INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/16

GHANA

January 2016

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

In the context of the Second Review Under the Extended Credit Facility Arrangement and Request for Waiver for Nonobservance of Performance Criterion, 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 January 13, 2016, following discussions that ended on November 5, 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 December 23, 2015.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- 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*
*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.

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No. 16/07
FOR IMMEDIATE RELEASE
January 13, 2016

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second ECF Review for Ghana, and Approves US$114.6 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second 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$114.6 million), bringing total disbursements under the arrangement to SDR 249.075 million (about US$343.7 million).

In completing the review, the Executive Board also granted a waiver for the nonobservance of the performance criterion regarding non-accumulation of external arrears, based on the corrective measures being taken by the authorities. The Executive Board also approved new program targets for 2016.

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.Min Zhu, Acting Chair and Deputy Managing Director, said:

"Implementation of the ECF-supported program by the Ghanaian authorities continues to be broadly satisfactory, but the economic outlook remains difficult with risks tilted to the downside. It is encouraging that the government's fiscal consolidation efforts are on track and that electricity production capacity is being gradually increased.

"The authorities should resolutely continue their fiscal consolidation efforts. With government debt continuing to increase and financing remaining a challenge, the 2016 budget rightly aims at a stronger consolidation than originally envisaged. In this regard, it is essential that the government sticks firmly to its policy of strict expenditure controls, by maintaining the wage bill within the budget limits, while controlling discretionary spending and protecting priority spending. It is also important to continue to adhere to the domestic arrears clearance plan and avoid incurring new domestic or external arrears. The authorities' commitment to

[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.

implement corrective measures if fiscal risks materialize is welcomed.

"To ensure that gains from fiscal consolidation will be sustained over the medium term, effective implementation of a wide range of ambitious reforms is needed. These include measures to broaden the tax base and enhance tax compliance, strengthen control of the wage bill, and enhance public financial management. The difficult financial situation of several state-owned enterprises in the utilities sector also calls for strong actions to avoid additional pressures on the budget.

"Against the backdrop of continued large financing needs and tight domestic and external financing conditions, the new medium-term debt management strategy is a welcome step to help reduce near-term financing risks, while balancing domestic and external financing in a way that will not jeopardize debt sustainability. The authorities should complement their strategy by stepping up work to deepen the domestic debt market.

"To help bring inflation down towards its medium-term target, Bank of Ghana (BoG) should stand ready to further tighten monetary policy if inflationary pressures do not recede as expected. The preparation of an amended Bank of Ghana Act and BoG's commitment to gradually deepen the foreign exchange market will help make the inflation targeting framework more effective.

"Financial sector stability will need to be monitored closely in a context of deteriorating asset quality. The BoG should take immediate steps to increase resilience and address weaknesses in asset classification. Prompt implementation of the new banking laws currently under review by Parliament is also essential to safeguard financial sector stability."

INTERNATIONAL MONETARY FUND

GHANA

December 23, 2015

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR WAIVER FOR NONOBSERVANCE OF PERFORMANCE CRITERION

KEY ISSUES

Program implementation has been broadly satisfactory to date, but the economic outlook remains difficult and risks are tilted to the downside. To address these risks and improve economic outcomes, discussions focused on the following areas:

- **Economic outlook.** In the near-term, economic growth will depend on how fast the electricity crisis is resolved and whether the cocoa harvest and gold production recover.
- **Stronger fiscal consolidation.** The ambitious fiscal consolidation target for 2015 is on track. But with government debt continuing to increase and financing remaining a challenge, the 2016 budget aims at a stronger consolidation than originally envisaged.
- **Containing financing risks**. While declining considerably from 2015, gross financing needs in 2016 will remain large. Tight domestic and external financing conditions put a premium on an effective debt management strategy, balancing domestic and external financing in a way that will not jeopardize debt sustainability.
- **Monetary policy remaining vigilant**. Even before the recent utility tariff increases, inflation was running higher than envisaged under the program. There was agreement on the need to ward against any second round effects from the recent utility tariffs increase to gradually bring inflation down, with the help of further reforms to improve monetary policy transmission.
- **Strengthening the structural reform effort**. The structural reform program is rightly ambitious to ensure that gains from fiscal consolidation will be sustained over the medium term, but some reforms are facing delays. The deteriorated financial situation of several state-owned enterprises needs to be addressed urgently to avoid additional pressures on the government budget.

Staff recommends completion of the second review. All performance criteria were met at end-August 2015, except for the continuous performance criterion on non-accumulation of external arrears, which was not observed due to some small payments delays. Staff supports the authorities' request for a waiver for this given the corrective actions that will be implemented to avoid new external arrears.

Approved By
Abebe Aemro Selassie and Luis Cubeddu

The second review under the ECF arrangement took place in Accra during October 21 to November 5, 2015. The IMF staff team included Joël Toujas-Bernaté (head), Wendell Daal, John Hooley (all AFR), Keiichi Nakatani (SPR), Salvatore Dell'Erba (FAD), Eriko Togo (MCM), and Natalia Koliadina (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, other senior officials, and representatives of the donor community.

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RECENT DEVELOPMENTS, PROGRAM PERFORMANCE, AND OUTLOOK

A. Recent Developments

1. **Economic activity remains subdued against the backdrop of still heightened macroeconomic imbalances**. Preliminary estimates for the first half of 2015 show a small increase in year-on-year growth of the non-oil economy to 4.2 percent (from 4.0 percent in 2014). Strength in the construction and service sectors offset a relatively poor agricultural harvest and continued weakness in the manufacturing sector due to the large depreciation of the Cedi earlier in the year and the ongoing electricity crisis. Oil and gas production is expected to increase by around 3 percent in 2015.

2. **Headline inflation remains elevated.** Despite a tightening of the monetary policy stance, headline inflation has remained persistently high over the second half of 2015 above 17 percent, pushed up by the exchange rate depreciation earlier in the year. Within the headline measure, core (excluding food and energy) inflation stood at 23 percent, and food inflation at 7 percent in October. Since August, the Monetary Policy Committee raised the Monetary Policy Rate (MPR) by 100 basis points in September and a further 100bp in November, to 26 percent, also translating into a 2 percent rise in the real rate. The increases in the policy rate in turn have led to a tightening in broader monetary conditions. The interbank rate, having converged in line with the policy rate in August, also increased to remain within the policy rate corridor of +/-1%. And growth in monetary aggregates has decelerated significantly since end-2014.

3. **The cedi has been relatively stable since August**. The cedi was extremely volatile for most of 2015, depreciating by 23 percent in nominal effective terms in the first half of the year and appreciating by 14 percent in July. Since August, however, the nominal exchange rate has been more stable, supported by inflows of foreign exchange from the October Eurobond issue and financing for the cocoa crop, as well as renewed investor confidence following signs of progress in the government's fiscal consolidation. The foreign exchange inflows also led the banking system to revert to a position of more abundant liquidity since October following a liquidity shortage during the first part of the year. As a result, the BoG reduced its injections of liquidity and moved from a negative to a positive net sterilization position.

4. **The current account is broadly in line with earlier projections.** A further decline in commodity prices, in particular gold, was only partly offset by better-than-expected exports of non-oil commodities. Despite a disappointing cocoa crop this year, Ghana was able to secure a cocoa campaign pre-financing of US$1.8 billion. Although Ghana needed to reduce the issuance of a eurobond by US$ 500 million from the initially-envisaged US$ 1.5 billion, other financial flows broadly remained as projected.

5. **Signs of deteriorating asset quality have emerged in the financial sector**. Although the banking system remains profitable and well capitalized, the non-performing loan ratio has picked up sharply, from 11 percent in June to 14 percent in October, while the provisioning ratio declined. Asset quality deteriorated most sharply in the manufacturing sector, which has been particularly affected by the volatility in the exchange rate and the problems in energy provision. Credit growth to the private sector also declined sharply, reflecting the weak economy and tight stance of monetary policy.

Ghana: Financial Soundness Indicators

	Dec-12	Dec-13	Dec-14	Mar-15	Jun-15	Sep-15	Oct-15
Capital Adequacy							
Regulatory capital to risk weighted assets	18.6	18.5	17.9	16.9	16.2	17.6	17.4
Regulatory Tier I capital to risk-weighted assets	16.4	14.7	15.3	14.6	13.3	14.4	14.3
Asset Quality							
Nonperforming loans net of loan-loss provision to capital	9.4	8.3	11.2	12.5	11.1	14.8	15.7
Nonperforming loans to total gross loans	13.2	12.0	11.3	11.4	11.2	13.5	14.1
Bank provisions to nonperforming loans	77.9	78.3	69.5	67.2	73.7	67.1	66.2
Profitability and Earnings							
Return on assets	3.6	4.5	4.7	4.4	3.9	3.9	3.8
Return on equity	34.6	42.5	44.0	41.8	41.6	37.2	36.8
Liquidity							
Liquid asset to total assets	24.1	21.7	26.8	25.9	26.3	26.5	26.3
Liquid asset to short-term liabilities	30.7	28.2	34.8	34.5	34.2	35.3	34.6
Liquid assets/total deposits	33.6	33.7	42.5	42.1	41.5	42.9	42.1

Source: Ghanaian authorities

6. **Fiscal performance over January–August, 2015 was better than expected**. The overall cash deficit (4.7 percent of GDP) was lower than budgeted, corresponding to a primary surplus (0.2 percent of GDP) against a programmed primary deficit. Tax revenues continue to overperform, benefitting from tax policy and administration measures that are contributing to better-than-expected VAT, petroleum taxes, and corporate income taxes. While the government has remained within the budget envelope for the wage bill, higher-than-budget payments of deferred wages and other arrears, as well as larger capital expenditure led to a slight overspending.

Ghana: Summary of Central Government Budgetary Operations, 2015 (percent of annual GDP)

	2015	
	Jan-Aug (Cummulative)	
	Prog.	Act.
Total revenue and grants	12.1	12.7
Revenue	11.0	11.7
Oil revenue	0.6	0.9
Nonoil revenue	10.4	10.8
Grants	1.1	1.0
Total expenditure	17.1	17.5
Recurrent non-interest expenditure	9.7	9.9
Wages and salaries	5.1	5.1
Other recurrent non-interest expenditure	4.6	4.8
Interest costs	4.7	4.4
Net acquisition of nonfinancial assets	2.7	3.2
Overall balance	-5.0	-4.7
Total financing	5.0	4.2
Foreign (net)	0.5	1.7
Domestic (net)	4.5	2.5
Banking system	1.5	0.9
Non-bank	2.5	1.4
Memorandum items:		
Primary balance	-0.3	0.2

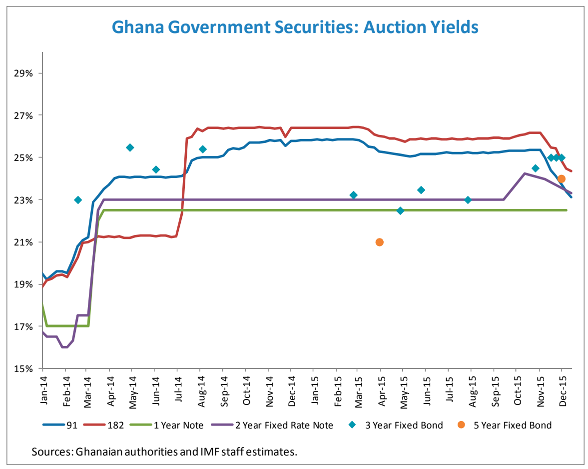
Sources: Ghanaian authorities; and IMF staff estimates and projections.

7. **While no new domestic arrears were accumulated so far, domestic arrears clearance was higher-than-programmed**. In addition to larger deferred wages, the government has repaid GH¢ 600 million of additional arrears to oil Bulk Distribution Companies (BDCs) that were identified by independent auditors, including by using part of proceeds from the BoG dividend. To avoid

incurring new arrears to BDCs related to foreign exchange losses and underpricing, the government liberalized the pricing of petroleum products in July. On the other hand, the authorities accumulated new small arrears on external debt due to discrepancies in the external debt database and uncertainties regarding some external debt liabilities.

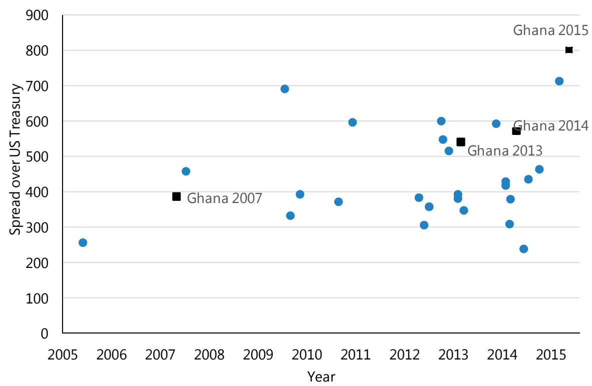
8. **Financing conditions have proved very difficult, but are expected to ease as the gross financing need declines in the coming months:**

- **Both domestic T-bill and -bond yields have remained elevated.** Net issuance of domestic marketable debt totaled GH¢3.5 billion through November, while net credit from BoG through October was negative (GH¢ -1.3 billion) following the Eurobond receipts. Domestic market financing conditions remained tighter than envisaged under the program, as T-bill yields remained elevated while most of medium-term debt issuances were undersubscribed and bids were rejected on cost grounds. This has resulted in a continuation of large reliance on T-bills to finance the fiscal deficit and diverted from the authorities' intended strategy to lengthen the maturities of domestic debt. The trend continued into October, when one of the largest outstanding medium-term bonds came due, and only two-thirds of the security was rolled over. The issuance of the Eurobond has significantly reduced pressures on the domestic debt market, and T-bill rates have declined over eight consecutive weeks since then. In November, the authorities further raised GH¢0.5 billion in a new five-year note with 85 percent non-resident participation. The issue was oversubscribed, and the authorities met the announced target for medium-term securities for the first time since February 2014.



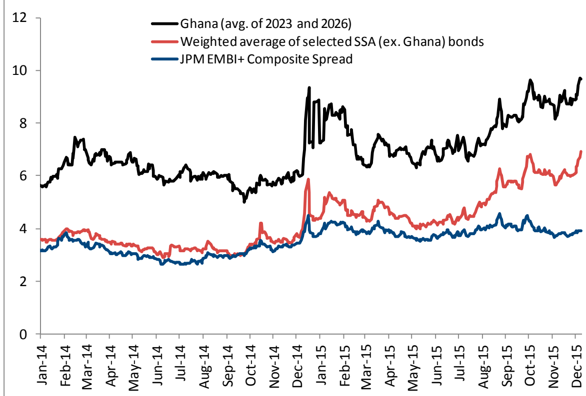
- **A new Eurobond was issued under particularly challenging conditions.** In October, the government issued a 15-year US$1 billion Eurobond at 10.75 percent, a much higher coupon than peer issuers despite a World Bank partial guarantee (covering up to US$400 million of the debt service falling due on the bond). The terms were worse than expected under the program. This seems to have been partly due to the increase in frontier LIC spreads following the global capital markets turmoil over the summer. The benefits of the World Bank's guarantee also seemed limited, with market participants reportedly finding it difficult to price. However, despite these difficult conditions, the authorities proceeded with the issuance, considering it better to the alternative, a domestic bond issuance, for public debt dynamics under most plausible exchange rate assumptions. Program financing otherwise has been broadly as expected.

Eurobond spreads against the US Benchmark 10 year index
(percent)



Sources: Bloomberg and IMF staff estimates.

Eurobond spreads against the US Benchmark 10 year index
(percent)



Sources: Datastream and IMF staff estimates.

B. Program Performance

9. **Program implementation has been broadly satisfactory so far** (MEFP ¶¶14–19, Tables 1 and 3). All performance criteria (PC) at end-August 2015, except the continuous PC on non-accumulation of external arrears, were met, while the indicative target on inflation was missed by more than 2 percentage points mainly due to the pass-through effects of the exchange rate depreciation that occurred during the period. Social protection spending picked up and exceeded the end-August indicative target. Contracting of non-concessional loans was within the debt limits, while contracted concessional loans of US$ 430 million so far have exceeded the indicative target. However, new incidents of delayed payments on external debt service occurred since September due to discrepancies in the debt database projections and uncertainties about some debt obligations. On the other hand, implementation of the structural reform agenda is progressing more slowly than envisaged, with one out of the four structural benchmarks completed so far (see Box below).

Structural Benchmarks for the Second Review

- The structural benchmark on financial stability on completing the diagnostic asset quality review of banks was met. The BOG has reviewed the report and is developing a plan to strengthen the provisioning of loans to SOEs.
- The structural benchmark in PFM was met with delay. The cabinet has approved the PFM reform strategy in June and the authorities have developed an action plan for its implementation in August. The strategy for the completion of the TSA was approved by Cabinet in October.
- The structural benchmark in revenue administration was partially implemented. The authorities have adopted the presumptive income tax as part of the new Income Tax Act, 2015 (Act 896) in September. The 2016 Budget, presented in November, has proposed to revise the threshold for VAT registration to 200,000 GhC although this will require an amendment to the VAT act before end-year. The authorities will subsequently increase the threshold to classify large taxpayers to GhC 10 mil.
- The structural benchmark on tax policy was partially implemented. The authorities have partially reduced the income tax exemptions for free zone companies after tax holiday. The new tax rate is set at 25% for free zones companies operating in the domestic market and 15% for those exporting outside the domestic market. The 2016 Budget has proposed to review the GIPC Act to make mandatory the approval of the MoF before exemptions are submitted to parliament; the Budget also proposes administrative measures to limit exemptions abuses.

C. Outlook

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

- The projection for non-oil real GDP growth in 2015 was revised up, reflecting stronger than expected growth in the first half of the year. However, total GDP growth was marked down due to lower oil and gas production. Growth in 2016-17 is expected to rebound as previously programmed, supported by a projected normalization in electricity provision and increased hydrocarbon production. While the further fiscal consolidation would weigh on aggregate demand, it is expected to support restoring investors' confidence and reducing borrowing cost.
- Average inflation in 2015 was revised upward in view of recent high outturns and the large increase in utility tariffs implemented in December. In view of the higher inflation projection for 2015, inflation will remain above the upper band of the target until the end of 2016, compared to mid-2016 previously.

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 the cocoa harvest and gold production recover. A further decline in gold prices could lead to cuts in production. Inflation risks are to the upside given the possibility of second round effects from the utility tariffs increase.

12. **While the improvement in the current account in 2015 is expected to be smaller than initially envisaged under the program, it is projected to further improve in 2016 onwards** mainly due to a rebound in non-oil commodity exports and an increase in hydrocarbon production. Though the Eurobond issuance was smaller than originally envisaged, the overall balance is set to record a small surplus (when taking into account program financing). While gross reserves are expected to stay above 3-month imports levels from 2016 onwards, the speed of reserves accumulation next year will partly depend on the global financial conditions and consequent capital inflows associated with Eurobond and domestic debt issuances.

POLICY DISCUSSIONS

A. Fiscal Policies

Achieving the ambitious consolidation target for 2015 is on track. Yet, government debt continues to increase. For 2016, in order to reduce the debt ratio and contain financing needs against still tight financing conditions, a stronger consolidation than originally envisaged will be needed. Accordingly, the 2016 budget presented to Parliament aims at reducing the overall cash deficit by 2 percent of GDP.

13. **The government is on course to meet its fiscal consolidation objective for 2015**. To ensure that the 2015 overall fiscal deficit of 7.3 percent of GDP will be achieved, the government

intends to continue with its policy of strict expenditure controls, by maintaining the net hiring freeze to keep the wage bill within the budget limits, while controlling discretionary spending and protecting priority spending. At the same time, the government is committed to continue implementing the net arrears clearance strategy including staying current on this year's spending. Also, revenue collection is expected to remain in line with the performance over the first three quarters of the year. As a result, the primary balance on a commitment basis is projected to improve substantially by 7.3 percentage points of GDP from 2014.

14. **For 2016, in view of tight financing conditions, staff advised to strengthen the fiscal consolidation effort.** In order to strengthen debt dynamics and contain financing needs to a level that can be covered by a realistic financing package, staff argued that an additional adjustment of ½ percentage point of GDP would be needed next year beyond the 1½ percentage points of GDP adjustment that was originally envisaged under the program.

15. **The 2016 budget submitted to Parliament includes a package of measures to support a further fiscal adjustment of 2 percentage points of GDP, while covering election costs.** The authorities recognized the need to further deepen fiscal consolidation under current circumstances. At the same time, the 2016 budget needs to accommodate one-off election costs, estimated at GH¢. 825 million (about ½ percent of GDP), and a slightly higher increase in the nominal wage bill than envisaged under the program (14 versus 10 percent). The authorities introduced a series of largely one-off measures, including sale of new telecommunication licenses, cuts in goods and services, and temporary partial withholding of transfers to statutory funds (MEFP ¶ 22). The new income tax law adopted by Parliament and ECOWAS external tariffs, as well as administrative measures (MEFP ¶¶ 22, 37–40, 47), will also contribute to enhance the revenue performance. Foreign-financed capital spending is lower than projected at the time of the first review, mainly as a result of lower project grants and prioritization of foreign borrowing. While welcoming the overall fiscal target set in the 2016 budget, staff would have preferred a set of measures with a more durable fiscal impact, including through reducing tax exemptions, streamlining civil service allowances and more permanently reforming transfers to statutory funds.

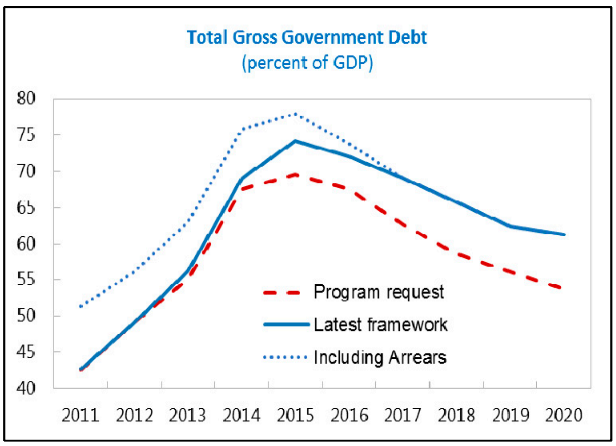
Ghana - Fiscal Measures for 2016
(in percent of GDP)

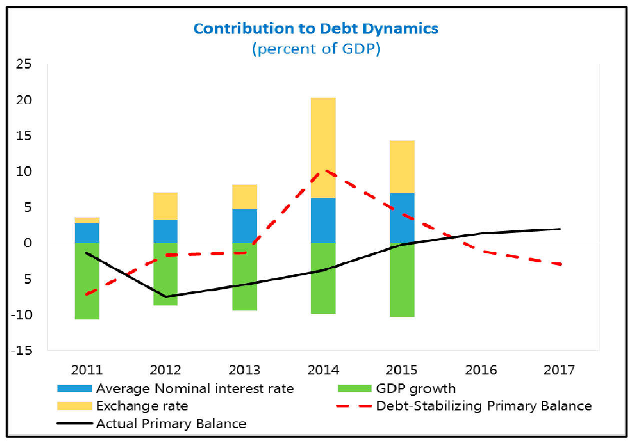
- Sale of communication spectrum	0.4
- Introduction of New Income tax Act, including increasing withholding tax rates	0.3
- Implementation of the ECOWAS Common External Tariff (CET)	0.2
- Administrative measures to enhancing tax compliance.	0.2
- Realignment of mandatory transfers to statutory funds	0.7
- Rationalization of Internally Generated Funds (IGFs).	0.1
Total	1.9

16. **The planned arrears repayment in the 2016 budget is in line with the arrears clearance plan established under the program**. The government plans to clear about GH¢ 2.3 billion (1½ percent of GDP) of outstanding arrears, including a provision of GH¢ 800 million for the ongoing audit of additional claims by oil importers (BDCs) related to losses due to underpicing and foreign exchange losses in 2014 and early 2015. Other arrears repayments would be made to utility companies, other SOEs, statutory funds and the pension fund.

17. **The authorities reiterated their commitment to implement corrective measures if fiscal risks materialize.** Risks to the 2016 budget stem from lower-than-expected revenue from the sale of communication spectrum and/or higher-than-budget spending due higher election cost, shortfall in the realignment of mandatory transfers, as well as potential additional spending related to the financial distress at some of the SOEs. The government intends to address any deviation from the fiscal targets, possibly through reducing discretionary non-priority spending in a similar way as they compensated for the shortfall in oil revenue early in 2015. In such circumstances, staff would suggest to implement more durable measures, including reduction in tax exemptions and streamlining of civil service allowances.

18. **The government reiterated its commitment to reduce the fiscal deficit to 3.7 percent of GDP by 2017**. This reduction in the fiscal deficit will be driven mainly by continuing expenditure restraint, including by containing the wage bill, continuing with the policy of realigning the mandatory transfers and reducing other earmarking, while using the available fiscal space to protect priority spending. On the revenue side, the government intends to intensify its efforts to mobilize additional revenues through ongoing revenue administration reforms and tax policy measures, mainly aiming at increasing tax compliance and broadening the tax base.





B. Program Financing and Debt Management Strategy

While declining considerably from 2015, gross financing needs in 2016 will remain large. Against tight domestic and external financing conditions, financing of the budget deficit will require an effective debt management strategy, balancing domestic and external financing in a way that will not jeopardize debt sustainability, while aiming at reducing roll-over risks.

19. **Gross financing requirements will be considerably less in 2016, compared with 2015 (7.7 against 12.6 percent of GDP).** Still, gross financing needs remain large, putting a premium on containing financing needs and an effective debt management strategy. In this context, the authorities aim at containing the pressure on the domestic debt market while not relying on new BoG gross financing to elimiate fiscal dominance of monetary policy. Accordingly, MoF plans to reduce the supply of securities, particularly T-bills, thereby reducing the refinancing risk. To this end, the financing mix will include the issuance of a new Eurobond in 2016 of up to US$1 billion (US$750 million assumed in the program framework), which together with program and project loans will result in net external financing of 2.6 percent of GDP. Net domestic financing will comprise 2.2 percent of GDP in marketable securities (largely medium-term ones) and 0.5 percent in non-marketable securities (including to the pension fund). The authorities intend to finalize and publish their medium-term debt management strategy covering the period 2016-2018 soon.

Ghana: Budget Financing Needs [1]

(Percent of GDP)

	2015	2016	2017
Gross financing needs	**12.6**	**7.8**	**8.4**
Domestic primary balance	-1.8	-3.4	-4.0
Interest payment	7.1	6.6	5.6
External	1.2	1.4	1.2
Domestic	5.9	5.2	4.4
Amortization	7.3	4.5	6.8
External	2.3	2.0	3.1
Domestic (1-year and over)	5.0	2.5	3.7
Financing	**12.6**	**7.8**	**8.4**
Program	1.4	0.5	0.3
Eurobond	2.8	1.9	1.2
Domestic Debt	7.7	5.4	6.9
Net Issuance of short-term deb	2.7	0.6	0.9
1-year and over	4.6	3.6	5.0
Non-Marketable	0.4	1.1	1.0
BOG	0.6	0.0	0.0
Net transfers from Oil Fund	0.1	0.0	0.0
Financing gap (-=shortfall)	**0.0**	**0.0**	**0.0**

1/ Excludes project external financing. The domestic primary balance also excludes foreign-financed capital spending and grants.

20. **The authorities are stepping up their work to deepen the domestic debt market.** Following the opening of the 2-year bonds to non-residents, the authorities aim at encouraging increased participation of resident investors in the medium-term segment of the domestic securities market. To support this, a follow-up IMF TA is assisting the authorities to strengthen the primary dealers' framework and agreement, review and develop a concrete action plan to strengthen the auction microstructure, introduce benchmark securities and reduce the number of non-fungible securities. Introduction of a classic repo market will enhance the efficient operation of money market and facilitate dealers to take positions and provide liquidity to the market.

C. Monetary Policy and Exchange Rate Issues

21. **The BoG further increased the monetary policy rate to help bring inflation down to program targets**. CPI inflation in the second half of the year remained persistently high, indicating continued pass-through from the sharp exchange rate depreciation earlier in the year. The increase in the policy rate since August was consistent with the inflation forecast which suggested further tightening was necessary to bring inflation gradually down to target, although the increase would ideally have been implemented earlier. Fund staff's inflation forecast now suggests that inflation will decline to the upper end of the BoG's inflation target band by end-2016, driven by the tight stance of monetary policy, ongoing fiscal consolidation, elimination of power shortages which will reduce production costs, and benign foreign inflationary factors. But if inflationary pressures do not recede as expected, the BoG indicated that it will continue to stand ready to tighten monetary policy further.

22. **Reforms to strengthen and deepen the foreign exchange market are underway**. The BoG has developed, with IMF technical assistance, a set of measures to eliminate the compulsory surrender requirements of foreign exchange by end September 2016 (MEFP ¶32). This should help to deepen the foreign exchange market and reduce the volatility of the exchange rate, leading to a more effective inflation targeting framework.

23. **An amended Bank of Ghana Act will strengthen supervisory powers and the autonomy of the BoG**. Amendments to the BoG Act (a structural benchmark for end-2015) have been drafted by an internal committee, incorporating recommendations from IMF staff (MEFP ¶33). Key provisions include a zero-limit on gross credit to government and enhanced transparency in the appointment of Monetary Policy Committee members. The amended Act is expected to be submitted to parliament in early 2016.

24. **The BoG has made progress on safeguards but more work is needed.** Reforms have been implemented in some important areas, including ensuring that a high-quality external audit in accordance with international standards is performed. In addition, the BoG is in the process of reviewing the central bank law with a view to strengthening the autonomy of the BoG. However, more work is needed in key areas including assurances on the quality of IMF program data, oversight on BoG credit to government, and implementing a process for systematically recording guarantees.

D. Financial Sector Stability

25. **The BoG will urgently address weaknesses in provisioning and asset classification in the context of a deteriorating outlook for financial stability.** Although banks appear to remain well capitalized, non-performing loans have picked up sharply since July, particularly in the manufacturing sector. A special diagnostic external audit of commercial banks to review asset classification and valuation, provisioning and loan restructuring practices (a structural benchmark) indicated some differences in the interpretation of the guidelines relating to impairments, particularly regarding loans to state-owened enterprises. The BoG will take immediate action to remedy under-provisioning and require banks to increase capital, if necessary. Drafts of the Banks and Specialized Deposit-Taking Institutions Bill and the Deposit Insurance Bills have been submitted to parliament (MEFP ¶35) and are expected to be adopted by June 2016 at the latest. Following their approval, the BoG will monitor and take measures to ensure full compliance of the new laws and regulations by the banks.

E. Structural Reform Agenda

The structural reform program is rightly ambitious to ensure that gains from fiscal consolidation will be sustained over the medium term. Renewed efforts are planned to effectively implement a wide range of reforms, some of which had been planned for several years and are facing delays. These include measures to broaden the tax base and enhance tax compliance, strengthen control of the wage bill, and enhance public financial management. The deteriorating financial situation of several state-

owned enterprises in the utilities sector calls for strong actions to avoid additional pressures on the government budget.

26. **Tax Policy.** The Tax Expenditures Committee (TEC) has produced a preliminary tax expenditures (TE) report, which evaluated corporate income and customs tax exemptions to be close to 1 percent of GDP. The World Bank conducted in parallel an independent evaluation, which additionally quantified VAT exemptions to be close to 4 percent of GDP. However, the TEC report was not finalized in time to be annexed to this year's budget, but the authorities intend to make it publicly available in 2016. The TEC will seek further technical assistance to evaluate existing incentives, develop a plan to streamline the most regressive incentives and improve their governance framework. In this regard, the 2016 Budget has already introduced administrative measures to reduce abuses.

27. **Tax Administration.** The Ghana Revenue Authority (GRA) is continuing the implementation of TRIPS and is expected to request AFRW2 to conduct an evaluation of its functionalities at pilot offices by end June 2016. The 2016 Budget has increased the resources for the VAT refund account to 6 percent of total revenues, and GRA will implement further measures to avoid accumulation of VAT arrears. GRA plans to establish a Compliance Risk Committee (CRC) to better tackle compliance risks and widen the tax net through improved targeting of audits.

28. **Public Financial Management.** The work on the Public Financial Management law (structural benchmark for end-2015) is ongoing but with delays, and the authorities now aim at presenting the new bill to Cabinet by March 2016. The stakeholders' consultations on the new law, which started late, have resulted in a preliminary draft bill based on the suggestions of IMF technical assistance. However, the authorities will seek further technical assistance to improve the drafting on the provisions with respect to the macro-fiscal planning principles and the treatment of statutory funds. At this time, staff expects that it will be necessary to adopt the new bill by Cabinet in advance of completion of the third review.

29. **Payroll Management.** An independent audit has found adequate improvement in the security of the current payroll systems. While the process of data clean-up and biometric registration is ongoing, the payroll plan is now entering a second phase which involves the deployment of several electronic systems to improve service delivery. The public service commission has finalized a human resources audit in November. The results of this audit will allow the integration of the mechanized payroll with the human resource management system by next year (as per structural benchmarks). The migration of subvented agencies on the mechanized payroll, which has been planned for several years, will not be completed by end-2015, as the authorities will need more time to migrate universities, the GRA and the Police. At this time, staff expects that it will be necessary to complete this migration in advance of completion of the third review.

30. **Treasury and Cash Management.** The authorities have drafted a strategy for the completion of the TSA, approved by Cabinet in October. They are currently preparing an action plan for its implementation. As a first step, the authorities will complete by March 2016 an inventory of all government accounts at the commercial banks. Subsequently, they will perform with BoG an

assessment of the liquidity impact on commercial banks of transferring the government banks' accounts on the TSA. The authorities will also seek technical assistance to strengthen cash management, including the adoption of a cash forecasting model at the ministry of finance.

31. **The poor performance of the main SOEs in Ghana poses substantial risks to the economy**. In particular, the electricity generation and distribution companies (VRA and ECG) are facing large debt accumulation (above 50 percent of total assets) vis-à-vis the banking sector and accumulated sizeable payment arrears as a result of low collection rates and below cost-recovery pricing. Failure to strengthen their cash-flow situation and improve their operating performance exposes Ghana to significant financial and fiscal risks.

32. **The government aims to strengthen monitoring, evaluation, and governance and accountability frameworks of the SOEs** (MEFP ¶¶ 70-72). To achieve this the government intends, with World Bank support, to i) introduce performance management contracts, rigorous training of senior managers, and a monitoring platform of the SOEs; ii) improve the financial viability of utility companies and avoid risks of fiscal contingent liabilities, iii) assess the SOEs' governance and prepare an action plan for its improvement by end-May 2016; and iv) establish a single entity to improve the oversight of SOEs by end-September 2016. The government has conducted an assessment of arrears between the government and SOEs and cross-SOEs' arrears and prepared an action plan and a timeline for their elimination, including no accumulation of new arrears to SOEs. At the same time, strengthening of the SOEs' revenue and cost performance as well as financial position can be used to continue servicing and/or paying off loans at banks, reducing bank vulnerability.

F. Policies to support growth and poverty reduction

33. **The government reiterated its commitment to implement measures to improve power, industry and agriculture sectors and to reduce poverty levels.** 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. Poverty levels remain relatively high, especially in the three northern regions and among some socio-economic groups.

- In the energy sector, the government is concentrating its efforts (i) to develop gas production and infrastructure for its distribution, with the support of developing partners; and (ii) to reform the energy companies ECG and VRA. In the short term, the government is implementing fast-track private financed power projects which should address the ongoing electricity shortages by end-2015/early 2016.

- In Agriculture, policies will be focused on modernization, including improving irrigation infrastructure, continuing the fertilizer and seed subsidy program and expanding agriculture mechanization.

- To promote structural transformation and economic diversification, the government will provide improved access to export finance and export insurance through the establishment of an Export and Import (EXIM) bank.

- Pro-poor spending initiatives include provision of free school materials, expanded medical treatment and immunization programs and continuation of the rural electrification program.

34. **Ghana Shared Growth and Development Agenda (GSGDA) II, 2014-2017 has been guiding the formulation of development plans and budgets.** The strategy aims at restoring sustainable and job-rich economic growth, supported by good governance; skilled and productive labor force; and modern infrastructure. The priorities of the GSGDA II, which are consistent with the IMF-supported ECF arrangement, include (a) macroeconomic stability, with monetary policy ensuring price and exchange rate stability and disciplined fiscal policy aiming at restoring debt sustainability, and (b) structural reforms focusing on strengthening public financial management; enhancing human capital and developing infrastructure. While staff is of the view that the GSGDA II meets the minimum requirements of an Economic Development Document (EDD) and covers most of good practices too, it has not established quantitative targets for most of the objectives. Staff will continue its dialogue with the authorities on the best way to achieve these objectives, including through consultations with the World Bank, development partners, and CSOs.

PROGRAM MODALITIES AND FINANCING ASSURANCES

35. **Program modalities**. Starting in 2016, program monitoring will be based on semi-annual reviews, including indicative targets for end of the first and third quarters. The quantitative performance criteria (PC) and structural benchmarks (SBs) for the remainder of 2015 will remain unchanged under the program (MEFP Tables 1 and 3). For 2016, the proposed conditionality includes (i) quantitative PCs on the primary fiscal balance, the wage bill, net international reserves, and the net change in the stock of arrears; (ii) continuous PCs on gross financing of BoG to the government and SOEs, non-accumulation of domestic and external arrears, and contracting or guaranteeing of new external non-concessional debt; and (iii) monetary policy consultation clause for inflation (MEFP Table 2). The program also includes a set of proposed structural benchmarks for 2016 (MEFP Table 4).

36. **Monetary Policy Consultation Clause (MPCC).** In view of the ongoing reforms to improve the inflation targeting framework, it is proposed that program conditionality on monetary policy moves to a MPCC for 2016. It is also proposed that net domestic assets still be monitored as an indicative target. The MPCC would consist of a performance criterion on 12 month headline CPI inflation projection with an inner band set at +/- 2pp and an outer band set at +/- 3pp. A deviation from the inner target band would lead to a consultation with Fund staff, a deviation from the outer target band would trigger a formal consultation with the Executive Board.

37. **Non-concessional external debt limits for 2016 will be set separately for debt management purpose and for projects integral to national development (MEFP ¶83).** The former would be used to improve the overall public debt profile and set at US$1,150 million**.** This includes up to US$1,000 million for a Eurobond issuance and other form of non-concessional borrowing and up to US$ 150 million for a World Bank loan. The latter would be set at US$1,000 million on a cumulative basis from the beginning of 2015 to accommodate a possible carry-over of some priority loans, which were envisaged in 2015 but are yet to be contracted due to technical delays. Given that Ghana's risk of debt distress remains high, the non-concessional loans should be contracted on an exceptional basis. In total, the authorities have identified 15 key projects critical for national development, where concessional loans are not available, including through consultation with the Fund and the World Bank. The authorities are committed to contract no loans other than those included in the key projects list (this list may be revised at the time of the third review taking account of the progress in project implementation or loan negotiations). Furthermore, an indicative target of US$ 400 million is established based on the list of prospective concessional loans to be contracted in 2016.

38. **The forthcoming external non-concessional borrowing for improving the public debt profile, including a Eurobond, needs to be carefully designed to avoid jeopardizing debt sustainability.** Given the unavailability of concessional financing (due to Ghana's lower middle income status), external non-concessional foreign currency borrowing is expected to continue to play a role in reducing pressures in the domestic debt market and stabilize exchange rates. However, to ensure that such borrowing strengthens confidence in the program, and does not worsen debt sustainability, it should be anchored in a comprehensive analysis of cost-risk tradeoffs of alternative debt management strategies, especially of risks to debt dynamics associated with exchange rate fluctuations; be aligned with well-established principles of debt management, such as the need to avoid locking into high interest rates for very long maturities when a reduction of risk premia is expected over the medium-term; and is not undertaken at a cost that is unduly high relative to that of similar debt issued by other peer frontier issuers. The authorities are updating the MTDS for 2016-2018 to take account of these considerations, as well as current market conditions.

Ghana: Summary Table of Actual External Borrowing Monitor
January 1, 2015 to August 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
Sources of debt financing	**409.5**	**100**	**232.5**	**100**
Concessional debt, of which	**259.5**	**63**	**128.1**	**55**
Multilateral debt	192.3	47	100.2	43
Bilateral debt	67.2	16	27.9	12
Other	0.0	0	0.0	0
Non-concessional debt, of which	**150.0**	**37**	**104.3**	**45**
Semi-concessional	150.0	37	104.3	45
Commercial terms	0.0	0	0.0	0
Uses of debt financing	**409.5**	**100**	**232.5**	**100**
Infrastructure	147.8	36	58.9	25
Social Spending	91.8	22	56.9	24
Budget Financing	150.0	37	104.3	45
Other	19.9	4.9	12.3	5.3

Ghana: Summary Table of Projected External Borrowing Program
January 1, 2016 to December 31, 2016

PPG external debt	Volume of new debt in 2016		PV of new debt in 2016 (program purposes)	
	USD million	Percent	USD million	Percent
By sources of debt financing	**1937.5**	**100**	**1592.2**	**100**
Concessional debt, of which	**393.0**	**20**	**191.9**	**12**
Multilateral debt	50.0	3	26.5	2
Bilateral debt	343.0	18	165.4	10
Other	0.0	0	0.0	0
Non-concessional debt, of which	**1544.6**	**80**	**1400.3**	**88**
Semi-concessional	779.6	40	635.3	40
Commercial terms	765.0	39	765.0	48
Uses of debt financing	**1937.5**	**100**	**1592.2**	**100**
Infrastructure	624.0	32	474.0	30
Social Spending	305.1	16	205.2	13
Budget Financing	961.2	50	885.6	56
Other	47.2	2.4	27.5	1.7

(Note) Some nonconcessional loans included in the 2015 priority list will be contracted in 2016. These loans will be counted against cummulative limits since the beginning of 2015.

39. **The authorities have agreed to closer and more timely consultation with staff on the modalities of external non-concessional borrowing in the context of the overall financing strategy.** This will help to ensure that external non-concessional borrowing, including a Eurobond, is consistent with the considerations set out above (paragraph 38). Accordingly, the authorities will engage with staff in advance of the contracting of any non-concessional borrowing to identify the most appropriate modalities of issuance, in the context of market conditions prevailing at that time.

40. **The authorities will implement additional measures to avoid new external arrears.** They will aim at eliminating risks of payments delays based on an in-depth review of the debt management system, its organization and procedures, with technical assistance from the Commonwealth Secretariat and the IMF.

41. **Financing needs for the remainder of the year and for next year are expected to be fully covered.** Donors remain committed to support Ghana given its firm commitments to the Fund-supported program. However, risks are tilted to the downside, as global trends in capital outflows from emerging and developing countries could continue, resulting in possible withdrawals of non-resident investors and failure to issue a new Eurobond in 2016 if the cost is too high. In this case, financing would likely be partly covered by increasing T-bill issuances, but the authorities would also have to review the fiscal objectives at the time of the mid-year budget review. Staff considers there are good prospects for financing needs to be also covered beyond 2016 for the remainder of the program period. Ghana's capacity to meet its financial obligation to the Fund remains adequate (Table 6).

STAFF APPRAISAL

42. **Staff welcomes the broadly satisfactory program implementation to date**. The fiscal over-performance, in particular, has been encouraging and staff welcomes BoG's commitment to bring inflation in line with the program target.

43. **The economic outlook remains challenging.** The expected near-term rebound in economic growth will depend critically on a successful resolution of the energy crisis. In light of the ongoing fiscal consolidation, boosting private sector domestic demand through steadfast implementation of structural reforms will be crucial.

44. **Staff welcomes the authorities' commitment to stronger fiscal adjustment next year, but would have preferred more durable measures.** The further fiscal adjustment planned in the 2016 budget will help contain budget financing needs against tight financing conditions. While the measures implemented by the authorities will enable achieving this objective, staff would have preferred more durable measures, including reducing tax exemptions, streamlining public service allowances, and more permanent reform to reduce revenues earmarking and budget rigidities. Staff also urges the government to maintain a strict expenditure control, including containing elections cost within the budgeted limits, to avoid budget overruns in an election year. Maintaining a strict net hiring freeze for the civil service (excluding education and health) will be of utmost importance to ensure that the wage bill remains in line with the program targets. At the same time, the deteriorating financial situation of several state-owned enterprises in the energy sector will require strong actions to avoid additional fiscal pressures, including maintaining electricity tariffs at cost recovery, enhancing enterprises operations and improving collection of bills. Staff also urges the government to finalize as soon as possible the audit of the outstanding oil importers claims and to incorporate the audited claims in the arrears clearance strategy.

45. **Implementation of structural reforms needs to be strengthened and accelerated to ensure that gains from fiscal consolidation are sustained over the medium term.** Staff welcomes progress in the payroll clean-up plan which is starting to improve the effectiveness of payroll controls. It is important that the authorities continue its implementation without further delays and setbacks, including the migration of payrolls of all subvented agencies (excluding the army). Enhancing administrative oversight on tax incentives is a first step to minimize revenue leakages, but completing the planned review of the tax incentives will be critical to allow the authorities to eliminate regressive elements of the current system. The modernization of GRA will need to be accelerated to sustain the revenue mobilization effort more effectively. On the PFM front, staff supports the authorities' commitment to implement the new PFM action plan and urges the government to address weaknesses in macro-fiscal policy planning and thereby significantly enhancing budget credibility. These, along with best practices to reduce budget rigidities, will be critical areas to include in the new law and make the current consolidation effort more sustainable in the medium-term. Urgent reform of the electricity sector is also crucial to support the recovery in economic growth.

46. **Staff supports the authorities' debt management strategy to reduce reliance on expensive short-term domestic debt while carefully considering other risks related to external borrowing.** In this regard, efforts to deepen the domestic debt market will be critical to support budget financing while lengthening the maturity profile of the debt portfolio. Policy actions to strengthen the primary, secondary, and money markets will help to improve secondary market liquidity and thereby facilitating investors to participate in the longer maturity spectrum and trade between securities and cash when needed. A deeper domestic debt market will also facilitate the transition towards zero government financing by the BoG. At the same time, external non-concessional borrowing will need to be considered very carefully to avoid jeopardizing debt sustainability.

47. **A continued tight monetary policy stance will be needed to gradually bring inflation down towards the BoG's medium-term target**. The BoG should stand ready to tighten policy more aggressively if inflationary pressures do not recede as expected. Continued commitment to the program will also be critical to maintaining investor confidence and reducing the risk of extreme exchange rate volatility.

48. **Implementation of outstanding reforms to improve the inflation targeting framework should proceed rapidly in view of persistently high inflation**. The BoG has already implemented some important reforms to its liquidity operations to improve the transmission mechanism between policy and market rates but other important reforms are still to be fully implemented. The ongoing reforms include elimination of FX surrender requirements to deepen the FX market, improvement of liquidity forecasting, refinements to the framework for repo transactions and improvements to the inflation forecasting framework. The adoption by Parliament of an amended BoG Act will be important to strengthen the BoG's autonomy and credibility,

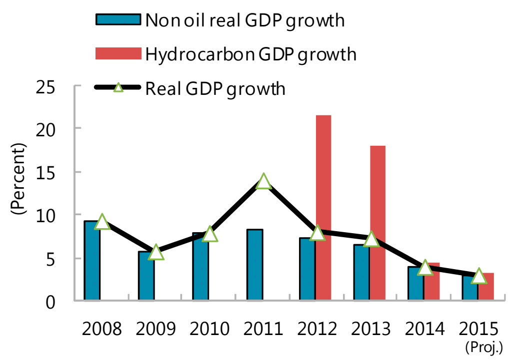
49. **Asset quality in the financial sector should be monitored closely and resilience should be strengthened as a matter of urgency.** The recent increase in non-performing loans (NPLs)

indicates the importance of adequate provisioning practices and the need to hold sufficient capital buffers to absorb further increases in NPLs. The BoG should immediately increase provision levels and address the weaknesses in asset classification and that were uncovered in the recent audits. The authorities should also insist on the urgent adoption by Parliament of the banking laws (in any case no later than June 2016). These bills are essential to ensure that the authorities have adequate bank resolution and crisis management powers.

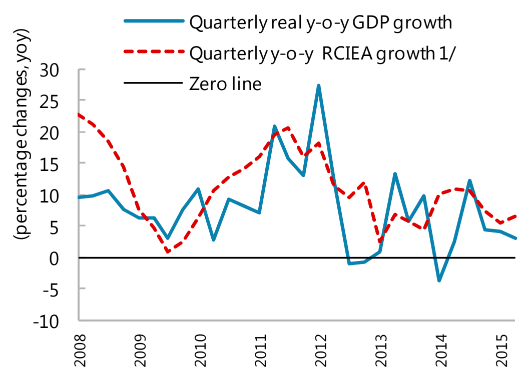
50. **In view of the broadly satisfactory program implementation so far and renewed commitments going forward, staff recommends the completion of the second review under the ECF arrangement**. Staff also recommends a waiver for the non-observance of the continuous PC on external arrears based on the corrective actions committed by the authorities. Staff recommends approval of the authorities' request for setting the PCs, including the Monetary Policy Consultation Clause, and structural benchmarks for 2016.

Figure 1. Ghana: Real Sector Indicators

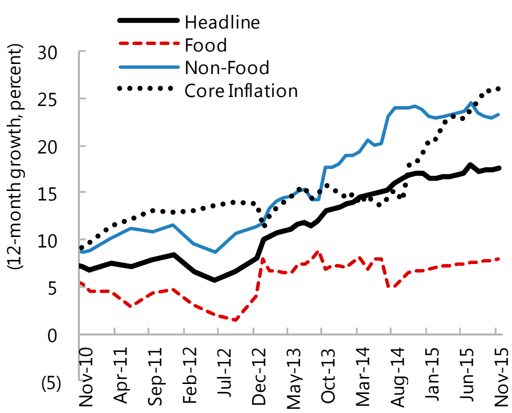
Real GDP growth continues to be weak...



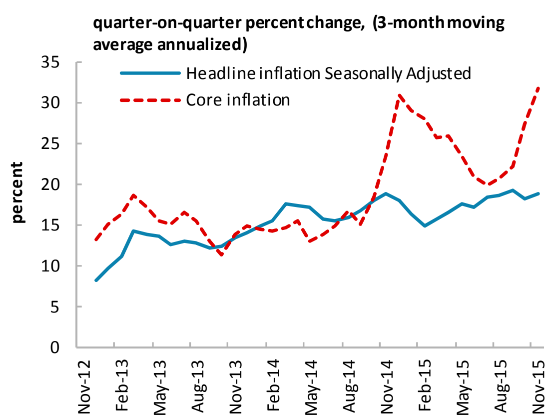
... on both an annual and quarterly basis.



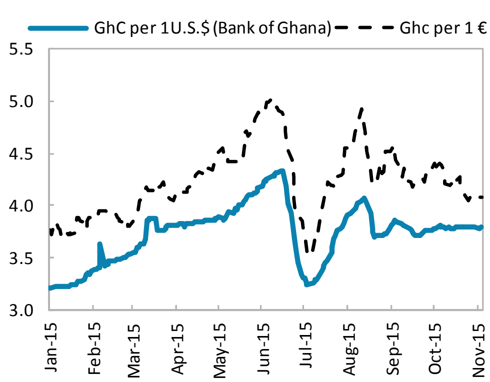
Headline inflation shows tentative signs of stabilizing...



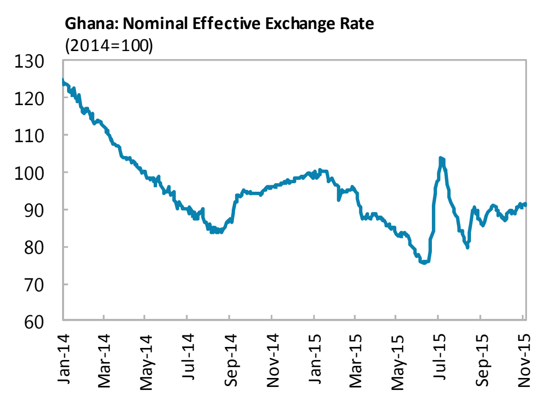
... although high frequency measures of core inflation continue to increase.



... reflecting the pass-through from the currency depreciation in the first half of 2015...



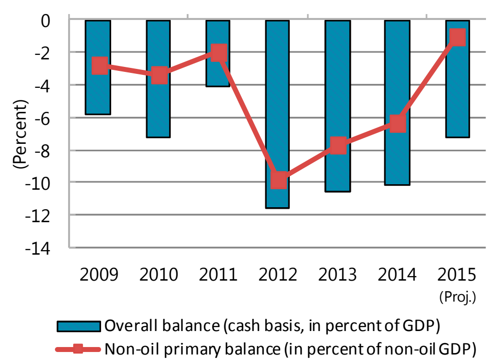
...stability of the cedi since August should ease pressure on inflation going forward ...



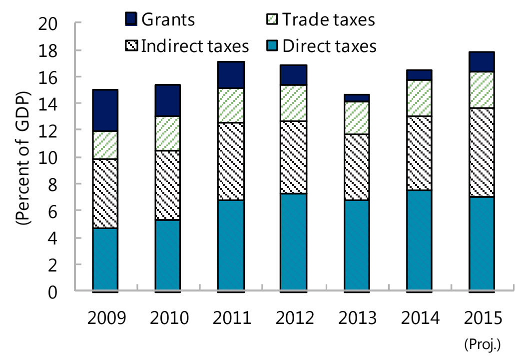
Source: Ghanaian authorities and IMF staff estimates and projections.
1/ The RCIEA is the Bank of Ghana's composite index of real economic activity.

Figure 2. Ghana: Fiscal Indicators

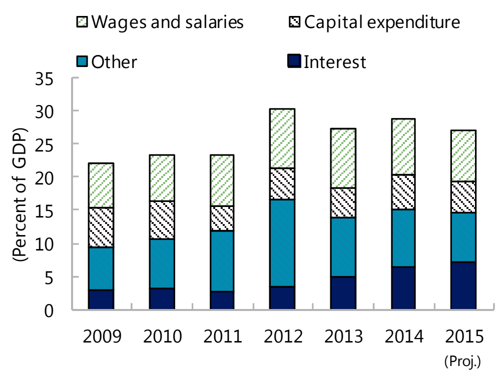
A significant fiscal conoslidation is envisaged in 2015 ...



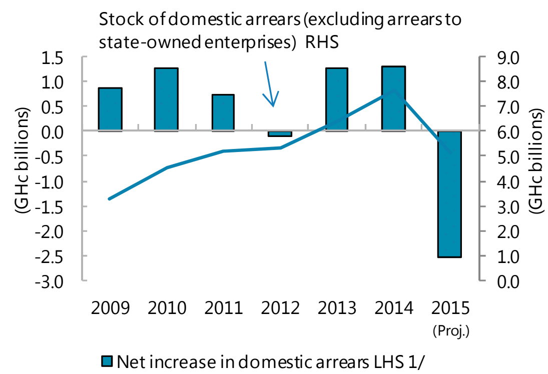
... reflecting both, an increasing tax revenues ...



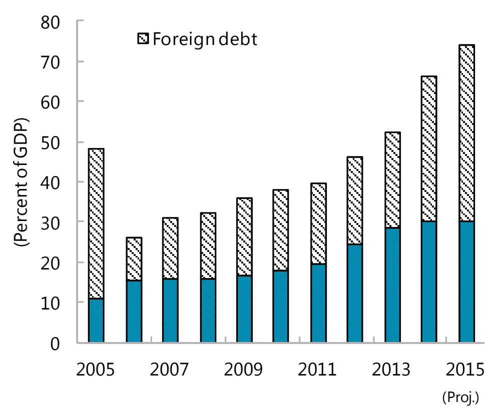
... and containing spending despite increasing interest payments, ...



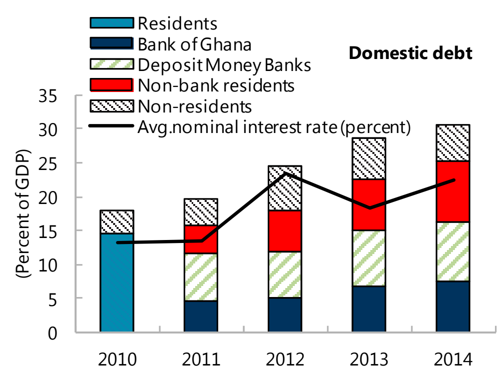
... as well as a significant reduction in the stock of arrears.



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

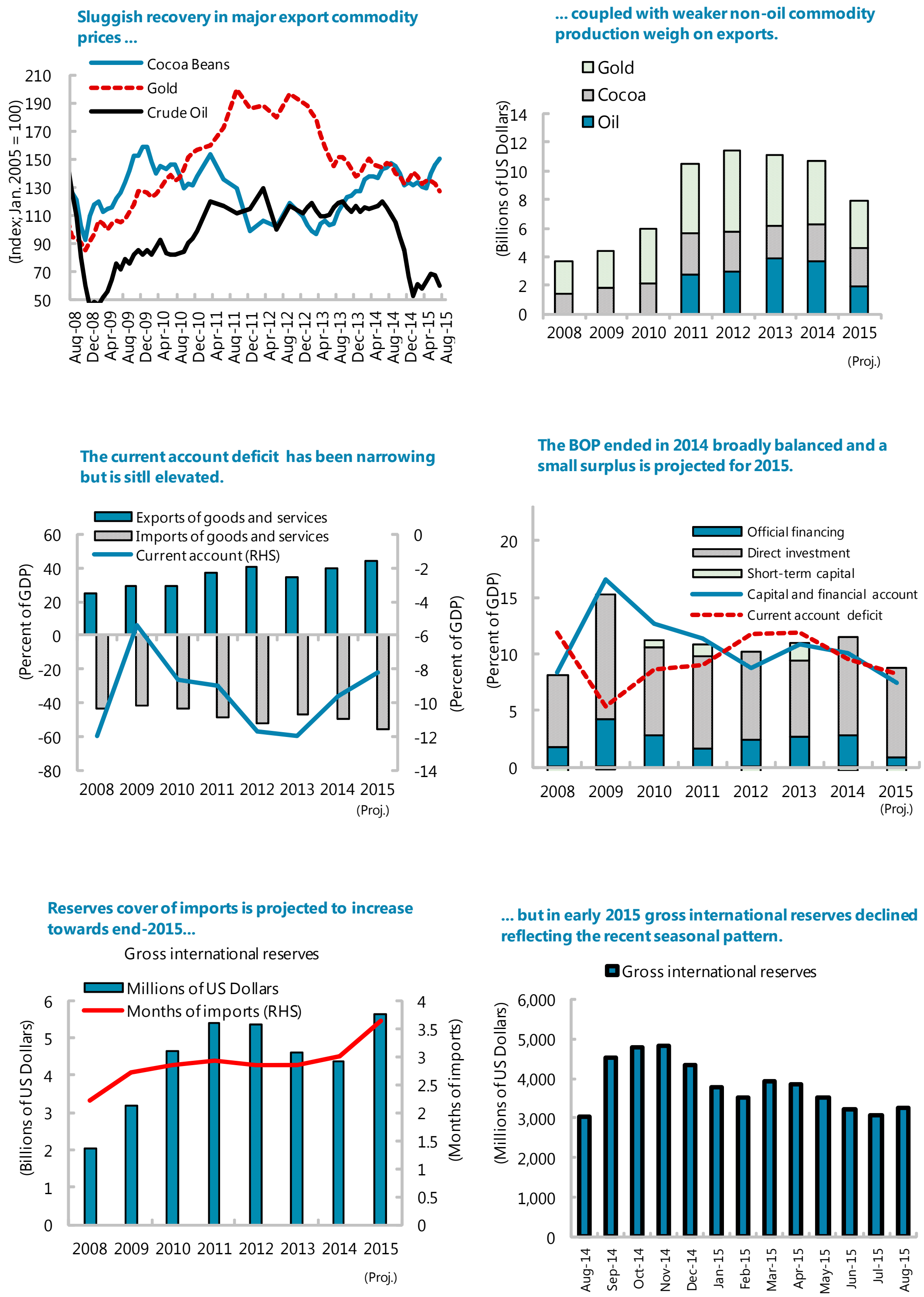


... with non-banks and non-residents holding a sizeable share, while interest rates increased again.



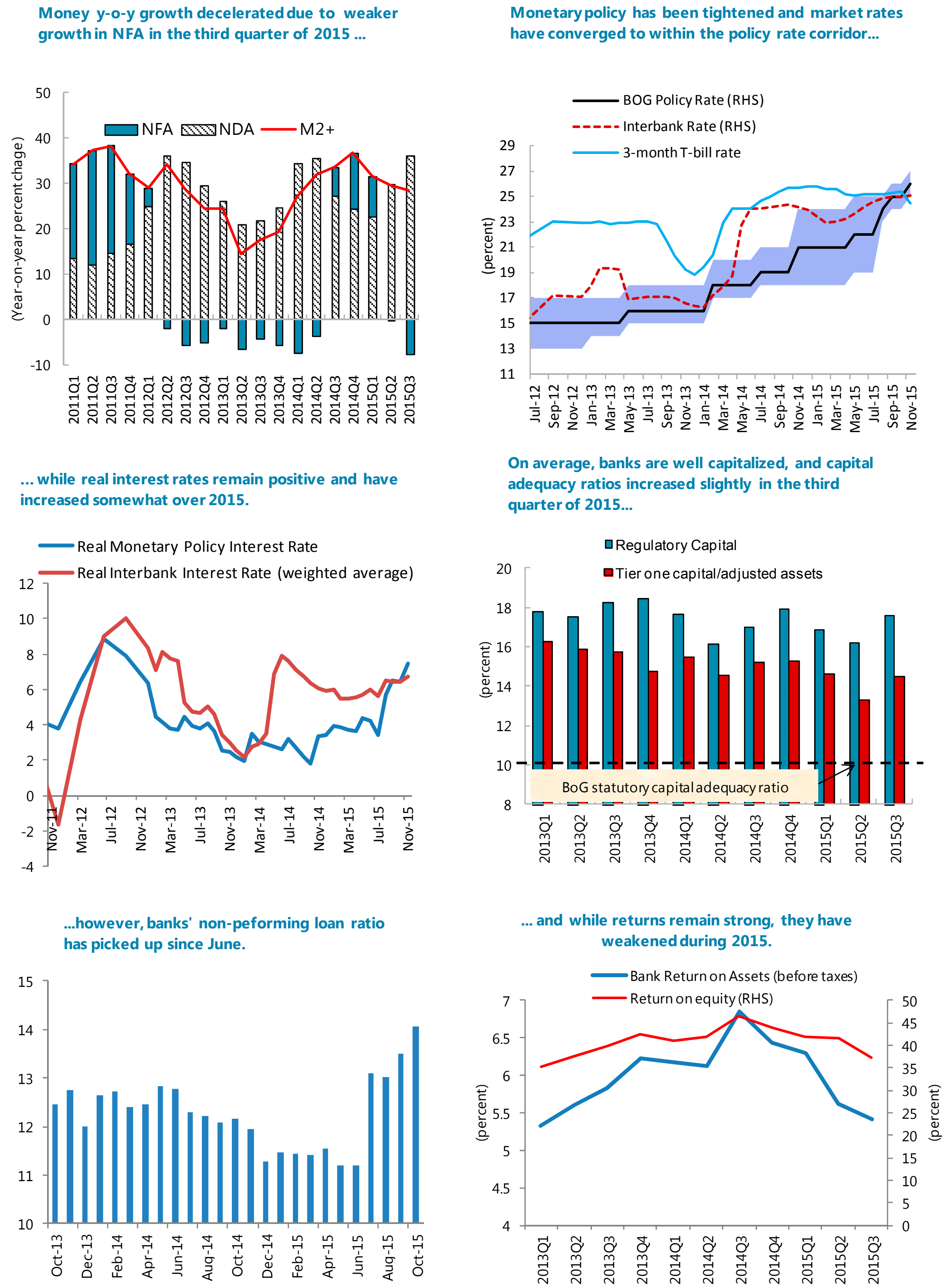
Source: Ghanaian authorities and IMF staff estimates.
1/ Includes deferred wages and arrears to state-owned enterprises.

Figure 3. Ghana: External Indicators



Source: Ghanaian authorities and IMF staff estimates.

Figure 4. Ghana: Monetary and Financial Indicators



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

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	3.0	5.4	8.6
Real GDP (nonoil)	8.4	7.3	6.7	4.0	3.0	4.5	5.5
Real GDP per capita	11.2	5.3	4.6	1.4	0.5	2.8	5.9
GDP deflator	13.9	16.6	15.6	16.7	14.2	12.7	8.6
Consumer price index (annual average)	7.7	7.1	11.7	15.5	17.3	15.1	8.7
Consumer price index (end of period)	8.4	8.1	13.5	17.0	19.6	10.0	6.3
Consumer price index (excl. food, annual average)	11.5	11.3	18.1	23.9	19.6	10.0	6.3
Terms of trade	-1.6	1.9	-7.8	-4.8	10.1	-0.6	-3.8
Money and credit							
Credit to the private sector	29.0	32.9	29.0	42.0	26.3	18.4	21.1
Broad money (M2+)	29.3	24.3	19.1	36.8	18.4	16.0	20.4
Velocity (non-oil GDP/M2+, end of period)	3.1	3.1	3.2	2.9	2.9	3.0	2.8
Base money	31.1	36.0	15.1	30.2	11.5	16.3	24.5
Banks' lending rate (weighted average; percent)	25.9	25.7	25.6	29.0	…	…	…
Policy rate (in percent, end of period)	12.5	15.0	16.0	21.0	…	…	…
	(Percent of GDP)						
Gross capital formation	25.6	31.0	22.8	24.8	23.9	24.2	24.7
Government	6.1	6.1	4.9	5.7	4.9	4.2	3.9
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	15.7	16.8	18.7
Government	5.3	0.9	-1.8	-6.2	-0.4	0.4	2.2
Private[1]	13.6	15.9	15.4	21.4	16.1	16.4	16.5
Foreign savings	-9.0	-11.7	-11.9	-9.6	-8.2	-7.4	-6.0
External sector							
Current account balance	-9.0	-11.7	-11.9	-9.6	-8.2	-7.4	-6.0
External public debt (including IMF)	19.8	21.8	24.0	36.0	43.4	44.3	43.0
NPV of external debt outstanding [2]	…	…	…	38.7	45.6	45.9	44.2
percent of exports of goods and services	…	…	…	97.8	103.9	109.4	102.0
Gross international reserves (millions of US$)	5,382	5,348	4,587	4,349	4,660	5,834	6,875
Months of prospective imports of goods and services	2.9	2.9	2.9	2.6	2.7	3.1	3.4
Total donor support (millions of US$)	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	3.2	3.1	2.6
Central government budget							
Revenue	17.6	18.5	16.7	18.4	20.7	21.4	20.6
Expenditure	20.1	30.1	27.3	28.6	27.8	26.7	24.4
Overall balance	-4.0	-11.6	-10.5	-10.2	-7.2	-5.3	-3.7
Net domestic financing	3.3	9.2	7.1	5.2	3.2	2.9	3.2
Central government debt (gross)	42.6	49.1	56.2	69.0	74.0	72.4	69.6
Domestic debt	22.8	27.2	32.3	33.0	29.9	28.1	26.9
External debt	19.8	21.8	24.0	36.0	43.4	44.3	43.0
Central government debt (net)	38.8	47.0	52.9	66.1	71.6	70.4	67.9
Memorandum items:							
Nominal GDP (millions of GHc)	59,816	75,315	93,416	113,344	133,297	158,454	186,913
GDP per capita (U.S. dollars)	1,628	1,683	1,870	1,473	1,342	1,437	1,525

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
				Prog.	Proj.	Proj.	
	(In percent of GDP)						
Revenue	18.5	16.7	18.4	19.2	20.7	21.4	20.6
Taxes	15.4	14.2	15.8	16.4	16.9	17.8	17.8
Direct taxes	7.4	6.7	7.5	6.9	7.1	7.6	8.0
Indirect taxes	5.4	5.0	5.5	6.6	6.8	6.8	6.6
Trade taxes	2.6	2.5	2.7	2.9	3.0	3.5	3.3
Other tax revenues	0.2	0.2	0.2	0.1	0.2	0.2	0.2
Other revenue	1.4	1.9	1.8	1.3	2.0	2.3	2.0
Grants	1.5	0.5	0.7	1.4	1.5	1.0	0.7
Expenditure	30.1	27.4	28.6	26.7	27.8	26.7	24.4
Expense	24.5	22.8	23.1	22.1	23.0	22.5	20.5
Compensation of employees	12.0	11.0	9.7	9.5	9.8	8.9	8.4
Wages and salaries[1]	8.9	8.9	8.3	7.7	7.7	7.4	7.0
Deferred wage payments	2.5	0.9	0.5	0.3	0.6	0.0	0.0
Social Contributions	0.7	1.2	0.9	1.5	1.5	1.5	1.4
Purchases of goods and services	1.8	1.0	1.6	1.1	1.3	1.8	1.0
Interest	3.2	4.7	6.2	7.2	7.0	6.6	5.6
Domestic	2.5	4.1	5.4	6.0	5.8	5.2	4.4
Foreign	0.7	0.7	0.9	1.2	1.2	1.4	1.2
Subsidies	1.1	1.2	0.4	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]	2.6	2.3	2.1	3.2	3.4	3.5	3.8
Other expense[3]	3.8	2.5	3.1	0.9	1.3	1.5	1.5
Net acquisition of nonfinancial assets	4.8	4.6	5.4	4.6	4.9	4.2	3.9
Domestic financing[4]	1.4	1.8	1.1	1.3	1.4	1.1	1.1
Foreign financing	3.4	2.8	4.3	3.3	3.5	3.1	2.8
Discrepancy	0.9	0.0	0.1	0.0	0.0	0.0	0.0
Net lending / borrowing (overall balance)	-11.6	-10.7	-10.2	-7.5	-7.2	-5.3	-3.7
Net financial transactions	-11.6	-10.7	-10.2	-7.5	-7.2	-5.3	-3.7
Net acquisition of financial assets	-1.0	-0.4	0.2	-0.4	-0.1	0.0	0.0
Net incurrence of liabilities	10.6	10.2	10.3	7.1	7.1	5.3	3.7
Domestic	8.2	6.8	5.2	4.8	3.2	2.9	3.2
Debt securities	8.9	8.7	5.7	4.8	3.2	2.9	2.7
Bank of Ghana	1.4	2.7	1.4	0.9	0.6	0.0	0.0
Deposit Money Bank	1.2	2.7	1.5	1.5	0.5	0.4	0.6
Nonbanks	6.3	3.4	2.8	2.4	2.1	2.4	2.1
Loans	-0.7	-1.9	0.0	0.0	0.0	0.0	0.0
Foreign	2.4	3.4	5.2	2.3	3.9	2.4	0.6
Loans	3.2	4.3	6.4	4.4	6.2	4.5	3.6
Amortization	-0.8	-0.9	-1.2	-2.1	-2.3	-2.0	-3.1
Memorandum items:							
Oil revenue	1.3	1.7	2.5	0.9	1.2	1.1	2.0
Non-oil revenue	16.9	15.8	16.4	17.9	18.9	20.4	19.6
Primary balance	-8.4	-5.9	-3.9	-0.3	-0.2	1.3	1.9
Non-oil primary balance (percent non-oil GDP) [5]	-10.4	-8.4	-6.9	-1.3	-1.5	0.2	-0.1
Nominal GDP (millions of GHc)	75,315	93,416	113,344	133,344	133,297	158,454	186,913

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 includes earmarked public sector investment through GIIF.

[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
				Prog.	Proj.	Proj.	
	(Millions of GHc, unless otherwise specified)						
Revenue	13,935	15,630	20,879	25,608	27,541	33,881	38,579
Taxes	11,575	13,284	17,855	21,822	22,563	28,244	33,271
Direct taxes	5,536	6,302	8,487	9,136	9,492	12,072	14,918
Indirect taxes	4,048	4,651	6,278	8,796	9,075	10,696	12,263
Trade taxes	1,990	2,331	3,091	3,889	3,996	5,476	6,090
Social Contributions	138	159	218	183	298	352	293
Other revenue	1,062	1,749	1,990	1,671	2,664	3,678	3,795
Grants	1,160	438	815	1,932	2,016	1,608	1,220
Expenditure	22,678	25,581	32,424	35,607	37,111	42,288	45,534
Expense	18,422	21,289	26,232	29,519	30,629	35,611	38,250
Compensation of employees	9,050	10,312	11,034	12,684	13,054	14,024	15,700
Wages and salaries[1]	6,666	8,334	9,449	10,286	10,286	11,723	13,123
Deferred wages	1,872	846	568	371	741	0	0
Social Contributions	512	1,132	1,018	2,026	2,026	2,301	2,576
Purchases of goods and services	1,322	938	1,777	1,519	1,699	2,908	1,830
Interest	2,436	4,397	7,081	9,577	9,350	10,490	10,536
Domestic	1,880	3,788	6,111	8,034	7,734	8,317	8,231
Foreign	556	609	970	1,543	1,616	2,173	2,305
Subsidies	809	1,158	474	50	50	50	50
Social transfers	0	1	0	167	167	202	233
Grants to Other Government Units[2]	1,978	2,155	2,354	4,331	4,518	5,624	7,084
Other expense[3]	2,827	2,328	3,513	1,190	1,790	2,313	2,817
Net acquisition of nonfinancial assets	3,584	4,303	6,096	6,088	6,481	6,677	7,285
Domestic financing[4]	1,050	1,646	1,265	1,689	1,834	1,783	2,122
Foreign financing	2,535	2,657	4,830	4,399	4,647	4,894	5,163
Discrepancy	672	-11	97	0	0	0	0
Net lending / borrowing (overall balance)	-8,743	-9,951	-11,546	-10,000	-9,569	-8,407	-6,956
Net financial transactions	-8,743	-9,951	-11,546	-10,000	-9,569	-8,407	-6,956
Net acquisition of financial assets	-781	-385	176	-487	-110	0	0
Net incurrence of liabilities	7,963	9,566	11,722	9,512	9,460	8,407	6,956
Domestic	6,189	6,354	5,847	6,440	4,234	4,544	5,921
Debt securities	6,694	8,131	6,508	6,440	4,234	4,544	4,996
Bank of Ghana	1,067	2,510	1,581	1,261	800	0	0
Deposit Money Bank	909	2,476	1,700	1,978	627	686	1,130
Nonbanks	4,718	3,144	3,226	3,201	2,807	3,858	3,866
Loans	-505	-1,777	0	0	0	0	0
Foreign	1,773	3,212	5,874	3,073	5,226	3,863	1,035
Loans	2,397	4,033	7,205	5,872	8,254	7,063	6,739
Amortization	-624	-821	-1,331	-2,799	-3,028	-3,200	-5,704
Memorandum items:							
Oil revenue	970	1,633	2,785	1,204	1,621	1,730	3,755
Non-oil revenue	11,805	13,559	17,278	22,472	23,904	30,543	33,603
Primary balance	-6,307	-5,554	-4,465	-423	-220	2,083	3,580
Non-oil primary balance[5]	-7,277	-7,187	-7,250	-1,626	-1,841	353	-175
Nominal GDP (millions of GHc)	75,315	93,416	113,344	133,344	133,297	158,454	186,913

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 includes 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
				Prog.	Proj.	Proj.	
			(In percent of GDP)				
Revenue	18.5	16.7	18.4	19.2	20.7	21.4	20.6
Taxes	15.4	14.2	15.8	16.4	16.9	17.8	17.8
Direct taxes	7.4	6.7	7.5	6.9	7.1	7.6	8.0
Indirect taxes	5.4	5.0	5.5	6.6	6.8	6.8	6.6
Trade taxes	2.6	2.5	2.7	2.9	3.0	3.5	3.3
Other tax revenues	0.2	0.2	0.2	0.1	0.2	0.2	0.2
Other revenue	1.4	1.9	1.8	1.3	2.0	2.3	2.0
Grants	1.5	0.5	0.7	1.4	1.5	1.0	0.7
Expenditure	30.7	28.4	30.3	25.5	25.9	25.2	22.4
Expense	24.4	23.3	24.6	21.0	21.1	21.0	18.5
Compensation of employees	11.1	11.6	10.8	9.2	9.2	8.9	8.4
Wages and salaries [1]	10.0	9.5	9.0	7.7	7.7	7.4	7.0
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	1.8	1.0
Interest	3.5	4.7	6.2	7.2	7.0	6.6	5.6
Domestic[2]	2.8	4.1	5.4	6.0	5.8	5.2	4.4
Foreign	0.7	0.7	0.9	1.2	1.2	1.4	1.2
Subsidies	2.9	1.9	2.8	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	3.4	3.5	3.3
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	4.9	4.2	3.9
Domestic financing [4]	2.1	2.3	1.4	1.3	1.4	1.1	1.1
Foreign financing	3.4	2.8	4.3	3.3	3.5	3.1	2.8
Discrepancy	0.9	0.0	0.1	0.0	0.0	0.0	0.0
Net lending / borrowing (overall balance)	-12.2	-11.7	-11.9	-6.3	-5.3	-3.8	-1.7
Net financial transactions	-12.2	-11.7	-11.9	-6.3	-5.3	-3.8	-1.7
Net acquisition of financial assets [5]	-1.0	-0.4	0.2	-0.4	-0.1	0.0	0.0
Net incurrence of liabilities	11.1	11.3	12.1	6.0	5.2	3.8	1.7
Domestic [6]	8.8	7.9	6.9	3.7	1.3	1.4	1.2
Debt securities	8.9	8.7	5.7	4.8	3.2	2.9	2.7
Bank of Ghana	1.4	2.7	1.4	0.9	0.6	0.0	0.0
Deposit Money Bank	1.2	2.7	1.5	1.5	0.5	0.4	0.6
Nonbanks	6.3	3.4	2.8	2.4	2.1	2.4	2.1
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	1.3	1.1	-1.2	-1.9	-1.5	-1.5
Foreign	2.4	3.4	5.2	2.3	3.9	2.4	0.6
Loans	3.2	4.3	6.4	4.4	6.2	4.5	3.6
Amortization	-0.8	-0.9	-1.2	-2.1	-2.3	-2.0	-3.1
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	1.1	2.0
Non-oil revenue	16.9	15.8	16.4	21.0	18.9	20.4	19.6
Primary balance	-8.7	-7.0	-5.6	0.9	1.7	2.8	3.9
Non-oil primary balance (commitment, percent non-oil GDP) [7]	-10.7	-9.5	-8.7	-0.1	0.5	1.8	2.1
Nominal GDP (millions of GHc)	75,315	93,416	113,344	133,344	133,297	158,454	186,913

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

[1] Includes deferred wage payments.

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

[3] Includes promisory notes to statutory funds.

[4] Includes new project-arrears. Starting in 2015, it includes earmarked public sector investment through GIIF.

[5] Net transfers to Oil Fund abd divestiture receipts (net).

[6] 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
				Prog.	Proj.	Proj.	
	(Millions of GHc, unless otherwise specified)						
Revenue	13,935	15,630	20,879	25,608	27,541	33,881	38,579
Taxes	11,575	13,284	17,855	21,822	22,563	28,244	33,271
Direct taxes	5,536	6,302	8,487	9,136	9,492	12,072	14,918
Indirect taxes	4,048	4,651	6,278	8,796	9,075	10,696	12,263
Trade taxes	1,990	2,331	3,091	3,889	3,996	5,476	6,090
Social Contributions	138	159	218	183	298	352	293
Other revenue	1,062	1,749	1,990	1,671	2,664	3,678	3,795
Grants	1,160	438	815	1,932	2,016	1,608	1,220
Expenditure	23,110	26,573	34,361	34,046	34,579	39,975	41,792
Expense	18,346	21,760	27,847	27,957	28,098	33,298	34,508
Compensation of employees	8,387	10,863	12,254	12,313	12,313	14,024	15,700
Wages and salaries[1]	7,512	8,902	10,190	10,286	10,286	11,723	13,123
Social Contributions	876	1,961	2,064	2,026	2,026	2,301	2,576
Purchases of goods and services	1,592	1,019	1,777	1,519	1,699	2,908	1,830
Interest	2,660	4,397	7,081	9,577	9,350	10,490	10,536
Domestic[2]	2,103	3,788	6,111	8,034	7,734	8,317	8,231
Foreign	556	609	970	1,543	1,616	2,173	2,305
Subsidies[2]	2,206	1,776	3,138	50	50	50	50
Social transfers	0	1	0	167	167	202	233
Grants to Other Government Units[2]	2,428	2,907	3,598	4,331	4,518	5,624	6,158
Other expense[3]	1,072	798	0	0	0	0	0
Net acquisition of nonfinancial assets	4,093	4,824	6,418	6,088	6,481	6,677	7,285
Domestic financing[4]	1,558	2,167	1,588	1,689	1,834	1,783	2,122
Foreign financing	2,535	2,657	4,830	4,399	4,647	4,894	5,163
Discrepancy	672	-11	97	0	0	0	0
Net lending / borrowing (overall balance)	-9,175	-10,943	-13,483	-8,438	-7,038	-6,094	-3,214
Net financial transactions	-9,175	-10,943	-13,483	-8,438	-7,038	-6,094	-3,214
Net acquisition of financial assets[5]	-781	-385	176	-487	-110	0	0
Net incurrence of liabilities	8,395	10,558	13,659	7,951	6,928	6,094	3,214
Domestic[6]	6,621	7,346	7,784	4,878	1,702	2,231	2,179
Debt securities	6,694	8,131	6,508	6,440	4,234	4,544	4,996
Bank of Ghana	1,067	2,510	1,581	1,261	800	0	0
Deposit Money Bank	909	2,476	1,700	1,978	627	709	1,130
Nonbanks	4,718	3,144	3,226	3,201	2,807	3,835	3,866
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	1,258	1,277	-1,561	-2,532	-2,313	-2,817
Foreign	1,773	3,212	5,874	3,073	5,226	3,863	1,035
Loans	2,397	4,033	7,205	5,872	8,254	7,063	6,739
Amortization	-624	-821	-1,331	-2,799	-3,028	-3,200	-5,704
Gross financing gap	0	0	0	0	0	0	0
Memorandum items:							
Oil revenue	970	1,633	2,785	1,204	1,621	1,730	3,755
Non-oil revenue	11,805	13,559	17,278	22,472	23,904	30,543	33,603
Primary balance	-6516	-6546	-6402	1139	2312	4396	7322
Non-oil primary balance[7]	-7,486	-8,179	-9,187	-65	691	2,666	3,567
Nominal GDP (millions of GHc)	75,315	93,416	113,344	133,344	133,297	158,454	186,913

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

[1] [In]cludes deferred wage payments.

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

[3] Includes promisory notes to statutory funds.

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

[5] Net transfers to Oil Fund abd 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, 2011–16[1]

	2011	2012	2013	2014	2015		2016
					Prog.	Proj.	Proj.
	(In millions of GHc, unless otherwise indicated)						
I. Depository Corporation Survey							
Net foreign assets	7,880	6,953	5,670	8,991	11,135	11,855	18,664
Net Domestic Assets	10,315	15,667	21,267	27,852	33,933	31,782	31,976
Domestic Claims	15,665	22,662	31,349	41,942	50,392	49,807	56,058
Net Claims on Central Government	5,181	7,716	11,327	14,345	17,583	15,771	16,480
Claims on Other Sectors	10,485	14,945	20,023	27,597	32,809	34,036	39,578
Claims on Public Non-financial Corporations	1,342	2,719	4,266	5,257	3,348	3,612	3,965
Claims on Private Sector	9,150	12,161	15,689	22,281	27,176	28,140	33,328
Other	-7	65	67	59	2,284	2,284	2,284
Other Items (Net)	-5,350	-6,995	-10,083	-14,090	-16,460	-18,025	-24,082
Money and quasi-money (M3)	18,195	22,620	26,937	36,843	45,068	43,637	50,640
Broad money (M2)	14,241	17,503	20,692	27,530	32,706	30,225	35,150
Foreign exchange deposits	3,954	5,117	6,245	9,313	12,362	13,412	15,490
II. Central Bank							
Net foreign assets	6,670	5,781	5,943	8,678	9,382	10,534	15,978
Net domestic assets	-890	2,079	3,108	3,107	4,595	2,607	-696
Net Domestic Claims	287	5,252	6,639	4,876	7,050	6,199	5,299
Claims on Other Depository Corporations	-2,299	-694	-1,727	-5,507	-4,594	-4,984	-5,884
Net Claims on Central Government	1,943	4,140	5,306	6,888	8,149	7,688	7,688
Claims on Other Sectors[2]	643	1,806	3,060	3,496	3,496	3,496	3,496
Other Items (Net)[3]	-1,177	-3,172	-3,531	-1,769	-2,455	-3,593	-5,995
Base money[4]	5,780	7,860	9,051	11,785	13,977	13,141	15,283
Currency In Circulation (net of cash in vaults)	3,763	4,919	5,500	6,896	8,106	8,041	9,720
Currency in Banks (Cash in Vault)	481	637	698	846	942	907	993
Bank Deposits in BOG[4]	1,359	2,030	2,430	3,274	4,228	3,493	3,870
Liabilities To Other Sectors	176	275	424	769	700	700	700
Memorandum items:	(In 12-month percentage change; unless otherwise indicated)						
Base money	31.1	36.0	15.1	30.2	18.6	11.5	16.3
M2	29.3	22.9	18.2	33.0	18.8	9.8	16.3
M2+[5]	32.2	24.3	19.1	36.8	22.3	18.4	16.0
Credit to the private sector	29.0	32.9	29.0	42.0	22.0	26.3	18.4
M2-to-GDP ratio (in percent)	23.8	23.2	22.2	24.3	24.5	22.7	22.2
M2-to-Non-Oil GDP ratio (in percent)	25.4	25.1	24.1	26.1	26.1	23.9	23.5
Base money multiplier (M2/base money)	2.5	2.2	2.3	2.3	2.3	2.3	2.3
Credit to the private sector (in percent of GDP)	15.3	16.1	16.8	19.7	20.4	21.1	21.0

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	-2,968	-2,924	-2,601
Trade balance	-3,052	-4,211	-3,848	-1,387	-2,788	-3,382	-2,999	-2,370
Exports, f.o.b.	12,785	13,552	13,752	13,213	11,011	10,608	11,344	13,272
Of which: cocoa	2,871	2,829	2,267	2,613	2,386	2,616	2,716	2,724
Of which: gold	4,920	5,643	4,966	4,388	3,610	3,300	3,348	3,489
Of which: oil	2,779	2,976	3,885	3,725	2,064	1,991	2,366	3,901
Imports, f.o.b	-15,838	-17,763	-17,600	-14,600	-13,799	-13,990	-14,343	-15,642
Of which: oil	-3,165	-3,331	-3,550	-3,694	-2,496	-2,266	-2,349	-2,721
Services (net)	-1,860	-976	-2,444	-2,602	-1,310	-1,054	-1,087	-1,217
Income (net)	-1,230	-2,132	-1,351	-1,717	-986	-1,173	-1,365	-1,576
Of which: interest on public debt	-223	-224	-416	-552	-619	-787	-1,033	-1,057
Transfers	2,597	2,405	1,939	2,008	2,325	2,641	2,528	2,561
Official transfers	229	258	80	10	269	242	33	4
Other transfers	2,369	2,148	1,859	1,999	2,056	2,399	2,495	2,557
Capital and financial account	4,480	3,652	5,157	3,890	2,477	2,679	3,745	3,422
Capital account	445	283	349	0	299	299	479	401
Financial account	4,034	3,368	4,808	3,890	2,177	2,380	3,266	3,021
Foreign direct investment (net)	3,222	3,293	3,226	3,357	2,941	2,885	3,070	3,234
Portfolio investment (net)	118	1,122	659	836	500	931	750	92
Other investment (net)	695	-1,047	923	-303	-1,264	-1,436	-554	-305
Medium and long term (net) ..	291	648	127	-149	-508	-1,113	-310	-231
Official (net)	650	958	857	932	301	323	590	569
Government Oil Investments		-24	-381	-145	143	30	0	0
Amortization	-239	-360	-316	-473	-837	-706	-800	-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	-1,436	-900	-800
Short-term (net)	404	-1,695	796	-155	-757	-323	-243	-74
Errors and omissions	-203	178	111	-228	0	116	0	0
Overall balance	732	-1,084	-436	-37	-283	-173	821	820
Financing	-732	1,084	436	37	283	173	-821	-820
Changes in net reserves (-, incr.)	-732	1,084	436	37	50	-57	-1,032	-982
of which: Use of Fund credit (net)	184	156	-28	-12	297	173	286	160
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	-8.2	-7.4	-6.0
Trade Balance	-7.7	-10.0	-8.0	-3.6	-7.1	-9.4	-7.6	-5.5
Official transfers	0.6	0.6	0.2	0.0	0.7	0.7	0.1	0.0
Capital and Financial Account	11.3	8.7	10.8	10.1	6.3	7.4	9.5	7.9
Foreign direct investment (net)	8.1	7.9	6.7	8.7	7.5	8.0	7.7	7.5
Overall Balance	1.8	-2.6	-0.9	-0.1	-0.7	-0.5	2.1	1.9
Gross Foreign Assets [1]								
Millions of U.S. Dollars	5,383	5,442	5,632	5,461	5,453	6,167	6,891	7,682
Months of imports	2.9	2.9	3.5	3.2	3.6	3.6	3.7	3.8
Gross International Reserves [2]								
Millions of U.S. Dollars	5,382	5,348	4,587	4,349	4,734	4,660	5,834	6,875
Months of Imports	2.9	2.9	2.9	2.6	3.1	2.7	3.1	3.4
Net International Reserves [3]								
Millions of U.S. Dollars	4,829	4,160	3,286	3,249	3,151	3,257	4,289	5,271
Months of Imports [4]	2.6	2.2	2.0	1.9	2.1	1.9	2.3	2.6
Nominal GDP in U.S. Dollars	39,565	41,939	47,806	38,616	39,219	36,068	39,613	43,114
Oil-Net Exports	-1.0	-0.8	0.7	0.1	-1.1	-0.8	0.0	2.7
Non-Oil Current Account	-8.0	-10.9	-12.6	-9.7	-5.9	-7.5	-7.4	-8.8

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.

[4] The series for the reserves ratio shows a break from 2015 Proj. onward as the authorities broadened the coverage of services exports / imports which increased imports of goods and services by some 12% in 2015 compared with the previous projections.

Table 5. Ghana: Proposed Schedule of Reviews and Disbursements Under the ECF Arrangement, 2015–17[1]

Amount of Disbursement		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	August 31, 2015	The Executive Board completed the First Review under the three-year ECF Arrangement
83.025	22.50	January 13, 2016	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	

[1] In 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, 2015–2028

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
							Projections							
Fund obligations based on existing credit (in millions of SDRs)														
Principal	42.8	46.3	53.7	77.5	77.5	64.1	74.9	57.0	33.2	33.2	24.9	0.0	0.0	0.0
Charges and interest	0.1	0.1	0.1	0.1	0.9	0.7	0.6	0.4	0.3	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	91.5	115.2	124.5	132.8	124.5	83.0	41.5	8.3
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	0.1
Total obligations based on existing and prospective credit														
In millions of SDRs	42.8	46.4	53.8	77.6	79.6	66.1	93.3	116.7	125.8	133.7	125.1	83.3	41.7	8.4
In millions of US$	60.0	65.4	76.3	110.8	114.4	94.9	134.0	167.6	180.7	192.1	179.7	119.7	59.9	12.1
In percent of gross international reserves	1.3	1.1	1.1	1.5	1.4	1.0	1.2	1.3	1.4	1.4	1.2	0.8	0.4	0.1
In percent of exports of goods and services	0.4	0.4	0.4	0.5	0.5	0.4	0.6	0.7	0.7	0.7	0.6	0.4	0.2	0.0
In percent of debt service[1]	3.9	3.4	4.0	5.9	6.1	5.0	6.5	7.8	7.5	7.4	6.4	3.9	1.9	0.4
In percent of GDP	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.2	0.1	0.1	0.0
In percent of quota	11.6	12.6	14.6	21.0	21.6	17.9	25.3	31.6	34.1	36.2	33.9	22.6	11.3	2.3
Outstanding Fund credit														
In millions of SDRs	542.4	745.1	857.5	863.0	785.5	721.4	629.9	514.8	390.2	257.4	132.8	49.8	8.3	0.0
In millions of US$	761.3	1053.2	1220.8	1235.6	1132.9	1040.5	908.5	742.4	562.8	371.2	191.6	71.9	12.0	0.0
In percent of gross international reserves	16.3	18.1	17.8	16.6	13.6	10.5	8.0	6.0	4.3	2.6	1.3	0.5	0.1	0.0
In percent of exports of goods and services	4.7	6.2	6.3	5.9	5.1	4.5	3.8	3.0	2.2	1.4	0.7	0.2	0.0	0.0
In percent of debt service[1]	49.0	55.5	63.6	65.5	60.1	54.5	44.1	34.5	23.5	14.2	6.8	2.3	0.4	0.0
In percent of GDP	2.1	2.7	2.8	2.6	2.2	1.9	1.6	1.2	0.8	0.5	0.2	0.1	0.0	0.0
In percent of quota	147.0	201.9	232.4	233.9	212.9	195.5	170.7	139.5	105.8	69.8	36.0	13.5	2.2	0.0
Net use of Fund credit (in millions of SDRs)	123.28	202.735	112.39	5.535	-77.49	-64.11	-91.52	-115.16	-124.54	-132.84	-124.54	-83.03	-41.51	-8.3
Disbursements	166.1	249.1	166.1	83.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	42.8	46.3	53.7	77.5	77.5	64.1	91.5	115.2	124.5	132.8	124.5	83.0	41.5	8.3
Memorandum items:														
Nominal GDP (in millions of US$)	36,068	39,613	43,114	46,779	50,842	54,296	58,274	62,230	66,676	72,042	77,715	84,249	91,412	99,245
Exports of goods and services (in millions of US$)	16,248	17,099	19,254	20,879	22,306	23,323	24,170	24,558	25,372	26,525	27,790	29,334	31,173	33,010
Gross international reserves (in millions of US$)	4,660	5,834	6,875	7,425	8,358	9,951	11,338	12,423	13,241	14,081	14,932	15,762	16,745	17,769
Debt service (in millions of US$)	1,553.4	1,898.7	1,918.1	1,887.1	1,884.3	1,909.1	2,061.6	2,149.8	2,392.9	2,608.5	2,829.5	3,061.3	3,196.8	3,386.9
Quota (millions of SDRs)	369	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** *(high, medium or low)*	**Impact if Realized** *(high, medium or low)*
1. Failure to rollover maturing domestic bonds and surges in global financial market volatility, triggered by a deterioration of market confidence and/or faster than expected normalization of US monetary policy	**Medium** • Government will have a series of medium-sized rollover of domestic bonds. • The government will rely on foreign financing of the deficit, including a Eurobond and foreign participation in the domestic bond market. • Staff projects issuance of US$ 0.75-1.0 billion Eurobond this year. Low demand for this bond could raise its cost if there is a decline in market confidence in the authorities' economic program or increasing rates in the U.S. makes rate of return in Ghana's assets less appealing to investors.	**High** • 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, increase domestic interest rate, and raise the cost of debt service. • Economic growth and imports would have to decline to bring about the required adjustment in the current account deficit.
2. Persistently low hydrocarbon prices triggered by supply factors reversing gradually, and weaker demand. **Further decline in other commodity prices,** triggered by deceleration of global demand (medium term).	**Medium** • 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.	**High** • 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.
3. Delayed fiscal adjustment in 2016 election year	**Medium** • A revenue shortfall or spending overrun (e.g., from higher-than-budgeted election costs) could compromise the 2016 fiscal target, with little room for discretionary tightening.	**High** • Failure to achieve the budget targets would prolong a situation of high real interest rates, depreciation pressures, and double-digit inflation. • Debt dynamics could worsen, reducing capacity to handle shocks and crowding

		out space for infrastructure and social priority spending.
4. Continued elevated inflationary pressures	**Medium** • Inflationary pressures remain high, fueled by a depreciating currency during the first half of 2015 and ongoing power shortages. While the currency has been more stable since August inflationary pressures may persist if power shortages are not addressed as envisaged, if there are second round effects from the expected increase in utility prices, and/or in case of other supply-side shocks.	**Medium** • 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 the 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.	**Medium** • Insufficient amount of rain in 2015 significantly reduced production of energy at the Akosombo dam and other dependent downstream. Government strategy relies on the successful establishment of privately-owned plants. Constant blackouts have affected manufacturing growth and led to dismissals of workers.	**Medium** • Failure to solve the energy crisis by the end of this year would likely result in a further deceleration of GDP growth, particularly in the industrial sectors, and persistently high inflation. • Given the context of high debt and inflation there is no space for expansionary policy to offset the impact on growth by stimulating the economy.

Appendix I. Letter of Intent

Accra, December 23, 2015

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

Dear Ms. Lagarde,

1. The government requests that the IMF Executive Board complete the second review of Ghana's Extended Credit Facility (ECF) arrangement and approves disbursement of the third tranche of the loan, based on the successful implementation of all performance criteria (PC) at end-August, except for the continuous PC on non-accumulation of external arrears that was not met, and a broadly satisfactory implementation of key structural reforms, as explained in the attached MEFP.

2. The program remains on track and the Government is committed to the reforms supported by the ECF. We continued fiscal consolidation, as indicated by a lower than programmed primary fiscal deficit in January-August. We implemented measures broadening the tax base and enhancing tax compliance; and approved the new PFM reform strategy. We published the report on the audit of the payroll database and security system and made progress toward completing the biometric validation of all employees on mechanized payroll. The Bank of Ghana (BoG) further tightened monetary policy. The reduction in the stock of arrears exceeded that envisaged by the program.

3. Economic conditions remain difficult, as the economic slowdown continues and financing becomes increasingly expensive. Weak commodity prices and ongoing energy crisis continue to affect economic growth. Lower exports and a lack of market confidence have added significant volatility to the exchange rate putting pressures on interest and foreign capital spending. Government financing needs remain high and access to finance is increasingly tight. A more ambitious fiscal adjustment envisaged by the 2016 budget and the modification of the program financing strategy will help to contain financing needs, stabilize public debt and avoid accumulation of arrears. The 2016 budget includes the necessary measures to achieve these objectives, as detailed in the attached MEFP. The BoG remains committed to bringing inflation down to its medium target, through setting its policy rate at an appropriate level and stands ready to take any further action required to combat inflation.

4. There were delayed payments in external debt service to official creditors in small amounts mainly due to discrepancies on the external debt database projections and variations from expected payments to some creditors especially with regards to loans with variable rates. In addition, the authorities raised some queries on some debt obligations to some creditors whose resolution resulted in the delayed payments. All external debt payments have been honoured as at now. Going forward, the Authorities have arranged for Technical Assistance on the integration of the debt management software with the budget and accounting software and requested Technical Assistance

from the IMF to conduct an in-depth review of the debt management system, its organization and procedures. This is expected to speed up the processes for dealing swiftly with queries and honouring payments on schedule.

5. The MEFP describes government policies for the remainder of 2015 and 2016 which would support achieving program objectives under the ECF. We request the IMF Executive Board to approve the waiver for the non-observance of the continuous performance criterion on non-accumulation of external arrears and the establishment of performance criteria and structural benchmarks for 2016, with test dates at end-June and end-December, and to change monetary conditionality to a Monetary Policy Consultation Clause, based on quarterly inflation targets with inner and outer bands.

6. The government believes that the measures and policies set forth in the attached MEFP and the 2016 Budget are appropriate and sufficient to achieve the objectives of its program, and 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. The authorities will hold timely consultations with the IMF staff on the possible terms of a Eurobond and other non-concessional external borrowing to ensure that such borrowing strengthens confidence in the program, does not jeopardize debt sustainability and is in line with the Fund's debt limit policy.

7. 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 second review under the three-year arrangement under the ECF.

Sincerely yours,

/s/	/s/
Seth Emmanuel Terkper	Henry Akpenamawu Kofi Wampah
Minister for Finance	Governor of Bank of Ghana

Attachments:

Memorandum of Economic and Financial Policies

Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies, 2015–17

1. This memorandum updates and reports developments on Ghana's economic and financial policies for 2015–2017, supported by the IMF 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. Preliminary national accounts estimates indicate that the economy expanded by 4.1 percent in the first half of 2015, compared with the growth of 4.0 percent in 2014, as a whole. Growth in the first two quarters was driven by a pick-up in the construction industry, ICT, and financial services, while manufacturing and the services sector exerted a drag on growth.

3. Inflation pressures remain high, boosted by pass-through from the depreciation of the Cedi. Inflation stood at 17.4 percent in October, slightly down from the 17.9 percent peak in July.

Fiscal Performance

4. Fiscal performance in January–August 2015 was satisfactory. The overall fiscal deficit on a cash basis was substantially lower than budgeted, and the primary surplus exceeded expectations. Strong revenue performance benefited largely from tax administration and policy measures and the depreciation of the cedi, boosting indirect tax revenues, including the VAT, petroleum products tax and export tax, along with the corporate income tax collections. Lower than expected economy-wide wages have led to a shortfall in personal income tax. The central government wage bill remained within the budget envelope, but payments of deferred wages were above the budget projections. With higher-than-projected repayment of arrears and capital spending, total government spending was slightly higher than budgeted.

5. Government remains on course with its medium-term domestic arrears clearance strategy. No new domestic arrears were accumulated so far and higher-than-programmed arrears were cleared in January-August 2015. Of the stock of arrears to Bulk Distribution Companies (BDCs) related to foreign exchange losses and price under recoveries as at end 2013 and 2014 that was identified by independent auditors, the government has repaid GH¢ 300 million, by using part of proceeds from the BoG dividend, and is planning to clear the remaining GH¢ 300 million before year-end. To preclude any further accumulation of arrears to BDCs related to foreign exchange losses and underpricing, the government liberalized the pricing of petroleum products in July.

Financing and Public Debt

6. Consistent with the program, government financing needs in January-September were covered mainly through domestic debt issuance, which amounted to GH¢ 2.5 billion (1.9 percent of GDP) on a net basis. Demand for shorter maturities exceeded that for medium- and long-term securities, which shortened the average time to maturity of domestic marketable securities to 9.7 months at end-October, compared with 10.8 months at end-April. Continued net redemptions of medium-term securities and the shortening of remaining maturities of the outstanding medium term securities boosted the share of T-bills in total domestic marketable securities.

7. Net external borrowing amounted to GH¢ 2 billion, or 1.5 percent of GDP in January-September, with disbursements of GH¢ 4 billion (2.9 percent of GDP) over the same period. In October, the government issued a US$ 1 billion Eurobond, with a coupon rate of 10.75 percent and 15-year final maturity. Although the issue was oversubscribed, the government decided to issue only US $1 billion, compared with US$1.5 billion approved by Parliament, to contain the cost of debt. The proceeds have been deposited into an escrow account and will be used solely to retire maturing domestic debt. Other financing included donor support in the amount of about US$ 160 million (0.5 percent of GDP).

8. Outstanding public debt reached 69.1 percent of GDP at end-September 2015, with domestic and external debt of 28.3 of GDP and 40.9 percent of GDP, respectively.

Monetary and Financial Sector Developments

9. The Monetary Policy Committee (MPC) increased its benchmark policy rate to 26 percent, raising it by 200 basis points in August, by 100 basis points in September and a further 100bp in November. The increase led to (i) a closing of the gap between policy and market interest rates and (ii) a tightening in monetary conditions. Reflecting the less accommodative policy stance, lower new central bank financing to government and higher net BoG foreign exchange sales to the market, excess liquidity in the banking system declined sharply. The BoG started to inject liquidity on a net basis in its open market operations during the second and third quarters of 2015, although net liquidity withdrawals recommenced in September.

10. Tight monetary policy and weak domestic demand led to a further deceleration of growth in monetary aggregates and credit to the private sector, and rise in market interest rates. Reserve money growth slowed on a year-on-year basis, from 30 percent in December 2014 to 12 per cent in October 2015. Consistent with growth in reserve money, growth in broad money (including foreign currency deposits) declined from 37 percent in December 2014 to 27 percent in October 2015 and private credit growth slowed from 42 percent to 23 percent over the same period. Regarding interest rates, the interbank rate and banks' base rate both increased by 42 and 78 basis points respectively between July and October. The increase in T-bill rates was more muted, with the interest rate on the 91 day and 182 day bills increasing by 13 and 25 basis points respectively over the same period. More recently, since the issuance of the Eurobond, T-Bills rates have declined markedly.

Exchange Rate Developments

11. Following a sharp depreciation in the first half of the year, the cedi has been very volatile since early July. After depreciating by 26 percent in the first half of the year—reflecting a seasonal pattern and still large current account deficit—the cedi appreciated by 14 percent against the US dollar 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 from a new Eurobond and cocoa crop financing. This was followed by large fluctuations in both directions from mid July onwards. The depreciation from end-December 2014 to September 2015 was around 8 percent in nominal effective terms. The BoG was able to increase its foreign exchange reserves so that gross foreign assets as at end of October stood at US$ 5.7 billion.

Financial Sector Developments

12. The banking system remains generally well capitalized, liquid, and profitable, although there is substantial variation across banks. However, the impact of currency depreciation during the first half of the year and the slowdown in economic activity have started to feed through a deterioration in asset quality, reflected in a pick-up in nonperforming loans (NPLs) which reached 14.1 percent of the banks' loan portfolio in October 2015, up from 13.0 percent of the banks' loan portfolio in August 2015, and 11.2 percent in June. NPL growth has risen most sharply in the manufacturing sector which has been particularly affected by exchange rate volatility and the energy crisis. To address the issue of rising NPLs, banks have increased their capital buffers, as indicated by an increase in tier one capital to risk weighted assets from 13.3 percent to 14.3 percent between June and October 2015. Moreover, the BoG has required banks with Capital Adequacy Ratios (CAR) below 13 per cent (but above 10 percent) to pay only half dividend to shareholders until they raise the CAR to 13 percent and improve their risk managements systems. Banks with CAR of less than 10 per cent are to suspend dividend payments altogether until their capital levels are enhanced and risk management systems improved.

External Sector

13. The current account in 2015 is projected at 8.2 percent of GDP, as envisaged at the time of the first review. A poor cocoa harvest and declining gold production, affected by the energy crisis, weakened exports. Non-oil imports were slightly higher than projected, despite the exchange rate depreciation, but were offset by a compression in oil imports. Reflecting the lower than projected Eurobond issuance, the overall balance and reserves accumulation are expected to be somewhat lower than projected at the time of the first review.

Quantitative performance criteria and structural benchmarks

14. All performance criteria (PC) at end-August 2015 were met, except for the continuous PC on non-accumulation of external arrears. The PCs on BoG's net international reserves (NIR), net

domestic assets (NDA) and gross credit to government were met, along with the PCs on the primary fiscal surplus, the wage bill and net reduction in the stock of arrears.

15. The indicative target on inflation was missed by more than 2 percentage points mainly due to the pass-through effects of the exchange rate depreciation that occurred during the period. Social protection spending picked up and exceeded the end-August indicative target. Despite measures to strengthen debt service monitoring, the continuous PC on non-accumulation of external arrears was not met as new delays in payments occurred led to small arrears on external debt to official creditors. These delayed payments in small amounts were mainly due to discrepancies on the debt management database projections and variation from expected payments to some creditors especially with regards to loans with variable rates. In addition, the authorities raised some queries on some debt obligations to some creditors whose resolution resulted in the delayed payments. All external debt payments have been honoured as at now.

16. Status of structural benchmarks (SBs):

a. The end-August SB requiring an approval by cabinet of a new PFM reform strategy and action plan, including a strategy for the completion of the Treasury Single Account was met.

b. The end-September SB on completing the diagnostic asset quality review of banks was met. The BoG has reviewed the report and is developing a plan to strengthen the provisioning of loans to SOEs.

c. The October SB on adopting the presumptive income tax and revising VAT thresholds was partially implemented. The presumptive income tax was introduced as part of the new Income Tax Act, 2015 (Act 896) in September. The 2016 Budget, presented in November, has proposed to revise the threshold for VAT registration to GH¢ 200,000. The threshold to classify large taxpayers will be then increased to GH¢ 10 mil.

d. The October SB on exemptions to be eliminated was partially implemented. The tax income exemptions for free zones companies after tax holiday have been reduced. The new tax rate is set at 25% for free zones operating in the domestic market and 15% for those exporting outside the domestic market. The 2016 Budget has proposed to review the GIPC act and suggests administrative measures to limit the impact of exemptions on the tax base.

II. THE GOVERNMENT’S ECONOMIC PROGRAM

Macroeconomic Framework for the remainder of 2015, 2016 and the Medium-Term

17. **Outlook for 2015.** Real GDP growth is expected to reach between 3 and 4 percent in 2015, affected by the continued energy crisis, and weak agricultural and gold production. Average

inflation is projected at 17.3 percent in 2015, reflecting the pass through of exchange rate depreciation in the first half of the year, and the increase in utility tariffs implemented in December 2015 (59 percent for electricity and 67 percent for water). The 2015 current account deficit is projected to narrow to 8.2 percent of GDP. The proceeds from the 2015 Eurobond and a Cocoa Board loan helped reserve accumulation late in the year, and gross reserves at end-2015 would cover 3 months of imports of goods and services.

18. **Outlook for 2016.** GDP growth is expected to increase to 5.4% in 2016, as oil and gas production would pick up strongly and the energy crisis is resolved. Average inflation is expected to moderate to 15 percent (10 percent end of period), under the effects of tight monetary policy and the ongoing fiscal consolidation. While the external current account is expected to be somewhat smaller than in 2015, the overall balance could reach a surplus of around US$ 1 billion assuming inflows associated with a Eurobond of US$750 million.

19. **Medium term Outlook.** Medium-term projections remain broadly unchanged. Nonoil growth is projected to rebound to reach an average of about 6 percent over the medium term. Oil production, however, is projected to start declining from 2018, exerting a drag on headline GDP growth. Inflation is expected to reach the target band of 8% +/- 2% during 2017 and stabilize thereafter. As oil production increases, the current account deficits are expected to further shrink, and gross international reserves would stay comfortably above 3-month of imports.

Fiscal Policy for the Remainder of 2015, 2016, and the Medium Term

20. The government is committed to achieving the 2015 overall fiscal deficit of 7.3 percent, corresponding to a primary deficit of about 0.3 percent of GDP, through continued strict expenditure control. To keep the wage bill within the budget target, the government intends to continue with the policy of net hiring freeze, except in health and education, while using the mechanism of budget allocation to control discretionary spending in line with the budget envelope for the remainder of the year. At the same time, it will be important to use the available space to continue protecting the pro-poor and other priority spending. Another key element of the consolidation strategy that government will continue to pursue is the arrears clearance strategy, while staying current on this year's budget execution. Supporting the government continued expenditure restraint policy is the expectation that revenue collection will remain in line with the performance over the first three quarters of the year.

21. Fiscal policy over the medium-term will aim to progressively reduce the fiscal deficit to 3.7 and 3.0 percent of GDP by 2017 and 2018, respectively. This reduction in the fiscal deficit will be driven mainly by continuing the revenue and expenditure measures which have been implemented since 2013, strengthening the ongoing revenue administration reforms, improving public financial management and expenditure rationalization to enhance the efficiency of public spending, as well as the implementation of new debt management strategies.

22. The 2016 budget not only aims at consolidating the fiscal gains so far, but intends to further deepen the fiscal consolidation. The government will be facing additional fiscal pressures next year

stemming from the challenges to cover the election cost (estimated at about 0.5 percent of GDP) and the increase in the wage bill while ensuring that the budget would be financed amidst adverse financing conditions. To help restore investor's confidence and strengthen the public debt dynamics, the government is aiming for a further fiscal adjustment of about 2 percentage points of GDP to bring the fiscal deficit to about 5.3 percent of GDP in 2016. The 2016 budget includes a package of measures, including one-off measures, to boost revenue mobilization and expenditure rationalization to ensure the achievement of the government's fiscal objectives;

- Sale of communication spectrum (0.4 percent of GDP). Government has started the process for the auctioning of the first Digital Dividend in 800MHz frequency band to enable analogue TVs receive the digital signals. This sale is expected to be completed by the end of the first half of 2016 and the net proceeds estimated at 0.4 percent of GDP lodged in the third quarter of the year.

- Full implementation of the Income Tax Act starting in January 2016, which was passed by Parliament. The new Act which seeks to simplify the income tax regime and improve tax compliance through new withholding mechanisms in key sectors is expected to yield additional revenue equivalent to 0.3 percent of GDP.

- Implementation of the Common External Tariff (CET). Following the approval by the authority of Heads of States and Governments of ECOWAS states, the implementation of CET came into effect on 1st January, 2015. Ghana will join eight ECOWAS countries which are already implementing the CET after Parliament has passed the CET Bill in August. The implementation of the CET will imply that some tariff lines will change which will result in net increase in import duties (0.2 percent of GDP).

- Enhancing tax compliance. The government intends to continue with its policy of additional revenue mobilization through tax base broadening and increased compliance, which is expected to increase tax revenues by about 0.2 percentage point of GDP,

- Realignment of mandatory transfers to statutory funds (0.7 percent of GDP): To address the increasing rigidities in the budget that limits the room for policy maneuver, the government intends to realign part of the transfers to statutory funds (about 0.3 percent of GDP) to cover priority spending of goods and services in the 2016 Budget and reduce other earmarking by about 0.4 percent of GDP. The approved amounts will be deducted at source from the statutory funds and used for funding the respective central government programs. At the same time, for transparency purpose, the government has identified in the budget additional earmarking of about 0.5 percent of GDP, including the corresponding tax revenue, therefore ensuring budget neutrality.

- Rationalization of Internally Generated Funds (IGFs) (0.1 percent of GDP). As part of the rationalization of IGFs (funds collecting fees and charges), MDAs that are authorized to retain IGFs will be required to transfer a minimum of 15 percent of their revenue for use by their sector

Ministries and/or umbrella organizations (e.g. Commissions and Councils) to fund activities programmed in the budget.

- Wage bill restraint. Following the agreement with the labor unions on a 10 percent salary increase for next year, ahead of the budget presentation, the government intends to continue with the policy of net hiring freeze for the civil service, excluding the health and education sectors, while also weaning off at least four subvented agencies.

The authorities are committed to implement corrective measures if fiscal risks materialize. The government intends to address any deviation from the fiscal targets stemming from possible revenue shortfall or additional and unforeseen expenditure pressure, possibly through reducing discretionary non-priority spending in a similar way as they compensated for the shortfall in oil revenue early in 2015.

Arrears Clearance Strategy

23. The government remains committed to its medium-term arrears clearance plan. It plans to clear the remaining stock of arrears in the coming two years: GH¢ 2,313.2 million in 2016 and GH¢ 2,816.8 million in 2017. These include mainly arrears to utility companies, other SOEs, statutory funds, and the pension fund. In addition, the government has provisioned GH¢ 800 million for the repayment of potential arrears that may be identified through the ongoing audit of the additional claims by oil importers related to losses due to underpricing and foreign exchanges losses in 2014 and early 2015.

Program Financing and Debt Management Strategy

24. Financing of the program will be underpinned by the Medium-Term Debt Management Strategy (MTDS) covering the period 2016-2018. The goal is to move to sustainable debt levels and reduce the cost of debt service while taking due account of the risks. The strategy aims to continue the course begun in the 2015-2017 MTDS, with the aim to ease supply pressures on the domestic market and achieve a reduction in domestic yields. The financing mix will include the issuance of a new Eurobond in the amount of $750 million to $1 billion in 2016 (i) to facilitate the elimination of government financing by the BoG; (ii) to support international reserves; and (iii) to retire short-term domestic debt. The Eurobond, together with sustained fiscal consolidation, will help to continue reducing the volume of domestic debt issuance. The reduction in supply of domestic securities will coincide with renewed efforts to lengthen the maturities of domestic debt issuances. Consistent with this objective, the government recently opened the 2-year maturity segment to non-resident investors. The Ministry of Finance will also explore the possibility of credit lines arrangement or bridge financing for liquidity management purpose, in conjunction with a possible new BoG short-term credit window (with amount and duration strictly capped).

25. Over the medium-term, the financing mix will shift back to greater reliance on domestic debt, with further cuts in external borrowing in 2017 and 2018, when foreign exchange inflows will be boosted by oil and gas exports.

26. The Government has been implementing reforms which would deepen the domestic debt market. The auction frequency of the 1-year and 2-year notes has been reduced to enhance the role of the secondary market. Benchmark securities will be introduced to improve the liquidity of the secondary market and facilitate price discovery. Ultimately, the goal is to have a handful of benchmark securities, and retire over 270 non-fungible securities currently outstanding. The government plans to reopen existing securities to build benchmark securities. It would also implement exchange offers, in line with international best practices, in order to manage debt redemptions before maturity dates. The ongoing review of the primary dealer system is expected to be finalized in 2016. Greater price transparency and an increase in trading activities in the secondary market would be facilitated by a recently introduced new electronic trading platform. Additional reforms in 2016 will aim at revamping the repo market

27. The Government will continue to reinforce its debt management policy to reduce debt vulnerabilities through the use of additional initiatives including:

- On-lending and Escrow Arrangements - Government has made significant progress in ensuring that loans signed for SOEs and MDAs for commercial projects are matched with on-lending agreements to ensure recovery and reduce the burden on the taxpayers.
- Sinking Fund - To manage the orderly redemption of sovereign bonds and other foreign and domestic debt instruments, the Sinking Fund Account has been set up and is receiving funds from excess over the cap of the Stabilization Fund. Transfers to the Sinking Fund will not take place through borrowing additional to the budget financing need. The fund will form the basis for spreading repayment of both principal and interest. The goal is to minimize the roll over risk associated with Treasury Bills, Domestic bonds and Eurobonds.
- Sovereign Guarantees - Government will continue to encourage SOEs and SPVs to borrow on the strength of their own balance sheet. This approach does not only ensure the efficient running of these SOEs but also removes the need for Government to backstop SOE payment default in purely commercial agreements. It prevents the situation under which SOE debt increases the State's contingent liability and potentially, when they crystallize, add to public debt stock.

Monetary Policy and Exchange Rate Issues

28. Monetary policy will continue to be guided by the BoG's inflation targeting framework, which aims to maintain headline inflation at the midpoint of the target range (8±2 percent) in the medium term, in the context of a floating exchange rate regime. After a short-lived decline of inflation to 16.4 percent in January, it increased to 17.4 percent in October 2015. To bring inflation back to the target band in the medium term, the BoG increased its policy interest rate cumulatively by 500bp between May and November 2015. The increase in the policy rate should help stabilize the exchange rate and contain inflationary expectations. The BoG stands ready to further tighten monetary conditions, if necessary, to ensure that inflation and inflation expectations move gradually towards the target. In recognition of the strengthening of the BoG's inflation targeting framework, it is proposed that the inflation objectives under the program be monitored through a monetary policy consultation clause (MPCC), although developments in BoG's net domestic assets would

continue to be monitored, as an indicative target. The MPCC would consist of a performance criterion on 12 month headline CPI inflation projection with an inner band set at +/- 2pp and an outer band set at +/- 3pp. A deviation from the inner target band would lead to a consultation with Fund staff, while a deviation from the outer target band would trigger a formal consultation with the Executive Board.

29. The BoG has been reforming its monetary operations, in consultation with Fund staff, in order to facilitate money market development and enhance the effectiveness of the inflation targeting framework. In August, the BoG introduced a new fixed-rate full-allotment 7-day reverse repo to serve as its main instrument for injecting liquidity in the interbank market. Together with the introduction of a weekly auction of 14-day BoG bills in February to serve as the main liquidity draining instrument, these reforms provided banks with greater flexibility in liquidity management and helped bringing 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.

30. The BoG is taking further steps to enhance liquidity forecasting, its monetary operations and the framework for repo transactions. The BoG will adopt disaggregated liquidity forecasting techniques, with AFRITAC WEST 2 technical assistance, and set up a financial market analysis unit to ensure synergy between the monitoring and forecasting of liquidity and monetary operations. To enhance the latter further, the BoG will: (i) develop guidelines for the use of fine-tuning operations (quick tenders) based on liquidity forecasting and market monitoring; (ii) increase the reserve maintenance period to two weeks once monetary conditions start to normalize; (iii) launch a formal consultation with commercial banks in order to revise the calculation of the base rate. Regarding the functioning of the repo market, the BoG will request a qualified legal opinion on the enforceability of agreements of interbank repo transactions carried out the Central Securities Deposit (CSD) repo platform, and review the terms at which the BoG conducts repos with its own counterparties, to ensure the guidelines on collateral adequately protect the BoG from credit risk. The BoG will also promote a classic interbank repo transaction, once the CSD platform becomes fully functional in March 2016. Finally, the BoG will review the list of monetary counterparties and exclude non-banks, in order to encourage more flows to be intermediated by the market.

31. The BoG is also strengthening its monetary policy formulation process and communication. Consistent with the recommendations of IMF technical assistance, the BoG has introduced a pre-MPC meeting to enhance the quality of policy deliberations, boosted the capacity of the core forecasting team and redesigned the MPC press release. Further reforms under way include expansion of the Public Affairs Office, adoption of a new external communications strategy, the improvement of the quarterly projection model and the reorganization of the Research Department into a new Economics Department, which would house forecasting activities, and a separate new Statistics Department focusing on ensuring the integrity and quality of data used in the policy formulation process.

32. In order to deepen the foreign exchange (FX) market and promote its smooth functioning, the BoG will implement a phased plan for the elimination of FX surrender requirements from exporters to the BoG, based on Fund-staff recommendations. In the initial phase, to be completed

by end March 2016, the regulatory and monitoring framework for the repatriation requirement and its enforcement will be strengthened, through: the issuance of new regulations to be published on the BoG website, the cessation of discretionary exemptions and initiation of the review and subsequent amendment of existing concessional export retention agreements (the latter should be completed by end-June 2016). The authorities will also ensure that any new concessional retention agreement should incorporate the following elements: i) standardized sector-wide retention clause, ii) retention, if any, is allowed in Ghana only and, iii) introduction of sunset cause in respect of retention of export earnings. This will ensure that all eligible export proceeds reach the Ghanaian economy. The strategy for the elimination of surrender requirements and its rationale will also be communicated to banks and the surrender requirement for gold and residual cocoa export proceeds will be redirected to commercial banks. Finally, a rule-based and market-determined system will also be designed for the sale of FX that the BoG continues to receive. In an intermediate phase, to be completed by end June 2016, the settlement mechanism to address the stock of matured letters of credit (LCs) to oil importers will be agreed, following an audit to determine which LCs are eligible for such resolution (the BoG stopped providing foreign exchange to new oil import LCs from July 2015 onwards). In the final phase, the pre-payment lump-sum cocoa export proceeds will be surrendered to commercial banks, after an interim period (to commence by end September 2016), whereby the BoG will continue to receive the export proceeds but will sell them to commercial banks through implementation of the new the rule-based and market-determined system.

33. Amendments to the Bank of Ghana Act have been drafted by a committee within the BoG led by the Legal Department in consultation with the MOF and other stakeholders. The draft will also seek to incorporate relevant comments from the IMF's Legal and Monetary and Capital Markets departments as well as recommendations of the latest IMF Safeguards Assessment Mission. The amendments will strengthen the autonomy of the central bank to implement monetary policy effectively, by reinforcing the independence of the Board and Monetary Policy Committee and putting clear limits on central bank financing of government. The amended Act would allow for a short-term credit line to the government that will be strictly temporary (allowed to have a non-zero balance only during 90 business days of the calendar year) and limited (capped at 2 percent of previous year's government revenues). Following approval by the BoG Board, the final draft Act will be delivered to the Cabinet for their consideration and onward submission to the Attorney General for their review, before the final submission to Parliament by end-December 2015.

34. With these improvements to the monetary operations framework, the functioning of money and FX markets, the policy formulation process and the institutional framework, as well as eliminating BoG credit to the government, the inflation targeting framework will become fully effective.

Financial Sector Issues

35. The 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 and, once approved, the BoG will develop regulations needed to fully implement these laws by June 2016, with assistance from the long-term IMF advisor.

36. A special diagnostic external audit of commercial banks to review asset classification and valuation, provisioning and loan restructuring practices, according to both the BoG prudential requirements as well as International Financial Reporting Standards (IFRS), was completed in September (end-September 2015 SB) and a final report is due by the end of December. In parallel, the BoG has evaluated non-performing government guaranteed/quasi-fiscal exposures and their effect on banks' loan books. The preliminary results indicate some differences in the interpretation of the guidelines relating to impairments. After reviewing these discrepancies with the banks, the BoG will take action to remedy under-provisioning and require banks to increase capital, if necessary, in line with a timeline, which will be agreed with the banks. The BoG will also issue a guideline to consolidate earlier directives issued on the IFRS as well as give a position clarifying grey areas of the standard. Areas of the prudential norms, which are not too clear are also being reviewed.

37. The BoG has been collaborating with AFRITAC WEST 2 to build capacity for implementing Basel II/III and a long term advisor (from the Fund) commenced duty in October to assist the Bank on banking supervision. The BoG has also requested Fund staff to conduct a Financial Sector Assessment Program in 2017.

III. STRUCTURAL REFORM AGENDA

Tax Policy and Tax Administration

38. **Tax Policy.** A new Income Tax Act (Act 896) came into law in September, which introduced a new simplified scheme for small businesses, the Presumptive Income Tax. The new Income Tax Act introduces a presumptive income tax, which simplifies the taxation regime for small taxpayers. Taxpayers with turnover below GH¢ 120,000 and not required to register for VAT, are subject to a 3% tax on their turnover. To avoid that small taxpayers in the informal sector are liable to VAT registration, the Government of Ghana (GoG) intends to increase the value of the threshold for VAT registration. Starting in 2016, the threshold will be increased to GH¢ 200,000 by adopting an amendment to the VAT Act by end-2015.

39. To increase oversight over the granting of exemptions, the Ministry of Finance has issued a circular to all MDAs and other government agencies stating that no tax exemption can be granted without being authorized by the Minister of Finance, before being submitted for approval by Cabinet and ratification by Parliament. The GoG has introduced administrative measures to make it mandatory for GIPC to seek the Ministry of Finance's approval before submitting investor status requests to the President. As part of the overall review of tax incentives, the GoG will seek to introduce this requirement in the law by amending the Ghana Investment Promotion Act.

40. The Tax Expenditures Committee (TEC) at the Ministry of Finance has finalized an assessment of tax expenditures for the period 2008-2015. The GoG has also asked the World Bank to conduct in

parallel an independent assessment. Both studies evaluated tax expenditures related to customs duties and the corporate income tax. The World Bank study has quantified also tax expenditures related to indirect taxes, although only for 2013 because of data availability. Both studies have reached similar conclusions for what concerns the amount of customs duties and income tax expenditures, roughly close to 1 percent of GDP. Additionally, the World Bank estimated VAT tax expenditures close to 4 percent of GDP. The Government will request for Technical Assistance from the Fund to guide the reforms aimed at reducing exemptions substantially.

41. Following the recommendations of these studies, the GoG has agreed to progressively use tax credit schemes instead of outright exemptions and explore the use of Double Taxation Agreement (DTA) provisions to our advantage instead of granting outright exemptions. The Budget 2016 has also introduced further administrative measures to reduce the negative impact of exemption on the tax base including: limits on the use of permits to clear goods from our ports; administrative review of the free zones regime following recent amendments; improvement in warehousing practices including the licensing of software requirements; Customs and Domestic tax office to revalidate all existing exemptions on file leading to a new list and new implementation guidelines from January 2016.

42. The Government will strengthen monitoring and control of tax expenditures by enhancing data sharing among various stakeholders (GRA, Free Zone Board, GIPC, the Ministry of Finance). The MoF will strengthen reporting requirements for income taxes and will start processing past and future income data electronically, to prevent errors in data collection.

43. **Tax Administration.** The Ghana Revenue Authority (GRA) started implementing its second Strategic Plan for 2015-2017. GRA benefited from two AFRITAC West 2 technical assistance missions in September, which helped to enhance project governance structures and implement operational plans, performance monitoring and evaluation practices. GRA will finalize an operational plan for 2016 by end-December 2015.

44. The roll-out of TRIPS is ongoing, with all the modules already rolled-out at twelve pilot sites as of August 2015, and staff being trained for their implementation. However, the refund module is yet to be configured. An independent evaluation, performed by AFRITAC West 2, will assess by end-June 2016 the implementation of the modules at the pilot offices.

45. GRA will further improve the functioning of the VAT refund system. The General Refund Account was instituted in June 2015 to alleviate the problems related to the availability of funds to repay excess VAT credits. The General Refund Account is funded with 4 percent of total revenues. While the monthly inflows of revenues into the refund account has more than doubled in comparison to the old scheme, the available funds are not yet sufficient to avoid the accumulation of VAT refunds arrears, estimated at GH¢ 217 million in October 2015. The GRA will speed up the refund process by adopting the following measures: i) establishing a monitoring and workload management system for VAT refunds; ii) implementing a risk-based approach in VAT refund processing; iii) increasing the share of revenues paid into the General Refund Account to at least 6

percent; iv) strengthening penalties for overstated VAT refund claims effective January 2016; and v) paying interest on all legitimate VAT refund claims filed which are in arrears.

46. GRA has recently established a Risk Management Unit (RMU) to identify and alleviate compliance risks. Following the recommendations of previous FAD technical assistance, the GRA will establish a Compliance Risk Committee (CRC) by end-December 2015 to direct the use of RMU resources, evaluate completed projects, and initiate and monitor effectiveness of the GRA response to identified risks. The CRC will oversee the development and implementation of a cross-functional compliance strategy for 2016 and beyond, with comprehensive annual action plans, monitoring, and ex post evaluation of tax payments by end-June 2016.

47. To improve the performance of tax audit outcomes, GRA has started to apply the Risk Base Audit (RBA) program to enhance the detection and deterrent effect of audits. The RBA has started to use both GRA and third party information (e.g. government contracts payments, import declarations) as a tool to improve enforcement results and voluntary compliance. GRA will regularly prepare quarterly reports starting end of June 2016, on progress made in the actual use of RBA, highlighting in particular its effectiveness in widening the tax net.

48. The GoG will implement the Electronic Point of Sales Device. Cabinet has granted approval and the Bill is being prepared by the Attorney-General. It is expected that the successful implementation of this policy will eliminate revenue leakages, and exact better compliance from targeted taxpayers. Implementation is expected to start in the second half of 2016.

49. Customs senior management will continue implementing several initiatives already started in 2015 and which aim at: strengthening the controls of the Free Zones and Warehousing Regime; strengthening the controls of the Temporary Vehicle importation Regime; strengthening export and re-export controls.

50. **Natural Resource Management.** The GoG will continue strengthening its capacity in managing oil and gas revenues, with the assistance from the Fund. A technical assistance mission from the IMF in August has provided training on the key economic concepts for fiscal regime design and revenue forecasting, introducing the Fiscal Analysis of the Resource Industries (FARI) model, developed by the Fiscal Affairs Department (FAD) of the IMF. The training also covered interpretation of the key provisions of the PRMA, addressing practical implementation and interpretation issues. The GoG has requested further training, and intends to eventually extend the use of the FARI model to the mining sector.

Reforms to Improve Public Financial Management

51. **PFM reform action plan**. Following the approval by Cabinet of the PFM reform strategy document for the period 2015-2018 in June 2015, the Government has developed in August with help of technical assistance from AFRITAC West 2 a monitoring framework and an action plan. The GoG intends to submit quarterly implementation reports of the action plan to the Steering Committee starting in the first quarter of 2016.

52. **Review of the PFM legal framework.** The work on the new PFM bill is ongoing, and the GoG will conduct further consultations to prepare the drafting instructions to finalize some provisions of the law. The GoG will seek further technical assistance to introduce in the law fiscal principles and procedures that will guide the macro-fiscal policy planning process, including the adoption of a pre-budget statement approved by the Cabinet and shared with Parliament that presents and includes the Medium-Term Fiscal Framework (MTFF) with fiscal objectives and targets and medium term macro-fiscal forecasts. The GoG will also seek further technical assistance to reduce rigidities associated with budgeting for expenditure under statutory funds and their interaction with other aspects of the budget. After a second round of consultation with stakeholders and the IMF, the draft bill will be presented to Cabinet for approval by end-March 2016. The GoG intends to submit the PFM bill to parliament for approval by end-June 2016, and will adopt regulations for its implementation by December 2016.

53. **Strengthening credibility of the Budget.** The GoG intends to strengthen the fiscal planning process. A technical assistance mission from the IMF in August has reviewed the status of fiscal planning in Ghana and provided several recommendations. The GoG intends to start making publicly available by May 2016 a pre-budget statement approved by Cabinet. The content of the pre-budget statement will be aligned with the provisions in the draft PFM law that will be approved by Cabinet in March 2016. At a minimum, the pre-budget statement will include: the government's debt and deficit targets for 2017; recent fiscal developments; medium-term fiscal forecasts; broad outline of fiscal policy measures to achieve the fiscal objectives and targets; and the medium-term fiscal framework. The pre-budget statement will be made publicly available on MoF's website.

54. **Extending GIFMIS coverage.** In line with the goal to enhance comprehensiveness and transparency in PFM, the GoG intends to incorporate IGFs, statutory funds, and donor funds on the GIFMIS and the Treasury Single Account (TSA). These funds are equivalent to 34% of the budget expenditures, are presently operated outside the GIFMIS and their expenditure transactions do not form part of the GIFMIS reports. A stakeholder workshop was held on October 15, 2015 in which the roadmap was agreed for the full implementation of all IGF transactions on GIFMIS. In all, 50 IGF generating institutions were identified and targeted for inclusion on the GIFMIS. The agreed roadmap involves a three-stage implementation process: (a) completion of pilot implementation at 5 IGFs generating MDAs by March, 2016 and closure of their commercial bank accounts, (b) rollout to the 20 MDAs generating the highest IGF by December 2016 and closure of their commercial bank accounts, (c) rollout to remaining 25 IGF generating MDAs by December 2017 and closure of their commercial bank accounts

55. **Improve controls in Budget Execution.** The GoG intends to introduce a provision in the new PFM law and its regulations, to restrict MDAs from entering into new or making adjustments to existing contracts which involve off-budget financing or for which funding is not guaranteed within the approved budget or projections over the medium term.

56. **Budget Execution Reports.** The GoG will continue publishing budget performance reports on the website of the Ministry of Finance. To further enhance fiscal transparency, starting in the second quarter of 2016, the GoG will publish quarterly budget execution reports. The budget

execution reports will present: an overview of the most recent macroeconomic trends; information on how budget revenues and expenditure are performing during the year; and an explanation of their deviations from budget estimates.

57. **Procurement Management.** The GoG will enhance the on-line procurement systems and require MDAs to prepare procurement plans, as part of budget preparation process. The Public Expenditure Management Unit (PEMU) will be informed on a regular basis on the implementation of procurement plans.

Payroll Management and Controls

58. **Data Clean-up.** The process of payroll clean-up began by the inter-ministerial Committee of Cabinet on payroll in March 2015. As part of this clean-up exercise, the Government is currently focusing on improving the quality of data entry and eliminating historical duplicates. To this end, the GoG has hired a consultant for the development of the E-form, which will allow automation in the submission of payroll input forms so as to improve the quality of the data entry. The IPPD2 does not have a system verification check on the input of the original data. The GoG intends to implement by March 2016 an approval step, which will require a second check on the inputs of the key data which drive the payment process.

59. **Biometric Validation.** The GoG plans to interface the mechanized payroll to the biometric database of SSNIT and use that database to do periodic validation of staff. To complete this integration, SSNIT has to first biometrically register all the members on the mechanized payroll. So far, the biometric registration exercise of SNNIT has resulted in the registration of 222,444 out of the existing 467,781 eligible SSNIT contributors on the mechanized payroll. It is expected that the remaining 245,337 will be biometrically registered in the SSNIT database by end of March, 2016. As the initiative is undertaken, a joint technical working group of CAGD/SSNIT has been constituted to identify the optimal way to interface the mechanized payroll with the SSNIT database by June, 2016.

60. **Payroll processes.** The GoG intends to significantly reduce the delays that employees currently experience during the update of payroll following the finalization of recruitment process. These delays occur over the entire payroll process, with the largest delay occurring when MDAs have to input forms on behalf of employees. The GoG intends to start tracking the status of the payroll input recruitment forms from the start of the process until the data is updated on the mechanized payroll Government will also update the payroll policies and procedure manuals. The E-form, when introduced, will also significantly reduce the time lag experienced with the update of the payroll. The implementation of the E-forms is expected to be completed by September, 2016.

61. **Human Resource Management.** Human Resource Audits have been undertaken by the Public Service Commission (PSC) to reconcile the mechanized payrolls with the GoG Established Posts strength. The report of the audit is currently being prepared and is expected to be finalized by Mid-November. The reconciliation will pave the way for the integration of IPDPD2 with HRMIS. Before any organization actively uses HRMIS, the GoG intends to perform an independent

verification to ensure the full matching of the Established Posts and the active payroll. To facilitate integration with HRMIS, the GoG intends to use the IPDD2 as the only active government payroll.

62. **Migration of Subvented Agencies to the mechanized payroll.** The migration of subvented agencies (SAs) on the mechanized payroll will improve controls over the public sector workforce and the wage bill. The total number of employees of SAs is 176,575 as of September 2015, of which 71,000 (40 percent of the total) are part of the National Service Personnel (NSP). Due to the transient nature of the employees in the NSP, their migration on the mechanized payroll could be highly inefficient and uneconomical, and so the decision has been taken not to migrate them on the mechanized payroll. The GoG plans to migrate first 1,420 (0.8 percent) employees belonging to smaller organizations by end-December 2015. The migration of employees belonging to eight public universities and all remaining SAs' employees (37 percent), including the GRA and the police but not the army, will be completed by end-May 2016. Control of the army payroll will be strengthened using payroll verification mechanisms.

63. **Publication of a report on status of implementation of the payroll clean-up plan.** The GoG intends to publish a quarterly report on the status of implementation of measures to clean-up the payroll. The first quarterly report was published on the CAGD website in September 2015. The second report (covering third quarter) was published in October, 2015. The third report (covering fourth quarter) on the implementation of the payroll clean-up plan will be published in January 2016.

Improve Treasury and Cash Management

64. **Cash Management.** The GoG will continue working to improve cash management and avoid the build-up of arrears. In this regard, the Cash Management Working Group (CMWG) intends to obtain technical assistance to enable them to adopt the following measures: finalize the cash flow forecasting model and implementing it at the Ministry of Finance; develop a cash management database to improve the accuracy of data used for forecasting; improve control of budget execution by issuing payment advice notices only on the basis of cash availability.

65. **Treasury Single Account.** The GoG has submitted to Cabinet in October the strategy for the implementation of the Treasury Single Account (TSA). The GoG, in collaboration with the BoG, intends to develop an action plan to implement the strategy by January 2016. The GoG will produce by March 2016, together with the BoG, an inventory of all government bank accounts at the commercial banks regardless of budgetary fund (internally generated funds, statutory funds, donor funds, etc.…) to be used to establish a cash position. This is to enhance controls over cash holdings by establishing payment rules (by December 2016) that govern the disbursements from TSA Bank accounts. It is also expected to eliminate the use of bank accounts to separate accounting transactions based on cash sources. Instead, this shall be accomplished through the correct use of the national chart of accounts established in the GIFMIS (¶ 54). The inventory will include the following information: stock at the beginning and close of the fiscal year; owners of the account; deposit institution where the account is currently located. The GoG will provide an update of the

table every quarter. The BoG and the MoF will also perform, by March 2016, a joint exercise to analyze the impact of government banks' asset transfers on commercial banks' liquidity.

66. **Public Sector Reform.** The GoG has concluded a first round of consultations to develop a Public Sector Reform Strategy and has prepared a zero draft of a Public Sector Reform Strategy 2016 - 2020. Recognizing the failure of past strategies to implement reforms effectively, the new strategy has an institutional arrangement for the implementation of various initiatives envisioned in the new strategy to ensure continuity. The strategy has identified, among others, programs to: rationalize the public sector; link remuneration to productivity; enhance supervision and productivity in the public sector; establish a reliable public sector human resource management information system; improve responsiveness of public service to service delivery; and strengthen public sector management and oversight. A second round of consultations with stakeholders on the zero draft of the strategy was completed on December 2, 2015, and an engagement with Development Partners (DPs) on a revised draft (including a set of fully costed reforms) is scheduled for December 15, 2015. The new reform strategy, reflecting the inputs and comments from stakeholders and DPs, is expected to be adopted by cabinet by end-December, 2015.

67. **Reform of Subvented Agencies.** The reform of Subvented Agencies (SA) is guided by the application of the Subvented Agencies Act (706). With the aim to free up resources in the budget, the Act prescribes that the PSRS categorizes the SAs in the following groups: those that need to be closed as being no longer relevant to the government's development objectives; those that could be partially or fully commercialized; and those for which a review of the appropriate level of subvention is needed. In pursuit of this, Government intends to withdraw subvention to Driver and Vehicle Licensing Authority (DVLA); Environmental Protection Agency (EPA); Energy Commission (EC); Data Protection Commission (DPC); Gaming Commission (GC); and Securities and Exchange Commission (SEC); and eventually convert them into Companies in accordance with the Statutory Corporation (Conversion to Companies) Act, 1993, (Act 431).

68. Furthermore, the Government will engage another set of subvented agencies in consultations during a national NTR/IGF conference with the objective of changing the institutional, administrative, legal and regulatory arrangements on NTR/IGF mobilization and management and gradually reducing their dependence on GoG subvention. The target subvented agencies are: Teaching Hospitals; Tertiary Educational Institutions; Forestry Commission; Minerals Commission; Ghana Broadcasting Corporation; Ghana Investment Promotion Council; Ghana Standards Authority; Food and Drugs Authority; and Ghana Free Zones Board.

69. The Retention of Funds Acts, 2007, (Act 735) will be amended such that all MDAs and subvented agencies that subsist on GoG subvention and are authorized to retain all of their NTR/IGF, will be required to transfer a minimum of 15 percent of their revenue for use by their sector Ministries and/or umbrella organizations such as Commissions and Councils to fund related social intervention expenses. For the other subvented agencies, guidelines would be provided for the use of NTR/IGF. Pending the amendment, this measure was already introduced in the 2016 budget.

70. **State Owned Enterprises (SOEs).** The GoG has strengthened monitoring and evaluation of the state-owned enterprises (SOEs). Performance management contracts, rigorous training of senior managers, and a platform facilitating monitoring of the SOEs by the Office of the President, the Ministry of Finance, the Speaker of Parliament and relevant sector Ministers will help strengthening operational and financial discipline. To improve the financial viability of utility companies and avoid risks of fiscal contingent liabilities, GoG will include targets for reducing technical and non-technical losses in the performance contracts of senior managers and restore the practice of quarterly tariff adjustments in accordance with the formula. The authorities have also been working on partial privatization of selected SOEs.

71. SOEs' governance and accountability frameworks will be strengthened, in collaboration with development partners. To this end, the authorities will conduct an assessment of SOEs' governance and prepare an action plan by end-May 2016 and will establish a single entity to improve the oversight of the SOEs by end-September 2016. The government has conducted an assessment of arrears between the government and SOEs and cross-SOEs' arrears and prepared an action plan and a timeline for their elimination. This will include the repayment of the "legacy debt" to ECG in the amount of GH¢728 million over five years, and the government started making quarterly payments of GH¢36 million—financed from the budget and the sales of liquid natural gas from the National Gas processing plant. The government will also ensure not to accumulate any new arrears to SOEs.

72. The GoG will restore the operational and financial soundness of the energy sector to ensure reliable electricity supply in Ghana. The implementation of the Millennium Challenge Compact in the amount of US$498.2 million will, among other things, support the Financial and Operational Turnaround of the ECG and strengthen its governance and management by bringing on board a strategic private sector partner to develop a long-term program to reduce losses and improve the quality of service. The IFC has been selected as a Transaction Advisor to advise on the options for the selection of a suitable private partner. By end-January 2016, tender documents will be issued to prospective bidders.

73. **Statutory Funds.** The Cabinet has approved proposals to align central government expenditures to the Statutory Funds. In effect, part of transfers to statutory funds will be used to cover programs that have been executed by the central government. This is a very good first step towards aligning statutory fund expenditures with government priorities. The GoG intends to use the budget process and the budget implementation instructions to ensure smooth implementation of this high-level expenditure management decision.

IV. POLICIES TO SUPPORT GROWTH AND POVERTY REDUCTION

Supporting growth

74. The short-term priority will be to **resolve the electrical power crisis** which has contributed to a recent contraction in the performance of manufacturing. Towards redressing this crisis, Government will continue making investments that are aimed at rehabilitating and expanding the country's energy infrastructure. Government will also provide appropriate support through the use

of the World Bank and African Development Bank Partial Risk Guarantees (PRGs) and put/call options for power projects to encourage private sector participation.

75. In **Agriculture**, the policy will be largely towards modernization and interventions will aim at rehabilitating and improving irrigation infrastructure, continuing the Fertilizer Subsidy Programme, and expanding the Agriculture Mechanisation Centres (AMSECS). In the cocoa subsector, the policy of direct intervention will continue in the form of the provision of free seedlings, free fertilizer application, and mass spraying of crops. Alternative cash crops such as Shea and coffee will be developed in line with the broader policy direction of export diversification.

76. GoG will also provide improved access to **export finance and export insurance** through the establishment of an Export and Import (EXIM) bank. In this regard, the Ghana Export and Import Bank (EXIM) Bill has been laid before Parliament.

77. **Infrastructure expenditure** will be targeted at projects that have the potential to induce transformative growth. To this end, a Ghana Infrastructure Investment Fund (GIIF) has been established with a legal backing. Some current projects that are commercially viable will be transferred to the GIIF for execution as soon as GIIF will be fully operational.

Reducing poverty

78. Ghana's current medium-term development plan (the GSGDA II, 2014-2017), which serves as the anchor for policy direction for economic development, was prepared within the context that Ghana attained lower middle income status in 2010 and recorded significant expansion in the economy over the period of the previous GSGDA (2010-2013). It, however, admits to the fact that the expansion has not fully manifested itself in adequate job creation and decent work, and poverty levels remain relatively high, especially in the three northern regions and among some socio-economic groups. Economic growth initiatives have been largely pro-poor with a steady rise in pro-poor spending. However, challenges still remain. The targeting mechanism for poverty reduction interventions continues to be weak, leading to growing income disparities among socio-economic groups and between geographical areas. Lack of adequate poverty data for mapping, planning and decision-making adversely affects the effective implementation of policies and programs. Poverty among women continues to be high due to lower literacy rates, heavier time burdens, lower access to productive resources, and weak implementation strategies of Government policies on women's economic empowerment.

79. The key policy objectives to be pursued to improve the administration of social policy, poverty reduction and the provision of social protection are: enhancing the institutional arrangements for sectoral collaboration on poverty reduction; developing targeted economic and social interventions for vulnerable and marginalised groups; reducing poverty among food crop farmers and fisher folks; reducing income disparities among socio-economic groups and between geographical areas; and ensuring the provision of reliable poverty data at all levels. Poverty-focused social expenditure in the education sector include those on the provision of free School Uniforms;

Free Exercise Books; Core Text Books; Capitation Grants; School feeding; Construction of Community Day SHS. In the Health Sector, programs on poverty reduction includes: Completion and equipping of nationwide CHPS compounds; Procurement of Psychotherapeutic Medicines; Expanded Program on Immunization (EPI) Vaccines; Procurement of Antiretroviral Medicines; Procurement of Commodities for TB; Malaria vector Control: Labiofam; and Counterpart funds for HIV/ AIDS Programs. In the Agriculture Sector, the Fertilizer and seed subsidy program will be continued. In the Energy Sector, the Self-Help Electrification Project will be strengthened. Other poverty-focused programs including the Livelihood Empowerment Against Poverty (LEAP), where GH¢50 million has been provided for in the 2016 Budget.

V. STATISTICAL ISSUES

80. The Ghana Statistical Service (GSS) and the BoG will implement improvements to economic and monetary statistics, in order to improve the quality of data used for policy making. The National Accounts will be rebased to 2014 (to be published in 2017) and a new annual benchmarking methodology will be introduced, as well as new sectoral surveys. In the interim, the GSS will continue to analyze the expenditure estimates to determine the cause of the significant statistical discrepancy, with the assistance of the AFRITAC WEST 2 regional advisor for statistics. All forecasting activities will be housed in the MoF, allowing the GSS to focus its resources on measurement. The BoG will request technical support to assist with the creation of a new statistics department and improvement of the collection, compilation and warehousing of monetary statistics.

VI. RISKS AND CONTINGENCIES

81. Key downside risks to the program include further tightening in government financing, global financial market volatility leading to lower private capital inflows, a further and sustained decline in key commodity prices (gold, cocoa and oil), economic slowdown in main trading partners, an unhinging of inflation expectations, and a prolongation of the domestic energy crisis. If (some of) these risks associated 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.

VII. PROGRAM DESIGN AND MONITORING

82. The non-concessional debt limits (PC) were increased from US$ 1 billion to US$ 2.5 billion in the context of the first review to accommodate the originally-panned Eurobond issuance of up to US$1.5 billion, some projects integral to the development program for which concessional financing is not available, and a World Bank loan. In addition, an indicative ceiling (IT) of US$ 100 million on concessional loans was created to comprehensively address the vulnerabilities associated with external debt. Growing uncertainties surrounding frontier markets allowed Ghana to issue only a Eurobond of US$ 1 billion in October. In accordance with the thrust of the World Bank's guarantee, the proceeds of the Eurobond will be purely used for debt management purposes by retiring expensive domestic debt. Up to end-August, zero non-concessional external loans for projects and

concessional external loans of US$ 200 million had been contracted. The World Bank has released a US$ 150 million loan in August.

83. For 2016 the non-concessional debt limit would be separately set for debt management purpose and for projects critical for national development for which concessional financing is not available. The former would be used to improve the overall public debt profile and set at US$ 1,150 million, including up to US$ 1 billion for a Eurobond and other form of nonconcesional borrowing, up to US$ 150 million for a World Bank loan. The latter would be set at no more than US$ 1,000 million on a cumulative basis from the beginning of 2015. A list of priority projects was established based on the priorities of the GSGDAII, the Budget, Cabinet Decisions, and the need for continuation of growth-oriented existing projects for which a stoppage could prove to be inefficient. This list is specified in paragraph 30 of the TMU. Concurrently, an indicative target of US$ 400 million would be established for concessional external borrowing. Going forward, the Ministry of Finance will hold timely consultations with the IMF staff on the possible terms of a Eurobond and other commercial external borrowing to ensure that such borrowing strengthens confidence in the program, does not jeopardize debt sustainability and is in line with the Fund's debt limit policy.

84. The authorities made significant efforts to prevent the reoccurrence of payments delays on external debt service, including by: simplifying the payment procedures among the ministries and BoG; strengthening the coordination between the Finance Ministry and BoG for a weekly monitoring of payments; establishing a monitoring database alerting the forthcoming payments based on original loan agreements well in advance of due dates; and requesting creditors to send payments notices prior to due dates (including proactively engaging with creditors based on the early alerting system). Despite these efforts, some small arrears were accumulated between September and November 2015 to official creditors. The authorities are going to eliminate the risk of delays in external debt payments by strengthening the debt management system, organization and procedures. To this end, the authorities have requested technical assistance from the Commonwealth Secretariat to strengthen the system and from the IMF to conduct an in-depth review of the debt management system, its organization and procedures. The implementation of TA recommendations will help eliminate the risks of delayed debt service payments in the future. The authorities will be working with the Secretariat and the IMF to ensure the complementarities of TA provided by both institutions. The authorities are fully committed to avoiding delays in debt service in the future.

85. The program will continue to be monitored based on periodic performance criteria, continuous performance criteria, Monetary Policy Consultation Clause, and indicative targets as at end-June 2016 and end-December 2016, set out in Table 2, with indicative targets for end-March 2016 and end-September 2016. To monitor progress on the structural reforms previously described, structural benchmarks are set out in Table 4. 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 third, fourth and fifth reviews under the program is expected on or after April 15, 2016, on or after October 15, 2016, and on or after April 15, 2017 with end-December 2015, end-June 2016 and end-December 2016 as test dates, respectively.

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	Adjusted target	Actual		Revised
I	**Quantitative Performance Criteria**											
	Primary fiscal balance of the government (floor in millions of cedis)	-4,465	...	-544	-536	46	-380	...	-282	237	-422	...
	Wage Bill (ceiling; in millions of cedis)	9,449	...	3,413		3,341	6,857	...		6,815	10,359	...
	Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars) [2]	1,415	...	1,042		1,186	331	147		566	1,962	2,278
	Net Domestic Assets of Bank of Ghana (ceiling; millions of cedis) [3]	3,107	...	5,755		5,561	8,772	...		7,846	4,914	3,410
	Net change in stock of arrears (ceiling, millions of cedis)	428	...	-424		-565	-1,001	...		-1,525	-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		15,017	14,614	15,814
	Non-accumulation of external arrears (ceiling; millions of U.S. dollars) [5]	...	...	0		1.7	0	...		0	0	...
	Non-accumulation of domestic arrears (ceiling; millions of cedis)	...	...	0		0	0	...		0	0	...
	Contracting or guaranteeing of new external nonconcessional debt (ceiling; millions U.S. Dollars)	...	...	0		0	1,000	...		150	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		17.3	12.0	19.6
	Contracting or guaranteeing of new external concessional debt (ceiling; millions U.S. Dollars)	...		...		...	...	...			100	...
	Social Protection (floor, in million of cedis) [6]	947	...	388		316	806	...		954	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 for 2015 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.

[6] The April 2015 data has been revised upwards.

Table 2. Ghana: Proposed Quantitative Program Targets 1/
(Cumulative from the beginning of the calendar year, unless otherwise indicated)

		2015	Mar 2016	Jun 2016	Sep 2016	Dec 2016
		Projections	Target	Target	Target	Target
I	**Quantitative Performance Criteria** [2]					
	Primary fiscal balance of the government (floor in millions of cedis)	-220	13	723	1,227	2,083
	Wage Bill (ceiling; in millions of cedis)	10,286	2,928	5,853	8,783	11,723
	Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars) [3]	863	-555	-357	-928	832
	Net change in stock of arrears (ceiling, millions of cedis)	-1,561	-630	-1,476	-2,313	-2,313
II	**Continuous Performance Criteria**					
	Gross financing of BoG to the Government and SOEs (ceiling; in millions of cedis) [4]	15,814	15,814	15,814	15,814	15,814
	Non-accumulation of external arrears (ceiling; millions of U.S. dollars)	0	0	0	0	0
	Non-accumulation of domestic arrears (ceiling; millions of cedis)	0	0	0	0	0
	Contracting or guaranteeing of new external nonconcessional debt (ceiling; millions U.S. Dollars) [5]	2,000	2,000	2,150	2,150	2,150
	o/w: Debt for a debt management purpose [6]	1,500	1,000	1,150	1,150	1,150
	Debt for projects (cumulative from the beginning of 2015)	500	1,000	1,000	1,000	1,000
III	**Monetary Policy Consultation Clause**					
	Twelve-month consumer price inflation (percent)					
	'Outer band (upper limit)	22.6	20.5	19.0	16.9	13.0
	'Inner band (upper limit)	21.6	19.5	18.0	15.9	12.0
	Central target rate of inflation	19.6	17.5	16.0	13.9	10.0
	'Inner band (lower limit)	17.6	15.5	14.0	11.9	8.0
	'Outer band (lower limit)	16.6	14.5	13.0	10.9	7.0
IV	**Indicative Target**					
	Net Domestic Assets of Bank of Ghana (ceiling; millions of cedis) [7]	3,410	4,031	3,818	6,447	265
	Contracting or guaranteeing of new external concessional debt (ceiling; millions U.S. Dollars)	100	400	400	400	400
	Social Protection (floor, in million of cedis)	2,489	522	1,050	2,573	3,022

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

[2] Performance criteria for end-June and end-December, and Indicative targets for end-March and end-September 2016.

[3] Program definition excludes foreign currency deposits in BOG. Defined as a change from end-2015.

[4] Defined as a level.

[5] The USD 2000 million ceiling, with the two subceillings, applies starting from the date of completion of the second review. Prior to this date, the ceiling remains as specified in Table 1 of the August 25, 2015 Supplementary Letter of Intent, and as specified in the August 2015 TMU.

[6] Nonconcessional debt used to improve the overall public debt profile, including a Eurobond.

[7] Net domestic assets is computed using the program's exchange rate of GHc 3.4 per U.S.$1 for 2015 and GHc 4.0 per U.S.$1 for2016 as defined in the attached Technical Memorandum of Understanding (TMU). Defined as a level.

Table 3: Structural Benchmarks for 1st and 2nd Reviews

Category	Structural benchmarks	Economic rationale	Indicative timeframe	**Status**
		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.	October 2015	**Not Met. Partially implemented (MEFP ¶ 16)**
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	October 2015	**Not Met. Partially implemented (MEFP ¶ 16)**
		Public Financial Management		
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/**
	- 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/**
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	**Met**
		Public 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**
		Monetary Policy and Financial Sector		
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/**

Table 3: Structural Benchmarks for 1st and 2nd Reviews (concluded)

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		May 15, 2015 May 15, 2015	**Met** **Met**
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	**Met**

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".
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."

Table 4. Ghana: Proposed Structural Reforms Benchmarks for 2015–16

Category	Proposed structural benchmarks	Economic rationale	Indicative timeframe	Paragraph
	Revenue administration and tax policy			
Revenue administration	-Publish the first quarterly report on the results of the risk-based audit of taxpayers program.	To enhance compliance in tax payments.	June 2016	47
Non-Tax Revenue	- Adopt and implement legal and regulatory changes to improve to improve management of Internally Generated Funds and channel a larger share of revenues through the central government budget.	To enhance mobilization of non-tax revenues	December 2016	69
	Public Financial Management (PFM)			
Human resource Management	- Finalize roll out the HRMIS to remaining MDAs	To strengthen control on net hiring and the wage bill.	December 2016	61
	- Integration of the GIFMIS Payroll, financial HRMIS and Hyperion in the Health and Education sectors.	To strengthen control on net hiring and the wage bill.	June 2016	61
Payroll Management	- Migrating employees of subvented agencies into the mechanized payroll	To strengthen control on net hiring and the wage bill	Proposed to be reset to May 2016	62
Subvented Agencies	-Wean-off the remaining eight subvented agencies from government payroll that were identified as commercially viable.	To strengthen control on the wage bill	June 2016	68
Budget Preparation	- Publication of a pre-budget statement, including explicit debt and deficit target for the 2017 Budget.	To improve budget credibility	June 2016	53
TSA	- Roll-out GIFMIS to 25 central government MDAs generating IGFs, including the 20 highest generating IGF, and close all related bank accounts in commercial banks.	To reduce borrowing costs	December 2016	54/65
Legal framework	- Submit to Parliament the draft PFM bill 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 1/	To strengthen the PFM system	Proposed to be reset to March 2016	52

Table 4. Ghana: Proposed Structural Reforms Benchmarks for 2015–16 (concluded)

	- Adopt regulations for the implementation of the new PFM act.	To strengthen the PFM system	December 2016	
	Public sector reform			
Public sector reform	- Adoption by Cabinet of a comprehensive public sector reform strategy designed with the assistance of development partners.	To rationalize the size and increase the efficiency of public sector	December 2015	66
	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 ¶85).	Strengthen autonomy of the bank; set mechanisms for emergency lending.	December 2015	33
Elimination of foreign exchange surrender requirements	- Fully implement the first two stages of the set of measures to deepen the foreign exchange market. This includes: redirect the surrender requirement for gold and residual cocoa export proceeds from the BoG to commercial banks; design of a rule-based competitive system to intermediate FX flows to market, and; establish a settlement mechanism agreed with all stakeholders for the resolution of the outstanding stock of matured LCs to oil importers, following an audit to determine eligibility.	Deepen the foreign exchange market to reduce volatility.	June 2016	32

1/ The formulation of the benchmark has been changed from last review. It now says “Submit to Parliament” rather than “Approval by Cabinet”.

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 for 2015 and GH¢ 4.00 per US$1 for 2016, 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-December 2015, end-June 2016 and end-December 2016. 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 continuous 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 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;
- a ceiling on the contracting or guaranteeing of new external non-concessional debt, with two sub-ceilings on (i) debt for debt management purposes and (ii) debt for projects integral to the development program for which concessional financing is not available; and
- a proposed monetary policy consultation clause set for the twelve-month rate of **consumer price inflation,** with discussions with the Fund to be held if inflation is outside the target band.

5. **Indicative targets** are established as:

- a floor on poverty-reducing government expenditures.
- a ceiling on the contracting or guaranteeing of new external concessional debt
- a proposed ceiling on net domestic assets of Bank of Ghana (level);

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).[1] 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,[2] 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.

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

[1] 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.

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

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 purposes[3] 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 institutions, nonfinancial public enterprises, other financial institutions, and the private sector.[4]

- 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.

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[3] 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.

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

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; BoG reversible market transactions involving government securities that don't result in a change of security ownership; and the balance of a new short-term credit line which BoG plans to establish in 2016 (this credit line will be capped at 2 percent of previous year's government revenues and would be allowed to have a non-zero balance only during 90 business days of the calendar year).

C. Monetary Policy Consultation Clause (proposed)

22. The consultation bands around the projected 12-month rate of inflation in consumer prices (as measured by the headline consumer price index (CPI) published by the Ghana Statistical Service), are specified in the Performance Criteria table in the MEFP. If the observed average for the latest three months of the 12-months rate of CPI inflation falls outside the lower or upper outer bands specified Performance Criteria table for end-June 2016 and end-December 2016 test dates, the authorities will complete a consultation with the IMF Executive Board which would focus on: (i) the stance of monetary policy and whether the Fund-supported program remains on track; (ii) the reasons for program deviations, taking into account compensating factors; and (iii) on proposed remedial actions if deemed necessary. When the consultation with the IMF Executive Board is triggered, access to Fund resources would be interrupted until the consultation takes place and the relevant program review is completed. In addition, the authorities will conduct discussions with Fund staff should the observed year-on-year rate of CPI inflation fall outside the inner bands specified for the end of each quarter in the Performance Criteria table.

D. Non-accumulation of New External Arrears

23. 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.

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

24. For the purposes of this technical memorandum of understanding, the definition of debt is set out in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements (Executive Board's Decision No.15688-(14/107). It not only refers to debt as defined in paragraph 8

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:

8 (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 8(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.

25. **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 24, which is denominated in foreign currency, i.e., currency other than Ghanaian cedis (GH¢).[5]

26. 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 27) on non-concessional terms (defined in paragraph 28) [6]. 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.

27. 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.

28. 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 signing date of an underlying loan agreement 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.

29. 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.[7] Where the variable rate is linked to

[5] 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.

[6] For a program monitoring purpose, debt is considered as contracted or guaranteed when all conditions precedent for effectiveness of the underlying loan agreement are satisfied. Only debt signed since the beginning of 2015 will be counted against this performance criterion.

[7] 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).

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.

30. Starting from the completion of the second review, the performance criterion on new non-concessional external debt includes two sub-ceilings on (i) debt for debt management purposes and (ii) debt for projects integral to the development program for which concessional financing is not available. Debt for debt management purposes is defined as non-concessional debt used to improve the overall public debt profile. The debt management sub-ceiling shall be cumulative from the beginning of each calendar year.

31. The sub-ceiling on any contracting or guaranteeing of non-concessional external debt for projects integral to the development program for which concessional financing is not available refers to debt for those projects specified in the list below. Any contracting or guaranteeing of non-concessional external debt for projects other than those listed below results in the nonobservance of the PC. The total amount of contracting of non-concessional external debt for projects on this list will be strictly limited to US$ 1,000 million on a cumulative basis from the beginning of 2015. Amounts applied toward this limit do not count toward the sub-ceiling on non-concessional borrowing for debt management purposes.

- Takoradi Port Expansion 2
- Supply Agricultural equipment under Food for Africa programme
- Electricity Company Ghana Limited Prepaid meter distribution
- Construction and Equipping of Ten (10) Polyclinics in the Central Region
- Self-help electrification project (SHEP) - 4 -Hunan
- 4 District Hospitals and accident and emergency center in Bamboi, Somanya, Tolong, Weta, and Buipe
- Kumasi market phase 2
- SHEP five regions-CWE
- Strengthening of Lots 1, 2 & 4 Central Corridor
- Eastern Corridor Road Project Refinancing for Section I: Asikuma Junction - Have and Section II: Nkwanta - Oti Damanko
- Obetsebi Lamptey Drainage network and Interchange
- Bekwai Hospital Rehabilitation
- Sugarcane Development and Irrigation Project
- KARPOWER PROJECT B
- Takoradi 4 Thermal Power Project (T4)

F. Adjustors to the Program Targets

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

Primary fiscal deficit of the government

32. 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

33. 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/] (GH¢ millions, cumulative from the start of the calendar year)					
	April 2015		**August 2015**		**December 2015**
	Prog.	Act.	Prog.	Act.	Prog.
Program grants	0	0	750	733	915
Program loans	0	0	748	612	789
Oil revenues, net of transfers to GNPC	371	160	603	894	998
[1/] Used to compute adjustors for performance criteria for end-April, end-August, and end-December.					

Budget Financing and oil revenues, 2016 [1/] (GH¢ millions, cumulative from the start of the calendar year)				
	March	**June**	**September**	**December**
Program grants	0	0	112	133
Program loans	0	600	844	844
Oil revenues, net of transfers to GNPC	325	460	785	1,640
[1/] Used to compute adjustors for performance criteria for end-March, end-June, end-September, and end-December.				

G. Provision of Data to the Fund

34. 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. Data on the BoG short-term liabilities to nonresident commercial banks on accounts 1201 plus 301 plus Crown Agent).	Quarterly, within three weeks of the end of each quarter.
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
Quarterly financial statements of GIIF	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

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR WAIVER FOR NONOBSERVANCE OF PERFORMANCE CRITERION—DEBT SUSTAINABILITY ANALYSIS

December 23, 2015

Approved By
Abebe Aemro Selassie and Luis Cubeddu (IMF) and John Panzer (IDA)

Prepared by the International Monetary Fund and the International Development Association[1]

This DSA updates the previous one conducted in August, 2015. Ghana continues to face a high risk of debt distress based on updated borrowing assumptions and macroeconomic projections. The assessment of high risk is reinforced by vulnerabilities related to domestic debt. Although fiscal consolidation remains on track under the Extended Credit Facility (ECF), and debt trajectory and relevant indicators broadly remain the same, two indicators are projected to breach the policy-based thresholds under the baseline scenario due to the lowering of these thresholds associated with the deterioration in Ghana's CPIA scores over the past three years.[2] Due to the growing uncertainties over the prospects of emerging and frontier markets and the nearing of US's interest rate hike, the authorities decided to lower the issuance of a Eurobond to US$ 1 billion from the initially-envisaged US$ 1.5 billion. This short fall in financing was covered by larger domestic financing than planned. The unwinding of capital inflows to emerging / frontier markets and the rebalancing of portfolios by global investors, which could be driven by non-Ghana specific factors, may further complicate Ghana's access to financing in 2016. Achieving the ambitious fiscal targets envisaged under the Fund-supported program and an appropriate financing mix will be key to maintaining debt sustainability.

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[1] Prepared in collaboration with Ghanaian authorities. The previous DSA was prepared in August 2015 (IMF Country Report No. 15/245).

[2] The World Bank's Country Policy and Institutions Assessment (CPIA) ranks Ghana as a medium performer in terms of the quality of policy and institutions (the average CPIA in 2012–14 is 3.61). Thus, the external debt burden thresholds for Ghana are (i) PV of debt-to-GDP ratio: 40 percent; (ii) PV of debt-to-exports ratio: 150 percent; (iii) PV of debt-to-revenue ratio: 250 percent; (iv) debt service-to-exports ratio: 20 percent: and (v) debt service-to-revenue ratio: 20 percent. The 2014 CPIA has been released recently by the World Bank and Ghana's score has deteriorated to 3.37, which contributed to the downgrading of Ghana to a medium performer from a high performer.

A. Background and Macroeconomic Assumptions

1. **While Ghana continued to meet all fiscal performance criteria for the second review under the ECF, budget financing is becoming more complicated due to global headwinds.** Ghana has over performed under the Fund-supported program on the fiscal front and is set to generate a small primary surplus in 2015 for the first time in the past decade. Though 2016 is an election year, the 2016 budget included additional fiscal measures to achieve an overall deficit of 5.3 percent of GDP, which is 0.5 percent of GDP lower than envisaged at the time of the first review to mitigate financing headwinds, and a larger primary fiscal surplus than previously projected. Budget financing is indeed becoming more complicated due to the uncertainties associated with the prospects of frontier market economies / commodity exporters, combined with the nearing of the US interest rate hike[3], leading to portfolio rebalancing of global investors – which could be driven by non-Ghana specific factors. Despite these global headwinds which began in mid-2015, the share of nonresidents' holdings[4] of domestic marketable debt stayed broadly stable.

2. **The terms of the 15-year Eurobond issued in October, 2015 were worse than assumed in the previous DSA.** Against the backdrop of unfavorable market conditions, Ghana needed to reduce the issuance of a Eurobond to US$ 1 billion from the initially planned amount of US$ 1.5 billion. While the Eurobond extended the average maturity of the external debt portfolio, the yields on Ghana's outstanding Eurobonds increased above two-digit levels at the time of the new issuance, and the coupon rate for the Eurobond was as high as 10.75 percent despite the World Bank's partial guarantee.

3. **Ghana's public gross financing needs (GFN) are among the highest of frontier / emerging markets at above 25 percent of GDP in 2015.** About half of the GFN is financed through short-term domestic debt. Rollover of domestic debt and domestic interest payments comprise around 60 percent and 25 percent of GFN, respectively. The shortfall in financing due to the lower-than-planned Eurobond issuance was filled with domestic financing, coinciding with the easing of domestic liquidity constraints, including through BoG's foreign exchange swap transactions with domestic banks. A key objective of the medium-term debt management strategy (MTDS)[5], is to reduce very high interest payments and to lengthen the average maturity of domestic debt by reducing the issuance of short-term domestic debt thereby reducing near-term gross financing needs. This strategy appears to

Table. Key Macroeconomic Assumptions

	2015	2016	2015-2020	2021-2035
Real GDP Growth	**(annual percentage change)**			
Previous DSA	3.5	5.7	5.8	5.8
Current DSA	3.0	5.4	5.8	5.8
Inflation (GDP deflator)	**(annual percentage change)**			
Previous DSA	14.3	9.0	9.2	7.0
Current DSA	14.2	12.7	9.6	7.1
Real interest rate (foreign debt)	**(percent)**			
Previous DSA	4.9	3.4	2.6	2.4
Current DSA	4.5	3.5	2.7	2.7
Current account balance	**(in percent of GDP)**			
Previous DSA	-8.3	-7.2	-5.7	-4.5
Current DSA	-8.2	-7.4	-6.4	-4.5
Primary fiscal balance	**(in percent of GDP)**			
Previous DSA	-0.3	0.4	1.5	0.4
Current DSA	-0.2	1.3	1.8	0.8

[3] The Federal Reserve has raised interest rates by a quarter percentage point on December 16.

[4] 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 and longer. The authorities have recently opened up 2-year domestic debt for nonresidents.

[5] In April /May 2015, the IMF and World Bank provided technical assistance to develop the Medium-term Debt Management Strategy.

have produced some early results, as T-Bills rates have started to decline very recently. The GFN is projected to decline but will remain elevated at around 16 percent of GDP in 2020 under the current projections.

4. **The macroeconomic projections remain broadly unchanged since the previous DSA (see Table below).** Economic growth and fiscal performance are in line with earlier projections. The inflation rate for 2015 is expected to be slightly higher than the previous forecast, reflecting recent developments including the hikes in utility tariffs implemented in December. Similar to the patterns observed in recent years, the exchange rate has stabilized towards the end of the year. For 2015 as a whole, the current account deficit is projected to be slightly larger than the level in the original program. The medium-term projections of key macro variables remain broadly unchanged (see Box below).

5. **The new contracting of nonconcessional external debt has been lower than envisaged under the program, and the debt limits for 2016 would be set separately for a debtmanagement purpose and for projects.** As external financing continues to play a key role in reducing the reliance on short-term domestic debt, the former will be set at US$1,150 million, including up to US$1,000 million for a Eurobond issuance and other forms of non-concessional borrowing as well as up to US$ 150 million for World Bank's budget support. The debt limits for projects will be set at US$ 500 million on a cummulative basis from the beginning of 2015. The forthcoming external nonconcesional borrowing for improving the public debt profile should be carefully designed to avoid jeopardizing debt sustainability. It should be anchored in a DSA, the revised MTDS, and a comprehensive analysis of cost-risk tradeoffs of alternative debt management strategies, taking account of the risks associated with exchange rate fluctuations and an expected reduction of risk premia.

Box 1. Baseline Macroeconomic Assumptions

Real GDP-growth: Real growth is projected to decline to 3.0 percent in 2015, due mainly to fiscal consolidation under the program, power shortages owing to shortfalls in power generation, and the decline in non-oil commodity production. Growth is projected to pick up from 2016 onwards. In the long run, real GDP growth is assumed to stabilize at around 6 percent, with the possibility of new oil discoveries and gas production implying significant upside potential. Non-oil growth is expected to decelerate to 3 percent in 2015 but pick up to 4.5 percent in 2016, with a long-run steady-state growth rate of above 6 percent.

Inflation: Inflation (CPI) reached 17 percent in 2014 and is projected to remain at similar levels in 2015. Volatile exchange rates, power shortages, and the recent hikes in utility prices have weighed on BoG's efforts to reduce inflation. 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} 2 percent. Inflation rates are projected to converge to around 7 percent over the projection period.

Government balances: The overall cash fiscal deficit 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 through a strict payroll scrutiny and limited net hiring, combined with several tax measures. This is expected to bring the overall deficit down to 7.2 percent of GDP in 2015. The expected longer-term increase in hydrocarbon revenues will contribute to maintaining the overall deficits at a sustainable level. The primary surplus is projected to converge to 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 net 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. The price of oil is assumed to recover to around US$65 per barrel by 2019 from around US$ 53 in 2015, and subsequently stabilize in real terms over the medium term. With the tightening of fiscal and monetary policies, the current account deficit would improve to 6 percent of GDP in 2017 from around 8 percent in 2015. 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 percent of GDP. Gross international reserves would stay comfortably above 3-month of imports in the near-term 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 ongoing development of the existing fields, FDI is projected to remain at around 7 percent of GDP over the medium term, and then gradually decline to 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 raise the 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.

B. External Debt Sustainability Analysis[6]

6. **While the basic picture remains the same as in the previous DSA, one additional debt indicator would breach the threshold under the baseline as a result of the lowering of policy-based thresholds.** Due to the deterioration in Ghana's CPIA scores over the last three years, the policy-dependent thresholds – against which relevant debt indicators are compared – have been lowered. Now the PV of debt-to-GDP ratio would breach the threshold by small margins in the initial few years in addition to the debt service-to-revenue ratio, though the former ratio is trending down with a peak in 2015[7]. While the trajectory of debt service-to-revenue ratio is somewhat smoother than before due to the longer maturity and 3-year amortization structure of the 2015 Eurobond, it has slightly shifted upward due to higher interest bills. Revenue enhancement measures supported by proactive debt management to further smooth and lengthen the maturity profile would improve this indicator.

7. **The debt outlook remains sensitive to shocks to the nominal exchange rate and net non-debt creating flows.** The relevant debt indicators tend to be worst and the most extreme (in 2025) under standard shocks to the exchange rate and net non-debt creating flows, with some marginal breaches of relevant indicators in addition to the debt service-to-revenue ratio. The historical scenario suggests that the

[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

[7] The relatively larger breaches in the near-term are due in a large part to the BoG's short-term liabilities.

PV of debt-to-GDP ratio would also exceed the threshold mainly reflecting larger current account deficits and much lower FDI flows seen in the past decade.

C. Public Debt Sustainability Analysis

8. **Strong fiscal adjustments and an adequate financing package should be able to bring Ghana's total public debt back to a sustainable path (Table 4, Figure 3).** Fiscal adjustment has been gradually reducing fiscal dominance, including less reliance on central bank's financing. As confidence in economic policy improves, and accordingly the exchange rate and inflation stabilize, borrowing conditions on the domestic market– which accounts for a large share of financing – would also gradually improve. 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.

9. **PV of debt-to-GDP ratio would breach the public debt benchmark as a result of the lowering of the policy-dependent threshold in the initial years.** The public debt benchmark was also lowered by the changes in CPIA, leading to breaches of the threshold in the baseline. Though all indicators show sustainable paths under the baseline scenario, they could be on an explosive path under the historical and the most extreme shock scenario (with abrupt real exchange rate depreciation).

D. Conclusion

10. **Sustained fiscal adjustment and an appropriate choice of financing options are crucially important at this juncture.** Under increasing uncertainties over the global economy, the Ghanaian authorities need to strike an appropriate balance between meeting imminent financing needs and extending maturity, and additional risks associated with exchange rate fluctuations. It remains essential that Ghana firmly maintain the ambitious fiscal consolidation envisaged under the Fund-supported program, including during the election year of 2016. It is also important to develop an appropriate overall financing package taking account of ever-changing market conditions and the best balance between external and domestic financing options. The possible waning of appetite for Ghanaian debt – due to both Ghana-specific and non-Ghana specific factors – continues to be one of the most significant risks. While Ghana is now classified as a lower middle-income country with limited access to concessional resources, it should continue to seek external loans on the most concessional terms possible.

11. **The authorities broadly concurred with the staff's views,** and shared the view that continuous fiscal consolidation and the best financing mix would be key to maintaining fiscal sustainability. They remain concerned about the risk of losing market access at acceptable rates and seek to prepare alternative financing options given market uncertainties.

Table 1. Ghana: External Debt Sustainability Framework, Baseline Scenario, 2012-2035 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2012	2013	2014			2015	2016	2017	2018	2019	2020	2015-2020 Average	2025	2035	2021-2035 Average
External debt (nominal) 1/	**34.1**	**35.2**	**48.5**			**56.0**	**58.2**	**55.9**	**53.6**	**51.2**	**49.8**		**42.5**	**32.3**	
of which: public and publicly guaranteed (PPG)	28.9	30.7	42.9			52.0	54.2	51.9	49.6	47.2	45.8		38.5	28.3	
Change in external debt	5.5	1.1	13.3			7.5	2.2	-2.2	-2.4	-2.4	-1.4		-1.3	-0.6	
Identified net debt-creating flows	2.2	1.0	9.3			-1.3	-3.1	-5.9	-3.0	-4.3	-4.8		-2.5	0.0	
Non-interest current account deficit	**10.6**	**10.5**	**7.3**	**8.3**	**2.1**	**5.8**	**5.1**	**3.8**	**5.3**	**3.4**	**2.5**		**3.0**	**2.8**	2.9
Deficit in balance of goods and services	12.4	13.2	10.3			12.3	10.3	8.3	8.8	6.6	5.5		6.7	5.4	
Exports	40.1	33.9	39.5			43.9	42.0	43.4	43.3	42.6	41.6		34.4	27.0	
Imports	52.5	47.1	49.8			56.2	52.3	51.7	52.1	49.2	47.1		41.1	32.4	
Net current transfers (negative = inflow)	-5.7	-4.1	-5.2	-7.1	1.7	-7.3	-6.4	-5.9	-5.1	-4.8	-4.5		-3.5	-1.9	-3.0
of which: official	-0.6	-0.2	0.0			-0.7	-0.1	0.0	-0.1	-0.1	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	3.9	1.4	2.2			0.8	1.1	1.4	1.6	1.7	1.5		-0.2	-0.7	
Net FDI (negative = inflow)	**-7.9**	**-6.7**	**-8.7**	**-6.4**	**3.1**	**-8.0**	**-7.7**	**-7.5**	**-7.0**	**-6.5**	**-6.5**		**-5.1**	**-2.4**	-4.3
Endogenous debt dynamics 2/	**-0.5**	**-2.7**	**10.6**			**0.9**	**-0.4**	**-2.2**	**-1.3**	**-1.2**	**-0.8**		**-0.5**	**-0.5**	
Contribution from nominal interest rate	1.2	1.5	2.3			2.5	2.4	2.4	2.0	1.8	1.8		1.8	1.5	
Contribution from real GDP growth	-2.2	-2.2	-1.7			-1.6	-2.8	-4.6	-3.3	-3.1	-2.6		-2.2	-1.9	
Contribution from price and exchange rate changes	0.5	-2.0	10.1			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**3.3**	**0.1**	**4.0**			**8.8**	**5.3**	**3.7**	**0.6**	**1.9**	**3.4**		**1.2**	**-0.6**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	45.2			49.1	50.6	48.6	46.1	43.7	42.5		38.0	29.4	
In percent of exports	...	...	114.5			111.8	120.6	112.0	106.3	102.7	102.1		110.4	108.7	
PV of PPG external debt	**...**	**...**	**39.6**			**45.1**	**46.6**	**44.6**	**42.1**	**39.7**	**38.5**		**34.0**	**25.4**	
In percent of exports	**...**	**...**	**100.3**			**102.7**	**111.1**	**102.8**	**97.0**	**93.3**	**92.5**		**98.8**	**94.0**	
In percent of government revenues	**...**	**...**	**223.8**			**235.4**	**228.9**	**223.1**	**208.7**	**191.2**	**188.0**		**169.8**	**134.3**	
Debt service-to-exports ratio (in percent)	**8.6**	**9.9**	**14.5**			**19.5**	**15.8**	**18.1**	**12.7**	**12.3**	**14.3**		**16.3**	**20.0**	
PPG debt service-to-exports ratio (in percent)	**5.8**	**7.2**	**11.7**			**16.7**	**14.1**	**16.4**	**11.0**	**10.6**	**12.5**		**14.1**	**17.3**	
PPG debt service-to-revenue ratio (in percent)	**13.6**	**15.1**	**26.0**			**38.4**	**29.0**	**35.5**	**23.7**	**21.6**	**25.4**		**24.2**	**24.7**	
Total gross financing need (Millions of U.S. dollars)	2587.8	3387.6	1682.6			2729.9	1916.9	1978.0	1762.2	1101.5	1037.0		2742.0	10361.3	
Non-interest current account deficit that stabilizes debt ratio	5.1	9.4	-6.0			-1.7	2.9	6.0	7.6	5.8	3.9		4.3	3.5	
Key macroeconomic assumptions															
Real GDP growth (in percent)	8.0	7.3	4.0	7.3	2.9	3.0	5.4	8.6	6.3	6.3	5.4	5.8	5.5	6.4	5.8
GDP deflator in US dollar terms (change in percent)	-1.9	6.2	-22.3	3.6	12.7	-9.3	4.2	0.2	2.1	2.3	1.4	0.1	2.3	2.1	2.3
Effective interest rate (percent) 5/	4.3	4.9	5.2	3.8	1.1	4.7	4.6	4.4	3.9	3.8	3.8	4.2	4.3	4.9	4.5
Growth of exports of G&S (US dollar terms, in percent)	15.2	-3.6	-5.9	17.2	17.1	3.8	5.0	12.5	8.4	6.7	4.4	6.8	4.8	6.1	5.2
Growth of imports of G&S (US dollar terms, in percent)	12.8	2.3	-14.5	15.0	17.8	5.3	2.2	7.6	9.4	2.5	2.4	4.9	5.1	6.3	5.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	-4.6	9.0	3.7	16.8	14.6	7.3	7.8	-2.9	-2.8	-2.8
Government revenues (excluding grants, in percent of GDP)	17.0	16.3	17.7			19.1	20.4	20.0	20.1	20.8	20.5		20.0	18.9	19.7
Aid flows (in Millions of US dollars) 7/	646.1	224.0	277.8			793.2	589.5	403.2	349.6	432.8	323.5		115.3	8.6	
of which: Grants	646.1	224.0	277.8			545.6	401.9	281.4	235.0	330.9	243.7		79.9	8.6	
of which: Concessional loans	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/	...	...	...			1.0	1.8	0.9	1.3	1.3	0.8		0.0	-0.1	-0.1
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			7.7	18.5	11.2	24.8	25.9	15.0		-0.7	-2.7	-1.1
Memorandum items:															
Nominal GDP (Millions of US dollars)	41939	47806	38616			36068	39613	43114	46779	50842	54296		77715	177633	
Nominal dollar GDP growth	6.0	14.0	-19.2			-6.6	9.8	8.8	8.5	8.7	6.8	6.0	7.9	8.6	8.2
PV of PPG external debt (in Millions of US dollars)			14051			15814	17585	18641	19177	19702	20377		25862	44110	
(PVt-PVt-1)/GDPt-1 (in percent)						4.6	4.9	2.7	1.2	1.1	1.3	2.6	1.7	1.6	1.6
Gross workers' remittances (Millions of US dollars)	1760	1524	1638			1966	2045	2096	2138	2181	2224		2456	2982	
PV of PPG external debt (in percent of GDP + remittances)	...	...	38.0			42.8	44.3	42.5	40.2	38.1	37.0		33.0	25.0	
PV of PPG external debt (in percent of exports + remittances)	...	...	90.5			91.4	98.9	92.4	87.8	84.8	84.2		90.5	88.5	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	10.5			14.9	12.6	14.7	10.0	9.6	11.4		12.9	16.3	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt. PPG debt is based on the residency criterion, thus including domestic debt held by nonresidents.
PPG debt also includes SoE's debt and the central bank's liabilities for a reserve management purpose.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2. Ghana: Public Sector Debt Sustainability Framework, Baseline Scenario, 2012-2035

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2012	2013	2014	Average 5/	Standard Deviation 5/	2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035	2021-35 Average
Public sector debt 1/	49.6	56.7	70.7			77.9	78.3	74.3	68.8	63.4	59.5		54.5	40.3	
of which: foreign-currency denominated	28.9	30.7	42.9			52.0	54.2	51.9	49.6	47.2	45.8		38.5	28.3	
Change in public sector debt	7.5	7.1	14.0			7.2	0.3	-4.0	-5.5	-5.4	-3.9		-0.9	-1.4	
Identified debt-creating flows	6.9	5.0	11.6			3.4	-2.3	-5.2	-4.6	-3.3	-1.8		-2.0	-1.0	
Primary deficit	8.6	5.6	3.3	3.9	2.5	-0.1	-1.5	-2.3	-2.0	-1.3	-0.7	-1.3	-0.9	-0.1	-0.6
Revenue and grants	18.5	16.7	18.4			20.7	21.4	20.6	20.7	21.4	20.9		20.1	18.9	
of which: grants	1.5	0.5	0.7			1.5	1.0	0.7	0.5	0.7	0.4		0.1	0.0	
Primary (noninterest) expenditure	27.1	22.3	21.7			20.5	19.9	18.3	18.6	20.1	20.2		19.2	18.9	
Automatic debt dynamics	-1.7	-0.6	8.3			3.5	-0.8	-2.8	-2.6	-2.0	-1.0		-1.1	-0.9	
Contribution from interest rate/growth differential	-3.0	-1.3	0.2			1.3	-0.6	-2.8	-2.4	-2.0	-1.4		-1.1	-0.9	
of which: contribution from average real interest rate	0.1	2.0	2.4			3.3	3.5	3.4	2.0	2.1	1.8		1.8	1.6	
of which: contribution from real GDP growth	-3.1	-3.4	-2.2			-2.1	-4.0	-6.2	-4.4	-4.1	-3.2		-2.9	-2.5	
Contribution from real exchange rate depreciation	1.3	0.8	8.1			2.3	-0.2	-0.1	-0.2	0.0	0.4		...	...	
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	2.4			3.8	2.6	1.2	-0.8	-2.1	-2.1		1.1	-0.5	
Other Sustainability Indicators															
PV of public sector debt	...	...	67.4			71.0	70.7	66.9	61.3	55.9	52.2		50.1	37.4	
of which: foreign-currency denominated	...	...	39.6			45.1	46.6	44.6	42.1	39.7	38.5		34.0	25.4	
of which: external	...	...	39.6			45.1	46.6	44.6	42.1	39.7	38.5		34.0	25.4	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	22.3	22.2	25.7			27.9	24.4	20.7	17.4	16.5	15.1		12.1	11.0	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	365.9			343.8	330.7	324.1	296.8	261.1	249.7		248.6	197.6	
PV of public sector debt-to-revenue ratio (in percent)	...	...	380.8			370.9	347.1	334.7	304.2	269.2	255.2		249.9	197.7	
of which: external 3/	...	...	223.8			235.4	228.9	223.1	208.7	191.2	188.0		169.8	134.3	
Debt service-to-revenue and grants ratio (in percent) 4/	39.0	59.7	74.9			76.6	63.5	68.6	53.1	47.7	43.4		40.7	37.8	
Debt service-to-revenue ratio (in percent) 4/	42.5	61.4	78.0			82.6	66.6	70.8	54.5	49.2	44.4		40.9	37.8	
Primary deficit that stabilizes the debt-to-GDP ratio	1.0	-1.5	-10.7			-7.4	-1.8	1.7	3.5	4.1	3.1		0.0	1.3	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	8.0	7.3	4.0	7.3	2.9	3.0	5.4	8.6	6.3	6.3	5.4	5.8	5.5	6.4	5.8
Average nominal interest rate on forex debt (in percent)	4.8	5.7	5.9	4.3	1.4	5.5	5.1	4.8	4.2	4.1	4.1	4.6	4.8	5.6	5.0
Average real interest rate on domestic debt (in percent)	-2.8	4.7	4.3	-0.1	4.3	5.5	7.0	9.1	4.9	6.8	6.3	6.6	6.1	5.8	6.3
Real exchange rate depreciation (in percent, + indicates depreciation	5.9	2.8	26.3	0.5	11.1	5.2	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	16.6	15.6	16.7	15.7	2.3	14.2	12.7	8.6	8.0	7.6	6.6	9.6	6.9	7.0	7.1
Growth of real primary spending (deflated by GDP deflator, in percer	42.8	-11.7	1.3	3.3	14.4	-2.5	2.0	0.0	8.3	14.8	5.5	4.7	5.5	4.2	5.3
Grant element of new external borrowing (in percent)	...	...	...	...	...	-4.6	9.0	3.7	16.8	14.6	7.3	7.8	-2.9	-2.8	...

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

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

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

(In percent)

	Projections							
	2015	2016	2017	2018	2019	2020	**2025**	2035
PV of debt-to GDP ratio								
Baseline	45	47	45	42	40	38	**34**	25
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	45	51	54	53	55	57	**57**	34
A2. New public sector loans on less favorable terms in 2015-2035 2	45	46	46	45	44	43	**41**	37
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	45	45	45	43	40	39	**35**	26
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	45	46	52	49	47	45	**36**	25
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	45	51	54	52	49	47	**42**	31
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	45	50	53	51	48	46	**36**	25
B5. Combination of B1-B4 using one-half standard deviation shocks	45	50	55	53	50	48	**39**	28
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	45	62	60	57	54	52	**46**	35
PV of debt-to-exports ratio								
Baseline	103	111	103	97	93	92	**99**	94
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	103	122	124	123	129	138	**164**	124
A2. New public sector loans on less favorable terms in 2015-2035 2	103	110	107	104	103	104	**120**	138
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	103	106	99	94	90	89	**96**	91
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	103	116	141	134	129	128	**123**	108
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	103	106	99	94	90	89	**96**	91
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	103	119	123	117	113	111	**105**	92
B5. Combination of B1-B4 using one-half standard deviation shocks	103	107	113	107	103	102	**101**	91
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	103	106	99	94	90	89	**96**	91
PV of debt-to-revenue ratio								
Baseline	235	229	223	209	191	188	**170**	134
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	235	251	268	265	264	280	**282**	178
A2. New public sector loans on less favorable terms in 2015-2035 2	235	227	233	224	210	211	**207**	198
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	235	220	226	212	194	191	**173**	137
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	235	227	259	244	225	221	**179**	131
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	235	249	273	256	234	230	**208**	164
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	235	245	267	252	232	226	**181**	131
B5. Combination of B1-B4 using one-half standard deviation shocks	235	244	277	261	239	235	**197**	147
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	235	306	303	284	260	256	**231**	183

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

(In percent)

			Debt service-to-exports ratio					
Baseline	17	14	16	11	11	12	**14**	17
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	17	14	16	12	11	14	**22**	22
A2. New public sector loans on less favorable terms in 2015-2035 2	17	14	15	9	8	10	**15**	22
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	17	14	16	11	11	12	**14**	17
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	17	15	20	14	14	16	**20**	20
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	17	14	16	11	11	12	**14**	17
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	17	14	17	12	12	15	**17**	17
B5. Combination of B1-B4 using one-half standard deviation shocks	17	14	17	12	11	14	**16**	17
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	17	14	16	11	11	12	**14**	17
			Debt service-to-revenue ratio					
Baseline	38	29	36	24	22	25	**24**	25
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	38	29	36	25	23	29	**38**	32
A2. New public sector loans on less favorable terms in 2015-2035 2	38	29	33	19	16	19	**26**	32
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	38	29	37	25	23	27	**25**	26
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	38	29	36	26	24	28	**29**	25
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	38	33	45	30	27	32	**30**	31
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	38	29	37	26	24	31	**30**	25
B5. Combination of B1-B4 using one-half standard deviation shocks	38	31	41	28	26	31	**31**	28
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	38	41	50	33	30	35	**34**	34
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	-4	-4	-4	-4	-4	-4	**-4**	-4

Sources: Country authorities; and staff estimates and projections.

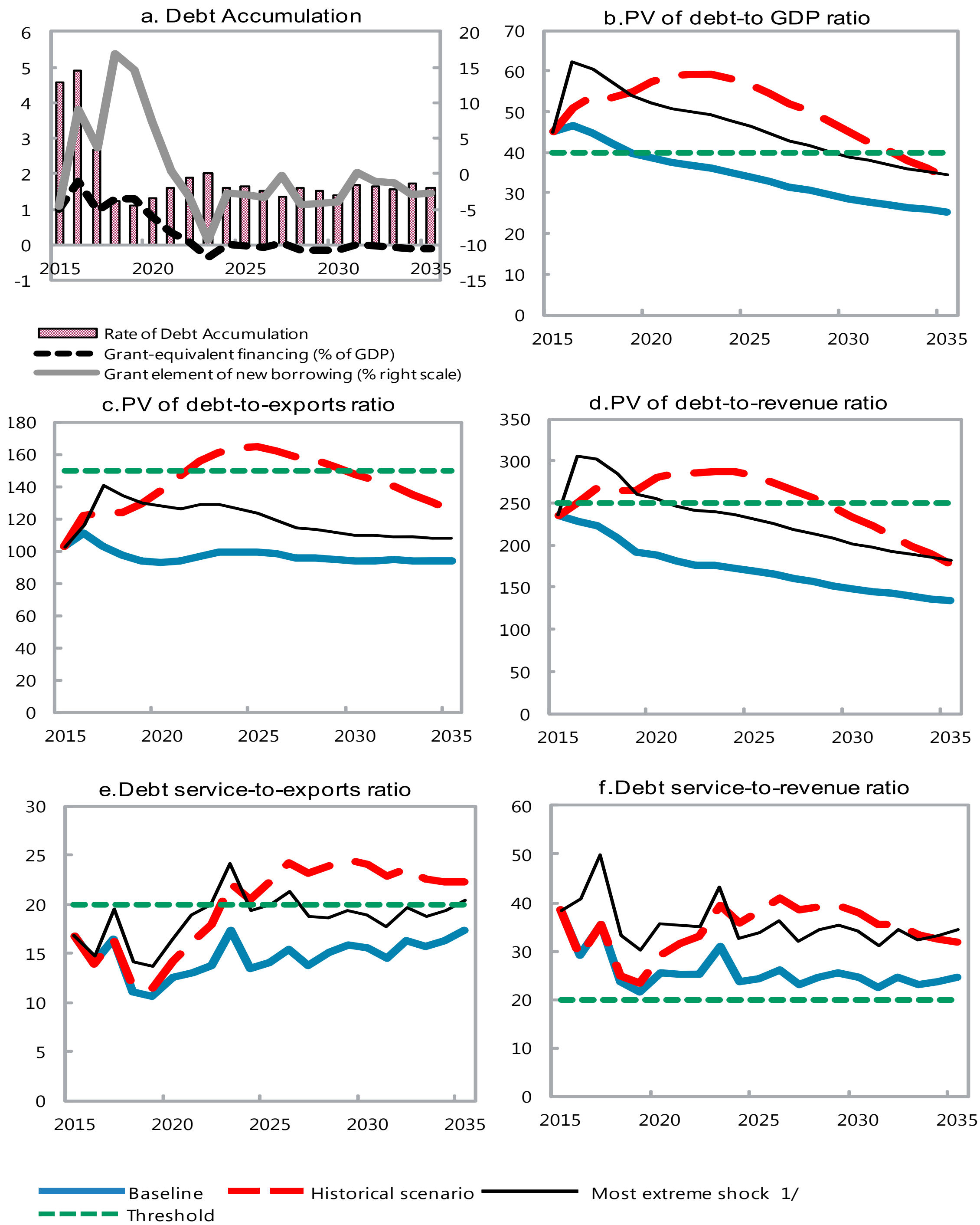
1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods 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	71	71	67	61	56	52	50	37
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	71	75	78	78	77	77	90	98
A2. Primary balance is unchanged from 2015	71	72	70	67	62	59	62	48
A3. Permanently lower GDP growth 1/	71	71	68	63	58	55	60	65
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	71	72	71	66	62	59	61	55
B2. Primary balance is at historical average minus one standard deviations in 2016-201	71	79	84	78	72	68	65	49
B3. Combination of B1-B2 using one half standard deviation shocks	71	77	83	77	72	68	67	54
B4. One-time 30 percent real depreciation in 2016	71	93	88	82	77	73	76	72
B5. 10 percent of GDP increase in other debt-creating flows in 2016	71	81	77	71	65	61	59	44
PV of Debt-to-Revenue Ratio 2/								
Baseline	344	331	324	297	261	250	249	198
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	344	351	380	378	359	366	446	517
A2. Primary balance is unchanged from 2015	344	337	342	323	291	284	310	254
A3. Permanently lower GDP growth 1/	344	333	329	305	272	265	297	346
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	344	334	345	322	288	282	305	291
B2. Primary balance is at historical average minus one standard deviations in 2016-201	344	369	406	376	335	325	321	257
B3. Combination of B1-B2 using one half standard deviation shocks	344	362	402	374	335	326	334	288
B4. One-time 30 percent real depreciation in 2016	344	435	428	398	358	351	376	381
B5. 10 percent of GDP increase in other debt-creating flows in 2016	344	379	372	343	304	294	291	232
Debt Service-to-Revenue Ratio 2/								
Baseline	77	63	69	53	48	43	41	38
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	77	62	70	55	51	47	58	73
A2. Primary balance is unchanged from 2015	77	63	69	54	49	45	47	47
A3. Permanently lower GDP growth 1/	77	64	69	54	49	45	45	55
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	77	64	72	56	51	46	47	50
B2. Primary balance is at historical average minus one standard deviations in 2016-201	77	63	71	58	52	47	52	47
B3. Combination of B1-B2 using one half standard deviation shocks	77	63	72	58	52	48	53	50
B4. One-time 30 percent real depreciation in 2016	77	71	86	66	60	58	64	76
B5. 10 percent of GDP increase in other debt-creating flows in 2016	77	63	71	56	50	46	47	43

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.

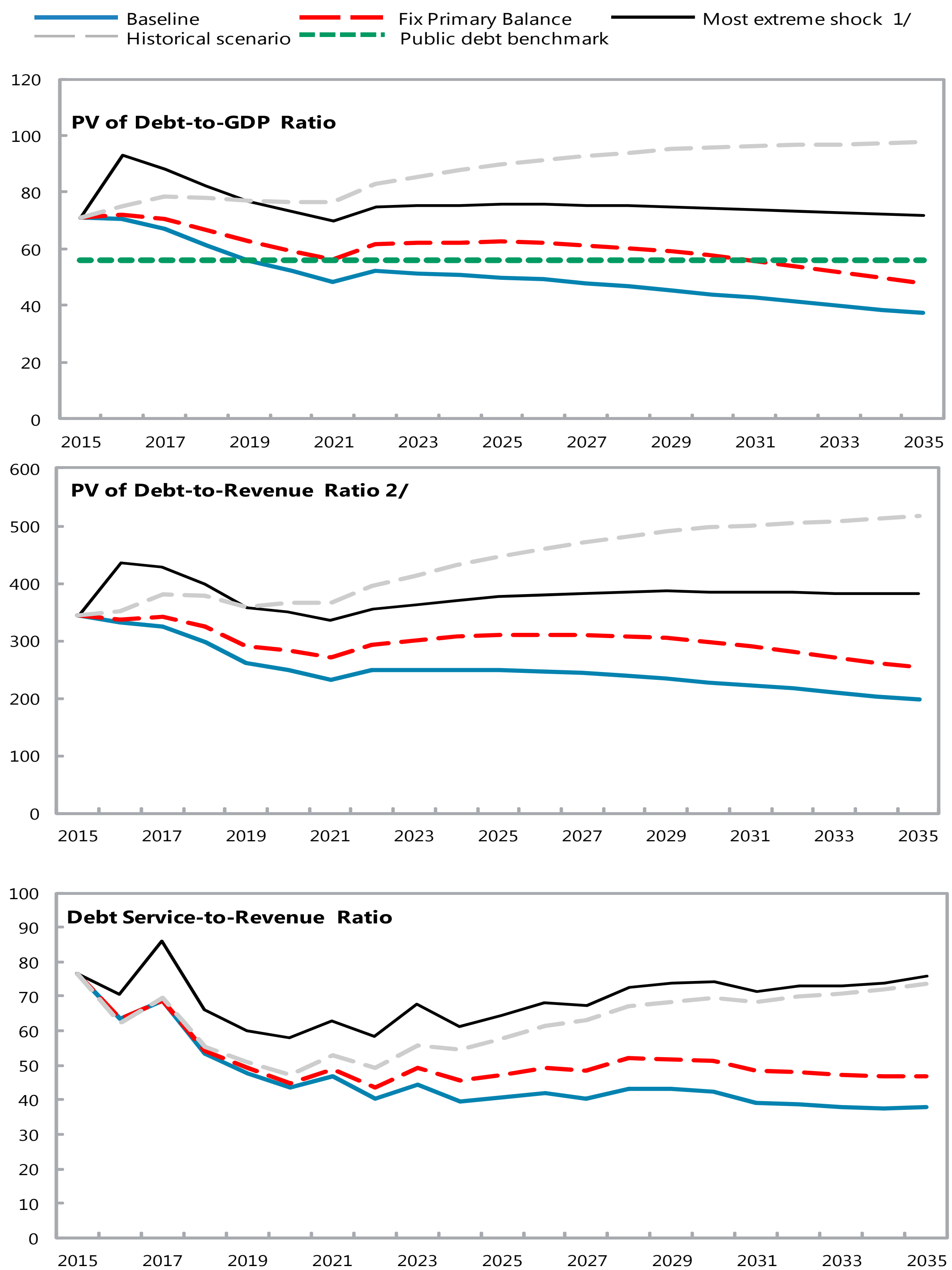
Figure 1. Ghana: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2015-2035 1/



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. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a Threshold for a High performer 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.

Statement by Mr. Mojarrad, Executive Director for Ghana,
Mr. Jbili, Senior Advisor to the Executive Director, and
Mr. Abradu-Otoo, Advisor to the Executive Director
January 13, 2016

Our Ghanaian authorities thank staff for bringing this second review of the ECF-supported program to the Executive Board. The discussions rightly focused on policies to consolidate macroeconomic stability, improve debt dynamics and financing conditions, and sustain high growth and job creation while protecting the poor. Our authorities broadly concur with staff assessment and policy advice, express appreciation for the Fund's high quality technical assistance, and thank Management and the Board for their continued support.

Program Performance

Since approval of the ECF in April 2015, policy implementation has been in line with the program, and the outcome has been satisfactory. The program is on track, advances have been made in many areas, and the authorities remain committed to preserving macroeconomic and financial stability while seeking to spur long-term growth and poverty reduction. All performance criteria (PCs) at end-August 2015 were met with the exception of the continuous PC on non-accumulation of external arrears, which was missed due to some minor payment delays stemming from discrepancies in the debt database projections and uncertainties about some debt obligations. While the indicative target on inflation was missed, due mainly to the pass-through effects of the sharp exchange rate depreciation and utility price adjustments, spending on social protection surpassed the end-August indicative target. With regard to new incidents of delayed external debt service payments to official creditors since September 2015, the authorities have requested TA from the Fund and the Commonwealth Secretariat, whose database system is being used, to help resolve the issues leading to these delays and prevent their recurrence.

Progress has been made in the structural reform area. While the structural benchmark on the completion of the diagnostic asset quality of the banking system was met, the one on the PFM reform strategy and action plan was met with delay as a result of cabinet approval processes and scrutiny. The structural benchmarks related to revenue administration and tax policy reforms have been partially implemented, with further steps taken to capture these reforms in the 2016 budget statement.

Based on this performance, the authorities request Executive Board's approval of a waiver for non-observance of the continuous PC on external arrears, and completion of the second review. They also look forward to the proposed changes in program modalities, including program monitoring on semi-annual basis starting in 2016, and introducing a monetary policy consultation clause as part of monetary policy conditionality.

Recent Economic Developments

Although non-oil economic activity has showed some strength during the first half of 2015, mainly in the construction and services sectors, the authorities expect growth for the year as a whole to be in the range of 3.5–4.0 percent, reflecting low agricultural sector activity and weakness in the manufacturing sector due to the large depreciation of the cedi and the energy situation, which is showing signs of improvement. Inflation has stayed above the authorities' target band, averaging 17.1 percent during the twelve months period ending in November 2015, on account of the pass-through effect of the rapid depreciation of the currency, and more recent large adjustments in fuel prices and electricity and water tariffs, which will add to inflationary pressures in the coming months. Fiscal performance thus far has surpassed expectations, underpinned by revenue over performance and expenditure restraint, which resulted in an overall primary surplus equivalent to 0.2 percent of GDP for the period January–August 2015, compared with a deficit target of 0.3 percent of GDP. The current account deficit is estimated to narrow slightly, but to remain elevated, and gross international reserves have been stable. The exchange rate, which depreciated sharply during the first half of the year, has partially reversed this trend in July and has stabilized thereafter.

Macroeconomic Prospects and Policies

The authorities' second Ghana Shared Growth and Development Agenda (GSGDA-II) remains focused on promoting socio-economic transformation to create jobs and raise per capita incomes to levels consistent with a middle income economy status. The priorities of GSGDA-II and the underlining policies are consistent with the ECF-supported program. However, there is recognition that assumptions about the domestic economic environment and external sector conditions (notably commodity prices) at the time of formulation of the agenda have changed, warranting more attention to macroeconomic stability and increased focus on key structural reforms, especially in the energy sector, to place the economy on a strong growth footing and help realize the goals of job creation and poverty reduction. Although risks to the outlook are tilted to the downside, the medium-term projections remain broadly favorable, with non-oil growth projected to rebound to 6 percent, inflation to be within the target band (8±2 percent) by end-2016, and the current account deficit to continue to narrow, while gross international reserves would remain above 3 months of imports.

Fiscal Policy

The authorities remain committed to their fiscal consolidation agenda. All indications point to the attainment of the fiscal deficit target of 7.3 percent of GDP in 2015, as against a program target of 7.5 percent and down from 10.2 percent in 2014. The government will continue with its policy of strict expenditure controls by maintaining the net hiring freeze to keep the wage bill within the budget limits while controlling discretionary spending and protecting priority spending. The arrears clearance strategy has been executed at an accelerated pace and the authorities will sustain that momentum while staying current on spending for 2015. Efforts will also be made to ensure that revenue mobilization for the last quarter is kept in line with performance during the first three quarters.

In view of tight financing conditions, the likely cost associated with the 2016 electoral cycle (estimated at ½ percent of GDP), and the need to generate appropriate primary balance to reduce the debt burden, the authorities agreed to a more ambitious fiscal effort in 2016, with a targeted deficit reduction of about 2 percentage points of GDP, or ½ percentage point of GDP more than envisaged under the program. To this effect, a package of revenue-raising measures has been included in the 2016 Budget (MEFP ¶22) and will be supported by expenditure restraint, including on the wage bill. The authorities have indicated their commitment to avoid expenditure over runs in the election year and implement corrective measures should further fiscal risks materialize, including through reductions in discretionary non-priority spending.

Debt Management Strategy

The authorities' Debt Management Strategy, which is geared toward improving debt dynamics, aims at reducing reliance on expensive short-term domestic debt, easing supply pressures on the domestic market to help achieve a reduction in costs, and carefully managing external non-concessional borrowing. The financing mix for 2016 will include the issuance of a new Eurobond in an amount ranging from $750 million to $1.0 billion to ensure the elimination of government financing by the Bank of Ghana, retire short-term domestic debt, and minimize roll-over risks. This, together with sustained fiscal consolidation, will help reduce the volume of domestic debt issuance, and will coincide with renewed efforts to lengthen the maturities of domestic debt. Over the medium-term, with reduced external borrowing needs, and expectations of a boost in foreign exchange inflows from increased oil and gas exports, the financing mix is expected to shift back to greater reliance on domestic debt under improved market conditions.

Monetary and Financial Sector Policies

Monetary policy has been kept tight in the course of the year to deal with inflationary pressures. Cumulatively for the year as a whole, the policy interest rate has been increased by 500 basis points, leading to an increase in the interbank rate and deceleration in the growth of monetary aggregates. This, together with stable exchange rate and ongoing fiscal consolidation, should help bring inflation down to the upper end of the inflation target band by end-2016. The Bank of Ghana will continue to monitor price developments closely and stands ready to further tighten monetary conditions, if necessary, to ensure that inflation and inflation expectations move gradually towards the target. Efforts are also underway to deepen the foreign exchange market and enhance its functioning through a phased elimination of the compulsory foreign exchange surrender requirement for exporters.

Reforms geared towards strengthening the monetary policy framework are continuing with Fund TA to facilitate money market development and strengthen the monetary policy formulation process, including improving communication to enhance the effectiveness of the inflation targeting framework. In addition, a draft amendment to the Bank of Ghana Act, designed to strengthen the autonomy of the Central Bank, has been completed in consultation with stakeholders. The draft bill, which also seeks to reinforce the independence of the Board and set mechanisms for emergency lending, is still undergoing some fine-tuning, including consideration of further suggestions from LEG and MCM before it is forwarded to the Attorney General and subsequently to the Cabinet for adoption and submission to parliament.

Although Ghana's banks are well capitalized, liquid, and profitable, their asset quality has been affected by the currency depreciation, weak economic activity, and the on-going energy crisis, which resulted in an increase in NPLs from 11.2 percent in June 2015 to 14.1 percent in October 2015. In response, and at the request of Bank of Ghana, banks have increased their capital buffers in line with prudential guidelines, and the payment of dividends to their shareholders will be reduced or suspended until they meet specified increases in their Capital Adequacy Ratios and improve their risk management systems (MEFP ¶12). Going forward, the Bank of Ghana will continue to strengthen its oversight on the banking system and address the weaknesses in asset classification and valuation, provisioning, and loan restructuring as identified in the special diagnostic external audit of the commercial banks (MEFP ¶36).

Structural Reforms

As detailed in the MEFP, wide ranging structural reforms are being implemented and others are under active preparation in various areas. While they agree that accelerated implementation will help unleash Ghana's growth potential and ensure that gains from fiscal consolidation are sustained over the medium-term, the authorities wish to underscore the complexity of some of these reforms and the need to provide adequate time to complete the required legal processes for their final approval. That said, they are committed to forging ahead with the structural reform agenda, in line with GSGDA-II and the ECF program.

The energy sector reform remains critical, and the authorities continue to focus on the implementation of fast-track private-financed power generation to ensure adequate power delivery in the short-term, while developing long-term solutions through increased gas and thermal power production. As part of the wider power sector reform, the government is in talks with the World Bank and the African Development Bank to provide partial risk guarantees to the Independent Power Producers (IPPs), and is also engaging the IFC as transaction advisor to help reform the main electricity provider, the ECG, and allow for private sector participation in its operations.

Other ongoing reforms in the fiscal area include completing the migration of payrolls of all subvented agencies, improving Treasury and cash management, and reforming state-owned enterprises. Moreover, work is underway to develop a comprehensive public sector reform strategy to rationalize the public sector, link remuneration to productivity, and enhance the efficiency of public service delivery. On the revenue side, efforts are geared toward enhancing administrative oversight over tax incentives to minimize revenue leakages, completing the planned review of tax incentives to allow for the elimination of regressive elements of the current system, and speeding up the modernization of the Ghana Revenue Agency (GRA) to sustain revenue mobilization. The authorities are grateful for the extensive TA provided by the Fund in support of these reforms.

Conclusion

The Ghanaian authorities have delivered on their commitments under this second review of the ECF-supported program in a difficult external environment. They are firmly committed to continue with strong program implementation and look forward to making further progress toward achieving their objectives under the GSGDA-II. They continue to highly value their fruitful cooperation with the Fund.