to deepen its domestic debt market. In the primary market, the auction calendar has been calibrated to ensure consistency with the MTDS, while auction frequency of the 1-year and 2-year notes will be reduced to promote secondary market trading of these instruments. Benchmark securities will be introduced to improve the liquidity of the securities in the secondary

market and facilitate price discovery. To this end, existing fragmented outstanding securities with original maturities greater than 1-year will be gradually consolidated into benchmark securities. Refinancing risk will be managed ahead of time through liability management transactions including switches, buyback and reverse-auctions in line with international best practices. The government has requested IMF assistance to strengthen capacity in liability management operations and to deepen the domestic debt market. In addition, 2-year notes will be opened to non-resident investors.

Monetary Policy and Financial Sector Issues

32. Monetary policy continues to be guided by Bank of Ghana's inflation targeting framework. After a short lived decline of inflation in January, inflation continued on an increasing trend. In light of this, and in order to reduce aggregate demand pressures to the exchange rate, the BoG increased its policy interest rate by 100 bp to 22 percent in mid-May 2015. In July, while noting that inflation continued to rise, the Monetary Policy Committee (MPC) decided to maintain the policy rate at 22 percent, considering that the pressures in the inflation outlook for the medium-term were waning as a result of continuing fiscal consolidation, the recent recovery of the cedi and tight liquidity conditions in the banking sector. The policy rate was re-aligned in August and brought to 24 percent at the time when the new 7-days reverse repo was introduced in order to maintain money market conditions unchanged. The BoG will continue to stand ready to further tighten monetary conditions, if necessary, to ensure that inflation moves gradually to its medium-term target.

33. Further monetary operation reforms are needed to facilitate money market development and enhance the effectiveness of the inflation targeting framework. BOG is introducing a main instrument to inject liquidity to the interbank market, a fixed-rate full-allotment 7-day reverse repo. This will offer more flexibility in liquidity management of banks and contribute to bring the interbank money market rate closer to the policy rate, hence strengthening the signaling effect of the latter and its role as the monetary policy operational target. In order to increase transparency of BOG' government financing, BOG will undertake regulatory and information technology reforms needed to prevent government deposits to turn negative and record any overdraft in the government's overdraft account. With these improved monetary operations, and strict control of BoG credit to the government, the Inflation Targeting framework is becoming fully effective again.

34. A main objective of BoG remains to increase the external reserves coverage up to comfortable levels to eliminate pressures on cedi while being prepared to provide appropriate amounts of foreign currencies to the FX market to avoid unwarranted volatility. BOG has changed current regulations to allow foreign participants to invest in 2-year government bonds from August 2015, and in 1-year bonds later this year. This will broaden the pool of possible investors and potentially attract further foreign exchange inflows.

35. BOG is adopting measures to ensure that the financial system remains strong and stable, including by strengthening the legal framework for supervising and regulating the financial system. The new Banks and Specialized Deposit-Taking Institutions Bill and the Ghana Deposit Protection Bill

have been submitted to Parliament (Structural Benchmark by mid-May 2015). BoG will develop any required regulations needed to fully implement these new laws once approved by Parliament.

36. A special diagnostic audit to review asset classification and valuation, provisioning and loan restructuring practices in the commercial banks (structural benchmark by end September 2015) was awarded to four external auditor firms and a final report is due by end of August. Results from this audit will determine whether a revision of loans classification and provisioning practices is needed to ensure a more uniform, prudent standard in banks' qualitative assessments of customer creditworthiness by December 2015. In addition, when considered necessary Bank of Ghana has advised the banks exhibiting lower Capital Adequacy Ratios (CAR) to raise their capital, including by suspending dividend payments if needed.

37. A new Bank of Ghana Act is being drafted by a committee within BOG led by the Legal Department in consultation with the MOF and other stakeholders. Within the constraints of the December target proposed for parliamentary submission by the Fund, the Committee has begun work on the proposed amendments with a roadmap as follows.

- The draft of the proposed amendments shall be ready for discussion and transmission to the Management of Bank of Ghana (BOG) by Mid August 2015.
- Feedback or comments on the draft and redress or necessary corrections from the Bank's management by end of August 2015.
- Transmission of the draft amendments from BOG Management for comments to the IMF by end-August 2015.
- Transmission of the revised draft amendments from BOG Management to the BOG Board for consideration by September 2015.
- Simultaneously, the Bank is drawing the attention of the Ministry of Finance to the proposed amendments in July 2015 for their necessary reaction and inputs by August, 2015.

38. The draft seeks to incorporate the recommendations of the Safeguards Assessment Mission, in consultation with Fund staff. The final draft will be delivered to the Cabinet for their consideration and onward submission to the Attorney General for their review, before final submission to Parliament by December 2015.

39. Pan-African banks have grown in the region, which brings to the fore the need for regular exchange of information as well as the harmonization of the regulatory and supervisory practices in the sub-region. In order to meet these, the Committee of Governors of the West African Monetary Zone (WAMZ) set up the College of Supervisors of the WAMZ (consisting of The Gambia, Ghana, Guinea, Sierra Leone, Liberia and Nigeria). The College meets on quarterly basis to deliberate on issues of supervisory and regulatory concerns in the WAMZ. BoG continues to play an active role as a member of the College and contributes to the adoption of best practices in banking supervision, including risk-based supervision framework, implementation of IFRS, corporate governance code for the WAMZ, development of model Banking Act for the WAMZ and compliance with the Basel Core Principles for Effective Banking Supervision.

40. BoG has also spearheaded the signing of MOUs with WAMZ member countries, the Commission Bancaire of WAEMU, South Africa and the Banking Regulatory Commission of China. These are aimed to promote the exchange of information among the regulatory agencies to facilitate effective regulation and supervision of banks and other supervised intermediaries. There are plans to sign similar agreements with the Prudential Regulatory Authority (UK), France, India and Trinidad and Tobago. The Bank has also signed the MOU with sister regulatory agencies in Ghana for insurance, pensions and the capital markets. The BOG has also conducted 3 joint examinations with Central Bank of Nigeria (CBN) of the subsidiaries of Nigerian banks in Ghana. The bank participated in College meetings for Stanbic and UBA (in 2014) and Ecobank (2015) and plans to attend the college for Standard Chartered Bank in the UK in July 2015.

41. The Bank has been collaborating with AFRITAC WEST 2 to build capacity for implementing Basel II/III and looking forward to assumption of duty of a long term advisor on banking Supervision (from the Fund) to assist in the implementation of the transition to Basel II.

42. BOG continues implementing measures to ensure the stability of microfinance institutions and monitor their operations. BOG has identified institutions performing irregular activities and their licenses have been suspended. BOG is also establishing Units in its regional offices with the objective to strengthen its monitoring capabilities. The Bank of Ghana has put in place the following measures to address the challenges and strengthen the industry:

- An upward revision in the minimum paid-up capital for MFIs and RCBs
- Instituted new liquidity management requirements for MFIs of primary reserve requirement of 10% and secondary reserve requirement of 20%;
- Continued training of MFIs staff and directors;
- Training, and capacity building of supervisory staff;
- Review of the licensing requirements with in-depth analysis of feasibility projections and the issue of ultimate beneficiaries;
- Review of Board and management compositions of RCBs and MFIs;
- Introduction of an improved templates and electronic submission of data by MFIs;
- Increased strength of supervisory staff and intensification of off-site surveillance; and
- Steps to deal with unlicensed institutions.

III. Structural Reform Agenda

A. Tax Policy and Tax Administration

43. **Tax Policy.** A Tax Expenditure Committee has started, with assistance of the World Bank, to undertake a review and quantify existing tax expenditures. The quantification will enable the government to identify the largest tax expenditures and undertake necessary reforms to eliminate the least useful to achieve government's objectives. The resulting report will inform the preparation of the statement of tax expenditures which will be included as an annex to the 2016 Budget.

44. The government has also initiated reviews in the following areas, to be concluded by October 2015, to identify exemptions to be eliminated with the 2016 Budget:

- The government plans to reduce the exemption on corporate income tax for free-zone companies benefiting from tax holidays by increasing their corporate income tax from 8 percent to 25 percent after the tax holidays;
- The government is reviewing the exemptions granted by legislation to the SOEs.² In a first step, the government intends to narrow down the list of exempted imports enjoyed by SOEs. In this regard, from August, 2015, the process of clearing imports by these SOEs will be redesigned to allow the Ministry of Finance to scrutinize their exemption request list before they are cleared from the ports. In a second step, the government intends to quantify and assess the impact of fully eliminating these exemptions;
- The government is reviewing the GIPC act to make it mandatory for the Minister to be the final authority to grant exemptions;
- The government has set up a Committee to review the Free Zones Act. A workshop is being organized to look at the impact assessment of the free zones regime which was conducted by a consultant engaged with the assistance of the GIZ and the Ministry. The report of the Consultant, particularly recommends the redefinition of the free zone regime to focus on value addition and manufacturing.

45. **Tax Administration** The Ghana Revenue Authority (GRA)), in March 2015 has approved a Strategic Plan for the 2015–17 period to strengthen Ghana’s revenue administration. Significant full-time resources will be assigned to the implementation of priority reforms included in the Plan. Priorities already identified in the plan include the ongoing TRIPS rollout at the MTOs and reforms of VAT threshold and segmentation. A Strategic Plan Steering Committee overseeing the reforms implementation will be instituted and kept separate from the GRA’s Management Committee, which will be responsible for monitoring of revenue performance and oversight of day-to-day operations. An operational plan will be developed with the help of technical assistance beginning in September 2015.

46. One of the priorities identified in the plan will be the continued modernization of GRA with the implementation of the domestic Tax Administration software known as TRIPS (Total Revenue Integrated Processing System) which will automate the GRA processes and provide critical information for taxpayer compliance management. The deployment is ongoing, with 12 out of 67 offices now already using the TRIPS. The roll out has been completed for the large taxpayer office (LTO) and two MTOs. The rollout for the remaining 6 MTOs in Accra will be completed by end-December 2015. The TRIPS rollout process will be evaluated with donors’ assistance.

² The SOEs currently being reviewed are: VALCO, VRA, COCOBOD, ECG, GNPC, GWCL.

47. The authorities are committed to improve the efficiency and performance of tax audits. While the functionalities of the TRIPS system will be of great help for the monitoring of local offices audit activities, in the interim the authorities will use existing available data to identify high-risk issues and increase the percentage of revenues generated through risk-based audits.³ In particular, the authorities intend to increase the use of third party information to identify compliance risks for large taxpayers, like for instance, government contract payments and import declarations.

48. GRA intends to reform the VAT refund system and restore its integrity. The 2015 VAT amendment Act institutes a General Refund Account at the Bank of Ghana, administered by the Commissioner General of the GRA. The new law states that 4 percent of total revenues collected by the GRA are set aside for this account, with the objective to ensure enough funds are available for timely repayment. Accrual of revenues to this account will start in June 2015, and payments will begin in August 2015. To improve the working of the refund system, GRA will seek technical assistance from the IMF to: (i) issue new directives for VAT refund processing to LTO and MTO offices; (ii) initiate legislative changes to streamline VAT refund management (in particular to extend the period for processing of refund claims from one to three months); and (iii) ensure payment of interest according to the current law by March 2016. Given the significant revenue at risk, GRA will set up a proper management system to monitor VAT refund workloads and to ensure the applications are processed within set timelines and claims are verified in accordance with established risk procedures.

49. Custom senior management has initiated the establishment of a Valuations and Classification Unit. The Customs Commissioner has instructed a technical committee to develop and present a report on the deployment of a functional valuation and classification system. A software company has been contracted to install the related hardware and software. Customs and GCnet are rewriting a completely new module to strengthen controls for the warehousing system.

Natural Resource Management

50. The government has requested technical training from the IMF to introduce the FAD's model for the Fiscal Analysis of the Resource Industries (FARI) which will enable the MoF to: i) improve the analysis of the fiscal regimes by allowing a project specific estimation of the government's tax take under alternative fiscal regimes, prices and other outcomes; ii) more accurate revenue forecasting, by allowing aggregation of project specific composition and timing of expected revenue streams; iii) enhance revenue administration, by allowing ex-post comparison of realized revenues with model results.

51. The government is also committed to maintain high standard in terms of natural resource management transparency and accountability. To further enhance transparency, the government

³ According to a technical assistance report from the IMF, in 2014, 97 percent of LTO's revenues was collected through taxpayers' self-assessment of their liabilities; the remaining 3 percent was generated by the LTO's audit program.

will: i) ensure that the Public Interest and Accountability Committee (PIAC) is adequately funded (the revised PRMA makes provisions for the PIAC to be funded from ABFA); ii) make all Petroleum Agreements publicly available; iii) enhancing accountability and transparency of GNPC, by publishing its audited financial statements and its medium-term plans for its use of accumulated financial reserves.

52. **Amendments to the PRMA.** The government has consulted a broad range of stakeholders to address some of the issues raised by the implementation of the law over the last four years. The consultations have resulted in a series of amendments that have recently been adopted by parliament. Among these amendments a new provision seeks to give the Minister of Finance the possibility to propose to parliament a revision of the Benchmark Revenue, in case of unexpected changes in prices or production. Another amendment modifies the allocation of petroleum revenues between the budget and the Ghana Petroleum Funds, proposing that a minimum of 30 percent of benchmark revenues are allocated to the Ghana Petroleum Funds (GPFs), so that constant transfer of funds accrue to the GPF, irrespective of whether the quarterly Annual Budget Funding Amount (ABFA) ceiling has been met. This is opposed to transferring only excess funds over the quarterly ABFA to the GPFs. The rationale is to build the GPFs, especially, the Ghana Stabilization Fund (GSF), to a level where it is able to stabilize the budget adequately in times of unanticipated petroleum revenue shortfalls. The authorities will seek technical assistance to address specific policy design issues related to these amendments, including the drafting of regulations and guidelines for their implementation. The amended PRMA Bill has been passed into an act and assented to by the President.

B. Reforms to Improve Public Financial Management

53. **PFM Reform Strategy** The authorities have developed a PFM Reform Strategy (PFMRS) document. The strategy has been approved by Cabinet, but further work is sought, with the help of technical assistance from the IMF, to prioritize, sequence, and cost the various reform initiatives. An action plan of the strategy, containing these elements, will be prepared with the help of technical assistance from the IMF and is expected to be presented to the Steering Committee by August 2015.

54. **Review of the PFM legal framework** The government has started a review of existing laws with the aim of integrating them into an overarching PFM law. With technical assistance from the IMF, a set of recommendations and drafting suggestions for the new PFM law have been prepared, which will be reviewed by the government in consultation with various stakeholders. The government will develop a time-bound plan for the finalization of the law which will be included in the action plan of the PFMRS as delineated in the previous paragraph. The draft PFM bill resulting from this consultation will be presented to Cabinet by December 2015, and submitted to parliament for approval in 2016.

55. **Strengthening credibility of the Budget** The government is undertaking, as part of the PFMRS, a series of initiatives to strengthen the credibility of the budget, and in particular the Medium Term Fiscal Framework (MTFF), and the Medium Term Expenditure Framework (MTEF) as an instrument of top-down budgetary discipline.

- As a commitment to improve the quality and capacity of its revenue forecasting, the government is seeking technical training from the IMF to strengthen its capacity at forecasting revenues from natural resources with the adoption of the FARI model.
- The government is working on the institution of the Pre-Budget Statement. The government will liaise with Parliament on the modalities for sharing the statement with Parliament after its adoption by Cabinet.
- The government intends to strengthen its capacity in Public Investment Management (PIM). It will in this respect participate in the new IMF's Public Investment Management Assessment (PIMA), which helps countries evaluate the strength of their PIM practices. The PIMA assesses the various institutions that shape decisions-making at the planning, allocation and implementation stage of the investment cycle. The results of the evaluation will enable Ghana to enhance the efficiency and impact of public investment.

56. **Extending GIFMIS coverage.** The government intends to start including transactions related to revenues and expenditures of Internally Generated Funds (IGFs) in the GIFMIS for 5 MDAs (at the headquarters and regional levels) currently using GIFMIS by September 2015, and then extend it to all 33 MDAs (at the headquarters and regional levels) by June 2016.

57. **Budget Performance Reports.** To strengthen monitoring and enhance transparency of fiscal operations, the government will be publishing monthly budget performance reports generated through the GIFMIS on the website of the Ministry of Finance starting in October 2015. Delays in funding and in setting up all the modules under the GIFMIS have prevented this activity from taking place in June 2015. However the Ministry has started publishing an annual budget performance report. The first report which was for the 2014 fiscal year was published in June 2015. Also, provisional fiscal data will continue to be published monthly with a 6-weeks lag.

Payroll Management and Controls

58. To reduce the incidence of the phenomenon of "ghost workers" on the payroll and to strengthen its monitoring and control, the government started the implementation of a payroll clean-up plan announced in October 2014. The measures envisaged by the plan have produced the following results:

59. **Suspension of salaries of employees with invalid bank accounts** Salaries of 47,186 employees without bank account were suspended in October and November 2014, as part of the exercise to update the bank account details of staff on the mechanized payroll system. By February 2015, 44,496 employees had been validated by the Auditor General and payments reactivated. The names of the remaining 2,690 who failed to present themselves to the Auditor General to validate their position were submitted to the Bureau of National Investigation (BNI) for investigation. This resulted in a savings of GHC10 million for the nine months.

60. **Suspension of salaries of employees without SSNIT numbers** The government has further suspended salaries to employees without SSNIT numbers from June 2015. The measure, initially envisaged to be done by April 2015, was postponed to June 2015. Out of 104,000 employees

without SSNIT numbers, 27,805 failed to submit their social security information to regularize their positions at end-of May 2015 and have been suspended from June 2015 payroll. By September 2015, if no regularization has occurred, their names will be transferred to the BNI for investigation.

61. **Biometric validation of employees.** The payroll data at CAGD was matched with the biometric data at MOF. As a result, 1,277 staff that were on the payroll without biometric registration were identified and their names suspended. Currently, all staff paid on the mechanized payroll have been registered on the biometric database. The use of the biometric database for payment of salaries has been in operation since 2012. The database is, however, not yet interfaced with the payroll. The government is therefore currently exploring the possibility to link the existing mechanized payroll to the biometric database of SSNIT and use the database to do periodic re-validation of staff. In line with this, a joint technical working group of CAGD/SSNIT has been constituted. Once the biometric database of all employees is validated, the database will be interfaced with the payrolls. The government intends to finalize this interface and re-validate biometric information for all employees by June 2016. To strengthen controls on new hiring, the government has commenced the implementation of the HRMIS to improve position management and establishment control in the Public Service. The government is already implementing the policy that recruitment can only be made when MOF has given approval so that the effective date of recruitment by the MDAs will not precede the financial clearance date.

62. **Roll-out of e-SPV.** The E-SPV System which allows electronic validation of payment vouchers by Heads of Departments and Management Unit heads at cost centre level before salaries are paid has been rolled out to 6 regions.⁴ The government will prioritize the full roll-out of the E-SPV. The expected date for the completion of the roll-out to all regions is August 2015. The E-SPV will also be partially interfaced with payroll, so that aspects relating to the deletions of separated employees by heads of MDAs will be reflected directly in the payroll.

63. **Review of the payroll systems security** The security of the payroll systems⁵ has been assessed by an independent audit. An initial draft has been delivered which concludes that the key security issues identified in a payroll assurance report for IPPD2 have been addressed. The audit identified areas of improvement which the authorities intend to address with urgency. One particular area that the audit report identifies as a priority measure to improve the level of payroll controls is to continue improving the quality of the data input. While payroll data is being cleaned-up under the payroll clean up plan, further levels of controls to new data entry are being added by: i) making the SSNIT numbers mandatory for employees (but not including trainees) and; ii) restricting the number of bank accounts to one per employee.

⁴ The regions where the system is currently operational are: Greater Accra, Ashanti, Brong Ahafo, Tamale, Northern, Upper East and Upper West Northern Regions.

⁵ There are currently two mechanized payroll systems in Ghana. These are: the IPPD2, which is the payroll for 132 organizations and a total of 205,367 staff, and the IPPD3 which is the payroll of the Ghana Education System (GES) with 303,490 staff, and also runs the pensioners' payroll.

64. **Nationwide payroll headcount.** A head-count has been commissioned to the Internal Audit Agency by the MoF and the CAGD. The first phase of the planned nationwide payroll headcount covering 30,237 employees in the Greater Accra Region has been completed. After the head-count has been completed, only 54 employees were left unaccounted for, and their names have been deleted. Currently the HR audit which PSC is undertaking also involves headcount of employees. In the light of this, the planned headcount by the Internal Audit Agency which is part of the payroll cleanup plan has been evaluated and to avoid duplication of efforts, it has been decided to use the results of the HR audit by PSC to clean the payroll.

65. **Sanctions and Recoveries.** The names of 2,690 employees with zero bank account who did not present themselves for validation by the Auditor General have been submitted to the BNI. Where the investigations find evidence that such acts are fraudulent, those cases will be referred to the Attorney General for potential prosecution. The names of the 54 staff identified during the payroll headcount have also been deleted. Ineligible salaries from staff with double biometric registration have been recovered and appropriate sanctions are being applied.

66. **Migration of Subvented Agencies to the mechanized payroll** A total of 155,000 employees as of May 2015 are left to be migrated, of which 70,000 belong the national service and 85,000 belong to the other 19 agencies which will be effectively migrated. The Ministry of Finance has sent a request to these 19 agencies to complete the migration. Currently the process of migration has started with an assessment of the readiness of the MDAs sites for connectivity. The work is expected to be finalized by December 2015.

67. **Publication of a report on status of implementation of the payroll clean-up plan.** The plan to publish a quarterly report by the Inter Ministerial committee on payroll on the status of implementation of measures on cleaning of the payroll will be carried out. In the interim, a payroll clean-up plan authorized by the Inter-ministerial Committee and approved by Cabinet was published on the CAGD website in March 2015. A report on the implementation of the payroll clean-up plan was published in early August 2015.

68. **Implementation of improved business processes on the payroll.** The plan to implement improved business processes with the introduction of E-Payroll Input forms has been initiated with the development of a TOR for securing consultancy services for development of a system for online submission of payroll input forms (excluding those to be covered under the HRMIS). A pre-approval has been obtained. The online submission of forms reduces the time it takes to update the payroll and also provides a readily identifiable audit trail on authorities who submit information on update of the payroll.

69. **Human resource management.** The plan to integrate the HRMIS with the payroll system was reviewed as part of the audit commissioned by the government. Currently, HR audits to reconcile the mechanized payrolls with the GoG Established Posts are taking place. The government will follow the recommendation of the audit that before any organization actively uses HRMIS, which is expected in nine of the pilot MDAs, including the Ministries of Health and Education, by

December 2015 and to all MDAs by December 2016, an independent verification will be done to ensure full matching between the mechanized payroll and the GoG Established Structure.

70. **GIFMIS Financial, Budget and HRMIS systems** The government is currently finalizing the integration of GIFMIS financial with the Oracle payroll to be able to exercise budgetary control over payroll cost. In furtherance of this, the management unit structure on the payroll has been mapped to the cost centers on GIFMIS financials (where the budget on the payroll is held). Also the process of integration of the payroll with HRMIS is ongoing. As part of this integration, the GES payroll data for the month of June 2015 has been extracted from the IPPD3 and the data is currently being prepared for loading into the Oracle payroll (IPPD2). Once the integration of the payroll with the HRMIS is completed, the budget system (Hyperion) will use the information created by the HRMIS for budget purpose. The full integration of all the components is expected to be completed by June 2016 and will ensure full budgetary control over public service wages and salaries in the medium term.

71. **Budget Execution Controls.** The government has instituted several reforms to enhance budget execution. A system of quarterly allotment is in place for expenditure items including goods and services, wages and salaries and capital expenditures. Yet, such reforms have not prevented arrears accumulation due mainly to inadequate financing resulting from uncovered auctions. The Government will improve commitment controls into the new PFM law. The new PFM law will indicate that only duly authorized purchase orders generated from the GIFMIS system are recognized as valid commitments of Government and therefore payable from budgetary allocations.

72. **Improving accounting standards.** The government plans to shift budget and financial accounting from cash to accrual basis to better track its financial liabilities and assets. In order to achieve this, it will develop a strategy for the phased transition to accrual accounting, focusing initially on the most material liabilities. This is in line with the government's adoption of International Public Sector Accounting Standard (IPSAS) as prescribed by the Institute of Chartered Accountants, which will be enshrined in the new PFM law. In furtherance of this, a conference on IPSAS facilitated by the Chartered Institute of Public Finance and Accounts (CIPFA) was held under the auspices of the Institute of Chartered Accountants in May 2015. Currently a TOR is being developed to seek technical assistance from CIPFA to produce a strategic plan for a phased transition to accrual accounting. This will be implemented over a period of five years from January 2016, the date approved by the Institute of Chartered Accountants for commencement.

Treasury and Cash Management

73. The Government intends to continue the implementation of the Treasury Single Account (TSA). As an integral part of the PFMRS, a complementary paper is being prepared which highlights the strategy to include IGFs for all 33 MDAs using GIFMIS in the TSA, and to finalize its implementation in coordination with the Bank of Ghana. It will be presented for Cabinet approval by August 2015. As part of the review of the legal framework, the government intends to introduce the principle of a TSA in the law, including its coverage and respective responsibilities, with the details left to regulations.

74. To prepare for the implementation of the zero financing from Bank of Ghana to the budget starting January 2016, the government has already started a number of initiatives to strengthen cash management. A Cash Management Operational Framework which forecast revenue and public expenditure numbers two weeks ahead of time has been developed. The framework provides information on government cash flows on a weekly basis. Government has also put in place a Cash Management Committee which meets weekly to take decisions to help source timely funding for needed public expenditure and debt service; and also avoid the need to keep substantial idle balances in the banking system with their associated costs. Currently, weekly decisions of the Committee are relayed to the Controller and Accountant General's Department, Ghana Revenue Authority and the Debt Management Division of Ministry of Finance as guide that will enable them implement their mandate in the strengthening of cash management.

75. The PFMRS will prioritize the further strengthening of cash flow forecasting and management capacity. The government will seek technical assistance from the IMF in order to progressively extend the horizon of the cash flow forecasting and management of cash balances and ensure coordination between the Debt Management Division (DMD) and the Public Expenditure Management Unit (PEMU).

76. Currently, an inventory of bank accounts with BOG has been carried out and the accounts classified into various categories. This exercise is aimed at identifying accounts that will constitute Central Government position with BOG.

Public Service Reform

77. A Task Force has been established to develop a Comprehensive Public Service Reform Strategy. The principal objective of the reform is to develop a cost-effective, efficient, and effective public service to help improve the quality and timeliness of public service delivery at all levels of the Government machinery. The Task Force is made up of representatives from: (i) the State Enterprises Commission; (ii) Public Sector Reform Secretariat; (iii) Office of the Head of Civil Service; (iv) Local Government Services Secretariat; (v) Public Services Commission and the Ministry of Finance; the involvement of development partners is currently being explored. The Task Force is currently reviewing a Public Sector Reform Strategy Document and Proposed Work Program for 2015–17 produced by the Public Sector Reform Secretariat. The Local Government Services Secretariat is in the process of hiring a consultant, on behalf of the Task Force, to carry out a desk-review of past reports on Public Sector Reforms in Ghana to inform the Strategy. The government intends to seek collaboration from development partners to support the strategy. A time-bound plan for the implementation of the strategy, including consultations with stakeholders, has been developed by the Task Force, with the aim to present the strategy for approval by Cabinet by December 2015.

78. **Reform of Subvented Agencies.** The government, as part of the Subvented Agencies Reform Program (SARP) and in line with the development of a strategy to reform the public sector, will continue to review existing subvented agencies in order to: close those that are no longer relevant to the government's development objectives; promote partial or full commercialization of selected subvented agencies; review the appropriate level of subvention. To promote transparency,

financial information on all existing subvented agencies will be published as an annex to the 2016 Budget.

79. **Pay Reform.** Consistent with the government's objective of ensuring that the outcome of public pay negotiations informs the annual budget, the government intends to align the public sector wage negotiations with the budget cycle. Public sector salary and salary-related negotiations have started and aim to be finalized before the Budget is submitted to Parliament in November. The negotiations will aim at covering a 3-year period on a rolling basis.

Statutory Funds

80. The Government will consult the necessary stakeholders and embark on a review of the statutory funds which include: (i) District and Assemblies Common Fund (ii) Ghana Education Trust (GET) Fund; (iii) National Health Fund; (iv) Road Funds; (v) Petroleum Funds; (vi) Ghana Investment Fund; (vii) Student Loan Trust Fund; (viii) Export Trade, Agriculture and Industrial Development Fund; and (ix) Ghana Infrastructure Investment Fund. The government will review the administrative and legal framework guiding the operations of the Statutory Funds as part of the new PFM law, with a goal of consolidating them into the government accounts, integrating them into the budget process and aligning their expenditures to national priorities.

IV. Policies to support growth and poverty reduction

81. To address one of the key constraints to growth in Ghana, Government's foremost strategy is to bring an end to the ongoing power crisis and also to put in place measures to ensure that load shedding does not recur in Ghana. This is to be achieved through short-term measures such as the restoration of already existing plants that have been shut down and completion of the 220MW Kpone Thermal Power Project (KTPP), the 110MW Tico Expansion Project, and the 180MW Asogli Phase 2. In addition, the following emergency (fast track) Power Projects are to be brought on board:

- 225MW Powership (Preparatory works in progress) – IPP project
- 250MW Ameri Project (Civil works have commenced) – B.O.O.T Arrangement with Government for 5 years
- 370MW AKSA Project (Commercial Contract sent to Parliament) – IPP Project for 5 years with option to negotiate a further term with ECG
- 110MW TEI Project (Commercial proposal submitted to Cabinet) – IPP Project for 4 years with option to negotiate a further term with ECG
- 300MW GE Early Power Project (Commercial Agreement under review) – IPP Project

Over the medium term, the Government plans to add another 3,000MW of power through the following projects:

- 360MW Asogli Phase 2 Project (construction has commenced); 180MW expected in 2015;
- 350MW CenPower Project (Sod has been cut)

- 360MW Jacobsen Project (Parliamentary approval obtained for GCSA)
- 240MW Amandi Project (Parliamentary approval obtained for GCSA)
- GE 1,000 Project (Discussions ongoing)
- 1,000MW of 'clean' coal into the generation mix
- Use of solar in households and hotels for basic lighting and water heating to free grid power industrial use.

V. RISKS AND CONTINGENCIES

82. Key downside risks to program include an abrupt increase in global financial market volatility leading to lower private capital inflows, a sustained decline in key commodity prices (gold, cocoa and oil), economic slowdown in main trading partners, and a deepening of the energy crisis currently affecting Ghana. In addition, risks associated with rollovers and uncovered auctions in the domestic markets are key. If these risks materialize, the government stands ready to adjust its policies, in close consultation with IMF staff, to ensure the achievement of a sustainable external position by the end of the program period.

VI. PROGRAM DESIGN AND MONITORING

83. While most of the quantitative performance criteria (PC) and structural benchmarks for the remainder of the year will remain unchanged, the following revisions would be needed:

- The PC on gross credit to government by BoG for August and December needs to be increased by GH¢ 1.2 billion, in view of the upward revision to the outstanding stock at end-2014 to include large overdrafts accumulated in 2014 in the form of negative deposits (these negative deposits were mistakenly excluded from the end-2014 stock of gross credit to government). This will allow restoring some government cash buffers, which were largely used to repay part of the 2014 overdrafts and bring gross credit to government close to the PC level at end-April 2015. Net credit to government is projected to be close to zero for the year as a whole if financing on the domestic and international markets can be raised as planned.
- The PCs on net international reserves and net domestic assets at end-December can be revised upward by US\$ 500 million and downward by GhC 1,504 million respectively, to reflect the larger amount of Eurobond envisioned this year.
- In addition, the PC on net international reserves for August 2015 and December 2015 should be revised downwards to take into account the revision in the definition of net international reserves. This is needed to exclude the stock of BOG deposits in Ghana International Bank, London from the initial value of the stock and hence in the targets.
- The indicative targets for inflation should be revised upward for end-August to account for the higher inflation trend observed up to June 2015.

- The debt limits for external debt would be set under the Fund's new debt limits policy. As foreshadowed in earlier discussions, the non-concessional debt limits will need to be increased from the current US\$ 1 billion to US\$ 2.5 billion to accommodate the forthcoming Eurobond issuance of up to US\$1.5 billion with a partial guarantee provided by the World Bank as well as some growth-enhancing projects equivalent to US\$1,000 million. Key projects necessary to achieve national development goals were identified mainly in the areas of transportation, rural developments, and urban infrastructures, requiring non-concessional financing of up to US\$ 500 million this year. The new debt limit would also include the US\$350 million associated with the national oil company, GNPC's oil field development and World Bank's budget support equivalent to US\$ 150 million which is not on strictly concessional terms. The proceeds of the Eurobond would be purely used for budget support and debt management purposes, including by retiring expensive debt and extending the maturity. In addition to the limits on the contracting of non-concessional loans (PC), an indicative ceiling (IT) of US\$ 100 million on concessional loans would be put in place to comprehensively address the vulnerabilities associated with external debt in line with the new IMF Debt Limits Policy.

84. The program will continue to be monitored based on periodic performance criteria, continuous performance criteria and indicative targets as at end-August 2015 and end-December 2015, set out in Table 1. To monitor progress on the structural reforms previously described, structural benchmarks are set out in Table 2. Detailed definitions and reporting requirements for all performance criteria are contained in the Technical Memorandum of Understanding (TMU) attached to this letter, which also defines the scope and frequency of data to be reported for program monitoring purposes. During the program period, the government will not introduce or intensify restrictions on payments and transfers for current international transactions or introduce or modify any multiple currency practice without the IMF's prior approval, conclude bilateral payments agreements that are incompatible with Article VIII of the IMF's Articles of Agreement, or introduce or intensify import restrictions for balance of payments reasons. Completion of the second and third reviews under the program is expected on or after November 15, 2015 and on or after April 15, 2016, with end-August 2015 and end-December 2015 as test dates, respectively.

85. To ensure coordinated implementation of the program, the Ministry of Finance and Bank of Ghana is consulting with the relevant institutions such as CAGD, GRA, GSS and NDPC within the Economic Policy Coordinating Committee (EPCC) framework and tracking progress on various targets and reforms under the program. Similarly, the Ministry of Finance will provide oversight responsibility for ensuring that public spending is compliant with budget limits. A technical Committee made up of staff from the Ministry of Finance, Bank of Ghana and the Controller and Accountant-General's Department have been constituted to monitor the program and ensure that the provision of data under the program is done on a timely basis.

Table 1. Ghana Quantitative Program Targets¹
(Cumulative from the beginning of the calendar year, unless otherwise indicated)

	2014		Apr 2015		Aug 2015		Dec 2015		
	Act.	Revised	Target	Adjusted target	Actual	Revised	Revised	Revised	
I Quantitative Performance Criteria									
Primary fiscal balance of the government (floor in millions of cedis)	-3,555	...	-544	-536	46	-380	...	-422	...
Wage Bill (ceiling; in millions of cedis)	9,449	...	3,413		3,341	6,857	...	10,286	...
Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars) ²	1,415	...	1,042		1,186	331	147	1,962	2,278
Net Domestic Assets of Bank of Ghana (ceiling; millions of cedis) ³	3,095	...	5,755		5,561	8,772	...	4,914	3,410
Net change in stock of arrears (ceiling, millions of cedis)	428	...	-424		-565	-1,001	...	-1,561	...
II Continuous Performance Criteria									
Gross financing of BoG to the Government and SOEs (ceiling; in millions of cedis) ⁴	13,603	19,723	14,614		14,873	14,614	15,814	14,614	15,814
Non-accumulation of external arrears (ceiling; millions of U.S. dollars)	...	...	0		0	0	...	0	...
Non-accumulation of domestic arrears (ceiling; millions of cedis)	...	...	0		0	0	...	0	...
Contracting or guaranteeing of new external nonconcessional debt (ceiling; millions U.S. Dollars)	...	...	0		0	1,000	...	1,000	2,500
III Indicative Target									
Program central target rate of inflation (12 month percentage change)	17.0	...	15.4		16.8	13.8	15.0	12.0	...
Contracting or guaranteeing of new external concessional debt (ceiling; millions U.S. Dollars)	...	...	...		...	...	...	100	...
Social Protection (floor, in million of cedis)	947	...	388		252	806	...	1,294	...

¹ Targets as defined in the attached Technical Memorandum of Understanding (TMU).
² Program definition excludes foreign currency deposits in BOG. Defined as a level.
³ Net domestic assets is computed using the program's exchange rate of GHc 3.40 per U.S.\$1 as defined in the attached Technical Memorandum of Understanding (TMU). Defined as a level.
⁴ Defined as a level.

Table 2. Ghana: Structural Reforms Benchmarks for 2015–16

Category	Possible structural benchmarks	Economic rationale	Indicative timeframe	Status	Paragraph
Revenue administration and tax policy					
Revenue administration	- Adoption of the presumptive income tax, followed by revision of VAT thresholds	To enhance compliance in tax payments.	August 2015	Proposed to be reset to October 2015	
Tax policy	- Identify exemptions to SOEs and free zone companies that will be eliminated in 2016, to be included in the 2016 budget, and further eliminate GIPC's role in granting exemptions.	Broaden tax base	September 2015	Proposed to be reset to October 2015	44
Public Financial Management (PFM)					
Human resource Management	- Finalize roll out the HRMIS to remaining MDAs	To strengthen the control on net hiring and the wage bill.	December 2016		69
	- Integration of the GIFMIS Payroll, financial HRMIS and Hyperion in the Health and Education sectors.	To strengthen the control on net hiring and the wage bill.	June 2016		70
Payroll management	- Audit of the payroll database and security system.	Improve security of the payroll system	May 15, 2015	Not Met. Implemented with delay 1/	63
	- Biometric validation of all employees on the mechanized payroll, as well as publication of the public audit of payroll management	Cleaning of the payroll database	June 2015	Not Met. Partially Implemented 2/; Delayed 3/	61

	- Migrating employees of subvented agencies into the mechanized payroll	To strengthen control on net hiring and the wage bill	December 2015	66
PFM reform strategy	- Approval by Cabinet of a new PFM reform strategy and action plan, including a strategy for completion of the Treasury Single Account (TSA)	To revamp PFM reform effort	August 2015	53/73
Legal framework	- Approval by cabinet of drafts of Bills to amend existing PFM legal framework with the aim to: clarify the scope of application of the legislation and the institutional arrangements; ; strengthen budget formulation and execution, treasury management, accounting and reporting; introduce provisions on fiscal responsibility and on debt management	To strengthen the PFM system	December 2015	54

1/ "The audit of the security system was completed by Mid-May, but a preliminary draft of the assessment was provided only in mid-June."

2/ "Biometric data is already used to validate payment of salaries, although through manual processes. Automated biometric validation of all employees will be completed by June 2016."

3/ "The public audit is delayed. The Internal Audit Agency has conducted a partial audit in the Accra region. The revised plan is to use the HR audit by the Public Service Commission with private sector support, to update the payroll which will be completed by end-year".

Public service reform					
Public service reform	- Adoption by Cabinet of a comprehensive public service reform strategy designed with the assistance of development partners.	To rationalize the size and increase the efficiency of public sector	December 2015		77
Debt management					
Debt management strategy	- Approval by Cabinet of a medium-term debt management strategy with clear risk priorities and plans on how these will be addressed, and its publication	To have a clear financing strategy communicated with the market to reduce uncertainty and borrowing costs	June 2015	Met	29
Monetary policy and financial sector					
Bank of Ghana Act	- Submit to Parliament a revised Law that: strengthens the functional autonomy of BOG; sets a zero limit on monetary financing to the government and public institutions; establishes appointment durations for Governor and Board members; sets rules for emergency lending to banks in distress; and ensures compliance with IFRS (as described in MEFP ¶185).	Strengthen autonomy of the bank; set mechanisms for emergency lending.	December 2015		37
Exchange rate	- Adopt a plan to eliminate the compulsory requirement of foreign exchange to BoG and stop provisions of foreign currency funding for priority sector imports.	Support market-based determination of the exchange rate and deepening of the foreign exchange market.	April 2015	Not Met. Implemented with delay 4/	17
Prudential supervision	- Submit to parliament a new Banks and Specialized Deposit-Taking Institutions Bill which provides BOG with the authority for prompt corrective action, liquidity support instruments, clear triggers for bank resolution, and a range of bank resolution tools. - Submit to parliament a Deposit Insurance Bill which is consistent with the Banks SDI bill; that establishes an institution with the responsibility of paying deposits from recovered assets of failed banks; and ensures that incentives are appropriate and does not undermine market discipline.	Strengthen the legal framework for prudential supervision.	May 15, 2015	Met	35
			May 15, 2015		35
Diagnostic Review	- Complete an asset quality review of the banks, undertaken by independent third parties, in consultation with IMF staff.	Ensure prudent standards in bank's underwriting and credit evaluation practices.	September 2015		36

4/ "A first draft plan to eliminate the compulsory surrender requirements of foreign exchange was completed before the end-April 2015 target. A revision of the plan addressing comments from the IMF was completed and adopted by the BoG Board in [end-July]."

Appendix I—Attachment II

Technical Memorandum of Understanding

1. This technical memorandum of understanding (TMU) defines the variables subject to quantitative targets (performance criteria and indicative targets), as specified in the authorities' Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) of March 20, 2015. It also describes the methods to be used to assess the program performance and the information requirements to ensure adequate monitoring of the targets. The authorities will consult with the Fund before modifying measures contained in this letter, or adopting new measures that would deviate from the goals of the program, and provide the Fund with the necessary information for program monitoring.
2. **Program exchange rate:** The exchange rates for the purpose of the program of the Ghanaian cedi (GH¢) to the U.S. dollar will be GH¢ 3.40 per US\$1, which is calculated as the average of buying and selling exchange rates reported by banks to the Bank of Ghana (BOG). The exchange rates to other currencies will be calculated as the average of buying and selling exchange rates against the U.S. dollar.

I. QUANTITATIVE PROGRAM INDICATORS

3. For program monitoring purposes, the performance criteria and indicative targets are set for end-April 2015, end-August 2015, and end-December 2015. Performance criteria, indicative targets, and adjusters are calculated as cumulative flows from the beginning of the calendar year, unless indicated otherwise.
4. The **performance criteria** under the arrangement are:
 - a floor on the primary cash fiscal balance of the government, measured in terms of financing;
 - a ceiling on gross credit to government by the Bank of Ghana (level);
 - a floor on the net international reserves of the Bank of Ghana (level);
 - a ceiling on net domestic assets of Bank of Ghana (level);
 - a ceiling on wages and salaries;
 - a ceiling on the net change in the stock of domestic arrears;
 - a continuous non-accumulation of domestic arrears;

- a continuous non-accumulation of new external arrears; and
 - a ceiling on the contracting or guaranteeing of new external nonconcessional debt
5. **Indicative targets** are established as:
- An indicative target is set for the twelve-month rate of **consumer price inflation**, with discussions with the Fund to be held if inflation does not reach the target.
 - A floor on poverty-reducing government expenditures.
 - a ceiling on the contracting or guaranteeing of new external concessional debt

A. Government

6. **Definition:** The government is defined as comprising the central government, all special funds (including the Ghana Education Trust Fund, the Road Fund, the District Assemblies Common Fund, and the National Health Insurance Fund), and all subvented and other government agencies that are classified as government in the Bank of Ghana (BoG) Statement of Accounts (SOA). The Social Security and National Insurance Trust (SSNIT) and public enterprises, including Cocobod, are excluded from the definition of government.

7. The government's **total tax revenue**—i.e., all revenue collected by the Ghana Revenue Authority (GRA), whether they result from past, current, or future obligations—includes Direct Taxes (taxes on income and property), Indirect Taxes (excises, VAT, National Health Insurance Levy (NHIL), and Communication Service Tax (CST)), and Trade Taxes. Total tax receipts are recorded on a cash basis.

8. **Oil revenue** is defined as the government's tax and non-tax net proceeds from the sale of oil, excluding any revenue allocated to GNPC.

9. The **wage bill** is defined as the sum of basic wages allowances paid to public servants on the mechanized payroll and in subvented agencies.

10. **The program primary fiscal balance** is cumulative from the beginning of the fiscal year and is measured from the financing side as the sum of net financial transactions of the government (as defined in paragraph 6 above)—comprising the sum of net foreign borrowing (as defined in paragraph 14 below), net domestic financing (defined in paragraph 13 below), receipts from net divestitures and net drawing out of oil funds—and domestic and external interest payments.

11. **Domestic payments arrears** will be measured as the sum of five components. The first component, arrears to the government's statutory funds, represents any delay of more than one month in revenue transfers to these statutory funds, relative to the normal payment schedule

(typically monthly or quarterly, and defined as a specific percentage of the previous month or quarter's revenue collections).¹⁰ The second component, employees compensation arrears (consisting of wages and salaries, pensions, gratuities, and social security arrears), is defined as payments outstanding after the agreed date for payment to staff or the social security fund. The third component, debt service arrears, is defined as payments of domestic and external interest, amortization, promissory notes, that are due and not settled within the grace period specified in the contract. The fourth component, the MDAs expenditure arrears (road and other MDAs expenditure arrears), is defined as approved invoices on the GIFMIS system that remain unpaid three months after the quarter in which the invoices were approved by the MDA. The fifth component, arrears to SOEs,¹¹ is defined as payments for debt owed to SOEs that are due and not settled within 30 days after the end of the quarter.

12. **Budgeted expenditures on social protection programs** (as defined in text table below) will be taken from each year's final appropriations bill and will include only spending financed by the government or from internally generated funds. Actual spending on social protection programs, including LEAP, will be supplemented with the transfers to the National Health Fund (NHF)—which the government considers as poverty-related. Accordingly, actual poverty spending will exclude all donor-supported expenditure.

¹⁰ Transfers to the statutory funds are scheduled as follows: (i) District Assemblies Common Fund—quarterly, with a one-quarter lag; (ii) Social Security Fund, National Health Fund, Ghana Education Trust Fund, Road Fund, Petroleum-related Fund—monthly, with a one-month lag.

¹¹ Tema Oil Refinery (TOR), Volta River Authority (VRA), Bulk Oil Storage and Transport Company (BOST), utility companies, Cocobod, other SOEs.

Overview of Social Protection programs:

1. National Health Fund (NHF)	2. Provide free school uniforms
3. Livelihood Empowerment Against Poverty (LEAP)	4. Provide Government's subsidy for Senior High Schools
5. Fertilizer Subsidy	6. Implement progressively free Senior High School Program
7. Basic Education Certificate Examination	8. Provide feeding grant for special schools for the handicapped
9. Capitation grant for Public Basic Schools across the country	10. Printing and Distribution of Exercise Books to Basic School Pupils under the Social Intervention Program
11. Provide 10million free exercise books to Public Basic Schools across the country	12. Implement First Phase of Maths and Science Reforms for 13000 KGS, 14000 Primary School and 8000 JHS
13. Provide core textbooks	14. Capitation Grant
15. Establishment supplies for all Public Basic Schools across the country	16. Feeding fee for levels 100 & 200 students of colleges of education across the country

13. **Net domestic financing of government** is defined as the change in net credit to government by the banking system (i.e., the Bank of Ghana plus deposit money banks) plus the net change in holdings of treasury bills and other government securities by the nonbank sector, excluding divestiture receipts.

14. **Net foreign financing of government** is defined as the sum of project and program loans by official creditors and commercial external borrowing, minus amortization due.

15. **Outstanding net credit to the government by the Bank of Ghana** comprises the sum of claims on government including overdrafts of the government with the BoG, and that claims on the government resulting from accrued interest on government securities less government deposits as defined in the monetary template.

16. **Outstanding net credit by deposit money banks** comprises deposit money bank (DMB) holdings of government securities at cost of purchase value, as reported by the BoG Treasury Department's Debt Registry, direct loans less government deposits as reported by DMBs in the revised BSD2 report forms (and defined in the Monetary Template), plus deferred accrued interest on their holdings of inflation-indexed bonds.

17. **Nonbank financing** is the difference between total net cash receipts to the treasury main cash account (issues/redemptions account when it becomes operational) from the sale/repurchase of government securities, less the corresponding net cash value received from the BoG and DMBs as indicated on the Debt Registry by holder at discount value, plus deferred accrued interest on their holdings of inflation-indexed bonds.

B. Bank of Ghana

18. **Net foreign assets** are defined in the monetary survey as short- and long-term foreign assets minus liabilities of the BoG that are contracted with nonresidents. Short-term foreign assets include: monetary gold (valued at the spot market rate for gold, US\$/fine ounce, London), holdings of SDRs, reserve position in the IMF, foreign notes and travelers checks, foreign securities, positive balances with correspondent banks, encumbered external assets and other positive short-term or time deposits. Short-term foreign liabilities include foreign currency liabilities contracted by the BoG at original maturities of one year or less (including overdrafts), outstanding liabilities to the IMF, deposits of international institutions at the BoG and swaps with non-resident commercial banks. Long-term foreign assets and liabilities are comprised of: other foreign assets, investments abroad, other long-term liabilities to nonresidents, and bilateral payment agreements. All values not in U.S. dollars are to be converted to U.S. dollars at the program exchange rate defined in paragraph 2. A more detailed listing of accounts to be included in the measure of net foreign assets is contained in the monetary template provided to the IMF on January 21, 2015.

19. **Net international reserves** of the BoG are defined for program monitoring purposes¹² as short-term foreign assets of the BoG, minus short-term external liabilities. To the extent that short-term foreign assets are not fully convertible external assets readily available to and controlled by the BoG (that is, they are pledged or otherwise encumbered external assets, including assets encumbered by BoG guarantees issued to third parties), they will be excluded from the definition of net international reserves. All values not in U.S. dollars are to be converted to U.S. dollars at the program exchange rate defined in paragraph 2.

Net international reserves are defined as:

- Short term assets (composed of: Gold, Holdings of SDR, Foreign Notes and Coins, Foreign Securities/Short term dep., Disposal Balances with Correspondent Banks, Fixed Deposits (excludes encumbered pledged assets), any other short term foreign assets).
- Minus foreign short term liabilities (composed of: Deposits of International Institutions, Liabilities to Int. Commercial Banks, Swap Deal Payable foreign with non-resident banks). Short term liabilities should exclude liabilities with an asset counterpart that is encumbered (which are excluded as well from the asset side),
- Minus all liabilities to the IMF, SAF/ESAF/PRGF,
- Minus all positive foreign currency deposits at the BoG held by resident deposit money banks (which includes the stock of swaps deal payable foreign with resident banks), public

¹² Note this definition differs from the one reported in the Balance of Payments and Monetary Survey which reflect a more traditional definition of foreign assets and liabilities based on a residency basis.

institutions, nonfinancial public enterprises, other financial institutions, and the private sector.¹³

- Minus all Bank of Ghana deposits with Ghana International Bank London (GIB).

20. **Net domestic assets** of the Bank of Ghana are defined as the difference between reserve money and net foreign assets of the BoG, converted from U.S. dollars to cedis at the program exchange rate.

21. **Outstanding gross credit to government by the Bank of Ghana** is defined as the total amount of (i) all BoG loans and advances to central government and state-owned enterprises, (ii) all government overdrafts, (iii) the absolute value of government deposits reflected as negative values in the monetary survey; iv) the face value for all outstanding Government of Ghana treasury bills, notes and bonds purchased by BoG in the primary and the secondary market. For purposes of this technical memorandum of understanding the stock of gross credit to government by Bank of Ghana includes all called guarantees given by Bank of Ghana for all operations between the central government or state owned enterprises and a third party. For purposes of this technical memorandum of understanding stock of gross credit to government does not include BoG holdings of government T-bills as collateral from commercial banks and BoG reversible market transactions involving government securities that don't result in change of security ownership.

C. Non-accumulation of New External Arrears

22. For the purpose of the ceiling on the accumulation of external payment arrears, external payment arrears will accrue when undisputed payments such as interest or amortization on debts of the government (as defined in paragraph 6) to non-residents are not made within the terms of the contract. This performance criterion will be monitored on a continuous basis.

D. Ceiling on the Contracting or Guaranteeing of New Non-concessional External Debt

23. For the purposes of this technical memorandum of understanding, the definition of debt is set out in point 9 of the Guidelines on Performance Criteria with Respect to External Debt (Executive Board's Decision No.6230-(79/140), as amended on August 31, 2009 (Decision No. 14416- (09/91)). It not only refers to debt as defined in Point 9 of the Executive Board decision, but also to commitments contracted or guaranteed for which value has not been received. The definition of debt is as follows:

¹³ This item is not deducted from NIR in the Balance of Payments and Monetary survey definition which is based on the standard residency criteria.

9 (a) For the purpose of these guidelines, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of financial and nonfinancial assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

24. **For the purposes of the ceiling on the contracting or guaranteeing of new non-concessional external debt**, external debt is any debt as defined in paragraph 23, which is denominated in foreign currency, i.e., currency other than Ghanaian cedis (GH¢). Similarly, external borrowing is borrowing denominated in foreign currency.¹⁴

¹⁴ Excluded from this performance criterion are the use of Fund resources, rollover of BOG’s existing liabilities, normal import-related credits, pre-export financing credits of public enterprises, cocoa loans collateralized by cocoa contracts, and individual leases with a value of less than US\$100,000.

25. Nonconcessional external debt is defined as external debt contracted or guaranteed by the government (defined in paragraph 6), the BoG, and specific public enterprises (defined in paragraph 26) on non-concessional terms (defined in paragraph 27). External debt and its concessionality will be reported by the Debt Management Division of the Ministry of Finance and Economic Planning, and will be measured in U.S. dollars at current exchange rates.

26. A performance criterion (ceiling) applies to the nominal values of new nonconcessional external debt, and an indicative target (ceiling) applies to the nominal value of new concessional external debt, contracted or guaranteed by the government and the BoG, and the following public enterprises: (i) Tema Oil Refinery; (ii) Ghana National Petroleum Company; (iii) Ghana National Gas Company; (iv) Volta River Authority; and (v) Electricity Company of Ghana; (vi) GRIDCO; (vii) Ghana Water Company Limited; (viii) GIIF. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received, including private debt for which official guarantees have been extended.

27. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the net present value (NPV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The NPV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is 5 percent.

28. For loans carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the loan would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the loan contract. The program reference rate for the six-month USD LIBOR is 3.34 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -250 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -300 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -100 basis points. For interest rates on currencies other than Euro, JPY, and GDP, the spread over six-month USD LIBOR is -200 basis points.¹⁵ Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added.

E. Adjustors to the Program Targets

Program's quantitative targets are subject to the following adjustors:

¹⁵ The program reference rate and spreads are based on the "average projected rate" for the six-month USD LIBOR over the following 10 years from the [Fall 2014] World Economic Outlook (WEO).

Primary fiscal deficit of the government

29. The deficit ceilings for 2015–17 will be adjusted for excesses and shortfalls in oil revenue and program loans and grants as defined below, relative to the program assumptions in the table below. The fiscal deficit will be adjusted:

- i) Downward (upward) by 50 percent of any excess (shortfall) in **oil revenue**.
- ii) Downward by 50 percent of any **shortfall in concessional program loans**.
- iii) Upward for the full amount of any **excess in concessional program loans**, where these are used to repay outstanding domestic arrears at a more rapid pace than programmed.
- iv) Downward by the full amount of **any excess of program grants less any use of program grants** used to repay outstanding domestic arrears at a more rapid pace than programmed.
- v) Upward by 50 percent of any **shortfall in program grants**.

Net international reserves of the Bank of Ghana

30. The net international reserve (NIR) floors will be adjusted upward for any excess of budget grants and loans relative to the program baseline (see text table), except where this financing is used to repay outstanding domestic arrears at a more rapid pace than programmed. The NIR floors will be lowered by 50 percent of any shortfall in budget grants and loans relative to the program baseline.

Budget Financing and oil revenues, 2015 ^{1/}			
(Ghc millions, cumulative from the start of the calendar year)			
	April 2015	August 2015	December 2015
Program grants	0	750	915
Program loans	0	748	789
Oil revenues, net of transfers to GNPC	371	603	998

^{1/} Used to compute adjustors for performance criteria for end-April, end-August, and end-December.

F. Provision of Data to the Fund

31. Data with respect to the variables subject to performance criteria and indicative targets will be provided to Fund staff on a monthly basis with a lag of no more than eight weeks (except for select data for which the reporting lag is explicitly specified in Table 1). The authorities will transmit promptly to Fund staff any data revisions. For any information (and data) that is (are) relevant for assessing performance against program objectives but is (are) not specifically defined in this memorandum, the authorities will consult with Fund staff. The authorities will share any prospective external loan agreements with Fund staff before they are submitted to cabinet and before they are contracted.

Table 1. Ghana: Data to be Reported to the IMF

Item	Periodicity
Fiscal data (to be provided by the MoF)	
Central budget operations for revenues, expenditures and financing, including clearance of arrears.	Monthly, within six weeks of the end of each month.
Divestiture receipts received by the budget (in cedis and foreign exchange, net of divestiture transactions costs).	Monthly, within six weeks of the end of each month.
The stock of domestic payments arrears by sub-category (as defined in para. 11 of the TMU).	Quarterly, within six weeks of the end of each quarter
Public investment Plans execution.	Monthly, within six weeks of the end of each month.
Expenditures committed but not paid and within the legal period before they become arrears (float).	Monthly, within six weeks of the end of each month.
Wage bill monthly reports including breakdown of developments per MDAs.	Monthly, within six weeks of the end of each month.
Monetary data (to be provided by the BoG)	
Net domestic assets and net international reserves of the BoG.	Monthly, within two weeks of the end of each month.
Detailed balance sheet of the monetary authorities.	Monthly, within four weeks of the end of each month.
Monetary survey detailing the consolidated balance sheet of commercial banks.	Monthly, within six weeks of the end of each month.
Weekly balance sheet of the central bank, including gross international reserves, net international reserves.	Weekly, within a week of the end of each week
Summary position of government committed and uncommitted accounts at BoG, and total financing from BoG.	Monthly, within four weeks of the end of each month.

(continued)

Table 1. Ghana: Data to be Reported to the IMF (continued)

Composition of banking system and nonbanking system net claims on government.	Monthly, within four weeks of the end of each month.
Stock of BoG swaps and encumbered and non- encumbered loans with resident and non-resident commercial banks.	Monthly, within two weeks of the end of each month.
Daily computations for the BoG benchmark exchange rate, including all transactions used to derive it.	Monthly, within two weeks of the end of each month.
Debt registry showing structure and holders of domestic government debt, at face value and at discount. Similar table showing holders of treasury bills for open market operations.	Monthly, within four weeks of the end of each month.
Balance of payments (to be provided by the BoG)	
Export and import data on value, volume, and unit values, by major categories and other major balance of payments variables.	Quarterly, with a maximum lag of two months.
Foreign exchange cash flow.	Monthly, within four weeks of the end of the month.
Monthly foreign exchange cash flow projections (with actual historical figures updated)	Monthly update, with a maximum lag of two weeks of the end of the month.
External debt and foreign assistance data (to be provided by MoF)	
Information on the concessionality of all new external loans contracted by the government or with a government guarantee.	Quarterly, within four weeks of the end of each quarter.
For the coming quarter: (i) total debt service due by creditor, (ii) amount of HIPC Initiative relief on each transaction, and (iii) debt service paid and the transfers to the HIPC Initiative account by creditor for the previous month. Report should cover government and government-guaranteed debt (as defined in this document).	Quarterly within four weeks of the end of each quarter.
External debt and external debt service incurred by enterprises with government ownership above 50 percent, even if loans have not been explicitly guaranteed by the government.	Quarterly, within three weeks of the end of each quarter.
Short-term liabilities to nonresidents (maturity in one year or less), including overdraft positions and debt owed or guaranteed by the government or the BoG.	Quarterly, within three weeks of the end of each quarter.
Data on the BoG short-term liabilities to nonresident commercial banks on accounts 1201 plus 301 plus Crown Agent).	
Disbursements of grants and loans by creditor	Quarterly, within four weeks of the end of each quarter.

Table 1. Ghana: Data to be Reported to the IMF (concluded)**Other data (to be provided by GSS)**

Overall consumer price index .	Monthly, within two weeks of the end of each month.
National accounts by sector of production, in nominal and real terms.	Annual, within three months of the end of each year (switching to quarterly when they become available).
Quarterly financial statements of main state-owned enterprises. (i) Tema Oil Refinery; (ii) Ghana National Petroleum Company; (iii) Ghana National Gas Company; (iv) Volta River Authority; and (v) Electricity Company of Ghana; (vi) GRIDCO; (vii) Ghana Water Company Limited.	Quarterly, within three months of end of quarter
Annual financial statements of main state-owned enterprises. (i) Tema Oil Refinery; (ii) Ghana National Petroleum Company; (iii) Ghana National Gas Company; (iv) Volta River Authority; and (v) Electricity Company of Ghana; (vi) GRIDCO; (vii) Ghana Water Company Limited.	Annual, within six months of end of year
Electricity pricing (to be provided by the Ministry of Energy) Data on the tariff structure and the cost of producing electricity.	Quarterly, within four weeks of the end of each quarter.
Petroleum pricing (to be provided by the Ministry of Energy) (i) a breakdown of costs, including the ex-refinery price, duties, levies, and margins, for each of the individual petroleum products; and	Bi-weekly, within two days of the completion of the pricing review.
(ii) the indicative maximum price approved in the bi-weekly review of petroleum pricing for each of the individual petroleum products.	See above.
(iii) the commitments to subsidize oil marketing companies in respect of losses incurred due to administrative prices that fall below cost-recovery levels.	Monthly, within four weeks of the end of each month.
(iv) the cumulative unused balance from the petroleum price hedging operations available to subsidize petroleum products.	See above.



GHANA

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR WAIVER AND MODIFICATIONS OF PERFORMANCE CRITERIA—DEBT SUSTAINABILITY ANALYSIS

August 2015

Approved By
Abebe Aemro Selassie
and **Dhaneshwar Ghura**
(IMF) and **John Panzer**
(WB)

Prepared by the International Monetary Fund and the World Bank¹

This DSA updates the previous one conducted in April, 2015. Ghana continues to face a high risk of debt distress based on updated macroeconomic projections, with the debt service-to-revenue ratio breaching the policy dependent threshold under the baseline.² The long-term debt trajectory remains broadly the same as before even after reflecting an increase of the debt limits on nonconcessional borrowing by US\$1500 million. In the first half of 2015, budget financing has increasingly become reliant on short-term domestic T-bills, increasing the rollover risks. Waning appetite of both domestic and foreign investors for Ghanaian debt would put Ghana in a difficult position to meet elevated gross financing needs. The forthcoming Eurobond of up to US\$ 1.5 billion should reduce amounting pressures on domestic debt market as well as lengthen the average maturity of public debt. Fiscal consolidation measures remain on track, and achieving ambitious fiscal targets envisaged under the Fund program along with active debt management will be key to maintaining debt sustainability.

¹ Prepared in collaboration with Ghanaian authorities. The previous DSA was prepared in April 2015 (IMF Country Report No. 15/103).

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. The 2014 CPIA has been released recently and Ghana's score has deteriorated to 3.37, which would downgrade Ghana to a medium performer. This DSA has been conducted under the transition period where the 2011-13 average is still used. This change will be incorporated in the next DSA.

A. Background and Macroeconomic Assumptions

1. **While fiscal consolidation is on track under the ECF, the budget financing has increasingly relied on expensive short-term T-bills.** Ghana has met all the fiscal performance criteria in the context of the first review of the ECF, and the primary balance was better than expected partly due to dividend payment by the Bank of Ghana (BoG). However, with budget support planned to be disbursed only from mid-year, the authorities needed to heavily resort to short-term domestic debt. Reflecting tight liquidity conditions, interest rates of T-bills remain elevated at around 25 percent. Despite the worsening economic conditions, the share of nonresidents' holdings³ in the domestic marketable debt stayed broadly the same at around 20 percent. Spreads on existing Eurobonds also at around between 500 and 700 bps, depending on maturities, and yield at above 900bps in July 2015.

2. **The macroeconomic projections remain broadly the same (see Table below).** Economic growth and fiscal performance are in line with earlier projection for 2015. Inflation may be slightly higher than expected in 2015 depending on exchange rate developments. Ghana has recorded continued depreciation of cedi in the first half of 2015 partly due to smaller-than-expected balance-of-payments adjustments. However, the depreciation was almost fully reversed during the first half of July. For 2015 as a whole, the current account deficit is projected to be larger than under the previous projection. With a moderate revision in oil prices⁴, the medium-term projections on key macro variables remain as expected (see Box below). The current account deficits would also improve as much as previously envisaged in the medium- and long-term.

	2015	2016	2015-2020 (annual percentage change)	2021-2035
Real GDP Growth				
Previous DSA	3.5	6.4	5.8	5.7
Current DSA	3.5	5.7	5.8	5.8
Inflation (GDP deflator)				
Previous DSA	13.6	9.7	9.2	7.0
Current DSA	14.3	9.0	9.1	7.0
Real interest rate (foreign debt)				
Previous DSA	3.9	2.4	2.7	4.5
Current DSA	4.9	3.4	2.6	2.4
Current account balance				
Previous DSA	-7.0	-6.2	-5.2	-4.5
Current DSA	-8.3	-7.2	-5.7	-4.5
Primary fiscal balance				
Previous DSA	-0.3	0.4	1.5	0.4
Current DSA	-0.3	0.1	1.6	0.4

3. **The debt limits for nonconcessional loans have been revised upward by US\$1500 million.** Given the tight liquidity condition in the domestic financial market and the consequent higher interest rate bills for domestic debt, the authorities envisage to increase by US\$500 million the total amount of the Eurobond planned to be issued in September / October up to US\$1.5 billion depending on market conditions. The Eurobond would be partly guaranteed by the World Bank, presumably reducing the borrowing costs substantially, lowering the rollover and liquidity risks. In addition, the authorities have identified key projects which are critical for national development and need to be financed with

³ As in the previous DSA, this DSA uses the residency criterion for defining external debt to reflect properly the vulnerabilities associated with nonresidents' holdings of domestic debt. Nonresidents can purchase domestic bonds with a maturity of 3 years or longer. The authorities are considering allow nonresidents to invest into 2-year domestic debt to further broaden the investor base.

⁴ The latest WEO expects the price of oil to recover to around US\$70 per barrel by 2019 from around US\$ 55 in 2015 and subsequently; prices are assumed to stabilize at this level over the medium term in real terms

nonconcessional loans. The prioritized project list includes projects totaling US\$850 million, which are envisaged to be contracted in 2015, in the areas of infrastructure and agricultural development.⁵

Box. Baseline Macroeconomic Assumptions

Real GDP-growth: Real growth is projected to decline to 3.5 percent in 2015, due mainly to fiscal consolidation under the program, power shortages owing to shortfalls in power generation, and poor non-oil commodity production. Growth is projected to pick up in 2016 onwards. In the long run, real growth is assumed to stabilize at around 6 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 above 6 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 from 2016 onwards, 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 10.2 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. This would bring overall balance down to 7¼ percent of GDP in 2015. The expected longer-term increase 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 about 4.5 percent of GDP. Gross international reserves would reach the authorities' target of 4.5 months of imports in 2017 and increase steadily in the outer period.

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 discovery of new fields, FDI is projected to stay around 7 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 envisaged to rollover maturing Eurobonds, which are assumed to be repaid in amortization payments rather than a bullet payment similar to the 2014 Eurobond.

⁵ In addition to the priority projects, the World Bank provides a budget support loan, also non-concessional, equivalent to US\$150million.

B. External Debt Sustainability Analysis⁶

4. **Under the baseline, the basic picture remains the same as in the previous DSA, with debt service-to-revenue ratio breaching the threshold.** The PV indicators jump in 2015 and subsequently decrease to sustainable levels over the projection period. Compared with the previous exercise, PV of debt-to-GDP ratio marginally deteriorates at the end of projection period. The additional nonconcessional borrowing has a marginal impact on debt trajectory given that it is broadly in line with loans that were assumed to be in the pipeline, which were included under the previous projections. Protracted breaches of debt service-to-revenue ratio are partly due to the bullet nature of Eurobond repayments. The forthcoming Eurobond is assumed to have longer maturity with multi-year repayments.

5. **The debt outlook remains sensitive to shocks to nominal exchange rates and net non-debt creating flows.** The relevant debt indicators tend to be worst and the most extreme (in 2025) under standard shocks to exchange rates and net non-debt creating flows, with some marginal breaches of relevant indicators in addition to the debt service-to-revenue ratio. Historical scenario suggests the PV of debt-to-GDP ratio would also exceed the threshold mainly due to sustained larger current account deficits and much lower FDI's seen in the past decade.

C. Public Debt Sustainability Analysis

6. **Ghana's total public debt is projected to decline under the ECF program with a peak in 2015** (Table 4, Figure 3). Owing to the envisaged ambitious fiscal consolidation under the program, as well as an improvement in borrowing conditions as fiscal dominance subsides and economic confidence is restored, the relevant debt indicators are expected to improve with PV of public debt declining to around 40 percent of GDP by the end of the projection period.

7. **PV of debt-to-GDP ratio remains below the public debt benchmark.** 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. The debt vulnerabilities lie in possible abrupt changes in real exchange rate depreciation as seen in external DSA.

8. **Gross financing need remains elevated at around 25 percent of GDP, which is much higher compared with peer LICs or even EMs.** Heavy reliance on short-term marketable domestic debt (less than 1 year) has increased its share to above 50 percent of the total marketable domestic debt as of end-June. Ghana has been put in a vicious cycle where meeting the gross financing need through domestic

⁶ Hereafter, public external debt covers those contracted or guaranteed by the central government, and major state-owned enterprises (SoEs), and short-term liabilities contracted by the central bank for a reserve management purpose. These BoG liabilities do not include swaps contracted with resident banks and fully collateralized credit lines with foreign institutions. It is worth noting that 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 with shorter maturities, combined with very high interest rates, further increases the near-term gross financing need and rollover risks of domestic debt. Temporary liquidity shortage in the domestic banking system has also weighed on the smooth rollover of maturing domestic debt.

D. Conclusion

9. **To restore debt sustainability, it is essential that Ghana continues to achieve the envisaged ambitious fiscal consolidation along with active debt management.** Substantial fiscal slippages would add to pressures on domestic debt market, leading to more reliance on shorter-term domestic debt with higher interest bills. Given already-high levels of gross financing needs of around 25 percent of GDP, reducing rollover needs by lengthening the average maturity as well as higher primary balances would be key to bringing the debt trajectory firmly on a sustainable path. The waning appetite for Ghanaian debt would be one of the most significant risks, including due to liquidity constraints of the domestic banking sector or a US interest rate hike. Revenue enhancement measures supported by proactive debt management to smooth and lengthen the maturity profile would bring down the stubbornly high debt service-to-revenue ratios in the long-run. Despite Ghana now being classified as a lower middle-income country with limited concessional resources available, it should continue seeking as concessional terms as possible for external loans, including from development partners.

10. **The authorities broadly concurred with the staff's views.** They shared the view that they are faced with increasing rollover risks, inter-alia, in the domestic market as domestic conditions tightened and need to continue seeking best financing mix reflecting then-prevailing market conditions. The authorities are concerned about the maturity of the Eurobond coming due in 2017 and of the view that they should buy-back it using the part of proceeds of the Eurobond.

Table 1 .Ghana: External Debt Sustainability Framework, Baseline Scenario, 2012-2035 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical ^{6/} Standard ^{6/}		Projections									
	2012	2013	2014	Average	Deviation	2015	2016	2017	2018	2019	2020	2015-2020 Average	2025	2035	2021-2035 Average
External debt (nominal) 1/	34.1	35.2	47.6			53.8	53.8	51.9	49.3	47.6	46.6		40.5	30.8	
<i>of which: public and publicly guaranteed (PPG)</i>	28.9	30.7	42.0			49.8	49.8	47.9	45.3	43.6	42.6		36.5	26.8	
Change in external debt	5.5	1.1	12.4			6.1	0.0	-1.9	-2.6	-1.7	-1.0		-1.2	-0.6	
Identified net debt-creating flows	2.2	1.0	9.3			-1.6	-3.9	-7.5	-6.6	-5.5	-3.9		-2.6	0.1	
Non-interest current account deficit	10.6	10.5	7.3	8.3	2.1	5.9	5.1	3.5	2.7	2.8	2.6		3.1	3.0	3.1
Deficit in balance of goods and services	12.4	13.2	10.3			11.8	9.7	7.3	6.2	6.1	6.0		6.8	5.5	
Exports	40.1	33.9	39.5			34.3	34.1	36.0	35.7	34.8	33.7		28.3	23.9	
Imports	52.5	47.1	49.8			46.1	43.8	43.4	41.9	40.9	39.6		35.1	29.4	
Net current transfers (negative = inflow)	-5.7	-4.1	-5.2	-7.1	1.7	-6.5	-5.7	-5.2	-5.1	-4.8	-4.6		-3.6	-1.9	-3.1
<i>of which: official</i>	-0.6	-0.2	0.0			-0.6	-0.1	0.0	-0.1	0.0	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	3.9	1.4	2.2			0.6	1.1	1.4	1.6	1.6	1.3		-0.1	-0.6	
Net FDI (negative = inflow)	-7.9	-6.7	-8.7	-6.4	3.1	-8.3	-8.3	-8.5	-7.5	-7.5	-6.5		-5.1	-2.4	-4.3
Endogenous debt dynamics 2/	-0.5	-2.7	10.6			0.7	-0.6	-2.5	-1.8	-0.7	-0.1		-0.6	-0.5	
Contribution from nominal interest rate	1.2	1.5	2.3			2.5	2.1	2.1	1.7	1.6	1.6		1.5	1.3	
Contribution from real GDP growth	-2.2	-2.2	-1.7			-1.7	-2.7	-4.6	-3.5	-2.3	-1.6		-2.1	-1.8	
Contribution from price and exchange rate changes	0.5	-2.0	10.1			...	...	...	...	...	...		...	...
Residual (3-4) 3/	3.3	0.1	3.1			7.7	3.9	5.5	4.0	3.7	2.9		1.3	-0.7	
<i>of which: exceptional financing</i>	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/	...	...	44.7			46.8	46.3	44.5	41.9	40.3	39.5		35.8	28.0	
In percent of exports	...	...	113.2			136.3	135.6	123.4	117.6	115.8	117.4		126.1	117.1	
PV of PPG external debt	...	...	39.1			42.8	42.3	40.5	37.9	36.3	35.5		31.8	24.0	
In percent of exports	...	...	99.0			124.6	123.9	112.3	106.4	104.3	105.5		112.0	100.4	
In percent of government revenues	...	...	220.9			234.3	219.4	205.7	185.4	177.5	175.8		162.9	128.2	
Debt service-to-exports ratio (in percent)	8.6	9.9	14.5			21.7	19.2	19.1	14.7	13.3	15.7		17.8	20.7	
PPG debt service-to-exports ratio (in percent)	5.8	7.2	11.7			18.3	17.1	17.0	12.7	11.1	13.5		15.2	17.6	
PPG debt service-to-revenue ratio (in percent)	13.6	15.1	26.0			34.4	30.2	31.2	22.1	18.9	22.5		22.1	22.5	
Total gross financing need (Millions of U.S. dollars)	2587.8	3387.6	1682.6			2020.2	1847.8	899.2	241.8	-46.8	837.9		2533.1	10434.9	
Non-interest current account deficit that stabilizes debt ratio	5.1	9.4	-5.1			-0.2	5.1	5.4	5.3	4.5	3.6		4.3	3.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	8.0	7.3	4.0	7.3	2.9	3.5	5.7	9.4	7.3	5.1	3.6	5.8	5.4	6.3	5.8
GDP deflator in US dollar terms (change in percent)	-1.9	6.2	-22.3	3.6	12.7	-5.7	6.2	1.4	1.7	2.1	2.3	1.3	2.3	2.1	2.2
Effective interest rate (percent) 5/	4.3	4.9	5.2	3.8	1.1	5.0	4.4	4.2	3.6	3.5	3.5	4.0	4.0	4.6	4.2
Growth of exports of G&S (US dollar terms, in percent)	15.2	-3.6	-5.9	17.2	17.1	-15.2	11.6	17.1	8.1	4.8	2.4	4.8	5.1	6.7	5.7
Growth of imports of G&S (US dollar terms, in percent)	12.8	2.3	-14.5	15.0	17.8	-9.8	6.7	9.8	5.4	4.8	2.7	3.3	5.0	6.7	6.0
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	5.5	10.6	6.5	16.3	15.8	8.2	10.5	-1.5	-1.2	-0.7
Government revenues (excluding grants, in percent of GDP)	17.0	16.3	17.7	...	...	18.3	19.3	19.7	20.5	20.5	20.2	...	19.5	18.7	19.3
Aid flows (in Millions of US dollars) 7/	646.1	224.0	277.8			810.0	717.9	548.4	521.6	432.8	323.5		115.3	10.2	
<i>of which: Grants</i>	646.1	224.0	277.8			562.4	530.3	426.6	407.0	330.9	243.7		79.9	10.2	
<i>of which: Concessional loans</i>	0.0	0.0	0.0			247.6	187.6	121.8	114.6	101.9	79.8		35.4	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			2.0	2.0	1.4	1.5	1.2	0.8		0.0	0.0	0.0
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			17.9	24.3	16.9	29.0	27.5	16.1		0.8	-1.0	1.0
Memorandum items:															
Nominal GDP (Millions of US dollars)	41939	47806	38616			37679	42295	46921	51232	54992	58287		82847	188450	
Nominal dollar GDP growth	6.0	14.0	-19.2			-2.4	12.3	10.9	9.2	7.3	6.0	7.2	7.8	8.5	8.1
PV of PPG external debt (in Millions of US dollars)	...	...	13868			16293	17250	18419	18940	19484	20184		25731	44203	
(Pvt-Pvt-1)/GDPT-1 (in percent)	...	...	...			6.3	2.5	2.8	1.1	1.1	1.3	2.5	1.6	1.5	1.5
Gross workers' remittances (Millions of US dollars)	1760	1524	1638			1819	1955	2014	2054	2095	2137		2359	2865	
PV of PPG external debt (in percent of GDP + remittances)	...	...	37.5			40.8	40.4	38.8	36.5	35.0	34.2		30.9	23.6	
PV of PPG external debt (in percent of exports + remittances)	...	...	89.4			109.3	109.1	100.4	95.6	94.0	95.1		101.8	94.4	
Debt service of PPG external debt (in percent of exports + remittance)	...	...	10.5			16.0	15.0	15.2	11.4	10.0	12.2		13.8	16.5	

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 $[r - g - \rho(1+g)] / (1+g + \rho + gp)$ 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, 2012-2035

(In percent of GDP, unless otherwise indicated)

	Actual			Average ^{5/}	Standard Deviation ^{5/}	Estimate						Projections			
	2012	2013	2014			2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035	2021-35 Average
Public sector debt 1/	49.6	56.7	69.8			75.1	74.0	69.3	63.7	59.8	56.9		51.2	38.4	
<i>of which: foreign-currency denominated</i>	28.9	30.7	42.0			49.8	49.8	47.9	45.3	43.6	42.6		36.5	26.8	
Change in public sector debt	7.5	7.1	13.1			5.3	-1.1	-4.7	-5.6	-3.9	-3.0		-1.8	-0.9	
Identified debt-creating flows	6.9	5.0	11.6			-0.1	-0.7	-5.1	-5.4	-3.5	-2.6		-2.1	-1.3	
Primary deficit	8.6	5.6	3.3	3.9	2.5	0.1	-0.3	-1.8	-3.2	-2.6	-2.3	-1.7	-0.5	-0.1	-0.4
Revenue and grants	18.5	16.7	18.4			19.7	20.5	20.6	21.3	21.1	20.6		19.6	18.7	
<i>of which: grants</i>	1.5	0.5	0.7			1.5	1.3	0.9	0.8	0.6	0.4		0.1	0.0	
Primary (noninterest) expenditure	27.1	22.3	21.7			19.8	20.2	18.7	18.0	18.4	18.3		19.0	18.7	
Automatic debt dynamics	-1.7	-0.6	8.3			-0.2	-0.4	-3.3	-2.1	-0.9	-0.3		-1.6	-1.3	
Contribution from interest rate/growth differential	-3.0	-1.3	0.2			1.0	-0.4	-3.3	-2.1	-0.9	-0.3		-1.6	-1.3	
<i>of which: contribution from average real interest rate</i>	0.1	2.0	2.4			3.4	3.6	3.1	2.6	2.2	1.8		1.1	1.1	
<i>of which: contribution from real GDP growth</i>	-3.1	-3.4	-2.2			-2.4	-4.0	-6.4	-4.7	-3.1	-2.1		-2.7	-2.3	
Contribution from real exchange rate depreciation	1.3	0.8	8.1			-1.2	0.0	0.0	0.0	0.0	0.0		...	...
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	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)	0.0	0.0	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	0.7	2.1	1.5			5.4	-0.4	0.4	-0.2	-0.4	-0.4		0.3	0.4	
Other Sustainability Indicators															
PV of public sector debt	...	...	66.9			68.1	66.5	61.9	56.4	52.6	49.8		46.4	35.6
<i>of which: foreign-currency denominated</i>	...	...	39.1			42.8	42.3	40.5	37.9	36.3	35.5		31.8	24.0
<i>of which: external</i>	...	...	39.1			42.8	42.3	40.5	37.9	36.3	35.5		31.8	24.0
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...
Gross financing need 2/	22.3	22.2	25.7			25.9	25.3	19.4	15.7	14.4	13.1		11.7	10.0	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	363.1			344.8	324.1	300.8	265.3	249.6	241.6		236.9	190.1
PV of public sector debt-to-revenue ratio (in percent)	...	...	377.9			373.0	345.2	314.7	275.6	256.9	246.6		238.1	190.2
<i>of which: external 3/</i>	...	...	220.9			234.3	219.4	205.7	185.4	177.5	175.8		162.9	128.2
Debt service-to-revenue and grants ratio (in percent) 4/	39.0	59.7	74.9			74.1	63.4	62.7	51.7	46.8	43.3		38.4	34.1	
Debt service-to-revenue ratio (in percent) 4/	42.5	61.4	78.0			80.1	67.5	65.6	53.7	48.2	44.2		38.6	34.1	
Primary deficit that stabilizes the debt-to-GDP ratio	1.0	-1.5	-9.8			-5.2	0.8	2.9	2.3	1.3	0.7		1.3	0.9	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	8.0	7.3	4.0	7.3	2.9	3.5	5.7	9.4	7.3	5.1	3.6	5.8	5.4	6.3	5.8
Average nominal interest rate on forex debt (in percent)	4.8	5.7	5.9	4.3	1.4	5.7	4.8	4.6	3.9	3.8	3.8	4.4	4.4	5.3	4.7
Average real interest rate on domestic debt (in percent)	-2.8	4.7	4.3	-0.1	4.3	5.1	8.5	8.4	9.5	8.8	7.5	8.0	2.6	2.3	3.1
Real exchange rate depreciation (in percent, + indicates depreciation)	5.9	2.8	26.3	0.5	11.1	-2.9
Inflation rate (GDP deflator, in percent)	16.6	15.6	16.7	15.7	2.3	14.3	9.0	8.4	7.7	7.5	7.5	9.1	7.0	6.9	7.0
Growth of real primary spending (deflated by GDP deflator, in percent)	42.8	-11.7	1.3	3.3	14.4	-5.5	7.9	1.4	3.1	7.5	3.0	2.9	2.7	6.2	5.9
Grant element of new external borrowing (in percent)	5.5	10.6	6.5	16.3	15.8	8.2	10.5	-1.5	-1.2	...

Sources: Country authorities; and staff estimates and projections.

1/ The external debt covers the central government, SoEs, and the central bank's liabilities 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, 2015-2035
(In percent)

	Projections							
	2015	2016	2017	2018	2019	2020	2025	2035
PV of debt-to GDP ratio								
Baseline	43	42	40	38	36	35	32	24
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	43	48	53	56	59	61	58	33
A2. New public sector loans on less favorable terms in 2015-2035 2	43	42	42	41	40	40	39	35
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	43	41	42	39	37	37	33	25
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	43	44	51	48	47	45	36	24
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	43	48	51	48	46	45	40	30
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	43	46	50	47	45	44	35	24
B5. Combination of B1-B4 using one-half standard deviation shocks	43	50	61	58	55	54	42	28
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	43	57	55	51	49	48	43	32
PV of debt-to-exports ratio								
Baseline	125	124	112	106	104	105	112	100
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	125	141	147	157	170	181	204	138
A2. New public sector loans on less favorable terms in 2015-2035 2	125	124	117	114	114	118	136	147
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	125	120	109	103	101	102	109	97
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	125	145	185	177	174	176	164	128
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	125	120	109	103	101	102	109	97
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	125	136	137	131	129	130	123	98
B5. Combination of B1-B4 using one-half standard deviation shocks	125	137	159	152	150	150	139	109
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	125	120	109	103	101	102	109	97
PV of debt-to-revenue ratio								
Baseline	234	219	206	185	177	176	163	128
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	234	250	270	274	289	302	297	177
A2. New public sector loans on less favorable terms in 2015-2035 2	234	219	214	198	194	196	198	188
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	234	214	211	191	183	181	168	132
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	234	230	260	237	228	225	183	126
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	234	248	260	235	225	223	206	162
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	234	240	252	229	220	216	178	126
B5. Combination of B1-B4 using one-half standard deviation shocks	234	259	309	281	271	266	215	148
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	234	295	278	251	240	238	220	173

Table 3. Ghana: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015-2035 (continued)
(In percent)

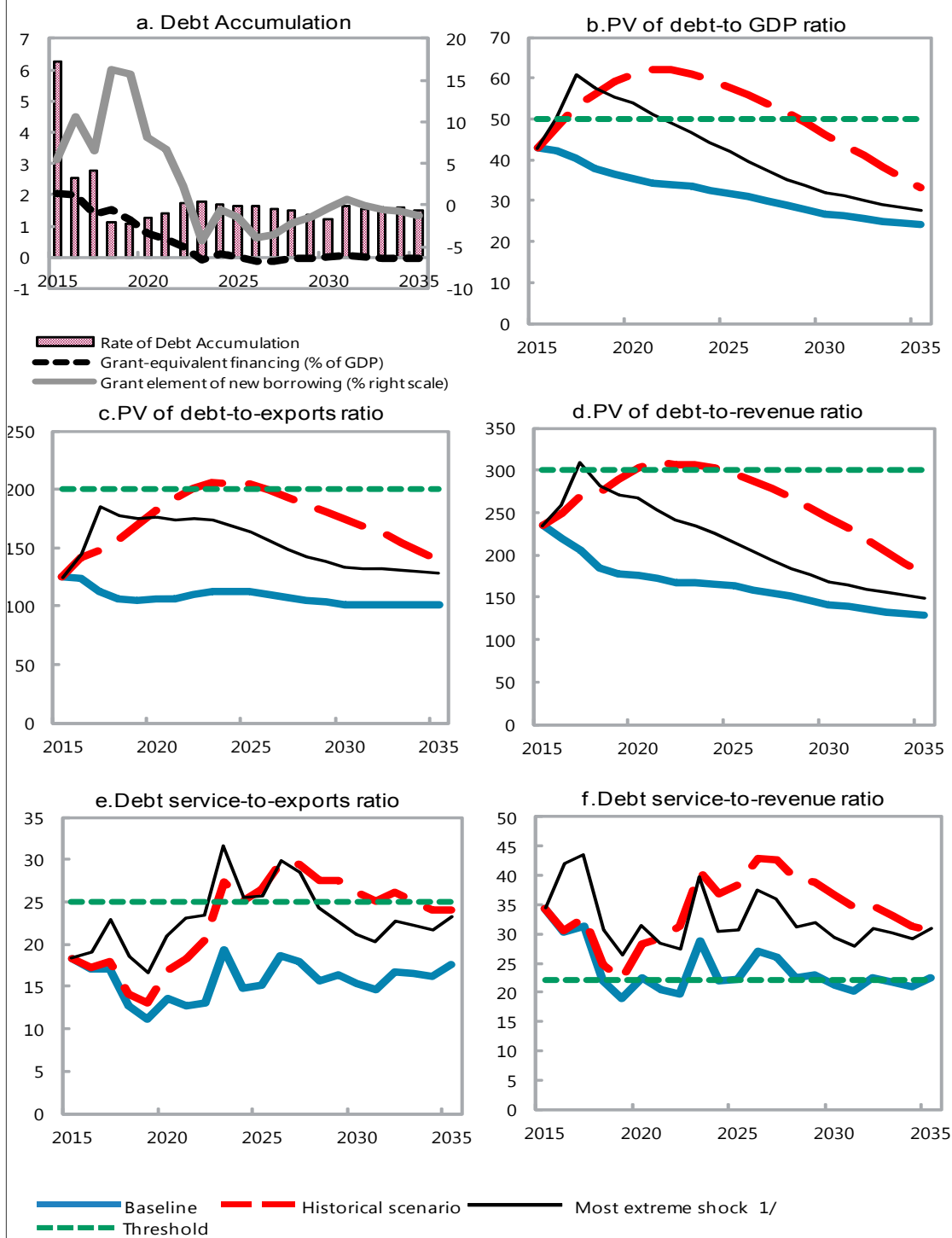
Debt service-to-exports ratio								
Baseline	18	17	17	13	11	13	15	18
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	18	17	18	14	13	17	26	24
A2. New public sector loans on less favorable terms in 2015-2035 2/	18	17	16	9	9	8	18	23
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	18	17	17	13	11	13	15	17
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	18	19	23	19	17	21	26	23
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	18	17	17	13	11	13	15	17
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	18	17	18	14	13	16	19	18
B5. Combination of B1-B4 using one-half standard deviation shocks	18	18	20	16	14	18	22	20
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	18	17	17	13	11	13	15	17
Debt service-to-revenue ratio								
Baseline	34	30	31	22	19	22	22	22
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	34	31	33	25	22	28	38	31
A2. New public sector loans on less favorable terms in 2015-2035 2/	34	30	28	16	14	14	26	30
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	34	31	33	23	20	24	23	24
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	34	30	32	25	22	27	29	23
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	34	35	41	29	25	29	29	29
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	34	30	33	25	21	27	28	23
B5. Combination of B1-B4 using one-half standard deviation shocks	34	33	38	29	26	32	34	27
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	34	42	44	31	26	31	31	31
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	-3	-3	-3	-3	-3	-3	-3	-3
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 2015-2035

	Projections							
	2015	2016	2017	2018	2019	2020	2025	2035
PV of Debt-to-GDP Ratio								
Baseline	68	66	62	56	53	50	46	36
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	68	70	72	74	75	76	85	94
A2. Primary balance is unchanged from 2015	68	67	64	62	61	60	60	49
A3. Permanently lower GDP growth 1/	68	67	63	58	55	53	56	63
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	68	67	67	62	60	58	60	56
B2. Primary balance is at historical average minus one standard deviations in 2016-201	68	73	77	71	67	64	59	45
B3. Combination of B1-B2 using one half standard deviation shocks	68	72	77	71	68	65	64	54
B4. One-time 30 percent real depreciation in 2016	68	87	81	75	71	69	69	65
B5. 10 percent of GDP increase in other debt-creating flows in 2016	68	77	72	66	62	59	55	42
PV of Debt-to-Revenue Ratio 2/								
Baseline	345	324	301	265	250	242	237	190
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	345	340	351	347	356	369	434	502
A2. Primary balance is unchanged from 2015	345	326	312	292	289	294	308	261
A3. Permanently lower GDP growth 1/	345	326	306	273	261	257	285	334
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	345	329	325	293	283	281	306	300
B2. Primary balance is at historical average minus one standard deviations in 2016-201	345	357	374	333	317	310	303	243
B3. Combination of B1-B2 using one half standard deviation shocks	345	351	372	334	321	317	326	290
B4. One-time 30 percent real depreciation in 2016	345	423	394	353	337	333	350	346
B5. 10 percent of GDP increase in other debt-creating flows in 2016	345	374	348	309	293	286	280	224
Debt Service-to-Revenue Ratio 2/								
Baseline	74	63	63	52	47	43	38	34
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	74	62	64	54	50	47	55	67
A2. Primary balance is unchanged from 2015	74	63	63	52	48	45	47	44
A3. Permanently lower GDP growth 1/	74	64	63	53	48	45	43	50
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	74	64	66	55	50	47	45	47
B2. Primary balance is at historical average minus one standard deviations in 2016-201	74	63	64	55	51	47	48	42
B3. Combination of B1-B2 using one half standard deviation shocks	74	63	66	56	52	48	50	47
B4. One-time 30 percent real depreciation in 2016	74	70	77	63	57	56	58	66
B5. 10 percent of GDP increase in other debt-creating flows in 2016	74	63	65	54	49	46	45	39

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.

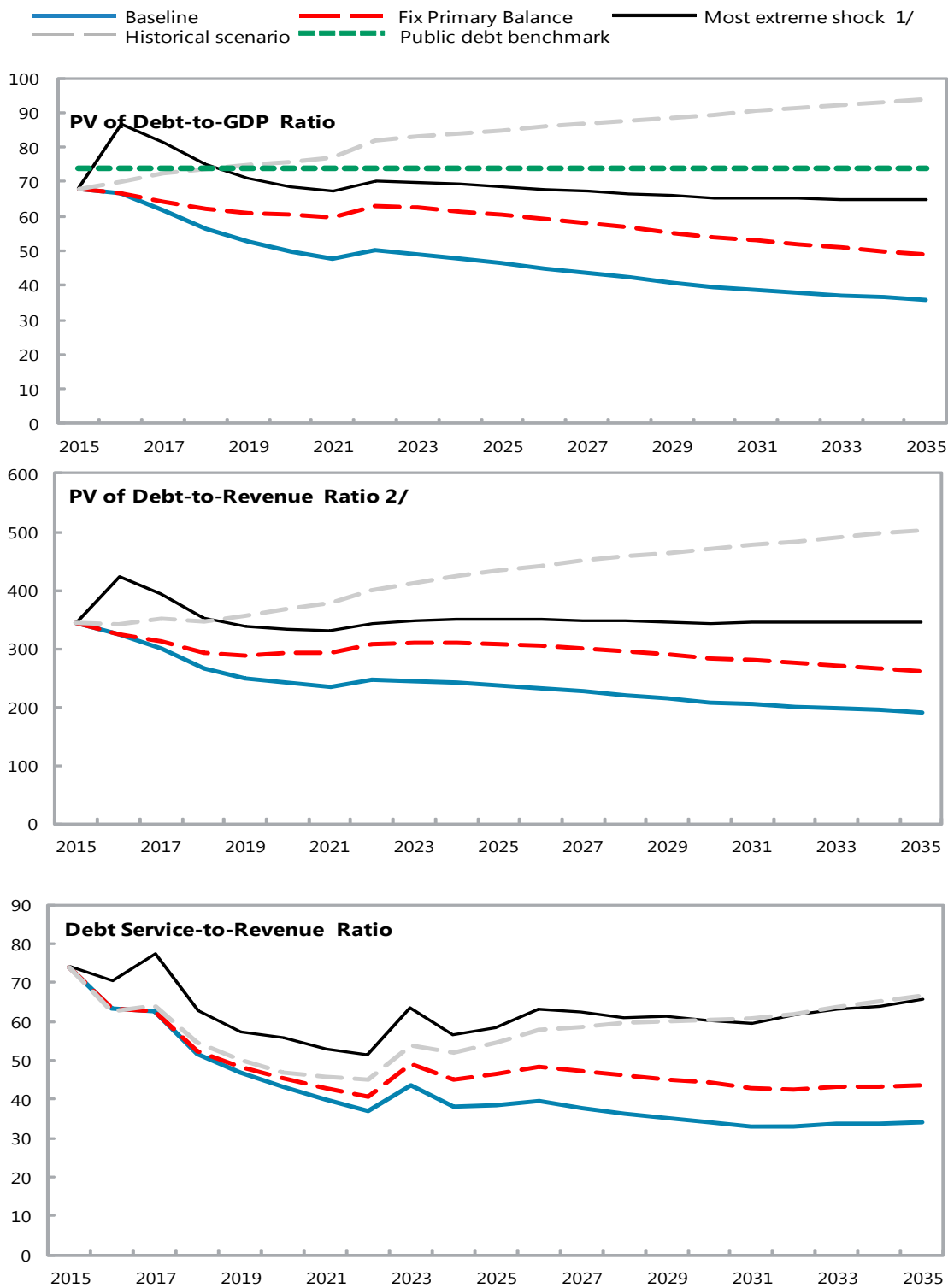
Figure 1. Ghana: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2015-2035 1/



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 2025. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Ghana: Indicators of Public Debt Under Alternative Scenarios, 2015-2035 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 2025.

2/ Revenues are defined inclusive of grants.



GHANA

August 2015

GHANA—FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR WAIVER AND MODIFICATIONS OF PERFORMANCE CRITERIA— SUPPLEMENTARY INFORMATION AND SUPPLEMENTAL LETTER OF INTENT

Prepared by

African Department

This supplement provides an update on external arrears status since the staff report for the first review under the ECF was issued. New information received by staff indicates nonobservance of the continuous Performance Criterion (PC) on the non accumulation of external arrears. However, on the basis of the very minor and temporary nature of the non-observance of the PC and appropriate corrective actions, staff supports the authorities' request for a waiver for non-observance of the PC. In other respects, this report does not alter the thrust of the staff appraisal and staff continues to recommend the completion of the first review.

1. **Staff received last week additional information on minor external arrears that were temporarily accumulated to one official creditor.** Small payments, not exceeding USD 2 million, were due to a Spanish creditor and not paid on time since the program was approved on April 3, 2015. The Ghanaian authorities received a payment notice from the creditor – which is needed to initiate the payment order in compliance with PFM procedures and regulations – after the due dates. The creditor notified the authorities of the overdue payments in early July, and all amounts due were paid by end-July. Other very small overdue payments were notified in mid-August and paid by August 25. Considering that payments were made within the usual period following reception of the payment advice from the creditor, the authorities informed staff that no arrears were accumulated. However, after further review of the loans documents, since neither the obligation of the lender to issue a payment notice nor a related grace period are specified in the loan agreements, staff clarified that any delay in payment made beyond the due date gives rise to arrears and constitutes a non-observance of the continuous PC as defined in the TMU.¹

¹ The TMU defines external arrears as follows: “.... external payment arrears will accrue when undisputed payments such as interest or amortization on debts of the government (as defined in paragraph 6) to non-residents are not made within the terms of the contract...”

2. **Staff supports the authorities' request for a waiver for the non-observance of the continuous PC on the basis of the minor and temporary nature of the breach and corrective measures put in place by the authorities.** Given that the amount of arrears was very small and that payments were made within a reasonable time period of less than a month following the receipt of the payment notice, staff believes that this issue does not alter the overall assessment conducted in the staff report, including the authorities' continued commitment to the program. Further, to prevent recurrence of this issue in the future, the authorities have taken a series of steps, including by: (i) reviewing payments due on a monthly basis in accordance with the contracted schedule of payments—regardless of whether a payment notice is sent by the creditor; (ii) strengthening the coordination between the Finance Ministry and Bank of Ghana for a weekly monitoring of payments awaiting funding and payments made; and (iii) requesting creditors to send payments notices at least 4 weeks prior the due date to accommodate the length of Ghana's payment process.
3. **The PC table attached to the supplemental LOI will replace "Table 1. Ghana Quantitative Program Targets" attached to the original LOI and MEFP.**

Supplemental Letter of Intent

Accra, August 25, 2015

Ms. Christine Lagarde
Managing Director
International Monetary Fund (IMF)
Washington, D.C. 20431

Dear Ms. Lagarde,

1. In addition to our Letter of Intent dated August 17, 2015, we wish to provide additional information on minor external arrears that were temporarily accumulated to one of our official creditors. All amounts due have since been paid and we wish to assure you we have implemented corrective actions to prevent such arrears from taking place in the future, and we request a waiver for the non-observance of this continuous Performance Criteria.
2. Small payments, not exceeding USD 2 million, due to a Spanish creditor since the program was approved on April 3, 2015, were paid with some delay. The creditor did not issue a payment notice before the due dates – such payment notice is required to initiate the payment order in compliance with our PFM procedures and regulations. On July 8, the creditor notified us of the overdue payments, and all amounts due were paid on July 21. Considering that payments were made within the usual period following reception of the payment notice from the creditor, we informed staff that no arrears were accumulated.
3. We now understand that the relevant loan agreements under consideration have no contractual requirement for a payment notice to be sent to initiate a payment. The government is thus obligated to make payments according to the repayment schedule established with the creditor.
4. To prevent such occurrence in the future, the government has taken steps to ensure that payments due are reviewed on a monthly basis and payment orders issued in accordance with the schedule of payments. Additional steps have been taken to strengthen the coordination between the Finance Ministry and Bank of Ghana for a weekly monitoring of payments awaiting funding and payments transferred. In addition, we will instruct creditors to send payments notices at least 4 weeks prior the due date to accommodate the length of our legal payment process.
5. We believe that the corrective measures adopted in response to the non-observance of the continuous performance criterion under the ECF on non-accumulation of external arrears will prevent accumulation of external arrears in the future. On this basis, we would like to request a waiver for non-observance of this PC.

GHANA

6. The government reiterates that it stands ready to take any additional measures that may be necessary to further improve our debt management, a key pillar of the program. We will consult with the IMF on the adoption of such measures in advance of any revision of the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

Sincerely yours,

/s/

Seth Emmanuel Terkper
Minister for Finance

/s/

Henry Akpenamawu Kofi Wampah
Governor of Bank of Ghana

**Table 1. Ghana Quantitative Program Targets 1/
(Cumulative from the beginning of the calendar year, unless otherwise indicated)**

	2014		Apr 2015			Aug 2015		Dec 2015	
	Act.	Revised	Target	Adjusted target	Actual	Revised		Revised	
I Quantitative Performance Criteria									
Primary fiscal balance of the government (floor in millions of cedis)	-3,555	...	-544	-536	46	-380	...	-422	...
Wage Bill (ceiling; in millions of cedis)	9,449	...	3,413		3,341	6,857	...	10,286	...
Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars) ²	1,415	...	1,042		1,186	331	147	1,962	2,278
Net Domestic Assets of Bank of Ghana (ceiling; millions of cedis) ³	3,095	...	5,755		5,561	8,772	...	4,914	3,410
Net change in stock of arrears (ceiling, millions of cedis)	428	...	-424		-565	-1,001	...	-1,561	...
II Continuous Performance Criteria									
Gross financing of BoG to the Government and SOEs (ceiling; in millions of cedis) ⁴	13,603	19,723	14,614		14,873	14,614	15,814	14,614	15,814
Non-accumulation of external arrears (ceiling; millions of U.S. dollars) ⁵	...	...	0		1.7	0	...	0	...
Non-accumulation of domestic arrears (ceiling; millions of cedis)	...	...	0		0	0	...	0	...
Contracting or guaranteeing of new external nonconcessional debt (ceiling; millions U.S. Dollars)	...	...	0		0	1,000	...	1,000	2,500
III Indicative Target									
Program central target rate of inflation (12 month percentage change)	17.0	...	15.4		16.8	13.8	15.0	12.0	...
Contracting or guaranteeing of new external concessional debt (ceiling; millions U.S. Dollars)	...	...	...		...	...	...	100	...
Social Protection (floor, in million of cedis)	947	...	388		252	806	...	1,294	...

¹ Targets as defined in the attached Technical Memorandum of Understanding (TMU).

² Program definition excludes foreign currency deposits in BOG. Defined as a level.

³ Net domestic assets is computed using the program's exchange rate of GHc 3.40 per U.S.\$1 as defined in the attached Technical Memorandum of Understanding (TMU). Defined as a level.

⁴ Defined as a level.

⁵ The authorities have temporarily run small arrears to an official creditor for a technical reason. These arrears have been all cleared within a reasonable time period following the receipt of a formal payment notice.

**Statement by Mr. Mojarrad, Executive Director for Ghana
and Mr. Abradu-Otoo, Advisor to Executive Director
August 31, 2015**

On behalf of my Ghanaian authorities, I thank staff for their hard work and the constructive exchange of views during this first review of the ECF-supported program. The authorities are in full agreement with staff assessment and policy recommendations, which are in line with their own reform agenda and priorities. They also wish to reiterate their deep appreciation for the provision of technical assistance recently provided by the Fund's FAD, LEG, MCM and RES departments, and thank management and Executive Directors for their continued support.

The authorities are resolutely implementing the ECF-supported program and performance is on track. They are carrying out challenging reforms, stepping up efforts in areas where progress has been slower-than-expected, and promptly taking corrective actions in areas where technical difficulties emerged. All performance criteria for end-April 2015 were met, with the exception of the continuous limit on Bank of Ghana (BoG)'s gross financing of the government, which was missed by a small margin due to a minor technical problem that has been addressed, as explained in the Memorandum of Economic and Financial Policies (MEFP ¶14).¹ To better adhere to standard guidelines, the PC on net international reserves for August 2015 and December 2015 are being revised to exclude central bank deposits with the Ghana International Bank in London from the definition of foreign assets. Structural reform implementation was satisfactory in many areas, as outlined in MEFP ¶18, and work is progressing in other areas with IMF TA assistance. The authorities request a waiver of the missed target on the continuous performance criterion on the central bank gross financing, modifications of the PC on net international reserves, higher debt limits on external non-concessional borrowing, and completion of the first review.

¹ Information that a small amount due to an official creditor has been paid with some delay is currently being further examined to determine whether it gave rise to external arrears and may require a request for an additional waiver under the program.

A. Recent Economic Developments and Short-Term Outlook

The growth deceleration that started in 2014 is expected to continue in 2015. Growth is projected to slow down from 4.0 percent in 2014 to 3.5 percent in 2015, mainly as a result of the front loaded fiscal adjustment, the drag on economic activity brought about by the electricity crisis, the adverse effects of currency depreciation, and high interest rates in response to rising inflation. Average inflation, which rose to 15.5 percent in 2014, is expected to decline marginally to 15.3 percent and then to 10.1 percent by 2016. Despite a poor cocoa harvest and lower gold production, the current account position improved significantly, although by less than projected. Nonetheless, balance of payments pressures continued during the first half of the year which, combined with limited interventions by BoG and some speculative activities, led to a sharp depreciation of the cedi. The latter was, however, reversed in July with favorable fiscal consolidation indicators, the resumption of donor disbursements, and expectations of BoG intervention.

B. Fiscal Policy

Fiscal consolidation is on track. The overall deficit declined in the first 4 months of 2015 compared to the December projection, and the primary balance shifted to a surplus instead of a projected deficit. Strong revenue performance was underpinned by the impact of the currency depreciation on VAT on imported goods, taxes on petroleum products, and export taxes, as well as strong collection of corporate income tax and unanticipated dividend transfers from the Central Bank. Expenditures were contained, including wage and domestically-financed capital spending. While no new domestic arrears have been accumulated thus far, in line with the program objectives, the stock of arrears at end-2014 increased by 0.2 percent of GDP with uncovered arrears in connection with claims made by oil importers resulting from foreign exchange losses. Following the conclusions of an independent audit of these claims and in agreement with the oil importers, these new arrears will be settled over a four year period. The recent liberalization of the pricing of petroleum products will forestall the recurrence of such arrears. The authorities remain confident that the 2015 fiscal deficit objective of 7.3 percent of GDP, on a cash basis, will be met, and will take additional measures if necessary to achieve it.

Over the medium-term, the authorities are firmly determined to continue with their medium-term fiscal consolidation program and to resist any spending pressure that may arise in connection with the 2016 elections. They reiterate their commitment to reduce the deficit to 5.8 percent of GDP in 2016 and further to 3.7 percent of GDP in 2017. This will be achieved through tax reform to broaden the base and reduce exemptions and distortions, continued wage moderation, and improved public spending prioritization, transparency, and efficiency in line with the program's objective of strengthening public financial management.

C. Debt Management Strategy

The medium-term debt strategy seeks to support fiscal consolidation and monetary tightening through a financing mix that minimizes cost and improves the average maturity profile, while taking due account of the risks associated with domestic interest rates and rollover risks. The strategy is oriented towards reducing domestic financing in 2015, particularly in the shorter end of the domestic market while aiming to lengthen domestic debt maturities and diversifying the investor base, including by opening 1- and 2-year notes to non-resident investors. On the external front, while the strategy will continue to maximize concessional borrowing, non-concessional borrowing will be limited to projects critical for national development and the refinancing of existing expensive debt by tapping the international capital markets. The authorities are aware of the challenges posed by current financing constraints, and intend to strike the right balance between seeking non-concessional financing for critical development projects and maintaining debt sustainability. In addition, the authorities are implementing a number of debt management measures such as the establishment of a Sinking Fund, on-lending and escrows, and shifts from plain vanilla guarantees to project insurance structures to ensure cost effective access to funding in the short to medium-term as well as improve debt sustainability.

D. Monetary and Financial Sector Policies

Monetary policy has been kept tight over the past year. To prevent inflationary pressures from becoming entrenched, the BoG increased its monetary policy rate by (MPR) 100 basis points in May 2015. In August, in order to enhance transparency in monetary operations and improve the transmission mechanism, the BoG merged the reverse repo and monetary policy rates, thus further increasing the MPR by 200 basis points to 24 percent. This has also helped maintain positive interest rates since end-2014. Indications are that inflationary pressures would likely ease over the medium-term under the effect of fiscal consolidation and the reversal of past exchange rate depreciation. In addition to these developments, the central bank has taken steps to effect a key structural change by reversing the persistent excess liquidity situation in the banking system to one of liquidity shortages to improve monetary policy transmission and enhance its inflation targeting framework. The BoG has indicated that it will continue to monitor closely inflation developments and stand ready to tighten policies further if needed. In addition, steps are being taken to deepen the foreign exchange market and reduce volatility of the exchange rate by eliminating the compulsory surrender requirement of foreign exchange. Detailed implementation plans will be drawn with Fund TA in September 2015.

The banking sector continues to be stable. Banks remain well capitalized, non-performing loans and liquidity indicators remain broadly adequate, but profitability has declined slightly. The authorities are taking steps to ensure that the financial system remains strong and stable, including by strengthening the legal framework for supervision and regulation. To this end, important new bills—the Banks and Specialized Deposit-Taking Institutions bill and the Ghana Deposit Protection bill have been submitted to the legislature and are expected to be adopted by year end. In anticipation of the adoption of these new bills, the BoG is preparing the ground work to step up its monitoring activities and enhance prudential supervision to strengthen the stability of the sector. Moreover, a new Bank of Ghana Act is being drafted and will incorporate key recommendations of the April 2015 safeguard assessment update with the objective of strengthening the provisions on government financing and enhancing the autonomy of BoG. The growth of microfinance institutions in recent years has posed supervisory challenges for the central bank. Recent irregular activities have led to the suspension of some operators in the industry and the BoG has put in place measures to address these challenges and strengthen the industry (MEFP ¶42). The staffing of Other Financial Institutions Supervision Department (OFISD) of BoG, which supervises these institutions, has been increased to enhance both on-site and off-site supervision.

E. Structural Reforms

The authorities are strongly committed to their reform agenda aimed at achieving higher and more inclusive growth and reducing unemployment, while strengthening the social safety net. Continued efforts are being made to improve the business climate, upgrade infrastructure, strengthen competitiveness, and improve employment opportunities. The authorities attach high priority to the need to overcome the current power crisis which is acting as a drag on growth.

Efforts in this area are focusing on the implementation of fast-track private-financed power projects to address existing shortfalls as quickly as possible, while longer-term measures including the development of gas production and requisite infrastructure for thermal power generation are being put in place. An elaborate plan has been drawn to ensure that this key bottleneck is fully eliminated over the medium term (MEFP ¶81). In the short-term, emergency power projects are being brought on board to bring relief to businesses and consumers by the end of the first quarter of 2016. Wide ranging reforms are also underway in many areas, including in tax policy and tax administration. A new strategy for public finance management has been approved by the authorities, involving payroll management and control, treasury cash management, and public sector reform. Implementation plans will be developed with Fund technical assistance (MEFP, Section III A).

F. Conclusion

Program implementation is on track and the authorities are firmly committed to achieving their objectives, notwithstanding external shocks. The authorities share staff views on the risks outlined in the report, and are confident that they will be able to address those risks that are under their control. In particular, ongoing efforts to address the energy situation to further improve the business environment, along with the pursuit of sound macroeconomic policies should help enhance private sector confidence and boost investment and growth. Our authorities attach high value to their engagement with the Fund and are grateful for its continued support.