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GHANA

April 2015

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GHANA

In the context of the Request For A Three-Year Arrangement Under The Extended Credit Facility, the following documents have been released and are included in this package:

- The **Staff Report** for the Request For A Three-Year Arrangement Under The Extended Credit Facility prepared by a staff team of the IMF for the Executive Board's consideration on April 3, 2015, following discussions that ended on February 26, 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 March 20, 2015.
- An **Informational Annex** prepared by the IMF.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Press Release** including a statement by the Chair of the Executive Board.
- 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 policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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GHANA

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

March 20, 2015

EXECUTIVE SUMMARY

Context. The emergence of large fiscal and external imbalances in recent years, which led to a slowdown in growth, is putting Ghana's medium-term prospects at risk. The Government's efforts to achieve fiscal consolidation since mid-2013 have been undermined by policy slippages, external shocks and rising interest cost. Until mid-2014, the net international reserves position had further weakened and the exchange rate depreciated sharply, fueling inflationary pressures. The situation has stabilized on the back of the Eurobond issued in September and a short-term loan contracted by the Cocoa Board, but public debt continued to rise at an unsustainable pace.

Extended Credit Facility Arrangement (ECF). The Ghanaian authorities have requested a three-year arrangement under the ECF in an amount of SDR 664.20 million (180 percent of quota) in support of their medium-term economic reform program.

Program Framework. The authorities' three year ECF-supported program, anchored on their second Ghana Shared Growth and Development Agenda (GSGDA II), aims at a sizeable and frontloaded fiscal adjustment to restore debt sustainability, rebuild external buffers, and eliminate fiscal dominance of monetary policy, while safeguarding financial sector stability. It focuses on:

- Substantially strengthening the fiscal position by mobilizing additional revenues, restraining the wage bill and other primary spending, while making space for priority spending. The government is also taking additional adjustment measures to help offset lower-than-budgeted oil revenue. A prudent borrowing policy will complement fiscal consolidation efforts to restore debt sustainability.
- Accelerating the reform agenda: strengthening public financial management and expenditure controls, in particular cleaning-up the payroll and enhancing wage bill control; improving revenue collection through tax policy and tax administration reforms; restoring the effectiveness of the inflation-targeting (IT) framework by eliminating fiscal dominance and enhancing monetary policy operations.

Risks. Risks to the program include delayed or partial implementation of policies, including next year in the run-up to elections, a slower growth recovery if the electricity crisis is not addressed quickly, and additional negative commodity price shocks.

Staff supports the authorities' request for IMF support. Forceful and sustained implementation of the program will be essential to address macroeconomic imbalances.

Approved By
Michael Atingi-Ego and Mark Flanagan

Discussions on the authorities' economic and financial program took place in Accra during September 14-25, 2014, October 14-16, 2014 (in Washington DC), November 6-20, 2014, and February 19-26, 2015. The IMF staff teams included Joël Toujas-Bernaté (head), Wendell Daal, Javier Arze del Granado, Francesco Arizala, Alexander Raabe (all AFR), Nicolas Million, Keiichi Nakatani (all SPR), Salvatore Dell'Erba (FAD), Eriko Togo (MCM), and Samir Jahjah (Resident Representative). Mr. Mojarrad (Executive Director) and Mr. Abradu-Otoo (OED) participated in part of the discussions. The IMF teams met with President Mahama; Vice-President Kwesi Amissah-Arthur; Dr. Kwesi Botchwey, Chairman of the National Development Planning Commission; Finance Minister Seth Terkper; Bank of Ghana Governor Kofi Wampah; the Finance Committee of the Parliament, other senior officials, and representatives of the private sector, the donor community and civil society. For the preparation of the report, Alexander Raabe and Jean Vibar provided research and administrative support, respectively.

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BACKGROUND AND RECENT DEVELOPMENTS

1. **Ghana has experienced strong and broadly inclusive growth over the past two decades and its medium-term prospects are supported by rising hydrocarbon production.** The country has achieved commendable results in reducing poverty and improving social indicators. Robust democratic credentials and a highly rated business climate have helped attract substantial FDI, supporting a strong growth record and graduation to lower-middle income status. Despite the recent decline in oil prices, hydrocarbon production is expected to increase significantly over the medium term and carries the potential of boosting exports and budget revenue and reducing electricity generation costs.

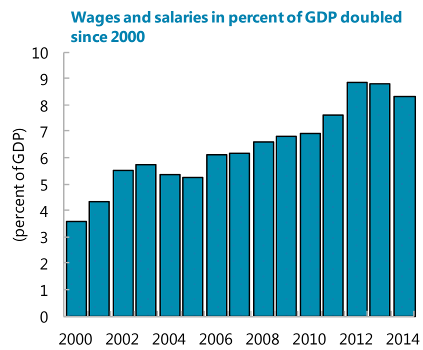
2. **However, the emergence of large fiscal and external imbalances in recent years, as well as electricity shortages, has put these positive prospects at risk.** While the onset of oil production in 2011 was expected to support the development of public infrastructure and alleviate fiscal imbalances, a ballooning wage bill and overruns in current expenditure more than offset higher revenue and led to double digit fiscal deficits (see Text Table 1). The rapidly rising public debt since 2006 resulted in significantly higher interest payments, further constraining social and development spending. Large fiscal and external imbalances and monetary financing of the budget have led to high inflation, a decline in external buffers, a significant depreciation of the Cedi, and high nominal interest rates, weighing on growth and real incomes of most households.

Table 1. Key Fiscal Indicators

	Pre-oil (2007-10)	Oil (2011-14)	2015	2016	2017
	(Averages)			Prog.	
	(in percent of non-oil GDP)				
Total revenue	16.5	19.3	20.4	21.2	22.4
Oil revenues	0.0	1.9	1.0	1.6	2.5
Non-oil tax revenues	11.6	13.6	14.8	14.7	14.7
Non-oil non-tax revenues, incl. social contributions	2.0	2.7	3.1	3.6	4.2
Grants	2.8	1.1	1.5	1.3	1.0
Total expenditure	20.9	29.2	28.4	27.5	26.7
Compensation of employees	7.6	11.3	10.1	9.4	8.9
Other non-interest current expenditures	5.4	8.0	5.8	6.3	6.3
Capital expenditure	5.2	5.1	4.9	5.2	5.1
Interest payments	2.6	4.8	7.6	6.7	6.4
Overall balance	-4.4	-9.9	-8.0	-6.3	-4.3
Primary balance	-1.8	-5.0	-0.4	0.4	2.1
Non-oil primary balance	-1.8	-6.9	-1.3	-1.3	-0.4
	(in percent of GDP)				
Central government debt 1/	31 - 46.5	42.6 - 64.8	67.8	66.5	62.3
Stock of arrears 1/	7.9 - 9.8	8.7 - 5.5	3.5	1.6	0.0

1/ For the 2007-10 and 2011-14 periods, range indicates data for first and last year of period.

3. **The wage bill has been a major source of expenditure pressure in Ghana**. The introduction of the "Single Spine (SS)" pay structure in 2010 led to a substantial increase in employees' compensation as almost all civil servants salaries were increased for several years in a row, while delays in moving staff to the SS resulted in large arrears as well.



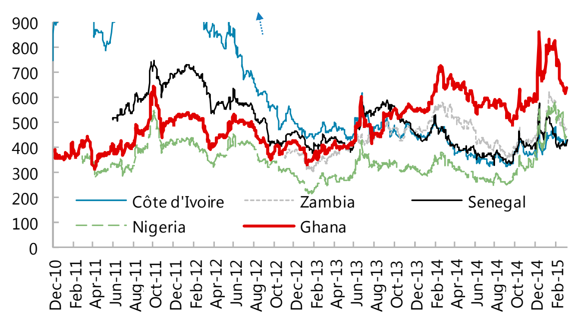
4. **The 2014 Article IV consultation recommended stronger measures to address Ghana's vulnerabilities.** While welcoming recent efforts by the authorities, it advocated more effective policy implementation and a stronger medium-term adjustment path than envisaged under the government's home grown policies at the time, to set off a virtuous cycle of lower fiscal deficits, lower inflation, and falling interest rate.

5. **Growth decelerated markedly in 2014,** to an estimated 4.2 percent, driven by a sharp contraction in the industry and services sectors. This resulted from the negative impact of the currency depreciation on input costs, declining domestic demand and increasing power outages.

6. **The fiscal deficit remained elevated in 2014 despite gradual fiscal consolidation efforts undertaken since mid-2013.** These efforts have been undermined by policy slippages, increasing debt-service costs and external shocks. Despite higher oil revenues, improved tax collection and some containment of the wage bill, delays in implementing some measures and unbudgeted wage allowances resulted in a higher-than-budgeted cash fiscal deficit in 2014 of 9½ percent of GDP, against a budget target of 8.5 percent. Additional domestic arrears were accumulated, in particular on social security contributions (stock of arrears estimated at 5.5 percent of GDP at end-2014). On a commitment basis, the overall fiscal deficit remained close to 10 percent of GDP.

7. **The government has been facing increasing financing difficulties.** A new US$1 billion Eurobond was successfully issued in September 2014, but at higher interest rate than other SSA issuers and spreads on Ghana's Eurobond (at 600–700 bp) remain elevated. The government has had to resort increasingly to short-term domestic debt, which now carries interest rates at around 25–26 percent, and significant monetary financing.

Sovereign Spread, SSA Frontier Markets
(USD-denominated, basis points)



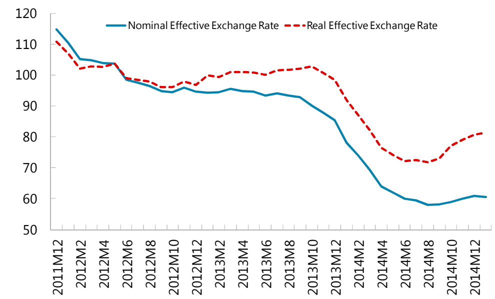
Source: Bloomberg

8. **Inflationary pressures rose on the back of a large depreciation and monetary financing of the fiscal deficit**. Despite several hikes in the policy interest rates in 2014 up to 21 percent, headline CPI inflation reached 17.0 percent (y-o-y) at end-2014, well above the 8 +/-2 percent target range of BoG. Inflation was driven by the lagged effects of administered

price increases, and a 31 percent depreciation of the currency during 2014 (in US$ per Cedi). While headline inflation declined marginally in early 2015, core inflation continued to increase. Meanwhile, growth in broad money and credit to the private sector remained elevated.

9. **The external position weakened through mid-2014, with net international reserves reaching low levels in the third quarter and the exchange rate depreciating sharply.** During the first half of the year, difficulties of the government to roll-over bonds held by non-residents and the clearing of large outstanding letters of credit for oil imports resulted in large capital outflows. New regulations on current and capital transactions adopted by BoG in early 2014, aimed at dampening other outflows, had limited effect and were largely reversed in July, although one exchange restriction (and a multiple currency practice) remained. The exchange rate dropped sharply in the first 8 months of the year before recovering on the back of inflows from the US$1 billion Eurobond issued in September and the $1.8 billion short-term loan contracted by the Cocoa Board. The currency depreciation and the economic slowdown led to a substantial contraction of imports and a narrowing in the current account deficit, which nonetheless ended at 9.2 percent of GDP. For the year as a whole, the balance of payments was broadly balanced, leading to a fragile stabilization in international reserves, with gross reserves partly supported by large BOG's short-term liabilities.

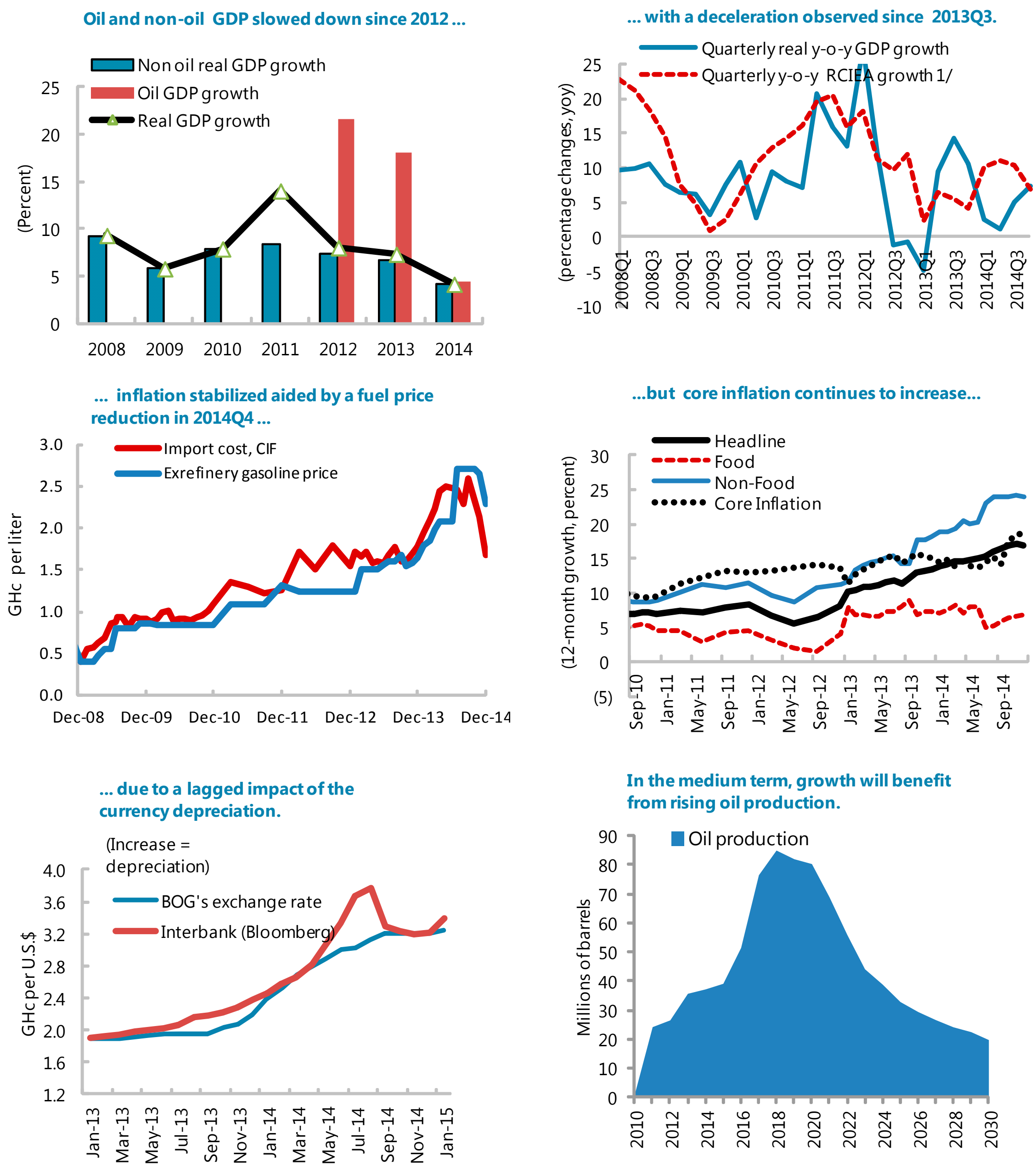
Nominal Exchange Rate, NEER and REER
(REER, NEER base 2012)



Sources: Bank of Ghana, IMF staff calculations

10. **Financial soundness indicators suggest Ghana's financial sector is relatively robust, but vulnerabilities stemming from weakening growth may be significant.** Analysis of individual banks conducted by BoG and an IMF technical assistance mission suggests that resilience to shocks may be weaker than suggested by aggregate financial soundness indicators while credit risk from lower growth is rising (Table 8). High cedi interest rates imply that many projects are inherently high risk. Lending in foreign currencies to unhedged borrowers exposes banks to credit risks in case of cedi depreciation and potentially foreign exchange liquidity risks given the shallow foreign exchange market. Forbearance has been used to delay capital provisioning requirements in some cases. Widely varying practices in loan classification, provisioning and loan restructuring may result in an optimistic picture of profitability and mask weaknesses.

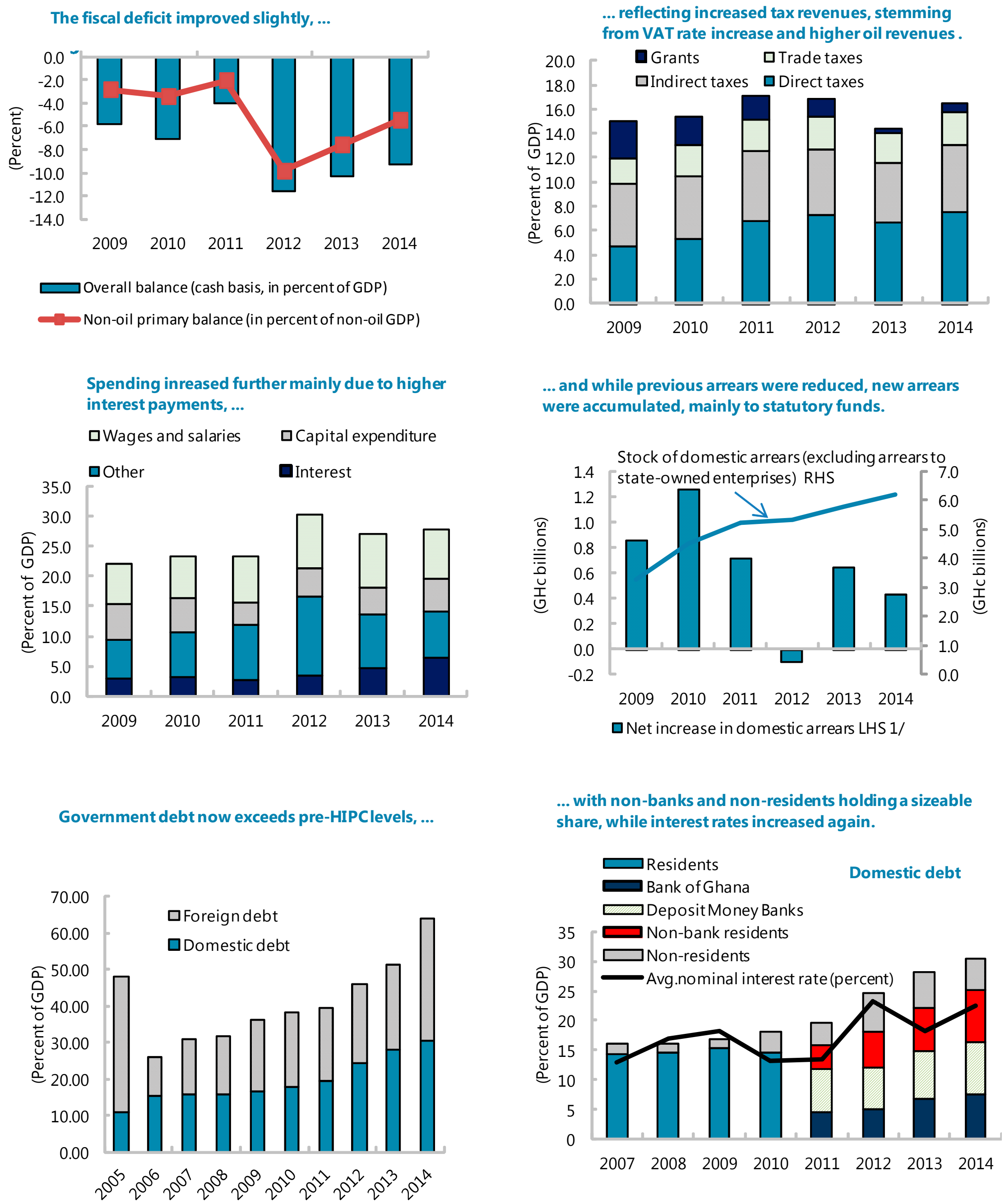
Figure 1. Ghana: Real Sector Indicators



Source: Ghanaian authorities and IMF staff estimates and projections.

1/ The RCIEA is the Bank of Ghana's composite index of real economic activity.

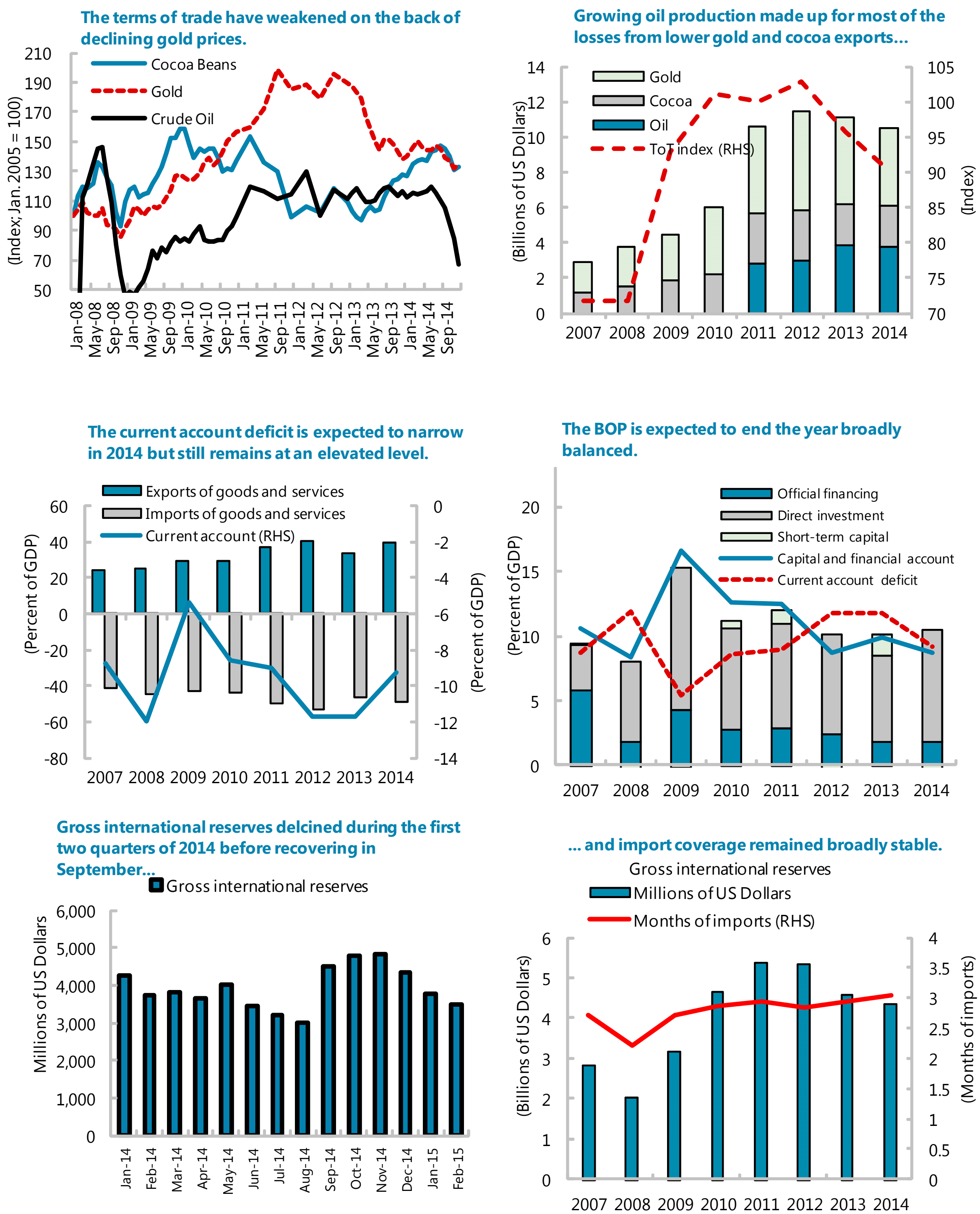
Figure 2. Ghana: Fiscal Indicators



Source: Ghanaian authorities and IMF staff estimates.

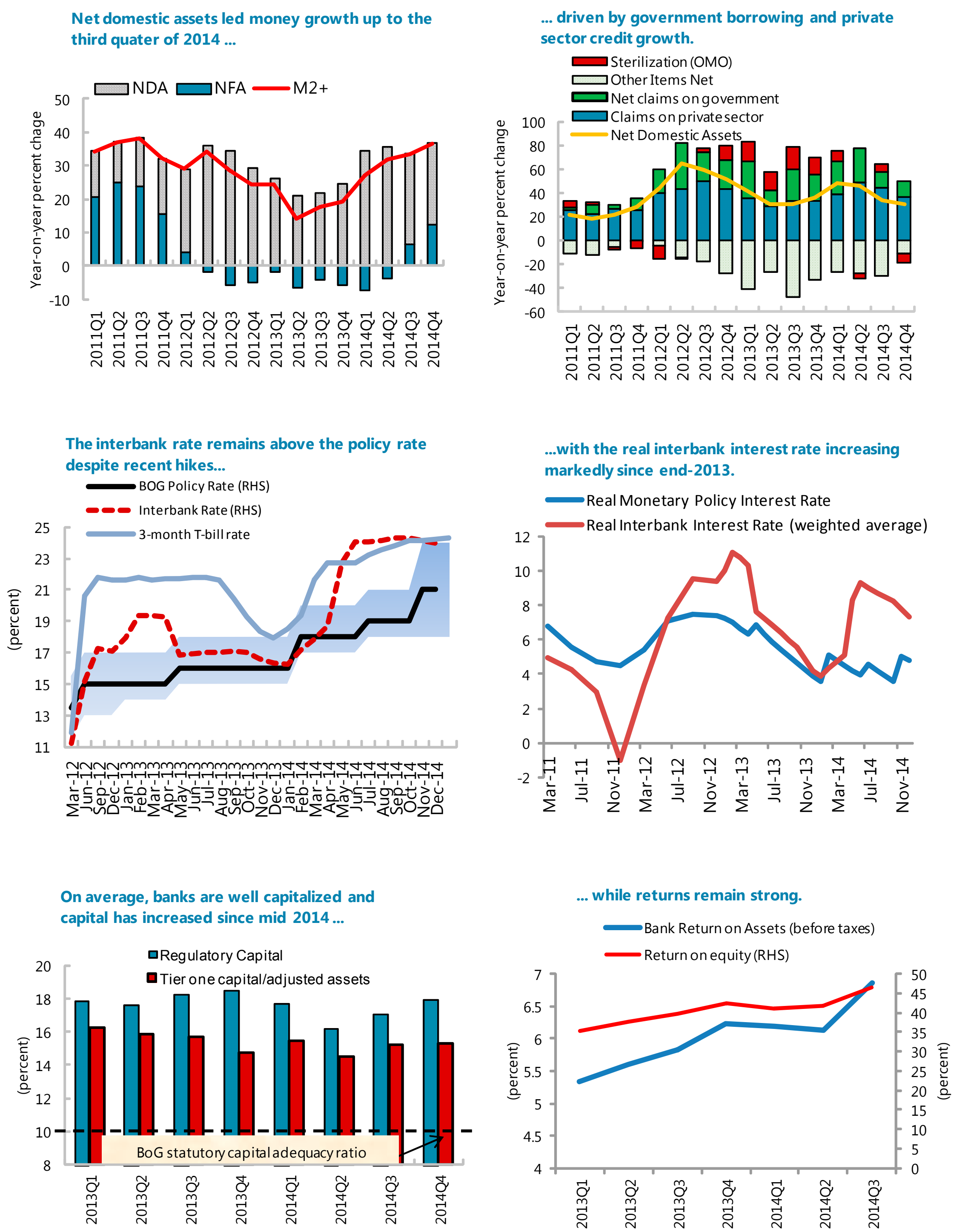
1/ Includes deferred wages and arrears to state-owned enterprises.

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.

POLICIES UNDER A THREE-YEAR ECF ARRANGEMENT

11. **Recognizing that their policies were not bringing the expected results, the authorities requested in August 2014 an arrangement with the Fund to help support stronger policy adjustment, restore market confidence and revive Ghana's transformation agenda.** To facilitate broad and inclusive economic growth, including creating more and better jobs, the government has formulated a broad-based economic reform strategy anchored on the second Ghana Shared Growth and Development Agenda (GSGDA II, 2014–17). The government's transformation agenda is focused on economic diversification, social inclusion, and sustained macroeconomic stability. The strategy envisages a gradual shift of public expenditure from current to capital spending supported by the channeling of new oil and gas revenues into productive investment to develop proper infrastructure and reliable power generation, as well as reform of State-Owned-Enterprises (SOEs).

A. Program Objectives and Macroeconomic Framework

12. **The program aims at a sizeable and frontloaded fiscal adjustment to restore debt sustainability, rebuild external buffers, and eliminate fiscal dominance of monetary policy.** Even with the support of higher hydrocarbon production, achieving strong and sustained growth over the medium term will be difficult to achieve without restoring macroeconomic stability. Social safety net programs should be expanded to restore real income of the poor, which was dented by three years of high inflation, and to mitigate possible adverse impact of the fiscal consolidation. Strengthened public financial management and revenue administration will support fiscal consolidation and elimination of fiscal dominance of monetary policy will enable restoring the effectiveness of the inflation targeting framework. In view of the high level of public debt, a prudent borrowing strategy should be implemented, relying on concessional borrowing to the extent possible and prioritized borrowing for highly productive development projects.

13. **The envisaged fiscal consolidation is projected to further dampen non-oil economic growth and reduce inflation in 2015, but growth would be expected to rebound in the following years.** Non-oil GDP growth would decelerate further to 2.3 percent in 2015 before picking up in the following years, reaching 5.5 percent by 2017. Expected large increases in hydrocarbon production would contribute to higher and rising total GDP growth of 3.5 percent in 2015 and 9.2 percent in 2017. Lower inflation and interest rates, and a more stable exchange rate would support growing private sector activity. The commencement of gas production in 2015 is expected to lower the cost of electricity generation and reduce oil imports. The increase in oil exports and compressed aggregate demand will support an improvement in the external current account deficit over the medium term, from about 9 percent of GDP in 2014 to about 5 percent in 2017. The projected surpluses in the financial and capital account balances stemming from projected private flows and identified donor financing, together with IMF

support would help build up gross reserves to a more adequate level of 4.2 months of imports of goods and services by 2017, while allowing a gradual unwinding of BoG's short-term liabilities.

14. **The short and medium-term economic outlook is subject to substantial risks.**

- On the downside, if the current electricity crisis is not swiftly addressed and energy sector reform is delayed, growth may be even lower than projected in 2015 and not rebound as quickly as expected thereafter. The deceleration in growth in 2015 may also weaken the financial sector with increasing NPLs, limiting its ability to support private sector activity and continue to provide budget financing. The run-up to the elections in 2016 may lead to social tensions and a strong push for policy reversal (previous election cycles have seen fiscal overruns). Moreover, with exports dominated by commodities, Ghana remains exposed to terms of trade shocks. A further decline in oil prices would also have a substantial negative fiscal impact in the medium term. Changes in global financial condition could increase financing costs as concessional resources are drying up for Ghana. Risks related to the Ebola outbreak in the region have subsided but a short-term impact on trade, budget spending, and inflation may still be felt.

- On the upside, quickly regaining credibility of fiscal discipline and monetary policy may lead to a more rapid decline in domestic interest rates and restoration of investors' confidence. A stronger rebound in commodity prices over the medium term, including oil, would facilitate accelerating some development projects.

B. Fiscal Policy: Achieving an Ambitious Fiscal Consolidation

15. **The fiscal position will be substantially strengthened to achieve debt sustainability**. The program seeks to expand revenue collection, restrain the wage bill and other primary expenditures, while making space for priority spending and for clearing all domestic arrears. Despite lower than previously projected oil revenues over the program period, the primary balance (on a commitment basis) is programmed to turn from a deficit of 3.5 percent in 2014 into a surplus of 0.9 percent of GDP in 2015 and 3.2 percent of GDP in 2017. Combined with the expected expansion in hydrocarbon production, this would bring total public debt to a more sustainable level of about 50 percent of GDP within a decade. Reflecting increasing interest payments in 2015 and planned repayments of arrears, the overall cash deficit would decline more gradually from 9½ percent of GDP in 2014 to 7.5 percent in 2015 and close to 3½ percent in 2017.

16. **The 2015 budget approved by Parliament is ambitious and included significant measures to achieve strong fiscal consolidation** (MEFP ¶27–28):

- On the **revenue** side, measures included: the imposition of Special Petroleum Tax of 17.5 percent (implemented in November 2014) to bring Ghana's petroleum taxes more in line with international practice; the implementation of the VAT on fee-based financial services and of a 5 percent flat rate on real estate (implemented in January 2015) to broaden the tax base; and the extension to 2017 of the special import levy of 1–2 percent on some imported goods and the National Fiscal Stabilization Levy on selected sectors. The impact of the new revenue measures is estimated at about 2 percent of GDP.

- On the **expenditure** side, to further address one of the main source of fiscal imbalance, the authorities will limit the nominal increase in the total wage bill to 10 percent, supported by: (i) an agreement with trade unions on a 13 percent wage increase over the 2013 nominal basic wage; (ii) discontinuation of the 10 percent Cost of Living Allowance granted in 2014; and (iii) strict limits on net hiring in the public sector (which will be frozen except in education and health). Moreover, subsidies for utilities and petroleum products will be fully eliminated through strict implementation of tariff and price adjustment mechanisms (quarterly and bi-weekly adjustments for utility tariffs and petroleum products prices, respectively). All these measures would lead to savings of about 2 percentage points of GDP.

- The government will use part of the resulting fiscal space to **safeguard social and other priority spending** under the program, including expanding the targeted social safety nets—such as the flagship cash transfer program (Livelihood Empowerment Against Poverty (LEAP)) benefitting the poorest households and which will almost double its coverage to 150,000 households in 2015—and protecting basic health care coverage.

- The authorities will **clear the outstanding stock of arrears** over the coming three years through cash payments and possible securitization of arrears to SOEs with marketable financial instruments. About a quarter of outstanding arrears would be repaid in 2015. Outstanding arrears to suppliers will be audited first.

17. **The government adopted additional measures to mitigate the budget revenue shortfall due to the substantial decline in oil prices since the budget was adopted.** To mitigate this shortfall estimated at 2 percent of GDP and ensure that the total debt accumulation remains in line with the level approved in the budget, the government will: (i) reduce goods and services and domestically-financed capital spending by the equivalent of 0.3 and 0.7 percent of GDP, respectively—which the government has already started implementing by reducing the spending allotments to ministries in line with lower oil revenues; (ii) reduce transfers to other government units by 0.2 percent of GDP in line with lower revenues; and (iii) finance the remainder of the shortfall by drawing from the oil stabilization fund (in line with the Petroleum Revenue Management Act (PRMA)). The authorities stand ready to adjust their policies further in the event of any further budget shortfall.

Financing and Debt Management Policy

18. **The program is fully financed through a mix of external concessional loans and domestic financing, as well as limited non-concessional external borrowing in line with the Fund's applicable debt limits policy** (MEFP ¶33).The debt sustainability analysis (DSA)

concludes that Ghana is at a high risk of debt distress, on account of breaches in the debt-service to revenue ratio over 2015–17 and after 2021. The authorities are committed to limit their borrowing plans to loans with a minimum grant element of 35 percent, with possible exceptions in line with the debt limits policy. The authorities have already secured significant program grants and loans for 2015 from their development partners, most of which had been suspended since 2013. In addition, they plan to issue a Eurobond during the second half of the year as a substitute to domestic borrowing to help repay expensive maturing debt. The ministry of finance is also working to identify high priority development projects which cannot be financed by relying only on concessional borrowing. Revised debt limits, in line with fiscal targets and with the new debt limits policy could be set at the time of the first review. Bank of Ghana gross financing to the budget in 2015 will be limited to 5 percent of previous year's revenue, using only marketable financial instruments.

19. **To safeguard the Government's overarching goal for debt and fiscal sustainability, the Ministry of Finance is developing a comprehensive medium-term debt management strategy.** This will be approved by Cabinet by end-June 2015 (MEFP ¶70). Reforms to deepen the domestic debt market would contribute to reducing refinancing and exchange rate risks, while securing a more stable source of financing over the medium term (Annex I). The authorities also intend to strengthen their risk management practice by developing an operational framework for building cash buffers (sinking funds), strengthening the management of the on-lending portfolio, and reducing the exposure to contingent liabilities (MEFP ¶72).

C. Structural Reforms to Strengthen Public Finances and Fiscal Discipline

PFM reforms

20. **To support the fiscal adjustment effort, the authorities plan to adopt various measures to reform the PFM framework.** PFM reforms implemented over the past years have yielded limited benefits, and a recent PEFA assessment revealed that there remain significant gaps in terms of credibility, predictability and control in budget execution to be addressed:

- To signal the urgent need to reform the PFM system, the authorities will submit to Cabinet a comprehensive PFM reform strategy for approval by August 2015 (MEFP ¶48) and draft bills to amend weaknesses in existing PFM laws by December 2015 (MEFP ¶49).

- To restore budget credibility and avoid significant overruns during the year, the authorities will strengthen the medium-term fiscal framework and their revenue forecasting models (MEFP ¶50); they plan to communicate for information the Budget Strategy Paper (BSP)—representing the basis of the forthcoming budget—to Parliament by end-July 2015.

- To increase control over budget execution and avoid the accumulation of new arrears, the government will (i) only recognize purchases generated by the Ghana Integrated Financial Management System (GIFMIS) as valid commitments of Government (MEFP ¶52) and

(ii) extend the GIFMIS system to revenue and expenditure transactions of Internally Generated Funds (IGFs) to progressively enhance budget comprehensiveness (MEFP ¶53).

- The Ministry of Finance will strengthen Treasury and Cash Management by gradually centralizing cash holding in the Treasury Single Account (TSA) (MEFP ¶62-63) and draft jointly with Bank of Ghana a new strategy paper for the adoption of the TSA by August 2015.

Budget transparency will also be improved

21. Starting with the 2016 budget, the government will publish as annexes: (i) information on existing tax expenditure, their beneficiaries and their fiscal costs, in accordance with international best practices (MEFP ¶40); and (ii) financial information on all existing subvented agencies (MEFP ¶60). The authorities will continue to follow the recommendations of the Extractive Industry Transparency Initiative (EITI) with regard to the management of natural resource revenues (MEFP ¶41). Under the program, the finance ministry will improve the production and timely publication of fiscal data not yet publicly available (MEFP ¶88), including: revenues and expenditures of local governments and extra-budgetary funds; financial statements of SOEs; public investment plans and wage bill performance reports.

Payroll clean-up and enhancement of wage bill control

22. Various payroll irregularities have been identified. In 2012, the authorities started to reform and modernize the payroll, in particular to identify and eliminate ghost workers and record most civil servants into centralized databases. The government requested several audits that identified weaknesses in the security, validation and performance of the existing payroll databases. In addition, inadequate and infrequent controls by heads of units before the payment of salaries resulted in duplicate names, employees with no or incorrect bank accounts, identical bank accounts related to several employees or instances of double payment of salaries.

23. In March 2015, the inter-ministerial committee on payroll issued a Payroll plan aimed at resolving payroll irregularities (MEFP ¶57). Key elements of the plan include: (i) the removal from the payroll of the names of public employees with no bank account; (ii) the suspension and verification of salary payments to employees with no social security number; (iii) the implementation of a biometric validation of all employees on the mechanized payroll; (iv) the rolling out of the electronic wage payment system to ensure a monthly validation by all department heads of their staff (including grades) before payments are made; (v) assessment of the security of the payroll system, through an audit of the payroll databases, which were merged in 2014; (vi) the introduction of new guidelines to strengthen internal control over the payroll processes; and (vii) a large scale public audit of the payroll management to provide evidence to assist in identifying government officials responsible for irregularities, as a basis for any legal actions the government may take. Cases of suspected fraud will be prosecuted by the Attorney General using all appropriate legal and regulatory mechanisms.

24. To ensure a better control over the public sector workforce and the wage bill, the personnel in all subvented agencies will be integrated to the existing payroll databases (MEFP ¶57) and improvement in Human Resource Management will enhance control over net hiring in the public sector, through a progressive roll out of the Human Resource Management Information System (HRMIS) (MEFP ¶58). In the meantime, no new personnel will be added to the payroll without proper financial certification (MEFP ¶28b.). The government intends to align, starting in 2015, wage negotiations with the budget cycle and have them cover a 3-year period on a rolling basis (MEFP ¶61).

Civil service reform

25. The government aims at bringing the wage bill-to-revenue ratio down from 53 percent in 2014 to 35 percent over the medium term, in line with the regional ECOWAS target. This will require wage restraint over the full three year program period, with increases consistent with expected disinflation. To also help achieve this objective while improving public services, the authorities will design a civil service reform strategy during 2015 with the assistance of development partners, which will aim at increasing the productivity and rationalizing the size of the civil service (MEFP ¶65). As part of this reform, the government intends also to review the role of subvented agencies (MEFP ¶60). A task force will be instructed to provide recommendations to the Government as part of the right-sizing exercise.

Restructuring Statutory Funds

26. The budget is characterized by several rigidities. Besides high level of mandatory expenditures related to wages and interest payments, Statutory Funds receive almost 20 percent of earmarked revenues (PEFA, 2011). The government will perform a restructuring of the Statutory Funds, which will involve a review of their administrative and legal framework guiding their operations by June 2015, with a goal of introducing more flexibility and efficiency in the overall fiscal management and new measures to enhance their transparency and accountability in the 2016 budget (MEFP ¶67).

Improving Revenue Collection

27. **Tax policy.** The Ghanaian tax system is fundamentally sound and is based on the essential pillars of a modern tax system. However, the system is undermined by reliance on discretionary tax treatments, in the form of exemptions, special regimes and tax holidays (amounting to perhaps 6 percent of GDP),[1] which hinder economic efficiency, fair competition and revenue mobilization. The government intends to broaden the tax revenue base and create a level playing field (MEFP ¶36–40). The authorities will review existing tax exemptions and streamline the tax treatment of the free zones enterprises and SOEs (MEFP ¶38).

[1] OECD (Tax and Development Program, “Analysis of Tax Expenditures in Ghana”).

28. **Natural resource management.** Since oil production came on stream in 2011, the petroleum revenues management framework has raised a number of operational issues, including the calculation of the benchmark revenue to be included in the budget and the rigidities of the system to allocate funds to the budget and to the petroleum funds (the stabilization and the heritage funds). The framework led the authorities to transfer revenues to the petroleum funds while running large deficits over 2012–14. No revisions in the benchmark revenues, on which some spending is directly based, are allowed under the current framework even in cases like the recent decline in oil prices. The authorities have therefore submitted to parliament amendments to the PRMA, including the option to give the Minister of Finance more discretion to amend the benchmark revenues under unexpected circumstance, and will work with IMF staff to draft regulations and guidelines for the application of the amended PRMA.

29. **Tax administration** (MEFP ¶42–46)**.** The authorities intend to accelerate tax administration reforms, which had stalled in the past years. The Ghana Revenue Authority (GRA) has developed a new Strategic Plan covering 2015–17, with intensive IMF technical assistance. The strategic plan will be submitted to the GRA Board for approval by March 2015. The plan focuses, among other things, on improving tax compliance and further modernizing tax collection (MEFP ¶36). To improve administration efficiency, the VAT thresholds will be increased after the new tax policy for small business is enacted (MEFP ¶44). To restore the integrity of the VAT regime, the authorities will seek technical assistance to implement time-bound refunds of VAT credits by September 2015 (MEFP ¶45).

D. Monetary Policy and Exchange Rate Regime

30. **BoG announced a medium-term inflation target of 8 percent, which will help to anchor inflation expectations.** Inflation would be reduced to 12 percent by end-2015. Guided by inflation forecasts, the Monetary Policy Committee (MPC) will take all the decisions on the reference interest rate and the interest rate band. To strengthen BoG's ability to steer the interbank interest rates to the policy rate (MEFP ¶76), BoG introduced a new set of regulations making the two-week fixed rate BoG-bills the main instrument for liquidity management. The Monetary Policy Committee will determine both the monetary policy rate and a more transparent overnight interest rate corridor. BoG will further benefit from implementing recommendations from most recent IMF Technical Assistance on monetary and exchange rate operations and on monetary policy formulation, forecasting and policy analysis.

31. **The authorities' objective to bring inflation back into single digit territory will be supported by restoring the effectiveness of the Inflation-Targeting (IT) framework.** To this end:

- **Central bank financing of the central government and state-owned enterprises will be progressively eliminated.** A memorandum of understanding between the Ministry of Finance and BoG limits central bank's financing to 5 percent of previous year's revenue in 2015, while the adoption of a new Bank of Ghana Act will bring the financing to zero from 2016 onwards (MEFP ¶74/84). To further strengthen transparency and separate BoG liquidity operations from government financing, BoG will no longer issue OMO bills (3-month T-bills issued for monetary operations purpose) nor take any budget financing auction decisions but only use BoG bills for all liquidity operations.

- **The BoG will strengthen the foreign currency interbank market and adopt a market-based daily reference exchange rate.** A crucial step will be the elimination, by mid-2016, of the compulsory surrender requirements of foreign exchange for key sectors of the economy and the end of BoG practice to secure foreign currency funding for priority sector imports (MEFP ¶78). BoG's management also defined in early March 2015 a fixed set of rules to compute a daily reference foreign exchange rate for the cedi against the major trading currencies based on market transactions for immediate implementation. This will fully unify the BoG and the interbank foreign exchange rates.

- **A new BoG Act will significantly strengthen its functional autonomy, governance and ability to respond to banking sector crisis (MEFP ¶84).** In addition to institutionalizing from 2016 onwards the zero limit on government financing and limits on BOG financing to public institutions, the new Act will strengthen governance provisions to ensure the personal autonomy of key management, Board and audit committee members of BoG. The Act will have new provisions which will allow BoG to better respond to banking crisis situations, including the details and condition under which it will provide emergency lending assistance (ELA). The requirement in the BoG Act for the BoG to set annual aggregate limits for its guarantees for the foreign loans by the government will be enforced. Finally, the amended BoG Act shall ensure full compliance with the IFRS.

E. Financial Sector: Preserving Financial Stability

32. **To address concerns about bank balance sheets, BoG and external audit firms will undertake a special diagnostic audit of loan classification and provisioning and of restructured loans**. Informed by this audit (planned to be completed by September 2015), BOG will develop new regulations to ensure banks are meeting prudent standards in their underwriting and credit evaluation practices, and are not under-provisioning. BoG is strengthening its oversight of the microfinance institutions and has created a dedicated department for rural and microfinance supervision. The BoG will continue to strengthen cross-border and cross-sector supervision by intensifying its collaboration with central banks and regulators in the sub-region, as well as with other domestic financial sector regulators.

33. **BoG intends to take measures to strengthen the financial sector framework.** The Banks and Specialized Deposit-Taking Institutions Bill and the Ghana Deposit Protection Bill will be presented to Parliament during the second quarter of 2015 (MEFP ¶79). This legislation will strengthen BoG's supervisory and resolution powers and crisis management in line with international best practices. It provides the BOG with the authority for (i) prompt corrective action; (ii) liquidity support instruments; (iii) clear triggers for bank resolution; and (iv) a range of bank resolution tools. The newly introduced resolution powers include a purchase and assumption capacity and a bridge bank facility. The resolution tools will give BOG the capacity to

protect the value of performing assets and protect depositors while removing weak banks from the system. The Deposit Protection Bill, which will have long term benefits for financial stability, has also been drafted and will be submitted to Parliament for adoption by mid-2015. The draft law establishes a separate institution, the Ghana Deposit Protection Corporation, with the responsibility limited to paying deposits.

F. The Growth and Social Protection Agenda

34. **The country has outperformed regional peers in reducing poverty and improving social indicators.** The overall poverty rate declined from 31.9 percent in 2005/06 to 24.2 percent in 2012/13 whereas the extreme poverty rate declined from 16.5 percent to 8.4 percent. Performance in other MDG goals is also encouraging (e.g. access to education and water) but others still deserve attention (e.g. maternal and child mortality).

35. **The Ghana Shared Growth and Development Agenda (2014–17) outlines the government's plans to strengthen growth and social protection**:

- Improving energy generation and distribution, one of the most significant constraints to growth is a key priority in the agenda. New oil and gas projects expected in the medium term will allow harnessing of natural gas for electricity generation, significantly lowering electricity production costs. In addition, the package of reforms envisioned under the government's second Compact under the United States' Millennium Challenge Account are important steps to improve governance and accelerating private investments in the energy sector (MEFP ¶16). Moreover, support for small and medium-scale industries will be improved.
- Social protection and safety net interventions include the National health insurance Scheme, LEAP, Labor Intensive Public Works (LIPW), and the school feeding programs. The establishment of the National Household Registry will improve its targeting and ensure the most vulnerable are protected from the impact of fiscal consolidation. Other reforms aim to improve service delivery in such areas as sanitation, health, and education within the context of the accelerated decentralization program.

PROGRAM MODALITIES, FINANCING ASSURANCES, AND RISKS

36. **Ghana has a significant financing need over the next three years (Table 5)**. This reflects: (i) still elevated current account deficits; (ii) a more limited access to international capital markets due to high levels of public debt and international bond spreads; and (iii) the need to build larger reserves to face strong seasonality of foreign currency receipts and exposure to commodity price shocks.

37. **Financing needs are expected to be covered by a combination of donor and Fund support:**

- **Some US$900 million of donor support is expected over 2015–17**. The authorities have actively engaged with key donors, underlying their reform plans, including for cleaning-up the payroll and enhancing wage controls. Donors have committed US$500 million in support for 2015, conditional first upon the Fund's program approval.

- **Staff proposes an access level equivalent to 180 percent of quota (US$915 million at current exchange rates) for a new three-year ECF arrangement (Table 7).** The case for relatively high access is based on the protracted BOP needs, the strength of the medium-term adjustments (including frontloaded fiscal measures), and the commitment of other donors to provide significant support for the next three years. There would be two program reviews in each of the first three calendar years.

38. **Ghana has adequate capacity to meet its financial obligations to the Fund** (Table 6). Combined with the previous ECF arrangement, the Fund's credit outstanding would reach a maximum of SDR 863 million in 2018 but remain low at 2.5 percent of GDP, 6.8 percent of exports, and 13.8 percent of gross international reserves. Ghana's capacity to repay the Fund would be further enhanced by fiscal consolidation under the program, and sizeable oil and gas production coming on stream in the medium and long term. Ghana has a track record of fully servicing its obligations to the Fund in the past.

39. **The program includes prior actions, quantitative indicators, and structural measures related to core areas of Fund expertise:**

- The authorities implemented several prior actions (MEFP Table 1), including to implement fiscal adjustment in 2015, clean-up the payroll, limit monetary financing, and strengthen the inflation targeting framework.

- Quantitative performance criteria will be set on the primary fiscal balance, the wage bill, net international reserves and net domestic assets of the BoG (MEFP Table 2). While the focus of BoG's policy will be on achieving the inflation objective, the program will initially include a performance criterion on Net Domestic Assets (NDA) of Bank of Ghana as a safeguards mechanism. Following successful implementation of monetary sector reforms, as envisaged by BOG by the time of the second review, and a reduction in inflation, the program could be in a position to shift to Monetary Policy Consultation Clause (MPCC) conditionality.

- Structural conditionality (MEFP Table 3) focuses on strengthening public financial management, cleaning up the payroll, enhancing revenue collection and broadening the tax base, rationalizing the civil service, and strengthening debt management and the monetary policy framework.

40. **Mitigating risks to the program.** The program is front-loaded, to help mitigate the risk of fiscal and monetary laxity in the run-up to the 2016 elections, and aims at building sufficient external buffer to face volatility of exports receipts and preserving financial sector stability. Still it will be crucial for the authorities to stand ready to implement additional measures in case downside risks materialize.

41. **An update of the 2009 Safeguards assessment, which is near completion, noted that BoG's autonomy is significantly compromised by monetary financing.** This is exacerbated by the absence of clear limits on credit to government in the central bank legislation. As noted above, the BoG and the MoF have established an agreement (a prior action) that limits credit to government and the expected amendments to the BoG Act, a structural benchmark, should provide an opportunity to enhance BoG's autonomy. To safeguard monetary data reporting to the Fund, the assessment recommended internal audits of data at test dates.

STAFF APPRAISAL

42. **High fiscal and external vulnerabilities put Ghana's transformation agenda at risk.** Despite the progress achieved during the 2009–12 Fund-supported program, three consecutive years since then of high fiscal expansion have put Ghana's fiscal, external, and debt positions on an unsustainable path. Inflation remains substantially above Bank of Ghana's target, international reserves reached critically low levels alongside a 30 percent year-on-year depreciation of the Cedi by the end of 2014 and government's debt level and debt service obligations have increased at a rapid pace.

43. **Staff welcomes the authorities' commitment to address Ghana's vulnerabilities.** The program designed by the government for the coming three years builds on recent reform efforts and broad consultations with key stake holders. However, in view of policy slippages observed in recent past, forceful and sustained implementation of targeted reforms will be essential to effectively address macroeconomic imbalances.

44. **Ambitious and sustained fiscal consolidation will be needed to fully restore macroeconomic stability**. The program aims at a strong frontloaded fiscal consolidation, focusing on mobilizing additional revenue—through a special tax on petroleum products—and on containing the wage bill and subsidies, while also protecting social spending. Amidst a worsening economic outlook, the government appropriately is taking additional measures to secure the fiscal objectives of the program. However, it should avoid any policy slippage and stand ready to take additional steps to face eventual shocks, if needed.

45. **In view of Ghana's high debt vulnerabilities, the government should pursue a prudent borrowing strategy.** Staff sees the 2015 adjustment-financing mix as appropriate, including renewed support from development partners and issuance of a new Eurobond to help replace expensive debt. Strengthening public debt management policy and operations will help to ensure that financing needs and payment obligations are met at the lowest possible cost, consistent with prudent risk management.

46. **Strong implementation of the fiscal structural reform agenda is essential.** Reforms to strengthen the public financial management system are ongoing, but further work is needed including progress in controlling expenditure commitments and improvements in cash and treasury management to prevent accumulation of arrears. Increased transparency in budget preparation and execution will be critical to garner broad support for reforms. The new reform plan to strengthen tax administration can deliver substantial benefits in the medium term, if properly sequenced and implemented. The government's reform plan in the tax policy area will increase transparency, generate additional revenues and mitigate unfair competition.

47. **The plan to clean-up the payroll and strengthen control of the wage bill is a critical pillar of the program.** Its implementation is essential to help meet fiscal targets and to secure the support of key donors. The plan should be fully integrated with the roll out of GIFMIS and

HRMIS, which is crucial to avoid past weaknesses in controlling the wage bill. To stay within tight personnel spending ceilings will also require wage restraint, in particular for the new round of wage negotiations to be consistent with program parameters.

48. **Monetary policy needs to refocus on reducing inflation to the 8 percent medium-term target.** To this end, the authorities are taking important steps to improve the effectiveness of their inflation targeting framework, most notably by eliminating monetary financing of the budget by 2016 and introducing a full-allotment two-week fixed rate BoG Bill to strengthen the transmission mechanism of the monetary policy interest rate. BoG should stand ready to adjust the monetary policy interest rate as necessary to achieve the inflation and reserves targets and use all tools available to steer the interbank interest rate more closely to the policy rate. Foreign exchange interventions in the market should be coordinated with the inflation targeting objectives and limited only to manage disorderly market conditions, while the foreign exchange surrender requirements should be gradually removed to deepen the market, in both cases to support the market determination of the exchange rate.

49. **Actions are needed to preserve financial sector stability.** A prompt policy response to address any shortcomings outlined by the banking sector asset diagnostic review will be crucial to ensure the soundness of the banking sector and ensure prudent standards in banking sector underwriting and credit evaluation practices. BOG should be ready to step up intrusive supervision, take enforcement actions, and, if needed, resolve banks failing to meet their targets. Staff encourages prompt submission of the important new banking and specialized deposit-taking institutions bill. The BOG should in the interim prepare the implementing regulations and internal guidance to be able to effectively use its supervisory and resolution powers promptly, should they be needed. The deposit insurance and resolution laws are complementary and should be passed together.

50. **Staff supports the authorities' request for a three-year arrangement under the ECF, with access equivalent to 180 percent of quota**.

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

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

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

[1] Including public enterprises and errors and 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, 2011–17 (GFS 2001, Cash Basis)

	2011	2012	2013	2014	2015		2016	2017
				Est.	Budget	Prog.	Prog.	
	(In percent of GDP)							
Revenue	19.1	18.5	16.5	18.4	20.9	19.2	19.6	20.0
Taxes	15.1	15.4	14.0	15.7	17.8	16.4	16.6	16.8
Direct taxes	6.7	7.4	6.6	7.5	8.3	6.9	7.5	7.7
Indirect taxes	5.9	5.4	4.9	5.5	6.6	6.6	6.7	6.8
Trade taxes	2.5	2.6	2.5	2.7	2.9	2.9	2.4	2.4
Other tax revenues	0.1	0.2	0.2	0.2	0.1	0.1	0.2	0.2
Other revenue	1.8	1.4	1.8	1.8	1.8	1.3	1.7	2.1
Grants	2.0	1.5	0.5	0.7	1.1	1.4	1.2	0.9
Project grants	1.1	0.7	0.1	0.7	0.8	0.8	1.1	0.8
Program grants	0.5	0.7	0.2	0.0	0.4	0.7	0.1	0.0
Expenditure	23.1	30.1	26.8	27.8	27.4	26.7	25.4	23.7
Expense	19.4	24.5	22.3	22.3	22.3	22.1	20.6	19.2
Compensation of employees	9.4	12.0	10.9	9.7	9.4	9.5	8.6	7.9
Wages and salaries[1]	7.6	8.9	8.8	8.3	7.6	7.7	7.3	6.7
Deferred wage payments	0.6	2.5	0.9	0.5	0.3	0.3	0.0	0.0
Social Contributions	1.3	0.7	1.2	0.9	1.5	1.5	1.4	1.2
Purchases of goods and services	1.2	1.8	1.0	1.6	1.4	1.1	1.0	1.0
Interest	2.7	3.2	4.6	6.2	7.1	7.2	6.1	5.6
Domestic	2.2	2.5	4.0	5.4	5.9	6.0	4.8	4.2
Foreign	0.5	0.7	0.6	0.9	1.1	1.2	1.3	1.4
Subsidies	0.0	1.1	1.2	0.4	0.0	0.0	0.0	0.0
Social transfers	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Grants to Other Government Units[2]	3.0	2.6	2.1	2.1	3.4	3.2	3.2	3.2
Other expense[3]	3.1	3.8	2.5	2.3	0.9	0.9	1.4	1.3
Net acquisition of nonfinancial assets	3.8	4.8	4.5	5.4	5.2	4.6	4.9	4.5
Domestic financing[4]	0.9	1.4	1.7	1.1	1.9	1.3	1.2	1.1
Foreign financing	2.9	3.4	2.8	4.3	3.3	3.3	3.7	3.4
Discrepancy	-0.1	0.9	0.0	0.1	0.0	0.0	0.0	0.0
Net lending / borrowing (overall balance)	-4.0	-11.6	-10.4	-9.4	-6.5	-7.5	-5.8	-3.7
Net financial transactions	-4.0	-11.6	-10.4	-9.4	-6.5	-7.5	-5.8	-3.7
Net acquisition of financial assets	2.1	-1.0	-0.4	0.2	0.5	-0.4	0.0	0.0
Net incurrence of liabilities	6.1	10.6	9.9	9.5	7.0	7.1	5.8	3.7
Domestic	5.7	8.2	6.6	4.4	5.3	4.8	3.5	2.1
Debt securities	6.0	8.9	8.6	4.4	5.3	4.8	3.5	2.1
Bank of Ghana	2.0	1.4	2.6	1.4	0.8	0.9	0.0	0.0
Deposit Money Bank	0.9	1.2	2.6	1.5	1.4	1.5	1.4	0.6
Nonbanks	3.1	6.3	3.3	1.5	1.4	2.4	2.1	1.5
Unidentified financing		0.0	0.0	0.0	1.8	0.0	0.0	0.0
Loans	-0.3	-0.7	-2.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.5	2.4	3.4	5.2	1.7	2.3	2.3	1.6
Loans	1.4	3.2	4.2	6.4	2.5	4.4	4.3	4.1
Amortization	-1.0	-0.8	-0.9	-1.2	-2.0	-2.1	-2.0	-2.5
Gross financing gap	0.0	0.0	0.0	0.0	1.2	0.0	0.0	0.0
Memorandum items:								
Oil revenue	1.1	1.3	1.7	2.5	2.9	0.9	1.5	2.2
Non-oil revenue	17.1	16.9	15.5	16.2	18.5	17.9	18.3	19.0
Primary balance	-1.3	-8.4	-5.7	-3.1	0.6	-0.3	0.3	1.9
Non-oil primary balance (percent non-oil GDP)[5]	-2.6	-10.4	-8.1	-5.9	-2.5	-1.3	-1.3	-0.4
Nominal GDP (millions of GHc)	59,816	75,315	94,939	113,436	135,011	133,344	155,570	184,952

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

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

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

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

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

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

Table 2B. Ghana: Summary of Budgetary Central Government Operations, 2011–17 (GFS 2001, Cash Basis)

	2011	2012	2013	2014	2015		2016	2017
				Est.	Budget	Prog.	Prog.	
				(Millions of GHc, unless otherwise specified)				
Revenue	11,441	13,935	15,630	20,874	28,248	25,608	30,511	36,961
Taxes	9,052	11,575	13,284	17,855	24,078	21,822	25,750	31,108
Direct taxes	4,037	5,536	6,302	8,487	11,225	9,136	11,606	14,177
Indirect taxes	3,500	4,048	4,651	6,278	8,964	8,796	10,390	12,564
Trade taxes	1,516	1,990	2,331	3,091	3,889	3,889	3,753	4,367
Social Contributions	79	138	159	218	183	183	257	294
Other revenue	1,100	1,062	1,749	1,987	2,437	1,671	2,623	3,974
Grants	1,210	1,160	438	814	1,551	1,932	1,881	1,584
Expenditure	13,829	22,675	25,458	31,510	37,046	35,607	39,559	43,759
Expense	11,601	18,418	21,166	25,318	30,089	29,519	31,972	35,449
Compensation of employees	5,649	9,050	10,312	11,034	12,684	12,684	13,440	14,653
Wages and salaries[1]	4,535	6,666	8,334	9,449	10,286	10,286	11,313	12,418
Deferred wages	343	1,872	846	568	371	371	0	0
Social Contributions	771	512	1,132	1,018	2,026	2,026	2,128	2,235
Purchases of goods and services	724	1,322	938	1,777	1,862	1,519	1,570	1,768
Interest	1,611	2,436	4,397	7,081	9,557	9,577	9,496	10,307
Domestic	1,308	1,880	3,788	6,111	8,014	8,034	7,464	7,785
Foreign	303	556	609	970	1,543	1,543	2,032	2,522
Subsidies	0	809	1,158	474	50	50	50	50
Social transfers	0	0	1	0	169	167	200	231
Grants to Other Government Units[2]	1,781	1,974	2,032	2,354	4,577	4,331	5,046	5,975
Other expense[3]	1,836	2,827	2,328	2,599	1,190	1,190	2,169	2,464
Reserve Fund	330	1,072	798	0	0	0	0	0
Arrears clearance [2]	1,505	1,755	1,530	2,599	1,190	1,190	2,169	2,464
Net acquisition of nonfinancial assets	2,299	3,584	4,303	6,096	6,957	6,088	7,587	8,311
Domestic financing[4]	559	1,050	1,646	1,265	2,557	1,689	1,826	1,945
Foreign financing	1,741	2,535	2,657	4,830	4,399	4,399	5,761	6,365
Discrepancy	-71	672	-11	97	0	0	0	0
Net lending / borrowing (overall balance)	-2,388	-8,740	-9,828	-10,636	-8,798	-10,000	-9,048	-6,799
Net financial transactions	-2,388	-8,740	-9,828	-10,636	-8,798	-10,000	-9,048	-6,799
Net acquisition of financial assets	1,273	-781	-385	176	625	-487	0	0
Net incurrence of liabilities	3,661	7,959	9,443	10,812	9,423	9,512	9,048	6,799
Domestic	3,389	6,186	6,231	4,938	7,193	6,440	5,520	3,860
Debt securities	3,561	6,694	8,131	4,937	7,191	6,440	5,519	3,861
Bank of Ghana	1,169	1,067	2,510	1,581	1,025	1,261	0	0
Deposit Money Bank	547	909	2,476	1,700	1,850	1,978	2,205	1,158
Nonbanks	1,845	4,718	3,144	1,656	1,940	3,201	3,314	2,702
Unidentified financing		0	0	0	2,376	0	0	0
Loans	-172	-508	-1,900	0	0	0	0	0
Foreign	272	1,773	3,212	5,874	2,230	3,073	3,529	2,939
Loans	856	2,397	4,033	7,205	3,382	5,872	6,613	7,511
Amortization	-584	-624	-821	-1,331	-2,753	-2,799	-3,085	-4,572
Gross financing gap	0	0	0	0	1,602	0	0	0
Memorandum items:								
Oil revenue	666	970	1,633	2,785	3,913	1,204	2,322	4,152
Non-oil revenue	9,564	11,805	13,559	17,275	22,785	22,472	26,307	31,225
Primary balance	-777	-6,303	-5,431	-3,555	759	-423	448	3,508
Non-oil primary balance[5]	-1,443	-7,273	-7,064	-6,341	-3,154	-1,626	-1,875	-644
Nominal GDP (millions of GHc)	59,816	75,315	94,939	113,436	135,011	133,344	155,570	184,952

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

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

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

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

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

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

Table 2C. Ghana: Summary of Budgetary Central Government Operations, 2011–17
(GFS 2001, Commitment Basis)

	2011	2012	2013	2014	2015		2016	2017
				Est.	Budget	Prog.	Prog.	
				(In percent of GDP)				
Revenue	19.1	18.5	16.5	18.4	20.9	19.2	19.6	20.0
Taxes	15.1	15.4	14.0	15.7	17.8	16.4	16.6	16.8
Direct taxes	6.7	7.4	6.6	7.5	8.3	6.9	7.5	7.7
Indirect taxes	5.9	5.4	4.9	5.5	6.6	6.6	6.7	6.8
Trade taxes	2.5	2.6	2.5	2.7	2.9	2.9	2.4	2.4
Other tax revenues	0.1	0.2	0.2	0.2	0.1	0.1	0.2	0.2
Other revenue	1.8	1.4	1.8	1.8	1.8	1.3	1.7	2.1
Grants	2.0	1.5	0.5	0.7	1.1	1.4	1.2	0.9
Expenditure	26.5	30.7	27.3	28.2	26.3	25.5	24.0	22.3
Expense	20.6	24.4	22.3	22.4	21.1	21.0	19.2	17.8
Compensation of employees	11.9	11.1	11.4	10.5	9.1	9.2	8.6	7.9
Wages and salaries[1]	7.6	8.9	8.8	8.3	7.6	7.7	7.3	6.7
Deferred wage payments	2.6	1.1	0.6	0.3	0.0	0.0	0.0	0.0
Social Contributions	1.7	1.2	2.1	1.8	1.5	1.5	1.4	1.2
Purchases of goods and services	1.2	2.1	1.1	1.6	1.4	1.1	1.0	1.0
Interest	2.7	3.5	4.6	6.2	7.1	7.2	6.1	5.6
Domestic[2]	2.2	2.8	4.0	5.4	5.9	6.0	4.8	4.2
Foreign	0.5	0.7	0.6	0.9	1.1	1.2	1.3	1.4
Subsidies	0.0	2.9	1.2	1.0	0.0	0.0	0.0	0.0
Social transfers	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Grants to Other Government Units[2]	3.0	3.2	3.1	3.2	3.4	3.2	3.2	3.2
Other expense [3]	1.8	1.4	0.8	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets	5.9	5.4	5.1	5.7	5.2	4.6	4.9	4.5
Domestic financing[4]	3.0	2.1	2.3	1.4	1.9	1.3	1.2	1.1
Foreign financing	2.9	3.4	2.8	4.3	3.3	3.3	3.7	3.4
Discrepancy	-0.1	0.9	0.0	0.1	0.0	0.0	0.0	0.0
Net lending / borrowing (overall balance)	-7.3	-12.2	-10.9	-9.8	-5.4	-6.3	-4.4	-2.3
Net financial transactions	-7.3	-12.2	-10.9	-9.8	-5.4	-6.3	-4.4	-2.3
Net acquisition of financial assets[5]	2.1	-1.0	-0.4	0.2	0.5	-0.4	0.0	0.0
Net incurrence of liabilities	9.5	11.1	10.5	9.9	5.8	6.0	4.4	2.3
Domestic[6]	9.0	8.8	7.1	4.7	4.2	3.7	2.2	0.8
Debt securities	6.0	8.9	8.6	4.4	5.3	4.8	3.5	2.1
Bank of Ghana	2.0	1.4	2.6	1.4	0.8	0.9	0.0	0.0
Deposit Money Bank	0.9	1.2	2.6	1.5	1.4	1.5	1.4	0.6
Nonbanks	3.1	6.3	3.3	1.5	1.4	2.4	2.1	1.5
Unidentified financing		0.0	0.0	1.5	1.8	0.0	0.0	0.0
Loans	1.9	-2.4	-2.2	0.0	0.0	0.0	0.0	0.0
Other accounts payable[6]	1.1	2.4	0.7	0.4	-1.2	-1.2	-1.4	-1.3
Foreign	0.5	2.4	3.4	5.2	1.7	2.3	2.3	1.6
Loans	1.4	3.2	4.2	6.4	2.5	4.4	4.3	4.1
Amortization	-1.0	-0.8	-0.9	-1.2	-2.0	-2.1	-2.0	-2.5
Gross financing gap	0.0	0.0	0.0	0.0	1.2	0.0	0.0	0.0
Memorandum items:								
Oil revenue		1.3	1.7	2.5	2.9	0.9	1.5	2.2
Non-oil revenue		16.9	15.5	16.2	18.5	17.9	18.3	19.0
Primary balance	-4.6	-8.7	-6.2	-3.5	1.7	0.9	1.7	3.2
Non-oil primary balance (commitment, percent non-oil GDP) [7]		-10.7	-8.6	-6.3	-1.3	-0.1	0.2	1.1
Nominal GDP (millions of GHc)	59,816	75,315	94,939	113,436	135,011	133,344	155,570	184,952

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

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

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

[3] Includes promisory notes to statutory funds.

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

[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 2D. Ghana: Summary of Budgetary Central Government Operations, 2011–17
(GFS 2001, Commitment Basis)

	2011	2012	2013	2014	2015		2016	2017
				Est.	Budget	Prog.	Prog.	
	(Millions of GHc, unless otherwise specified)							
Revenue	11,441	13,935	15,630	20,874	28,248	25,608	30,511	36,961
Taxes	9,052	11,575	13,284	17,855	24,078	21,822	25,750	31,108
Direct taxes	4,037	5,536	6,302	8,487	11,225	9,136	11,606	14,177
Indirect taxes	3,500	4,048	4,651	6,278	8,964	8,796	10,390	12,564
Trade taxes	1,516	1,990	2,331	3,091	3,889	3,889	3,753	4,367
Social Contributions	79	138	159	218	183	183	257	294
Other revenue	1,100	1,062	1,749	1,987	2,437	1,671	2,623	3,974
Grants	1,210	1,160	438	814	1,551	1,932	1,881	1,584
Expenditure	15,826	23,110	25,955	31,937	35,485	34,046	37,390	41,295
Expense	12,339	18,346	21,143	25,423	28,528	27,957	29,803	32,984
Compensation of employees	7,106	8,387	10,863	11,883	12,313	12,313	13,440	14,653
Wages and salaries[1]	4,535	6,666	8,334	9,449	10,286	10,286	11,313	12,418
Deferred wages	1,558	846	568	371	0	0	0	0
Social Contributions	1,013	876	1,961	2,064	2,026	2,026	2,128	2,235
Purchases of goods and services	724	1,592	1,019	1,777	1,862	1,519	1,570	1,768
Interest	1,611	2,660	4,397	7,081	9,557	9,577	9,496	10,307
Domestic[2]	1,308	2,103	3,788	6,111	8,014	8,034	7,464	7,785
Foreign	303	556	609	970	1,543	1,543	2,032	2,522
Subsidies[2]	0	2,206	1,158	1,084	50	50	50	50
Social transfers	0	0	1	0	169	167	200	231
Grants to Other Government Units[2]	1,820	2,428	2,907	3,598	4,577	4,331	5,046	5,975
Other expense[3]	1,078	1,072	798	0	0	0	0	0
Net acquisition of nonfinancial assets	3,557	4,093	4,824	6,418	6,957	6,088	7,587	8,311
Domestic financing[4]	1,816	1,558	2,167	1,588	2,557	1,689	1,826	1,945
Foreign financing	1,741	2,535	2,657	4,830	4,399	4,399	5,761	6,365
Discrepancy	-71	672	-11	97	0	0	0	0
Net lending / borrowing (overall balance)	-4,385	-9,175	-10,325	-11,063	-7,236	-8,438	-6,879	-4,335
Net financial transactions	-4,385	-9,175	-10,325	-11,063	-7,236	-8,438	-6,879	-4,335
Net acquisition of financial assets[5]	1,273	-781	-385	176	625	-487	0	0
Net incurrence of liabilities	5,657	8,395	9,940	11,239	7,861	7,951	6,879	4,335
Domestic[6]	5,386	6,621	6,728	5,365	5,631	4,878	3,351	1,396
Debt securities	3,561	6,694	8,131	4,937	7,191	6,440	5,519	3,861
Bank of Ghana	1,169	1,067	2,510	1,581	1,025	1,261	0	0
Deposit Money Bank	547	909	2,476	1,700	1,850	1,978	2,205	1,158
Nonbanks	1,845	4,718	3,144	1,656	1,940	3,201	3,314	2,702
Unidentified financing		0	0	1,700	2,376	0	0	0
Loans	1,149	-1,844	-2,043	0	0	0	0	0
Other accounts payable[6]	675	1,772	641	428	-1,561	-1,561	-2,169	-2,464
Foreign	272	1,773	3,212	5,874	2,230	3,073	3,529	2,939
Loans	856	2,397	4,033	7,205	3,382	5,872	6,613	7,511
Amortization	-584	-624	-821	-1,331	-2,753	-2,799	-3,085	-4,572
Gross financing gap	0	0	0	0	1,602	0	0	0
Memorandum items:								
Oil revenue		970	1,633	2,785	3,913	1,204	2,322	4,152
Non-oil revenue		11,805	13,559	17,275	22,785	22,472	26,307	31,225
Primary balance	-2774	-6516	-5928	-3982	2321	1139	2617	5972
Non-oil primary balance[7]		-7,486	-7,561	-6,768	-1,592	-65	295	1,820
Nominal GDP (millions of GHc)	59,816	75,315	94,939	113,436	135,011	133,344	155,570	184,952

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

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

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

[3] Includes promisory notes to statutory funds.

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

[5] Net transfers to Oil Fund 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, 2011–15[1]

	2011	2012	2013	2014	2015 Prog.
	(In millions of GHc, unless otherwise indicated)				
	I. Depository Corporation Survey				
Net foreign assets	7,880	6,953	5,670	8,991	11,135
Net Domestic Assets	10,315	15,667	21,267	27,852	33,933
Domestic Claims	15,665	22,662	31,349	41,942	50,392
Net Claims on Central Government	5,181	7,716	11,327	14,345	17,583
Claims on Other Sectors	10,485	14,945	20,023	27,597	32,809
Claims on Public Non-financial Corporations	1,342	2,719	2,206	3,032	3,348
Claims on Private Sector	9,150	12,161	15,689	22,281	27,176
Other	-7	65	2,128	2,284	2,284
Other Items (Net)	-5,350	-6,995	-10,083	-14,090	-16,460
Money and quasi-money (M3)	18,195	22,620	26,937	36,843	45,068
Broad money (M2)	14,241	17,503	20,692	27,530	32,706
Foreign exchange deposits	3,954	5,117	6,245	9,313	12,362
	II. Central Bank				
Net foreign assets	6,670	5,781	5,943	8,678	9,382
Net domestic assets	-890	2,079	3,108	3,107	4,595
Net Domestic Claims	287	5,252	6,639	4,876	7,050
Claims on Other Depository Corporations	-2,299	-694	-1,727	-5,507	-4,594
Net Claims on Central Government	1,943	4,140	5,306	6,888	8,149
Claims on Other Sectors[2]	643	1,806	3,060	3,496	3,496
Other Items (Net)[3]	-1,177	-3,172	-3,531	-1,769	-2,455
Base money[4]	5,780	7,860	9,051	11,785	13,977
Currency In Circulation (net of cash in vaults)	3,763	4,919	5,500	6,896	8,106
Currency in Banks (Cash in Vault)	481	637	698	846	942
Bank Deposits in BOG[4]	1,359	2,030	2,430	3,274	4,228
Liabilities To Other Sectors	176	275	424	769	700
Memorandum items:	(In 12-month percentage change; unless otherwise indicated)				
Base money	31.1	36.0	15.1	30.2	18.6
M2	29.3	22.9	18.2	33.0	18.8
M2+[5]	32.2	24.3	19.1	36.8	22.3
Credit to the private sector	29.0	32.9	29.0	42.0	22.0
M2-to-GDP ratio (in percent)	23.8	23.2	21.8	24.3	24.5
M2-to-Non-Oil GDP ratio (in percent)	25.4	25.1	23.6	25.7	26.1
Base money multiplier (M2/base money)	2.5	2.2	2.3	2.3	2.3
Credit to the private sector (in percent of GDP)	15.3	16.1	16.5	19.6	20.4

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.	
	(In millions of U.S. dollars)						
Current account	-3,545	-4,914	-5,704	-3,562	-2,759	-2,650	-2,297
Trade balance	-3,052	-4,211	-3,848	-1,590	-2,788	-2,245	-1,356
Exports, f.o.b.	12,785	13,552	13,752	12,983	11,011	12,538	14,660
Of which: cocoa	2,871	2,829	2,267	2,383	2,386	2,451	2,391
Of which: gold	4,920	5,643	4,966	4,388	3,610	3,685	3,667
Of which: oil	2,779	2,976	3,885	3,725	2,064	3,164	5,102
Imports, f.o.b	-15,838	-17,763	-17,600	-14,573	-13,799	-14,783	-16,016
Of which: oil	-3,165	-3,331	-3,550	-3,667	-2,496	-2,855	-3,234
Services (net)	-1,860	-976	-2,444	-2,136	-1,310	-1,484	-1,747
Income (net)	-1,230	-2,132	-1,351	-1,714	-986	-1,366	-1,662
Of which: interest on public debt	-223	-224	-416	-484	-619	-728	-807
Transfers	2,597	2,405	1,939	1,878	2,325	2,446	2,468
Official transfers	229	258	80	9	269	35	4
Other transfers	2,369	2,148	1,859	1,869	2,056	2,411	2,465
Capital and financial account	4,479	3,651	5,368	3,350	2,477	3,467	3,693
Capital account	445	283	349	262	299	479	401
Financial account	4,034	3,368	5,019	3,088	2,177	2,988	3,292
Foreign direct investment (net)	3,222	3,293	3,226	3,363	2,941	3,190	3,541
Portfolio investment (net)	118	1,122	659	836	500	507	269
Other investment (net)	694	-1,047	1,134	-1,111	-1,264	-708	-518
Medium and long term (net)	291	648	338	-330	-508	-147	187
Official (net)	650	958	1,068	551	301	253	587
Government Oil Investments		-24	-381	-145	143	0	0
Amortization	-239	-360	-316	-473	-837	-843	-637
Disbursements	889	1,342	1,765	1,169	995	1,096	1,224
Private (net)	-359	-310	-730	-881	-809	-400	-400
Short-term (net)	404	-1,695	796	-781	-757	-560	-705
Errors and omissions	-202	178	-100	175	0	0	0
Overall balance	732	-1,084	-436	-37	-283	818	1,396
Financing	-732	1,084	436	37	283	-818	-1,396
Changes in net reserves (-, incr.)	-732	1,084	436	37	50	-1,030	-1,558
of which: Use of Fund credit (net)	184	156	-28	-12	297	173	164
Residual gap					-232	-212	-162
Exceptional financing					232	212	162
Memorandum items:	(Percent of GDP)						
Current account	-9.0	-11.7	-11.7	-9.2	-7.0	-6.2	-4.9
Trade Balance	-7.7	-10.0	-7.9	-4.1	-7.1	-5.3	-2.9
Official transfers	0.6	0.6	0.2	0.0	0.7	0.1	0.0
Capital and Financial Account	11.3	8.7	11.0	8.7	6.3	8.2	7.8
Foreign direct investment (net)	8.1	7.9	6.6	8.7	7.5	7.5	7.5
Overall Balance	1.8	-2.6	-0.9	-0.1	-0.7	1.9	3.0
Gross Foreign Assets [1]							
Millions of U.S. Dollars	5,383	5,442	5,632	5,461	5,453	6,289	7,937
Months of imports	2.9	2.9	3.6	3.8	3.6	3.8	4.4
Gross International Reserves [2]							
Millions of U.S. Dollars	5,382	5,348	4,587	4,349	4,734	5,822	7,544
Months of Imports	2.9	2.9	2.9	3.0	3.1	3.5	4.2
Net International Reserves [3]							
Millions of U.S. Dollars	4,829	4,160	3,286	3,249	3,151	4,180	5,738
Months of Imports	2.6	2.2	2.1	2.2	2.1	2.5	3.2
Nominal GDP in U.S. Dollars	39,565	41,939	48,586	38,648	39,219	42,527	47,215
Oil-Net Exports	-1.0	-0.8	0.7	0.2	-1.1	0.7	4.0
Non-Oil Current Account	-8.0	-10.9	-12.4	-9.4	-5.9	-7.0	-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.

Table 5. Ghana: External Financing Requirements and Sources, 2014–17
(Millions of U.S. dollars)

		IMF Staff Projections			
	2014	2015	2016	2017	2015-2017
I. Total financing requirements	-5,494	-5,739	-5,758	-5,842	-17,339
Current account balance (excl. official transfers)	-3,571	-3,028	-2,685	-2,300	-8,013
Debt amortization[1]	-484	-898	-910	-715	-2,523
Private financing (net)	-881	-809	-400	-400	-1,609
Short-term (net)[2]	-795	-619	-675	-705	-1,999
Gross reserves accumulation	237	-384	-1,088	-1,722	-3,195
II. Total available financing	5,494	4,879	5,271	5,435	15,584
Project grants	271	299	479	401	1,179
Disbursement from official creditors	1,169	995	1,096	1,224	3,315
Foreign direct investment (net)	3,363	2,941	3,190	3,541	9,672
Portfolio investment (net)	836	500	507	269	1,275
Oil Funds (net)	-145	143	0	0	143
III. Financing gap	0	-860	-487	-407	-1,755
IV. Expected sources of Financing		501	247	166	914
Other IFIs (WB, AfDB)		200	200	150	550
Other program support		301	47	16	364
of which: Program grants		269	35	4	308
of which: Bilateral program loans		32	12	12	57
V. Residual gap	0	-359	-240	-242	-841
Possible ECF program		359	240	242	841
Memorandum items:					
Gross International Reserves					
Millions of U.S. Dollars	4,349	4,734	5,822	7,544	
Months of imports	3.0	3.1	3.5	4.2	

Sources: Ghanaian authorities and IMF staff estimates and projections.

[1] Including repayments to IMF.

[2] Including transactions associated with BoG's short-term liabilities for a reserve management purpose.

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

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
								Projections					
Fund obligations based on existing credit (in millions of SDRs)													
Principal	42.8	46.3	53.7	77.5	77.5	55.8	41.7	23.8	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.1	0.1	0.1	0.1	0.5	0.3	0.2	0.1	0.1	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	72.4	99.8	115.2	124.6	132.9	116.2	74.7	41.5
Charges and interest	0.1	0.1	0.1	0.1	2.1	2.0	1.7	1.5	1.2	0.9	0.5	0.3	0.1
Total obligations based on existing and prospective credit													
In millions of SDRs	42.8	46.4	53.7	77.6	79.6	74.4	101.6	116.6	125.7	133.7	116.8	75.0	41.7
In millions of US$	61.7	67.1	78.2	113.7	117.6	109.8	149.9	172.2	185.6	197.4	172.4	110.7	61.5
In percent of gross international reserves	1.3	1.2	1.0	1.2	1.1	0.9	1.1	1.2	1.2	1.2	0.9	0.6	0.3
In percent of exports of goods and services	0.5	0.5	0.5	0.6	0.6	0.5	0.7	0.8	0.8	0.8	0.7	0.4	0.2
In percent of debt service[1]	4.1	4.1	5.1	7.1	7.0	6.0	7.3	7.7	7.1	6.6	5.2	3.1	1.6
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
In percent of quota	11.6	12.6	14.6	21.0	21.6	20.2	27.5	31.6	34.1	36.2	31.6	20.3	11.3
Outstanding Fund credit													
In millions of SDRs	625.4	745.1	857.5	863.1	785.6	713.2	613.3	498.2	373.6	240.8	124.6	49.8	8.3
In millions of US$	902.4	1080.7	1252.6	1269.4	1165.1	1057.7	909.6	738.8	554.1	357.1	184.7	73.9	12.3
In percent of gross international reserves	19.1	18.6	16.6	13.8	10.7	8.7	6.7	5.0	3.5	2.1	1.0	0.4	0.1
In percent of exports of goods and services	6.8	7.3	7.3	6.8	6.0	5.2	4.3	3.4	2.5	1.5	0.7	0.3	0.0
In percent of debt service[1]	59.4	65.9	82.2	78.8	69.1	58.0	44.3	32.8	21.3	12.0	5.5	2.1	0.3
In percent of GDP	2.3	2.5	2.7	2.5	2.1	1.8	1.5	1.1	0.8	0.5	0.2	0.1	0.0
In percent of quota	169.5	201.9	232.4	233.9	212.9	193.3	166.2	135.0	101.3	65.3	33.8	13.5	2.2
Net use of Fund credit (in millions of SDRs)	206.305	119.71	112.39	5.535	-77.49	-72.42	-99.82	-115.16	-124.55	-132.85	-116.24	-74.73	-41.52
Disbursements	249.1	166.1	166.1	83.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	42.8	46.3	53.7	77.5	77.5	72.4	99.8	115.2	124.6	132.9	116.2	74.7	41.5
Memorandum items:													
Nominal GDP (in millions of US$)	39,219	42,527	47,215	51,437	54,729	58,297	62,245	66,315	70,814	76,382	82,414	89,120	96,538
Exports of goods and services (in millions of US$)	13,224	14,892	17,180	18,751	19,433	20,482	20,952	21,493	22,279	23,725	25,291	27,207	29,356
Gross international reserves (in millions of US$)	4,734	5,822	7,544	9,223	10,858	12,103	13,587	14,873	15,936	17,118	18,430	20,043	21,785
Debt service (in millions of US$)	1,519.4	1,640.4	1,523.8	1,610.2	1,685.5	1,824.2	2,053.1	2,250.6	2,596.2	2,980.6	3,332.5	3,558.8	3,858.2
Quota (millions of SDRs)	369	369	369	369	369	369	369	369	369	369	369	369	369

Sources: IMF staff estimates and projections.

[1] Total debt service includes IMF repayments.

Table 7. Ghana: Proposed Schedule of Reviews and Purchases Under the ECF Arrangement, 2015-18[1]

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

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

Table 8. Ghana: Financial Soundness Indicators, 2010–14

	2010	2011	2012	2013	2014
Capital adequacy:					
Regulatory capital ratio	19.1	17.4	18.6	18.5	17.9
Regulatory tier 1 capital ratio	18.6	15.5	16.4	14.7	15.3
Asset quality:					
Nonperforming loans to total gross loans	17.6	14.1	13.2	12.0	11.3
Credit to total assets	40.1	37.8	42.9	42.6	43.2
Loan provision to Gross loan	9.4	7.7	6.4	5.5	4.6
Bank Provisions to NPLs	70.6	76.2	77.9	78.3	69.5
Earnings and profitability:					
Return on assets, before taxes (average)	3.8	3.9	4.8	6.2	6.4
Return on equity, before taxes (average)	28.6	27.2	34.6	42.5	44.0
Interest margin to gross income	50.1	46.8	48.5	50.4	49.8
Interest spread	22.7	22.2	21.4	25.6	29.0
Liquidity:					
Core liquid assets to total assets ratio	25.3	27.8	24.1	21.7	26.8
Broad Liquid assets to total assets	51.3	54.9	51.0	51.3	49.5
Core liquid assets to short-term liabilities ratio	32.9	35.3	30.7	28.2	34.8
Broad liquid assets to short-term liabilities ratio	66.6	69.6	64.8	66.5	64.3
Exposure to foreign exchange risk:					
Share of foreign currency deposits in total deposits	25.4	27.4	28.9	27.1	31.1
Share of foreign liabilities in total liabilities	4.7	3.4	3.5	8.5	8.9

Source: Bank of Ghana.

Annex I. Deepening the Domestic Debt Market in Ghana

1. The domestic debt market has largely financed the fiscal deficit recently. The share of net domestic financing peaked in 2012, when it reached almost 80 percent of total deficit financing. 2012 saw a doubling of investments by the nonbank sector compared to the previous year, from 3.1 to 6.3 percent of GDP, with about half of the increase accounted for by nonresident flows. The participation of nonresidents in fiscal financing subsequently diminished to 0.9 percent and 0.2 percent of GDP in 2013 and 2014, as the fiscal position deteriorated. In turn, monetary financing increased significantly initially between 2010 and 2011, from -0.5 to 2 percent of GDP, and has averaged about 2 percent of GDP through 2014. Cumulatively, the BoG financed the Government by 6.6 percent of GDP between 2010 and 2014. In 2013 and 2014, the Eurobond issuances have somewhat alleviated the pressure on domestic financing.

2. Domestic yields have steadily increased. The yield curve shifted up sharply between 2011 and 2012 by about 10 percent before falling by about 5 percent in 2013, with temporary respite provided by the issuance of the 2023 Eurobond. However, the yield curve shifted up again in 2014 rising to similar levels seen in 2012, despite another Eurobond issuance. With headline inflation at 17 percent, real interest rate stood at about 8 percent as at end-2014.

3. As yields rose, the Government's focus has shifted to cost minimization which has resulted in increasing refinancing risks despite the medium-term debt management strategy. Although the government was successful in increasing the share of medium-term marketable securities (by original maturity) between end-2009 through end-2012, from 44 percent to 62 percent of total marketable securities, this trend was reversed to 46 percent at end-2014. Measured in terms of remaining maturity, the share of short-term marketable securities will be much higher. In 2014, several auctions of 3-year and 5-year notes were cancelled. In turn, the debt management strategy has de facto become one of securing the government's financing needs at minimum cost.

4. Going forward, deepening the domestic debt market will be critical to enable the Government to secure a stable source of financing without recourse to monetary financing, and to implement its medium-term debt management strategy, thereby reducing debt and fiscal vulnerabilities.

5. The credibility of the auction calendar must be reinforced through a better synchronization with government cash management needs. The auction calendar and the timing of the planned debt issuance have no relation to the timing of the government's cash flow needs. Hence, the offered

volumes are often insufficient to meet the government borrowing requirement, leading to frequent recourse to monetary financing. Further, the lack of announcement on the target issuance amount for individual debt instruments has meant that the composition of debt being issued is determined by the market rather than the medium-term debt management strategy.

6. To restore credibility of the medium-term debt management strategy, the government will need to implement the strategy more effectively. To lengthen the domestic debt maturities and reduce refinancing risk, secondary market trading will be needed. Improved secondary market liquidity will minimize the risk of investor losses when selling the security for cash, and will broaden the universe of investor base willing to purchase longer dated securities. To achieve this objective, the following reforms are recommended:

- Build benchmark securities by rationalizing the number of outstanding securities into few instruments, and reopening those securities
- Reduce auction frequency to encourage price discovery through the secondary market
- Review market conventions including days to settlement, day-count conventions, and form of price quotation
- Introduce a conventional repo market to facilitate position taking by the primary dealers
- Review the primary dealers framework, including enhancing exclusivity and profit opportunities while establishing realistic and measurable obligations to participate in the primary auction and to offer firm two-way price quotes at standardized spreads
- Introduce trading platform to facilitate secondary market trading

Figure: Domestic Debt

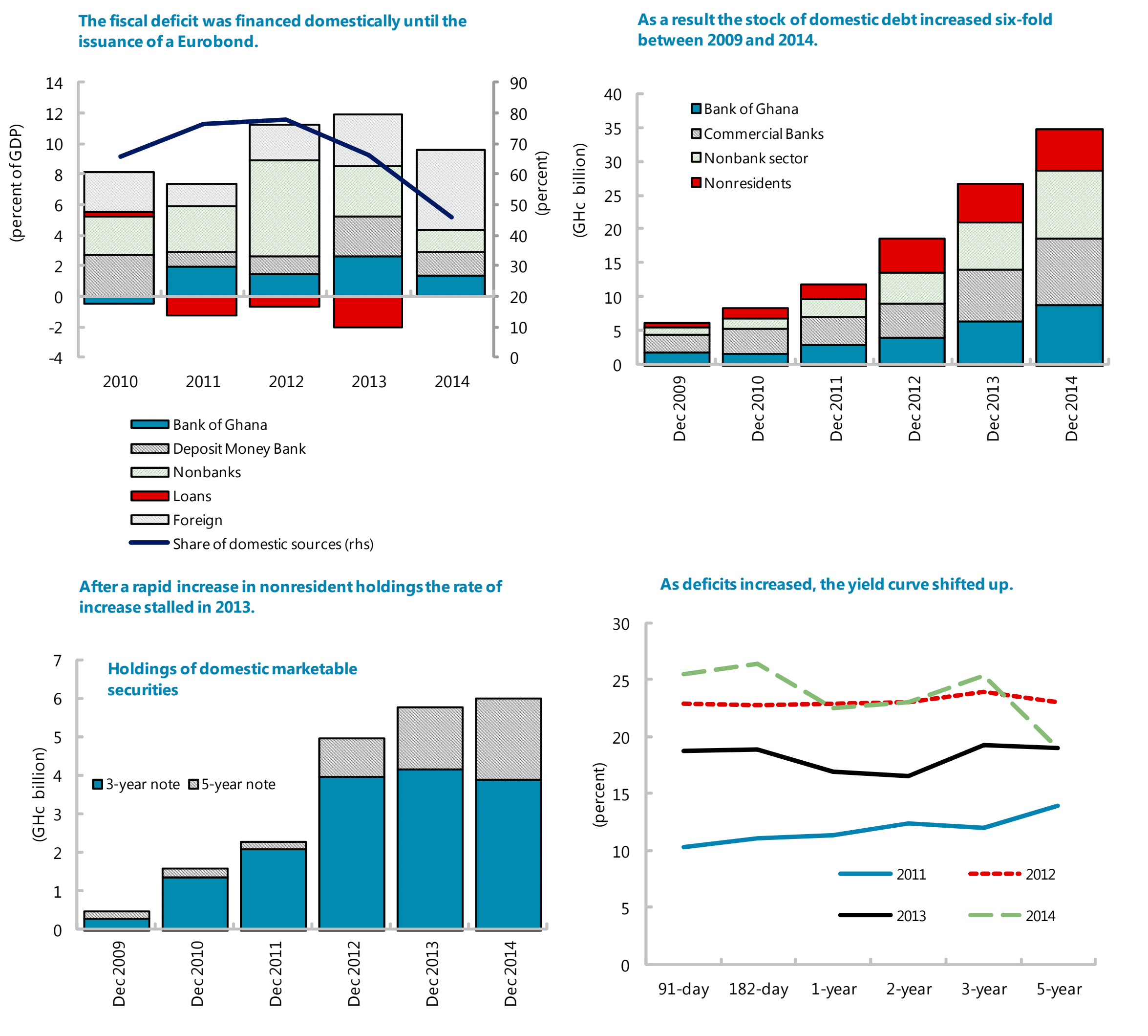
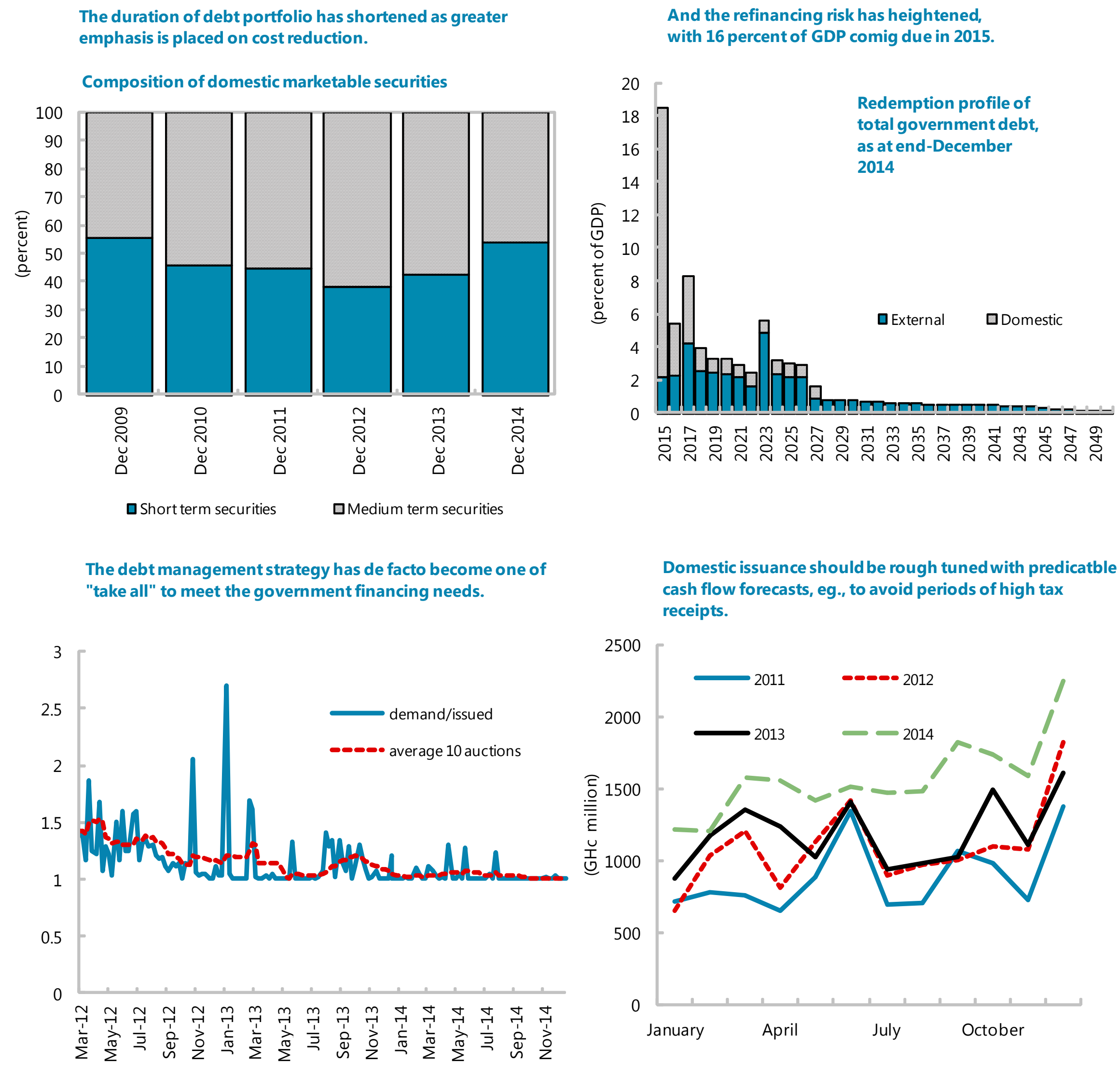


Figure: Domestic Debt (continued)



Three-Year Arrangement Under the Extended Credit Facility

Attached hereto is a letter (the "Letter") dated March 20, 2015, with an attached Memorandum of Economic and Financial Policies (the "MEFP") and Technical Memorandum of Understanding (the "TMU"), from the Minister of Finance and the Governor of the Bank of Ghana requesting from the International Monetary Fund, as Trustee of the Poverty Reduction and Growth Trust (the "Trustee"), a three-year arrangement under the Extended Credit Facility ("ECF"), and setting forth:

(a) the objectives and policies of the program that the authorities of Ghana intend to pursue during the three-year period of the arrangement;

(b) the objectives, policies and measures that the authorities of Ghana intend to pursue during the first year of the arrangement; and

(c) understandings of Ghana with the Trustee regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Ghana will pursue during the second and third years of the arrangement.

To support these objectives and policies, the Trustee grants the requested three-year arrangement in accordance with the following provisions, and subject to the provisions applying to assistance under the Poverty Reduction and Growth Trust (the "PRG Trust") including in particular Section II, paragraph 1(b)(4) of the PRG Trust instrument annexed to Decision No. 8759-(87/176) ESAF, as amended.

1. (a) For a period of three years from the date of approval of this arrangement, Ghana will have the right to obtain disbursements from the Trustee in a total amount equivalent to SDR 664.2 million, subject to the availability of resources in the PRG Trust.

(b) Disbursements under this arrangement shall not exceed the equivalent of SDR 249.075 million during the first 12 months of the arrangement, and the equivalent of SDR 415.125 million during the first 24 months of the arrangement.

2. During the period of the arrangement:

(a) the first disbursement, in an amount equivalent to SDR 83.025 million, will be available upon approval of the arrangement, at the request of Ghana;

(b) the second disbursement, in an amount equivalent to SDR 83.025 million, will be available on or after July 15, 2015 at the request of Ghana and subject to paragraphs 4 and 5 below; and

(c) the third disbursement, in an amount equivalent to SDR 83.025 million, will be available on or after November 15, 2015, at the request of Ghana and subject to paragraphs 4 and 5 below.

3. The right of Ghana to request further disbursements during the second and third years of this arrangement shall be subject to such phasing and conditions as shall be determined in the context of reviews under the ECF arrangement for Ghana.

4. Ghana will not request the second and third disbursements under this arrangement specified in paragraphs 2(b) and 2(c) above, respectively:

(a) if the Managing Director of the Trustee finds that, with respect to the second disbursement, the data as of April 30, 2015, and with respect to the third disbursement, the data as of August 31, 2015, indicate that:

(i) the floor on the primary cash fiscal balance of the government; or

(ii) the ceiling on wages and salaries; or

(iii) the floor on the net international reserves of the Bank of Ghana; or

(iv) the ceiling on net domestic assets of the Bank of Ghana; or

(v) the ceiling on the net change in the stock of domestic arrears

as set out in Table 2 of the MEFP and further specified in the TMU was not observed; or

(b) until the Trustee has determined that, with respect to the second disbursement, the first program review, and with respect to the third disbursement, the second program review, referred to in paragraph 91 of the MEFP, has been completed.

5. Ghana will not request a disbursement under this arrangement if at any time during the period of this arrangement:

(a) the ceiling on gross credit to government by the Bank of Ghana; or

(b) the ceiling on non-accumulation of new external arrears; or

(c) the ceiling on non-accumulation of domestic arrears; or

(d) the ceiling on the contracting or guaranteeing of new external nonconcessional debt;

as set out in Table 2 of the MEFP and further specified in the TMU, is not observed; or

(e) Ghana:

(i) imposes or intensifies restrictions on the making of payments and transfers for current international transactions, or

(ii) introduces or modifies multiple currency practices, or

(iii) concludes bilateral payments agreements that are inconsistent with Article VIII, or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

6. When Ghana is prevented from requesting disbursements under this arrangement because of paragraphs 4 and 5 above, such disbursements may be made available only after consultation has taken place between the Trustee and Ghana and understandings have been reached regarding the circumstances in which Ghana may request the disbursements.

7. In accordance with Paragraph 5 of the Letter, Ghana will provide the Trustee with such information as the Trustee requests in connection with the progress of Ghana in implementing the policies and reaching the objectives of the program supported by this arrangement.

8. During the period of this arrangement, Ghana shall remain in close consultation with the Trustee. In accordance with Paragraph 4 of the Letter, Ghana shall consult with the Trustee on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Managing Director of the Trustee requests such a consultation. Moreover, after the period of this arrangement and while Ghana has outstanding financial obligations to the Trustee arising from loan disbursements under this arrangement, Ghana will consult with the Trustee from time to time, at the initiative of the government or whenever the Managing Director of the Trustee requests consultation on Ghana's economic and financial policies. These consultations may include correspondence and visits of officials of the Trustee to Ghana or of representatives of Ghana to the Trustee.

Appendix I. Letter of Intent

Accra, March 20, 2015

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

Dear Ms. Lagarde,

1. The government of Ghana hereby request approval of a three-year arrangement under the Extended Credit Facility (ECF) covering the period of 2015–17, in an amount of SDR 664.20 million (180 percent of Ghana's quota) to support its new economic reform program.

2. Ghana has achieved high economic growth over the past decade and made substantial strides in reducing poverty. However, due to a combination of unfavorable global shocks and unsustainable domestic imbalances, the economy has come under severe stress since 2012, including double digit fiscal and external current account deficits. To address these imbalances and safeguard the bright medium term prospects of the economy, the government adopted its homegrown Economic and Financial Policies Program for the Medium Term. Recognizing the need to catalyze the achievement of expected results, the government requested Fund support to go beyond the initial homegrown strategy to achieve fiscal consolidation and debt sustainability.

3. We recently concluded discussions with staff of the IMF on the new economic reform program that could be supported by a three-year ECF arrangement. The medium-term economic reform program of the Government is anchored on the second Ghana Shared Growth and Development Agenda (GSGDA II). This three-year program—described in detail in the attached Memorandum of Economic and Financial Policies (MEFP)—will help us restore macroeconomic stability, including achieving fiscal and debt sustainability, rebuild external buffers, and eliminate fiscal dominance of monetary policy to support growth and poverty reduction. It will be underpinned by strengthened fiscal consolidation efforts that hinge on prudent public expenditure management, enhanced domestic revenue mobilization, public sector reforms, with particular emphasis on staff rationalization in the public service and better controlling the wage bill.

4. The government believes that the measures and policies set forth in the attached MEFP and in the 2015 Budget Statement and Economic Policy are appropriate and sufficient to achieve the

objectives of its program, but it stands ready to take any additional measures that may be necessary to that end. We will consult with the IMF on the adoption of such measures in advance of any revision of the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

5. We intend to provide timely information necessary for monitoring economic developments and the implementation of policies defined in the program, as agreed under the attached Technical Memorandum of Understanding, or upon request.

6. The government intends to make public the content of the IMF staff report, including this letter, the attached MEFP and TMU, the informational annex, 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 new three-year arrangement under the ECF.

Sincerely yours,

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

Attachments:
Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment 1. Memorandum of Economic and Financial Policies, 2015–17

I. INTRODUCTION

1. Ghana successfully concluded its 6th presidential and parliamentary elections in December 2012, confirming its democratic credential. In 2013 and early 2014, the Government of Ghana adopted a stabilization and reform program to restore macroeconomic stability and to lay the foundation for a sustained, inclusive and diversified economic growth. This memorandum which builds on those earlier measures sets out Ghana's economic and financial policies for the period 2015–2017, to be supported by the International Monetary Fund under a three-year ECF arrangement.

Economic and Social Developments

2. Ghana has witnessed significant economic growth over the past decade with real GDP growth rising steadily from 3.7 percent in 2000 to 8.9 percent in 2012 before decelerating slightly to 7.2 percent in 2013. Revised and preliminary estimates indicate though that real GDP growth for 2014 has declined further to 4.2 percent. The slowdown in 2014 is due to a combination of double digit fiscal and current account deficits—which contributed to a significant depreciation of the Cedi, increasing inflation and high interest rates on rising public debt—as well as disruptions in energy production.

3. Ghana's oil and gas resources have attracted large inflows of foreign direct investment (FDI). The onset of oil production in 2011 boosted Ghana's growth noted earlier, making it one of the fastest growing economies in Africa. These developments resulted in a significant increase in per capita GDP from US$1,358 in 2010 to US$1,879 in 2013, placing the country into a Lower Middle-Income Country (LMIC) status. Ghana's new middle-income status is now limiting the country's access to grants and concessional financing in the medium term which, given the high level of public debt, calls for an enhanced and prudent debt management strategy.

4. Broadly inclusive growth and improved social spending under the Ghana Poverty Reduction Strategy (GPRS) and Ghana Shared Growth and Development Agenda (GSGDA) contributed to a significant decline in poverty rates. In 2013, Ghana achieved the Millennium Development Goals (MDGs) of halving its extreme poverty level. The overall poverty rate declined from 31.9 percent in 2005/06 to 24.2 percent in 2012/13. Similarly, extreme poverty rate declined from 16.5 percent to 8.4 percent over that period.

5. Ghana recorded successes also in other MDGs by improving access to education, reducing gender disparities in primary education and providing access to improved water sources. Despite these achievements, more efforts are needed to reduce maternal and child mortality and increase access to improved sanitation. Since the deadline for achieving these targets is close, the government is prioritizing its infrastructure investments in these areas. Ghana stands ready to implement policies and programs towards the achievement of the post-2015 development agenda.

Macroeconomic performance during 2013–14

6. Due to a combination of unfavourable global factors and unsustainable domestic imbalances, the economy has come under severe stress since 2012, leading to double digits fiscal and external current account deficits.

7. In 2013, the real GDP growth of 7.3 percent was supported by the services sector, which recorded the highest growth of 8.8 percent, followed by industry (6.6 percent) with agriculture recording a growth rate of 5.2 percent. The relative slowdown in growth in 2013 was due mainly to the energy crisis that the economy faced from mid-2012 and the decline in gold production due mainly to the drop in world prices.

8. Inflation increased in 2013 reaching 13.5 percent at year-end on account of removal of subsidies on petroleum prices and utility tariffs, the pass-through effects of exchange rate depreciation, and the impact of the large fiscal deficit.

9. The original 2013 fiscal deficit target was missed due to several factors. The initial 2013 Budget was aiming for a cash deficit target of 9 percent of GDP. However, adverse developments in global commodity prices and overruns in the wage bill, energy subsidies and interest costs due to increased borrowing, led to deterioration in the fiscal deficit. In July 2013, the revised Budget introduced several revenue and expenditure measures to contain the fiscal deficit. Despite the adopted measures, the deficit at the end of the year reached about 10½ percent of GDP (on a cash basis).

10. The decline in prices of Ghana’s key commodities, especially gold and cocoa gave rise to a worsened external sector performance, rapid depreciation of the currency and loss in government revenue. This, alongside a large net service and income outflows as well as slowdown in official and private transfer inflows, resulted in a deterioration of the external current account deficit to about 12 percent in 2013. This deficit was financed mainly by foreign direct and portfolio investments as well as drawdown of reserves.

11. In 2014, real GDP growth is estimated to have slowed down to 4.2 percent. The growth decline is mostly driven by a slowdown in both the services and industry sectors to 4.1 and 3.9 percent, respectively. The slower growth in the services sector is attributable to a contraction in the trade, real estate, and health sectors, while the communication, hotel and transport sectors experienced markedly slower growth. The dwindling growth rate in industry stems from a significant contraction in the manufacturing sector. In addition, the mining and electricity sectors are estimated to grow at about half the rate of 2013. Agriculture is projected to grow at 5.2 percent.

12. The 2014 Budget and the government's economic and financial policies for the medium term (Home-Grown Policy document) included measures to address the challenges faced in 2013 and improve the macroeconomic situation, but policy slippages, increasing debt service cost and external shocks have undermined these efforts. The fiscal deficit is expected to reach about 9½ percent of GDP in 2014, leading to a further increase in government debt to 65 percent of GDP at end-2014.

13. The current account deficit in 2014 has been narrowing, due to a substantial contraction in imports, but remains elevated. While the financial account surplus is projected to be lower than last year, the overall balance of payments was broadly balanced, resulting in a stable level of net international reserves between end-2013 and end-2014.

14. Inflation rose to 17.0 percent in December 2014, further drifting away from the 8 +/-2 percent medium term target range of the BoG, reflecting in particular large administered price increases and exchange rate pass-through. Broad money (including foreign currency deposits) and credit to the private sector grew by 37 percent and 42 percent in the 12 months to end-December 2014, respectively. The official exchange rate depreciated by 31 percent from end-December 2013 to end-December 2014 (in US$ per cedi terms). In response to rising inflation and inflation expectations, the Bank of Ghana has tightened monetary policy by increasing the policy rate by 500 basis points from 16 percent in January 2014 to 21 percent in November 2014.

15. So far the Ghanaian financial system has weathered the difficult economic conditions well. Capital, liquidity and profitability have held up despite shocks from cedi depreciation and the slowdown in demand, and confidence is high. Nonetheless, strong macroeconomic policies are needed to ensure that the financial system remains strong and stable.

II. THE GOVERNMENT'S ECONOMIC PROGRAM

Medium-Term Objectives

16. The medium-term macroeconomic program of the Government is anchored on the second Ghana Shared Growth and Development Agenda (GSGDA II), which covers the period 2014-2017. To facilitate broad economic growth and create more and better jobs, the framework prioritises improvements in energy generation and distribution, infrastructure development and services, as well as support for small and medium-scale industries (SMEs). A number of institutional reforms, including those in the government's second Compact under the United States' Millennium Challenge Account, seek to transform the energy sector by improving governance and accelerating private investments.

17. Other reforms aim to improve service delivery in such areas as sanitation, health, and education within the context of the government's accelerated decentralization program. A manual on Service Delivery Standards has already been distributed to district assemblies (local governments) and plans are under way to begin monitoring performance.

18. To support the growth objectives of the GSGDA II, the Government's medium-term macroeconomic program aims to attain and sustain macroeconomic stability and strong economic growth. This strategy will be achieved through fiscal discipline that hinges on prudent public expenditure management, enhanced domestic revenue mobilization, public sector reforms, with particular emphasis on staff rationalization in the public service and better control over the wage bill. Further improvements are expected in public financial and debt management including encouraging the private sector to participate in the accelerated growth agenda through Public Private Partnerships (PPPs).

19. To restore and consolidate fiscal and debt sustainability in the medium term, the government aims to reduce the fiscal deficit on a cash basis from about 9½ percent of GDP in 2014 to about 3½ percent in 2017. Expenditure measures will include cuts in low-priority public spending and restraint in public sector employees pay rise and new hiring, and a strict prioritization of infrastructure investments. Government will enhance revenue mobilization mainly through tax reforms to streamline exemptions and improve revenue administration and efficiency.

20. Drawing on the recommendations of the National Economic Forum held earlier in 2014 and previous policy initiatives, the government also plans to reform State-Owned Enterprises (SOEs), to strengthen their operations, enhance their governance structure and to impose less fiscal costs on government. The plan includes the following initiatives:

a. Operational and management reviews in the energy sector within the Millennium Challenge Corporation Compact 2;

b. A revamp of the State Enterprises Commission which is responsible for evaluating performance of SOEs;

c. Improvement in financial reporting for SOEs in the context of the adoption of the International Financial Reporting Standards (IFRS) by the Institute of Chartered Accountants; and

d. Preparation by the Ministry of Finance of an equity study and on-lending guidelines to differentiate SOE shareholder-equity and loan policies.

21. Monetary policy will support the government's fiscal consolidation efforts over the medium term with a focus on price stability to support sustainable growth of the economy. In this regard, BoG's independence will be strengthened, while its monetary operations will be reviewed to enhance the efficiency of the transmission mechanism and make the inflation targeting framework fully effective.

22. In line with the above policies, the 2015 budget approved by Parliament in December 2014 set the following macroeconomic goals for the medium term:

a. An average real GDP growth (including oil) of 6.4 percent over the program period with growth increasing from a projected 3.5 percent in 2015 to 9.2 percent in 2017;

b. An average non-oil real GDP growth of 4.2 percent over the program period with growth increasing from 2.3 percent in 2015 to 5.5 percent in 2017;

c. An inflation target of 8 percent with a band of ±2 percent;

d. Gross international reserves above 4 months of import cover by 2017, including a scheduled unwinding of SWAPS and Bridge loan facilities;

e. Fiscal deficit of about 3½ percent of GDP (cash basis) by 2017; and

f. Elimination of the stock of budgetary arrears by end-2017 (stock estimated at about 5.5 percent of GDP at end-2014).

23. The external current account would strongly improve over the medium term, from a deficit of about 9.2 percent of GDP in 2014 to around 4½ percent of GDP in 2017, on the back of the initial import compression and projected increasing oil exports. In particular, the new gas production is expected to significantly reduce Ghana's energy dependency on oil imports. In addition to the improvement in the current account deficit, the projected surpluses in the financial and capital

account balances stemming from projected private flows and identified donor support would help build up reserves.

Macroeconomic Program for 2015

24. The objective of fiscal policy for 2015 will be to ensure a strong fiscal consolidation in order to start putting public debt on a more sustainable path by improving revenue mobilization, strictly containing current and capital public expenditures as well as the implementation of structural reforms. To this effect, the Government aims to reduce the fiscal deficit from a provisional outlook of 9.5 percent of GDP in 2014 to 7½ percent (cash basis) in 2015, when reflecting the impact of lower oil revenues (see below).

25. Real GDP growth is expected to slow in 2015 on account of the effect of the front-loaded fiscal adjustment and the energy crisis. The return of confidence in the Ghanaian economy due to the implementation of stronger fiscal and monetary policies is, however, expected to offset part of the dampening effect of the fiscal consolidation. As a result, real GDP growth for 2015 is targeted at 3.5 percent. With tighter fiscal and monetary policies, the year-end inflation is expected to decelerate to 12 percent. The current account deficit is projected to decline to 6.6 percent of GDP in 2015, as the decline in non-oil imports is expected to outpace the slowdown in exports. Reserve cover is expected to remain at around 3 months of imports of goods and services.

26. In the 2015 Budget approved by Parliament, Total Revenue and Grants were projected to increase from 18.4 percent of GDP in 2014 to about 21 percent in 2015. Total Expenditure on the other hand was programmed to decline only slightly from 27.8 percent of GDP in 2014 to 27.4 percent in 2015.

27. The revenue measures that underpinned the estimates in the 2015 budget are as follows:

a. Imposition of Special Petroleum Tax of 17.5 percent as part of a rationalization of VAT regime and change in the petroleum pricing structure, estimated to yield GH¢1,490 million (1.1 percent of GDP);

b. Extension to 2017 of the special import levy of 1-2 percent on some imported goods, estimated to yield GH¢521 million (0.4 percent of GDP);

c. Extension to 2017 of the National Fiscal Stabilization Levy of 5% of profit before tax of Banking, insurance, other financial services, communication and brewery sectors, estimated to yield GH¢246 million (0.2 percent of GDP);

d. Implement the VAT on Fee-based financial services and the 5 percent flat rate on real estate which was approved by Parliament in 2014 but was not implemented due to implementation challenges which have been largely addressed now. This is estimated to yield GH¢201 million (0.15 percent of GDP);

e. Increase in withholding tax on Director's fees from 10 percent to 20 percent, increase in withholding tax on goods and services from 5 percent to 7.5 percent, and a 50 percent increase in Vehicle Income Tax. All these are estimated to yield GH¢111 million (0.08 percent of GDP). These will be part of the Income Tax Bill that were submitted to Parliament in the first quarter of 2015;

f. In addition to these the corporate income tax for Free Zones and other tax related issues on Free Zones companies will be reviewed. This is estimated to yield revenue of GH¢4.0 million.

The implementation of the revenue measures outlined above was estimated to yield a total amount of GH¢2,573.3 million or about 2 percent of GDP in 2015.

28. The expenditure measures agreed in the home-grown policy as well as in the consultative sessions held on wages (Ho Forum) and the economy (Senchi Forum) are as follows:

a. A salary adjustment for public sector workers within the wage bill limit in the 2015 Budget. In this regard, the government reached agreement with trade unions on a wage increase for 2015 of 13 percent from the 2013 levels. This increase is consistent with the wage bill set in the 2015 budget;

b. Continuation of the policy of net freeze on employment in all sectors of the public services (excluding education and health) and non-replacement of departing public sector employees in overstaffed departments. Until the ongoing HR exercise to enable the determination of overstaffed departments is completed in mid-2015, there will be no replacement of departing staff in all MDAs except for emergencies. Overall, the total number of civil servants will increase by no more than 2.7 percent in 2015. To ensure that overall net hiring will remain within the wage bill constrain in the budget, the government will enforce the requirement of financial certification for all MDAs and agencies before a person can be hired or be put on the government's payroll;

c. Strictly implement the existing automatic price adjustment mechanisms for utility tariffs and fuel prices to eliminate subsidies (except for items that benefit from cross subsidy in the petroleum price build-up and the life line consumers of utilities);

d. Enhance social protection through expanding targeted social safety nets.

e. Realign expenditures of Statutory Funds to Government priorities to ensure that they undertake developmental expenditures which hitherto would have been executed by central government. The allocations made to the statutory funds will be used to finance district level infrastructure, such as rural roads, construction of schools, Community Health Planning and Services (CHPS) compounds, and the provision of water (boreholes). These allocations will also be used to finance social intervention programs such as school feeding, capitation grants and school uniforms.

f. To help deal with the huge infrastructure deficit, the government has set up the Ghana Infrastructure and Investment Fund (GIIF) in 2014. The GIIF is expected to become operational once the governance structure, internal capacity and controls are set up. Further work on operational guidelines and regulations are also needed to leverage more effectively GIIF public resources to attract private equity for key development projects. The source of funding for the GIIF is currently set as 25 percent of the petroleum receipts' Annual Budget Funding Amount (ABFA) and 2.5 percent of net VAT receipts. The government intends to explore removing this earmarking by 2016. Moreover, in view of lower oil revenues in 2015, the funding of the GIIF will be limited to cover execution of only a few commercially viable investment projects.

29. Since the Parliament approval of the 2015 Budget, the outlook has worsened in light of the lower commodity prices, in particular lower oil prices. The projected 2015 fiscal revenues are now about 2 percentage points of GDP lower than budgeted. To address this shortfall and ensure that the total debt accumulation remains in line with the level approved in the budget, the government will: (i) finance part of the shortfall by using non-debt creating resources from the oil stabilization fund as allowed under the Petroleum Revenue Management Act (PRMA); (ii) reduce transfers to other government units by 0.2 percent of GDP in line with lower revenues; and (iii) take additional measures to reduce goods and services and capital spending by the equivalent of 0.3 and 0.7 percent of GDP, respectively. In light of this, and taking into account expected program grants, the 2015 overall fiscal cash deficit is expected to reach 7½ percent of GDP, which reflects an adjustment of about 4½ percentage points of non-oil GDP in the non-oil primary deficit from 2014.

30. The new limits on expenditure on Goods and Services and Capital expenditures have been approved by Cabinet and are being enforced through implementation of quarterly budget allotments on MDAs budgets in line with the new expenditure ceilings. The expenditure items are prioritized by the MDAs based on the budget allotments. Budget Allotments for the first quarter have been issued accordingly and are being implemented in line with the 2015 Budget Implementation Instructions issued to MDAs.

31. The new limit on capital expenditure reflects reductions in expenditures that would have been funded from planned oil revenue flows. Priority areas in energy and social sectors will be protected. Priority will also be given to ongoing capital projects in the budget allotment process. The strengthening of the requirement for Specific Warrants and Commencement Certificates under the GIFMIS will ensure that capital expenditures are within the new limits. These measures and the effect of their implementation will be reflected in the planned Mid-Year Review at which time revised budget allocations will be proposed for approval by Parliament.

32. Four years after implementing the Petroleum Revenue Management Act, 2011 (Act 815), stakeholders (Government and non-Government alike) have seen the need to revise portions of the Act in order to correct some operational challenges and inconsistencies to enhance the efficiency and effectiveness of its implementation. One of the amendments being considered is a provision to allow the Minister for Finance to go to Parliament for a downward review to the certified Benchmark Revenue (BR) when there is material evidence that petroleum prices and/or output targets will not be achieved. Regulations for implementing these amendments will be prepared with the assistance of IMF experts.

33. Given the limited access to concessional foreign financing, the fiscal deficit for 2015 will be financed mainly from domestic sources and some non-concessional external borrowing within a strict limit.

a. Foreign financing will be covered by project disbursement. The authorities intend to issue a new Eurobond to help replace expensive debt. The remaining financing gap will be covered by development partners, including the World Bank and program support from bilateral partners. In the event of a shortfall in foreign program grant and loan financing, the government will offset this in part through spending cuts and in part through increased resort to domestic financing.

b. Gross central bank financing will be limited to 5 percent of previous year's revenue, through marketable financial instruments. The rest of the domestic financing of the fiscal deficit will be from deposit money banks and non-banks through the issuance of treasury bills and bonds. The government will strive to deepen the domestic bond market and will recommend steps to do so, including with assistance from an IMF-Technical assistance mission. The government will further analyze the absorption capacity of the domestic financial market in order to guide its budget financing and debt management strategy with a view to contain pressures on domestic interest rates.

34. The key monetary policy objective will be to re-anchor inflation expectation and restore the effectiveness of the IT framework. The disinflation process will be supported by fiscal consolidation, including a lower financing of the budget deficit by Bank of Ghana, and greater stability on the foreign exchange market. For 2015, Bank of Ghana will aim for a progressive convergence toward the medium-term inflation target range, with inflation projected to decline to a 12-month rate of 12 percent by end-2015.

III. THE STRUCTURAL REFORM AGENDA

35. Achieving and sustaining progress in the medium term will critically depend on strengthening fiscal institutions, with a strong public expenditure management agenda and enhancing revenue mobilization. Public Financial Management and real sector reforms, as well as reforms in the financial sector which will bolster the monetary policies of the Bank of Ghana are, therefore, needed to ensure a speedy achievement of the medium term socio-economic goals of government. Some of the key structural reforms to be implemented under the program are discussed below.

A. Tax Policy and Tax Administration

36. Ghana's efforts to reform tax policy and tax administration will aim at reducing the amount of tax exemptions currently granted, while strengthening the tax administration through modernization and increase effectiveness in tax collection. Government will continue implementing tax policies and administration measures including: (i) strengthen the Ghana Revenue Authority headquarters including finalizing a new strategic plan for the period 2015-2017; (ii) integrating the VAT Service and Internal Revenue Service under a single domestic tax revenue division; (iii) improvement in tax processes by moving them to an electronic platform and shift to functional form of administration is all tax offices; and (iv) complete the reenactment of all tax laws, notably income tax and revenue administration Bills.

Tax Policy

37. The tax policy measures which will be implemented over the course of the program aim at rationalizing the tax regime, reducing tax exemptions, and strengthening natural resources revenue management.

38. In view of the need to streamline and reduce the amount of existing tax exemptions in the legislation, the government is committed to eliminating the granting of exemptions of tax on vehicles to free zones, reduce exemption on corporate income tax for free–zone companies benefiting from tax holidays by increasing their corporate income tax from 8 percent to 25 percent after the tax holidays and freeze the issue of new permits pending parliamentary approval. Furthermore, the government will conduct reviews in the following areas by September 2015 to identify exemptions to be eliminated with the 2016 Budget:

a. the Ghana Investment Promotion Center (GIPC) law in order to eliminate its role in granting exemptions;

b. tax exemptions granted to SOEs, including VALCO and VRA;

c. overall tax treatment of Free Zone Enterprises.

39. The main objective of these reviews is to eliminate exemptions based on the analysis of their economic effectiveness in achieving the desired policy goal and their cost in terms of revenue foregone, plug loopholes through legislative review and check abuse through enhanced compliance mechanisms.

40. The government will start publishing as an annex to the 2016 Budget, an inventory of all tax expenditures included in the various legislations, and their associated fiscal costs in the budget. Following best practices in terms of fiscal transparency, the presentation of tax expenditures in the annex will indicate: the public policy purpose of each provision, its duration, the intended beneficiaries by sector of economic activity and its quantification in terms of foregone revenues.

Resource Revenues Management

41. The government intends to continue with the help of IMF technical assistance, to improve its performance in resource revenues management to increase receipts from natural resources. The government is also committed to ensure that natural resource revenues and their use are fully and transparently included within the budget. To further ensure the transparent treatment of oil, gas and mining revenues, the government will continue to adhere to Extractive Industries Transparency Initiative (EITI) framework and recommendations.

Tax Administration

42. The Ghana Revenue Authority (GRA) has developed a Strategic Plan for the 2015-2017 period with five strategic goal to strengthen Ghana's revenue administration. Preparations for the implementation of the Plan have been completed and approval by the GRA Board is expected

before March 2015. Significant full-time resources will be assigned to the implementation of priority reforms included in the Plan over its three year lifespan and the project management skills of staff working on those priority reforms will be strengthened.

43. An integral part of the GRA modernization is the implementation of the domestic Tax Administration software known as TRIPS (Total Revenue Integrated Processing System) which will automate the GRA processes and provide critical information for taxpayer compliance management. System development and testing is complete and the roll out phase has started. The roll out for most functions has been completed for the large taxpayer office (LTO) and for two medium taxpayer offices (MTOs) located in Accra. The rollout for the remaining 6 MTOs in Accra will be completed by end-December 2015. The LTO and Accra-based MTOs are responsible for the collection of the bulk of GRA's domestic revenue collections. Once these offices are using the TRIPS system, GRA management will be able to use a new performance management system now being developed to better manage taxpayers responsible for its major revenue sources. The TRIPS rollout process will be evaluated with donors' assistance.

44. To improve the efficiency of the tax system, and complete the process of integration and segmentation of taxpayers, the GRA intends to pursue the following reforms by end-August 2015. The enactment of the new Income Tax law now before the Parliament will include a new turnover-based presumptive tax scheme for small taxpayers. The implementation of a new presumptive income tax scheme will permit GRA to deregister large number of small taxpayers from standard VAT and VAT Flat Rate Scheme (VFRS), thereby cleaning up the VAT register. Related to this, the VAT threshold will be increased from GHc 120000 to GHc 200000 to ensure that only large and medium taxpayers, who are more capable of complying with VAT accounting and invoicing requirements, are required to be registered for the VAT. When the above measures are implemented, the turnover threshold for large taxpayers will be raised to GHc 10 million. The GRA will ensure that once the new segmentation thresholds for large, medium and small taxpayers is enacted, it is properly communicated to tax payers by September 2015 and strictly applied starting January 2016.

45. To restore the integrity of the VAT refund regime, the GRA will centralize control and monitoring of VAT refunds by March 2015, issue new directives for VAT refund processing to LTO and MTO offices, make legislative changes to streamline VAT refund management (in particular to extend the period for processing of refund claims from one to three months), and ensure payment of interest according to the current law by March 2016. Technical assistance will be sought to support implementation of key elements of the VAT refund system and within deadlines progressively by September 2015, in order to have that strategy ready to be fully deployed in the 2016 Budget.

46. Customs senior management has already settled on a limited number of Plan initiatives for early implementation. Key initiatives for 2015 implementation articulated by the Customs Commissioner are: 1) establishment of a modern Valuations and Classifications Unit; 2) implementation of an effective post-clearance audit capacity; and 3) strengthening of risk management capabilities. All of these initiatives are significantly dependent upon funding and support from the Dutch and Danish governments and the World Customs Organization.

B. Reforms to Improve Public Financial Management

47. Ghana's effort to implement reforms that will enhance Public Financial Management will include: a new PFM reform strategy and a revised legal framework; measures to strengthen the credibility of the budget process; continue the implementation of the Ghana Integrated Financial Management Information System (GIFMIS); a comprehensive reform of the payroll system; a comprehensive public sector reform.

Reform framework

48. **PFM Reform Strategy.** The government is committed to developing a new comprehensive PFM reform strategy and action plan. The strategy and action plan, based on consultation with various stakeholders, will contain measures needed to address the weaknesses identified in various diagnostic assessments, including the PEFA reports and various technical assistance missions. The key objectives of the strategy will be to restore budget credibility, enhance comprehensiveness and transparency, improve predictability and control in budget execution, improve accounting recording and reporting, strengthen internal and external controls and also improve treasury and cash management. The strategy and action plan will be presented for approval by Cabinet by August 2015.

49. **Revised PFM Legal Framework.** The government has started the process of reviewing the existing legal framework for PFM. The Government has requested technical assistance from the IMF to support this review process. The review covers the Financial Administration Act (FAA), the Financial Administration Regulations (FAR), Loans Act, Petroleum Revenue Management Act, and other relevant laws to address weaknesses in PFM, including the accountability framework. The amendment to the legal framework will require legislative reforms with aim to: clarify the scope of application of the legislation and the institutional arrangements; strengthen the budget formulation and execution, improve treasury management, accounting and reporting; and introduce provisions on fiscal responsibility and on debt management. The review of the legal framework will be completed by June 2015. The drafts of the bills to accommodate the required changes to the PFM

legal framework related regulations and new laws will be presented to Cabinet and approved by December 2015, and the related bills will be submitted to parliament for approval in 2016.

Strengthening credibility of the Budget

50. The government intends to strengthen the Medium Term Fiscal Framework (MTFF), the Medium Term Expenditure Framework (MTEF), the Program Based Budgeting (PBB) and the revenue forecasting framework which will support the fiscal consolidation effort. In this regard, the government plans to:

a. Integrate both the MTFF and MTEF with Hyperion Budget Preparation System. The improvements to the MTFF and budget preparation system will allow for more credible sector ceilings and will make it easier to adjust them if the allocation of resources proves unrealistic in relation to program objectives. The pilot phase will be launched by September 2016. Salary costs will be fully integrated in the MTEF and PBB process, so that Controlling Officers in MDAs will be fully responsible for their entire budgets.

b. Adopt a revised calendar for the preparation of the 2016 Budget, with the sharing for information with Parliament of a Budget Strategy Paper (BSP) by end-July, which will allow for an earlier and strengthened strategic phase of the budget preparation.

c. Review its current system of revenue forecasting, in order to enhance the credibility of the MTFF and the predictability of resources available to Ministries, Departments and Agencies (MDAs). Measures will involve better integration of forecasts across various units and review of the robustness of existing forecasting models.

Strengthening GIFMIS

51. The Ghana Integrated Financial Management Information System (GIFMIS) aims to provide the government with an Information and Communication Technology (ICT) financial platform to improve the public financial management. The GIFMIS project was initiated in 2009 and has reached so far key milestones. As of end-2014, the GIFMIS has been rolled-out to 205 spending units in Accra, 350 at the Regional MDAs and 7 pilot MMDAs on the Consolidated Funds. A harmonized Chart of Account (COA) has been developed and used to prepare the 2013, 2014 and 2015 budgets. In June 2014, the payroll was upgraded and integrated with GIFMIS and is currently used to pay salaries. The Budget software module (Hyperion) has been installed and used by all MDAs in the preparation of the 2015 budget. The Electronic Funds Transfer (EFT) has been implemented and is being used by MDAs and MMDAs to effect electronic payments to third parties, no longer requiring physical checks to pay suppliers or contractors. Finally, the implementation of Fixed Assets module

has been piloted at 5 MDAs in 2014. The government is committed to continue strengthening GIFMIS so that its benefits are fully realized.

52. **Budget Execution Controls.** The government plans to continuously prevent accumulation of arrears by shifting its focus of control from the cash stage to the commitment stage. The Ministry of Finance has stated that all purchase orders (including contract awards) are to be made using the Procure-to-Pay (P2P) module of the GIFMIS system. Furthermore, the Ministry of Finance has issued an administrative order for the award of contract to ensure that only duly authorized purchase orders generated from the GIFMIS system are recognized as valid commitments of Government and therefore payable from budgetary allocations. The Government will review the existing legal framework to introduce these requirements into a revised PFM law.

53. **Extending GIFMIS coverage.** The GIFMIS system will be progressively extended to cover expenditures from other funds, which currently are not subject to the same type of controls as expenditures from the Consolidated Fund. The government intends to start including transactions related to revenues and expenditures of Internally Generated Funds (IGFs) in the GIFMIS for 5 MDAs (at the headquarters and regional levels) currently using GIFMIS by September 2015, and then extend it to all 33 MDAs (at the headquarters and regional levels) by June 2016.

54. **Budget Performance Reports.** To strengthen monitoring and transparency of fiscal operations, the government will start publishing on the website of the Ministry of Finance monthly budget performance reports from June 2015.

55. **Improving accounting standards.** The government plans to shift budget and financial accounting from cash to accrual basis to better track its financial liabilities. In order to achieve this, it will develop a strategy for the phased transition to accrual accounting, focusing on the most material liabilities first. This is in line with the government's adoption of International Public Sector Accounting Standard (IPSAS) as prescribed by the Institute of Chartered Accountants. This will be implemented over a period of five years from January 2016, the date approved by the Institute of Chartered Accountants for commencement.

Payroll and Human Resource Management

56. The Single Spine Pay Policy (SSPP), which was announced in 2008 and came into force in 2010, aimed at ensuring equity, fairness, and transparency as well as enhancing performance and productivity in Public Service. In the 2012 Budget, the Government had to finance the arrears that had accumulated since the introduction of the Single Spine Pay Policy from 2010. Since then, the size of the wage bill has been a major concern to Government. The wage bill in 2014 absorbed

about 50 percent of total tax revenue. The government is committed to strengthening the management of the payroll. The Government's Payroll has been upgraded and integrated with GIFMIS financials as a way to strengthen budgetary control on payment of salaries and wages.

Payroll Management and Controls

57. To reduce the incidence of the phenomenon of "ghost workers" on the payroll and to strengthen its monitoring and control, and as a matter of urgency, the government will implement a number of actions, aimed at cleaning up the payroll, improve the security of the system and impose sanctions. The measures envisaged include the following:

Cleaning of the payroll database

a. Removal from the payroll of the names of public employees with zero bank account who did not come forward following the suspension of payments made in September and October (End-February 2015, prior action);Audit of all newly created bank accounts as part of the validation process of employees previously with zero bank account to ensure reconciliation with biometric data (End-March 2015);

b. Extend the suspension of salary payments to employees without SSNIT (social security) numbers by April 2015;

c. Complete rollout of the E-SPV system nationwide and have all unit/Department managers in all MDAs use it to validate the list of staff properly employed and to be paid at the end of every month, validate and correct the grades of all employees, and eliminate duplicates by June 2015. The E-SPV system requires that heads of MDAs and MMDAs certify on a monthly basis the staff on their nominal payroll before the Controller and Accountant-General pays their salaries. The interface and integration with GIFMIS will ensure more timely control of malfeasance;

d. Full biometric validation of all employees on the mechanized payroll by June 2015;

e. Migrating employees of subvented agencies into the mechanized payroll by December 2015.

Improve System Security

a. Improve the controls in the payroll system through the merging of existing databases into a unique and properly secured database. The process should be certified by an audit by mid-May 2015;

b. New payroll management guidelines/policy will be adopted by end-March 2015, which will establish accountability standards, conformance to laws and regulations. They will strengthen internal control over payroll processes, specifying duties and responsibilities of the different users in the system, the process for introducing changes to the payroll system and access rights to the database;

c. Integrate the payroll with the GIFMIS financial accounting, budget and HRMIS systems;

d. Further enhance private sector support for Government's payroll program.

Sanctions and Asset Recovery

The Internal Audit Agency in collaboration with Public Service Commission and the Controller and Accountant General's Department (and annually the Auditor General) will launch a large scale public audit of the payroll management with a view to provide evidence to assist in identifying those responsible for irregularities and seek the recovery of any funds unduly paid—such an audit should be completed and published online before June 2015 with proper follow up on its recommendation before the end of 2015. In addition, the government will review and strengthen the administrative sanctions regime governing suspected fraud or irregularities—including asset recovery where appropriate. Evidence of any government officials found to be entering false data or fraudulently changing existing data will be referred to the relevant enforcement authorities for prosecution using all appropriate legal and regulatory mechanisms.

Reporting

The Ministry of finance started issuing monthly wage bill reports, with details on wage payments by MDAs. An inter-ministerial Committee was set-up to drive and monitor the plan to clean-up the payroll and strengthen its management. The Committee will publicize this plan and prepare quarterly reports on its implementation to be published, staring in March 2015.

58. **Human resource management.** Implementation of GIFMIS Human Resource Management Information System (HRMIS) is also ongoing across public services and the government intends to roll out this system to five of the pilot MDAs, including the Ministries of Health and Education, by December 2015 and to all MDAs by December 2016. The roll out will be followed by an independent evaluation report which will assess that the proper security controls are in place and that the guidelines are followed. Further to this, the integration of the GIFMIS Payroll, financial HRMIS and Hyperion in the Health and Education sectors by June 2016 will ensure full budgetary control over public service wages and salaries in the medium term.

59. **Hiring Controls.** The Ministry of Finance will collaborate with the Public Services Commission (PSC) and Office of the Head of Civil Service to ensure that recruitment takes place only after Ministry of Finance approval. The effective date of recruitment of new staff into the public

service should not precede the financial clearance date. Sanctions under the law will be applied to non-compliant controlling officers.

60. **Weaning off Subvented Agencies from Government Payroll.** The Government has identified 3 Subvented Agencies (the Energy Commission, the Environmental Protection Agency, and the Driver and Vehicle Licensing Authority) which have the capacity to be financially independent based on their Internally Generated Funds (IGFs). Nine other agencies are being reviewed. The government intends to remove these government agencies from the payroll or Budget process by implementing the following steps: (i) the government will start publishing financial information on all existing agencies as an annex to the budget documents with the 2016 Budget, (ii) as part of a general reform of the delivery of public services, the Committee for weaning off agencies from the pay roll will make additional recommendations to Government.

61. **Pay Reform.** Consistent with the government's objective of ensuring that the outcome of public pay negotiations informs the annual budget, the government intends to align the public sector wage negotiations with the budget cycle. Starting in 2015, public sector salary and salary-related negotiations will be completed by September, before the budget is finalized and submitted to Parliament in November, and will cover a 3-year period on a rolling basis.

Treasury and Cash Management

62. The Government intends to continue the implementation of the Treasury Single Account (TSA). The Treasury Single Accounts implementation is completed and functional for 633 Government accounts at the Bank of Ghana since October 2013. As of June, 2014 over 11,500 bank accounts have been identified across all government institutions for rationalization. Of this number, 2,000 have been closed and 700 have been earmarked for the TSA and the remaining 8,800 includes Commercial Bank accounts used for managing IGFs, Donor Funds and statutory funds across MDAs and MMDAs.

63. A concept paper which highlights the importance of the TSA arrangement, the current status of the TSA implementation, the strategy to include IGFs for all 33 MDAs using GIFMIS in the TSA, and a strategy to finalize its implementation in coordination with Bank of Ghana will be presented for Cabinet approval by August 2015. The paper will also address the administrative and electronic interfaces for cash and debt management among Ministry of Finance (Budget and Debt Management Divisions), Bank of Ghana, and the Controller and Accountant-General's Department.

64. To prepare for the implementation of the zero financing from Bank of Ghana to the budget starting January 2016, the ministry of finance will enhance it cash planning and management capacity, possibly with IMF technical assistance.

C. Civil Service Reform

65. The Government will undertake, with the assistance of development partners, a comprehensive plan to rationalize the size and increase the efficiency of the civil service and allied services on the payroll. The related strategic plan will be ready in December 2015, the results of which will inform the actual rationalization of staff, which is expected to begin in 2017.

66. Further elements that will accompany and sustain the plan for civil service reform include: the full implementation of the budget and financial accounting reforms under the second phase of GIFMIS; interface HR modules with the payroll under GIFMIS Phase I; expand GIFMIS to cover organizational and functional review of all MDAs; a decentralization strategy whose elements cover administration and legal reforms.

D. Restructuring Statutory Funds

67. Another area of reforms will address the increasing rigidities in the budget and the limiting effects on policy maneuvering. This rigidity in the budget arises from the existence of a number of statutory funds which receive a fixed share of certain budgetary revenues, and which minimize government discretion on the use of its revenue and also partly leads to a buildup of arrears payments. The Government will consult the necessary stakeholders and embark on restructuring of the statutory funds. The restructuring will involve review of the administrative and legal framework guiding the operations of the Statutory Funds by June 2015 as part of the review of the PFM legal framework, with a goal of introducing some flexibilities and efficiencies in the overall fiscal management and new measures to enhance their transparency and accountability in the 2016 budget.

E. Arrears Clearance Strategy

68. MoF recognizes that the causes of the build-up of arrears include: inadequate overall budgetary resources and ceilings due to revenue constraints; rigidities in the fiscal framework; cash flow constraints due to shortfalls in revenue performance, weaknesses in budgeting leading to overruns on some statutory payments namely debt service and compensation of employees during budget execution; weak position management due to ineffective manual establishment control;

absence of sound budget and accounting systems (currently being addressed by GIFMIS); and a cash accounting framework that did not fully track commitments and liabilities.

69. While the Government is working to address the causes of arrears build-up and avoid their occurrence, allocations will be made in the 2015-2017 budgets to clear the stock of arrears over a three-year period in almost equal installments. To monitor that no new arrears are accumulated, the Government will institute a mechanism for reporting all commitments and outstanding payments, including those relating to salaries, goods and services, debt repayments, tax refunds for all MDAs. Systems and processes under the GIFMIS, Chart of Accounts and Accounting Standards will be upgraded. Lastly, public financial management laws will be updated to support and deepen fiscal discipline and the basis of accounting will be changed from cash to accrual.

F. Debt Management Policy

70. **The Ministry of Finance will continue to strengthen its public debt management policy and operations.** The objectives are to safeguard the Government's overarching goal for debt and fiscal sustainability, and to ensure the Government's financing needs and its payment obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk. To operationalize the objectives, the Ministry of Finance will develop a comprehensive medium-term debt management strategy based on an analysis of cost and risk of alternative financing strategies, consistent with the medium-term macroeconomic framework and available sources of financing. Future borrowing decisions will be guided by this strategy, following approval by the Cabinet by end-June 2015, and will be consistent with the agreed envelope of non-concessional borrowing limits under the program. To establish proper governance and accountability, the new PFM legal framework will include provisions that will articulate the debt management objectives, the requirement to prepare a medium-term debt management strategy, its approval process and reporting requirements, as well as provisions to strengthen transparency.

71. **The medium-term debt management strategy will be developed and implemented within a risk management framework that identifies, mitigates, and monitors the following risks:**

a. **Refinancing risk.** The government aims to extend the maturity of domestic public debt by gradually replacing existing short-term domestic debt with longer-term debt; maximize concessional loans with long final maturities and grace periods; tap the international capital markets to refinance and/or pre-finance maturing external debt notably the 2017 Eurobond; and engage in other liability management operations consistent with international best practices;

b. **Interest rate risk.** The expected increase in global interest rate following the exit from unconventional monetary policy in advanced economies will be managed by minimizing external variable rate debt;

c. **Exchange rate risk.** As part of the strategy to reduce exchange rate exposure, the Ministry of Finance and the BoG will develop and implement a strategy to develop the domestic debt market, including the introduction of benchmark securities, promotion of a more active money market, broadening of the investor base, development of market infrastructure, and other measures to stimulate the secondary market for government securities.

72. **The debt management strategy will be supported by developing an operational framework for building cash buffers, strengthening the management of the on-lending portfolio, and reducing exposures to contingent liabilities.** These include:

- **Creation of a Debt Service (Sinking Fund) Account.** The Government has set up a Debt Service (Sinking Fund) Account as required under the Financial Administration Act, 2003, Act 654. The Ministry of Finance is using part of the funds from the excess on the Ghana Stabilization Fund (PRMA, 2011, Act 815) to accomplish this goal. The Sinking Fund will be used to manage Ghana's Sovereign Bond commitments.

- **Strengthening the management of the on-lending portfolio.** In some cases, high-return infrastructure projects may require market-related financing (such as for energy, road, and rail projects, and public private partnerships), and may not be feasibly financed by the project implementing entities. In this regard, following the approval by Cabinet and Parliament, Government is implementing an on-lending policy for all commercial and semi-commercially-viable projects that ensures that the government loans are passed on as on-lending facilities under the Financial Administration Act, 2003, Act 654 to the entities in charge of implementing and running these projects. These entities will in turn be obligated to repay the on-lent amounts to the government according to the debt service schedule, using revenues generated by the commercial projects they are running. The goal is to limit the exclusive reliance on the taxpayer for the servicing of these commercial loans. It is important to note that Government has been recovering loans under this policy already, for example thermal plants, power grid lines, and Bui dam. The government will evaluate these projects on a case-by-case basis, based on economic rate of return, impact on debt sustainability including reverse impact from loan recovery accounts, and other alternatives for achieving the same developmental goals. The government will provide to the Fund a semi-annual listing of projects being considered for market-related foreign financing, with a first report provided at the time of the first program review.

- **Minimizing the use of sovereign guarantees.** Currently, the government has a high exposure to risk from existing sovereign guarantees. It is its intention to minimize the use of sovereign guarantees that are contingent liabilities to the Government balance sheet, and consistent with the agreed debt limits framework. Consistent with the goal to minimize the use of sovereign guarantees, the government has started discussions with the World Bank and African Development Bank on the use of partial risk guarantees by these institutions for commercial projects, especially those with high positive returns that are financed by the private sector.

IV. MONETARY POLICY, EXCHANGE RATE POLICY, AND FINANCIAL SECTOR ISSUES

73. The inflation targeting framework will underpin BoG monetary policy, while crucial measures will be undertaken to ensure its full effectiveness. In order to increase transparency and anchor inflation expectations, the BoG announced a medium-term inflation target of 8 percent, which has been supported by the Ministry of Finance in the 2015 budget.

74. BoG financing of the government and other public institutions (including SOEs) will be limited to 5 percent of previous year's budget revenue (continuous ceiling for 2015), only using purchasing Treasury-bills in non-competitive bidding, noting that all existing overdraft balances at the end of each quarter will be securitized and registered in the BoG's claims on the central government account. A new Loan and Fiscal Agency Memorandum of Understanding (MoU) with the Ministry of Finance formalizes this limit on BoG financing of the central government (prior action). This new MoU also formalizes that from 2016 onwards, a zero financing of government from the BoG will be in effect in anticipation of the amendment of the BoG Act, consistent with a modern IT framework.

75. Monetary policy liquidity operations will be guided by the Monetary Policy Committee (MPC) decisions on the reference interest rate, and the corresponding standing facilities interest rate band. These decisions will be guided by the inflation forecast and will aim at the convergence of the interbank and monetary policy rates, within the corridor around the monetary policy reference rate.

76. BoG will strengthen its monetary operations to steer the interbank rates towards the policy rate. BoG will run all its liquidity operations using BoG bills, while eliminating the OMO bills (T-bills issued for monetary operations purpose), to increase transparency and clearly distinguish monetary operations from the placement of public debt bonds. The currently existing two weeks BoG bills will

be maintained, and the introduction of a 2 months BoG bill will be required to target more structural liquidity conditions. Budget financing targets and auction decisions are to be taken solely by MoF, with BoG acting only as the agent. The new program will aim to fully restore the effectiveness of the IT framework. The program will be initially guided by targets on monetary aggregates alongside a floor on net international reserves (PC). A ceiling for Net Domestic Assets of the BoG will be initially set as a performance criteria as a quantitative safeguard. This could be replaced by a monetary policy consultation clause during the course of the program once inflation declines towards the program inflation targets and after the successful implementation of important reforms in monetary operations envisioned under the program. A performance criterion (PC) on net international reserves will support efforts to maintain adequate external buffers.

77. BoG will strengthen the interbank foreign exchange system and has adopted a strictly rules-based method using market transactions to determine its daily official exchange rate (prior action). This reference rate will be a weighted average of interbank rates, and rates of corporate and retail transactions executed across the banking industry. These reforms aim to deepen the exchange rate market by unifying the BoG and the interbank exchange rates markets. The BoG has also begun the implementation of the online foreign exchange trade tracking system since January 2014. This system should lead to an improvement of the operations of the foreign exchange market by enhancing transparency and price discovery among market participants.

78. BoG will present and adopt by end-April 2015, after consultation with IMF staff, a time-bound plan to eliminate by June 2016 the compulsory surrender requirements of foreign exchange with the objective of deepening the interbank foreign exchange market, and in support of the market-based determination of the exchange rate. In line with this reform, the BoG will also stop providing foreign currency funding for priority sector imports (adoption of the plan is a structural benchmark by end-April 2015).

79. The Ghanaian financial system has weathered the difficult economic conditions this year well. Capital, liquidity and profitability have held up despite shocks from cedi depreciation and the slowdown in demand, and confidence is high. Nonetheless, there are powerful reasons for taking a prudent approach, and implementing forward-looking measures to ensure the financial system remains strong and stable, even in subdued economic conditions. In this context, BoG is committed to strengthening the legal framework for supervising and regulating the financial system, and after further consultation with the IMF, the Banks and Specialized Deposit-Taking Institutions Bill and the Ghana Deposit Protection Bill will be submitted to Parliament (Structural Benchmark by mid-May 2015). These laws clarify the current legal framework for financial institutions, and provide the Bank

of Ghana with strong, comprehensive and flexible tools for regulation, supervision and resolution in line with best international practices.

80. Recent economic developments have not led to widespread corporate failures or asset quality problems, although many firms have come under financial stress and loan restructurings have increased. The non-performing loan ratio has slightly declined over the past year (to 11.3 percent), and the banks' corporate customers' capital and financial buffers have weakened in some cases. Bank of Ghana and external audit firms will undertake a special diagnostic audit to review asset classification and valuation, provisioning and loan restructuring practices in the commercial banks. By undertaking this exercise, BoG seeks to ensure banks are complying with prudent and uniform standards across the sector in light of the current economic outlook and risks, and the need to ensure banks have a prudent level of financial buffers. BoG will agree terms of reference with the IMF by April 2015, and implement the diagnostic by September 2015. BoG will develop guidelines and regulations on loan classification and provisioning practices that will give a more uniform, prudent standard in banks' qualitative assessments of customer creditworthiness and expectations for cash flows by December 2015, for which the diagnostic exercise will provide insight into the probable impact on the banks. In addition, when considered necessary Bank of Ghana will advise the banks exhibiting lower Capital Adequacy Ratios (CAR) to raise their capital, including by suspending dividend payments if needed.

81. Work has also progressed on the drafting of the enabling act for the establishment of a deposit insurance scheme in Ghana by May 2015 (Structural benchmark). On supervisory cooperation, the Bank of Ghana continued to participate actively in the activities of the College of Supervisors of the West African Monetary Zone (CSWAMZ), including information exchange meetings and joint examinations of Nigerian subsidiary banks with CBN officials. The Bank also continued to initiate moves to sign memorandums of understanding (MOUs) with counterpart regulators to strengthen information exchange and cross-border bank resolution.

82. The Bank of Ghana will continue to intensify its collaboration with central banks in the sub-region as well as counterpart domestic regulators with a view to strengthening cross-border and cross-sector supervision of bank and non-bank financial institutions.

83. The Bank of Ghana will continue with efforts it has taken to strengthen its oversight of the microfinance institutions. Minimum capital requirements have been raised and will be enforced, complemented by intensified onsite supervision. The Bank has also created a dedicated department for rural and microfinance supervision to ensure that adequate staff resources are devoted to ensure

sanity in the sector. The Bank will also equip umbrella associations with logistics to help monitor microfinance institutions.

84. The Bank of Ghana is reviewing the Bank of Ghana Act and will prepare a new Act which will be submitted to Parliament by end-December 2015. The new Act will aim, among others, at strengthening the functional autonomy of the bank from the government; establishing the duration of the appointments of both the Governor and the other members of the Bank of Ghana's Board; introducing explicit rules to preserve the personal autonomy of the Board and audit committees; and setting clear rules and mechanisms for emergency lending to banks in distress. The new Act will also institutionalize zero-limits on BoG monetary financing to the central government and to public institutions (including SOEs). The amended BoG Act shall ensure full compliance with IFRS. .

V. RISKS AND CONTINGENCIES

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

VI. DATA PROVISION AND PROGRAM MONITORING

A. Statistics

86. The government commits to continue enhancing the quality of its national account statistics. The government commits to produce national accounts data in line with the System of National Accounts (SNA) and to justify any deviations from SNA. To this end, Ghana Statistical Service (GSS) will closely collaborate with AFRITAC West 2 advisers providing technical assistance on national accounts. An important achievement of the Ghanaian Statistic Service (GSS) was the January, 2015 release of a revision of the national accounts historical data and projections, reflecting improved quality data sources as well as an improved methodology to compute Net Indirect Taxes.

87. GSS is currently updating its Statistical Development Plan (expected release in 2016). GSS has started the rebase of the Annual National Accounts (ANA) and will develop a strategy to produce ANA (both production and expenditure approaches) on an ongoing basis independent of the Quarterly National Accounts (QNA) as well as the estimation of QNA by the expenditure

approach (expected release in 2015). Price statistics will focus on the reweighting of the CPI (expected release in 2016). GSS will focus on improving data sources on an ongoing basis. GSS are also advising the Ministry of Labor with respect to the development of labor statistics.

88. As part of information dissemination strategy of Government and to allow for transparency in government operations, the Ministry of Finance will publish monthly central government fiscal outturns on its website with a maximum lag of six weeks, starting in June 2015. In 2015, a framework will be developed to enable the publication of the following information from 2016:

- Fiscal data on local governments;
- Revenues and expenditure of extra-budgetary funds and subvented agencies;
- Financial statements of state owned enterprises.
- Public Investment Plans
- Monthly wage performance reports by MDAs and MMDAs

89. **Nonconcessional financing.** The Ministry of Finance will provide a listing and status report for projects being considered for nonconcessional financing for end-June and end-December of each year.

B. Program Monitoring

90. The ultimate responsibility of program monitoring and coordination will rest with Ministry of Finance and Bank of Ghana. To ensure coordinated implementation of the program, the Ministry of Finance and Bank of Ghana will perform this role by consulting with the relevant institutions such as CAGD, GRA, GSS and NDPC within the Economic Policy Coordinating Committee (EPCC) framework to tracking progress on various targets and reforms under the program. Similarly, the Ministry of Finance will provide oversight responsibility for ensuring that public spending is compliant with budget limits.

91. The program will be monitored based on periodic performance criteria, continuous performance criteria and indicative targets as at end-April 2015, end-August 2015 and end-December 2015, set out in Table 2. To monitor progress on the structural reforms previously described, structural benchmarks are set out in Table 3. 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 first and second reviews under the program is expected on or after July 15, 2015 and on or after November 15, 2015, with end-April 2015 and end-August 2015 as test dates, respectively.

92. We believe that the policies specified in the MEFP provide a basis for sustaining growth, reducing inflation, and alleviating poverty—but we stand ready to take additional measures if required. The government will provide the Fund with the information needed to assess progress in implementing our program as specified in the TMU, and will consult with the Fund staff on any measures that may be appropriate at the initiative of the Government or whenever the Fund requests a consultation. The Government intends to make this letter and the TMU available to the public. In this context, it authorizes the IMF to arrange for them to be posted on the Fund's website, subsequent to Executive Board approval.

93. Accordingly, we are requesting Board approval of the policies set forth in the MEFP, and disbursement of the first loan installment, totaling SDR 83.025 million, out of a total three-year arrangement of SDR 664.20 million.

Table 1. Ghana: Prior Actions

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

Table 2. Ghana Quantitative Program Targets 1/

(Cumulative from the beginning of the calendar year, unless otherwise indicated)

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

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

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

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

[4] Defined as a level.

Table 3. Ghana: Structural Reforms Benchmarks for 2015–16

Category	Possible structural benchmarks	Economic rationale	Indicative timeframe	Para-graph
	Revenue administration and tax policy			
Revenue administration	- Adoption of the presumptive income tax, followed by revision of VAT thresholds	To enhance compliance in tax payments.	August 2015	44
Tax policy	- Identify exemptions to SOEs and free zone companies that will be eliminated in 2016, to be included in the 2016 budget, and further eliminate GIPC's role in granting exemptions.	Broaden tax base	September 2015	38-39
	Public Financial Management (PFM)			
Human resource Management	- Finalize roll out the HRMIS to remaining MDAs	To strengthen the control on net hiring and the wage bill.	December 2016	58
	- Integration of the GIFMIS Payroll, financial HRMIS and Hyperion in the Health and Education sectors.	To strengthen the control on net hiring and the wage bill.	June 2016	58
Payroll management	- Audit of the payroll database and security system.	Improve security of the payroll system	May 15, 2015	57
	- 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	57
	- Migrating employees of subvented agencies into the mechanized payroll	To strengthen control on net hiring and the wage bill	December 2015	57
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	48/63
Legal framework	- Approval by cabinet of drafts of Bills to amend existing PFM legal framework with the aim to: clarify the scope of application of the legislation and the institutional arrangements; ; strengthen budget formulation and execution, treasury management, accounting and reporting; introduce provisions on fiscal responsibility and on debt management	To strengthen the PFM system	December 2015	49/70

		Public service reform			
Civil service reform	-	Adoption by Cabinet of a comprehensive civil service reform strategy designed with the assistance of development partners.	To rationalize the size and increase the efficiency of public sector	December 2015	65
		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	70
		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	84
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	78
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.	Strengthen the legal framework for prudential supervision.	May 15, 2015	79
	-	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	81
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	80

Attachment II.
Technical Memorandum of Understanding

1. This technical memorandum of understanding (TMU) defines the variables subject to quantitative targets (performance criteria and indicative targets), as specified in the authorities' Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) of March 20, 2015. It also describes the methods to be used to assess the program performance and the information requirements to ensure adequate monitoring of the targets. The authorities will consult with the Fund before modifying measures contained in this letter, or adopting new measures that would deviate from the goals of the program, and provide the Fund with the necessary information for program monitoring.

2. **Program exchange rate:** The exchange rates for the purpose of the program of the Ghanaian cedi (GH¢) to the U.S. dollar will be GH¢ 3.40 per US$1, which is calculated as the average of buying and selling exchange rates reported by banks to the Bank of Ghana (BOG). The exchange rates to other currencies will be calculated as the average of buying and selling exchange rates against the U.S. dollar.

I. QUANTITATIVE PROGRAM INDICATORS

3. For program monitoring purposes, the performance criteria and indicative targets are set for end-April 2015, end-August 2015, and end-December 2015. Performance criteria, indicative targets, and adjusters are calculated as cumulative flows from the beginning of the calendar year, unless indicated otherwise.

4. The **performance criteria** under the arrangement are:

- a floor on the primary cash fiscal balance of the government, measured in terms of financing;
- a ceiling on gross credit to government by the Bank of Ghana (level);
- a floor on the net international reserves of the Bank of Ghana (level);
- a ceiling on net domestic assets of Bank of Ghana (level);

- a ceiling on wages and salaries;
- a ceiling on the net change in the stock of domestic arrears;
- a continuous non-accumulation of domestic arrears;
- a continuous non-accumulation of new external arrears; and
- a ceiling on the contracting or guaranteeing of new external nonconcessional debt

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

- An indicative target is set for the twelve-month rate of **consumer price inflation,** with discussions with the Fund to be held if inflation does not reach the target.
- A floor on poverty-reducing government expenditures.

A. 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).[2] 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,[3] 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.

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[2] 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.

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

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

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

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

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

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

18. **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

19. **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.

Net international reserves of the BoG are defined for program monitoring purposes[4] 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.

[4] 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.

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.[5]

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

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

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

C. Non-accumulation of New External Arrears

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

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

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

> 9 (a) For the purpose of these guidelines, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of financial and nonfinancial assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:
>
> > (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
> >
> > (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and
> >
> > (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter

than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

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

24. **For the purposes of the ceiling on the contracting or guaranteeing of new non-concessional external debt,** external debt is any debt as defined in paragraph 23, which is denominated in foreign currency, i.e., currency other than Ghanaian cedis (GH¢). Similarly, external borrowing is borrowing denominated in foreign currency.[6]

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

26. A ceiling applies to the contracting and guaranteeing of new nonconcessional external debt 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.

27. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the net present value (NPV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The NPV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is 5 percent. Loans provided by a private entity will not be considered concessional unless

[6] 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.

accompanied by a grant or grant element provided by a foreign official entity, such as both components constitute an integrated financing package with a combined grant element equal to at least 35 percent.

E. Adjustors to the Program Targets

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

Primary fiscal deficit of the government

28. 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

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

Budget Financing and oil revenues, 2015 [1/]
(Ghc millions, cumulative from the start of the calendar year)

	April 2015	August 2015	December 2015
Program grants	0	750	915
Program loans	0	748	789
Oil revenues	516	863	1208

[1/] Used to compute adjustors for performance criteria for end-April, end-August, and end-December.

F. Provision of Data to the Fund

30. 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 (concluded)

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.

(continued)

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

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

INTERNATIONAL MONETARY FUND

GHANA

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—INFORMATIONAL ANNEX

March 20, 2015

Prepared By

The African Department
(In Consultation with Other Departments)

CONTENTS

RELATIONS WITH THE FUND

(As of January 31, 2015)

Membership Status: Joined: September 20, 1957;		Article VIII
General Resources Account:	**SDR Million**	**%Quota**
Quota	369.00	100.00
Fund holdings of currency (Exchange Rate)	368.93	99.98
Reserve Tranche Position	0.12	0.03
SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	353.87	100.00
Holdings	207.52	58.64
Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	409.69	111.03

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF [1/]	Jul 15, 2009	Jul 23, 2012	387.45	387.45
ECF [1/]	May 09, 2003	Oct 31, 2006	184.50	184.50
ECF [1/]	May 03, 1999	Nov 30, 2002	228.80	176.22

VI. Projected Payments to Fund [2/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2015	2016	2017	2018	2019
Principal	33.37	46.34	53.66	77.49	77.49
Charges/Interest	0.07	0.08	0.08	0.08	0.48
Total	33.44	46.41	53.74	77.57	77.97

[1/] Formerly PRGF.

[2/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative:

	Enhanced
I. Commitment of HIPC assistance	Framework
Decision point date	Feb 2002
Assistance committed	
by all creditors (US$ Million) [3/]	2,186.00
Of which: IMF assistance (US$ million)	112.10
(SDR equivalent in millions)	90.05
Completion point date	Jul 2004
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	90.05
Interim assistance	25.06
Completion point balance	64.99
Additional disbursement of interest income [4/]	4.25
Total disbursements	94.30

Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)[5/]	265.39
Financed by: MDRI Trust	220.04
Remaining HIPC resources	45.35
II. Debt Relief by Facility (SDR Million)	

	Eligible Debt		
Delivery Date	GRA	PRGT	Total
January 2006	N/A	265.39	265.39

[3/] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added

[4/] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

[5/] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

Decision point—point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance—amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point—point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

Safeguards Assessment

A safeguards assessments mission to the BoG took place on January 27 to February 4, 2015 to update the 2009 assessment. The assessment, which is near completion, found that the BoG's autonomy is significantly compromised by monetary financing. This is exacerbated by the absence of clear limits on credit to government in the central bank legislation. The BoG and the MoF have established an agreement (prior action) that limits the credit to government. In addition, the expected amendments to the BoG Act (structural benchmark) should provide an opportunity to strengthen the provisions on credit to government, along with other measures to enhance the BoG autonomy. To safeguard monetary data reporting to the Fund, the assessment recommended internal audits of data at test dates.

Exchange Rate Arrangement

On February 2, 1994, Ghana accepted obligations under Article VIII, Sections 2(a), 3, and 4, of the Fund's Articles of Agreement. The exchange rate regime is classified as a managed float. Ghana currently maintains one exchange restriction and a multiple currency practice (MCP) subject to Fund approval. The exchange restriction arise from the limitation/prohibition on purchasing and transferring foreign exchange for advance payment for import transactions by importers who have not submitted to the commercial bank customs entry forms for any past foreign exchange transactions related to imports, and which are unrelated to the underlying transaction. An MCP also arises, because the BOG requires the use of its internal rate (i.e., the previous day's weighted average interbank exchange rate) for government transactions and the surrender of cocoa and gold foreign exchange proceeds without having a mechanism in place to ensure that, at the time of the transaction, this exchange rate does not differ from the rate prevailing in the market rate (i.e., the interbank exchange rate) and the rates used by banks in their transactions with their customers by more than 2 percent. At the end of February 2015, the average exchange rate for transactions in the interbank market was GH¢ 3.5113 per U.S. dollar.

Article IV Consultation

The 2014 Article IV consultation discussions were held in Accra during Feb 12–25, 2014. The staff report (Country Report No. 14/129) was discussed by the Executive Board on May 7, 2014 and is posted on the IMF website.

FSAP Participation

Ghana participated in the FSAP in 2000–01, and a Financial System Stability Assessment (FSSA) was issued to the Executive Board in 2001. An FSAP update was presented to the Board in December 2003 and May 2011.

Technical Assistance

Subject	Department	Date
Advise on establishing large taxpayers unit	FAD	2002/03
Review of public expenditure management reforms	FAD	2002/03
Tax policy	FAD	May 2003
Fiscal ROSC	FAD	Feb. 2004
Regional advisor on public expenditure management	FAD	2004/06
Assessment of petroleum pricing mechanism	FAD	Jan. 2005
Public financial management (PFM)	FAD	Mar.-Jun. 2006
Public financial management (PFM)	FAD	Feb. 2010
Enhancing fiscal discipline	FAD	May 2008
Revenue administration	FAD	Jan. 2009
Tax policy	FAD	Apr. 2009
Revenue administration	FAD	Apr. 2009 Mar. 2010
Fiscal regime for natural resources	FAD	Jun. 2009
Tax administration	FAD	Mar. 2010
Expenditure Control and Arrears	FAD	Jan. Feb. 2011
Small taxpayer regime	FAD	Feb. 2011
Revenue Administration Strengthening the compliance enforcement and debt management function and program	FAD	March 2013
Accounting and internal audit reform	MFD	Jul.–Nov. 2002 Mar. 2003
Foreign exchange market, government securities market, and banking system issues	MFD	Apr. 2003
Joint FSAP follow-up with World Bank	MFD	Jun. 2003

Multitopic technical assistance initiation	MFD	Nov. 2004
Improving monetary operations, banking supervision and payment systems	MFD	Nov. 2004
Medium-term debt management strategy	MCM	Mar. 2008
Banking supervision	MCM	Dec. 2009
Review options for resolution of the weak state-owned banks	MCM	Apr.-May 2011
Problem Bank Resolution	MCM	Mar.-Apr. 2011
Bank supervision and regulations	MCM	[…]
Joint FSAP follow-up with World Bank	MCM	Mar. 2011
Monetary and Exchange Rate Operations	MCM	Jan.-Feb. 2012
Problem Bank Resolution	MCM	Sep. 2012/ Jan. 2013
Macrofinancial Stress Testing and Early Warning System	MCM	Feb. 2013
Joint Financial Stability Review with World Bank	MCM	Apr. 2013
The road to Basel II and bank resolution.		Jul. 2013
Monetary data reported in SRF	STA	Jun. 2011
Money and banking statistics	STA	Jul. 2002 Jan.-Feb. 2004 Apr. 2007 Mar. 2008 Apr.-May 2009
National accounts statistics	STA	Sept./Oct. 2001 Aug.-Dec. 2002 Sep. 2003 Feb. 2009 Sep. 2010 Apr. 2011 Nov.-Dec. 2011 Nov.-Dec. 2013
National accounts and prices	STA	Mar. 2004 Oct. 2004 Apr.-May 2005 Apr.-May 2006 Sep. 2006 Apr. 2011
Government finance statistics	STA	Mar. 2005 May-Jun. 2006 May-Jun. 2009
Balance of payment statistics	STA	Feb. 2009 Apr.-May 2010 Apr. 2011 Jun.-Sep. 2012
Pilot study of access to private capital markets	ICM	May 2003

		Nov. 2004
The remittance market	LEG	Apr.-May 2006
Fiscal law: review of tax laws	LEG	Jan. 2011
AML/CFT structures and tools	LEG	Feb-Mar. 2011
		Feb. 2012
		Jan. 2013

Resident Representative

The Fund has had a Resident Representative office in Accra since June 1985. The current resident representative is Mr. Samir Jahjah who assumed the post in October 2012.

JOINT WORLD BANK-IMF WORK PROGRAM, 2014–15

Title	Products	Provisional timing of mission	Expected delivery date
	A. Mutual information on relevant work programs		
Bank work program in next 12 months	TA on design of the Ghana Infrastructure Fund.	First mission in February, 2014.	December, 2015
	TA on governance reform of state-owned enterprises (GNPC, VRA, GWCL) and regulators (BoG, PURC).	First mission on February 2015.	December, 2015
	Public Expenditure Review	First mission in November, 2014	June, 2016
	Oil and Gas Capacity Building Project	Ongoing	December, 2016
	Partial Risk Guarantee (PRG) for Sankofa Gas Field Development	Jan 2015	July 2015
	Public Investment Management System TA	October 2014	June 2015
	PFM Improvement Loan	March 2015	June 2015 Board decision
IMF work program in next 12 months	ECF negotiation Safeguards Assessment mission Technical assistance: Assessing Banking Sector Vulnerabilities to Macroeconomic Shocks and Crisis Preparedness Public Financial Management	September 2014-February 2015 January 2015 November 2014 February 2012–April 2015	Board: April 2015

	Revenue Administration	January 2015	
	Monetary and Foreign Exchange Operations	June 2014 – December 2015	
	Natural resources revenue management	February 2015	
	Forecasting and Policy Analysis System (FPAS)	February 2015	
	Monetary Policy Implementation, Deepening the Domestic Debt Market, and Debt Management	February-March 2015	
	Review of the Fuel Pricing Mechanism	April-May 2015	

STATISTICAL ISSUES

GHANA—STATISTICAL ISSUES APPENDIX (As of March 2015)
I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for standard surveillance. The quality and timeliness of certain data need to be improved. To monitor vulnerabilities, effective surveillance warrants a more timely provision of critical high-frequency data. There are notable deficiencies in the dissemination of statistical information to the public, notwithstanding the recurrent publication of statistical data on the Bank of Ghana's (BOG) website.
National Accounts: Ghana compiles annual and quarterly estimates of GDP by economic activities at current and constant (2006) prices following the System of National Accounts 1993.The Ghana Statistical Service (GSS) is planning to rebase the annual national accounts (ANA) to 2013 (currently 2006). Fundamental to this is the updating of the Supply and Use Table (SUT). With the support of TA, Ghana has also developed quarterly national accounts (QNA) GDP by production (GDP/P), with a first release in 2013. Further improvement on the QNA GDP/P has recently been made, through the collection of good quality Value Added Data (VAT). However, no progress has been made on the development of the QNA GDP by expenditure (GDP/ E). Further institutional reforms in the statistical authority (GSS) are envisaged to ensure proper quality controls.
Price Statistics: The GSS compiled and published a new CPI (2012=100) in July 2013. The CPI has the following strong points: (1) full coverage of the population, with 20 population strata; (2) good coverage—except for Shelter—of consumption, using all 12 COICOP Divisions; (3) large, representative pricing sample; (4) imputation of missing prices, using a sound method; (5) release of the index according to an advance release calendar. Methodological weaknesses include: (1) the weights reflect expenditures derived from a rather dated survey (conducted in 2005/06); (2) pre–2012 indexes are not rebased and linked to the new series. The GSS has committed to a revision of the CPI starting with the index for January 2017, which will include weight updates and rental equivalence for owner housing coverage.
Labor Statistics: The scarcity of labor statistics is a cause for concern. Labor statistics are almost nonexistent, although some wage indicators are available from the Social Security National Insurance Trust (SSNIT). The Ministry of Employment has been receiving technical assistance from the United Nations Development Program and the International Labor Organization in the design and compilation of labor statistics.

Government Finance Statistics: Steps have been taken to improve fiscal data. The Controller Accountant General Department (CAGD) currently compiles monthly budget implementation reports, and the data are available within six weeks, although some factors undermine their reliability. There is a need for comprehensive and timely reconciliation of monthly treasury data with bank accounts. To address these shortcomings, the government has formed a committee to define the nature of “broad” and “narrow” government; moved to a system of immediate booking for “direct debits” and more frequent reporting of government account balances; and is implementing a new automated Budget and Public Expenditure Management System (BPEMS). The BPEMS covers ministries, departments, and agencies. Comprehensive solutions to some of the data problems may have to await full implementation of the BPEMS system and incorporation of Fund technical advice. Various missions from FAD have suggested short-term temporary solutions to alleviate current data quality problems.

Several GFS missions worked with the authorities to improve the economic classification of data in accordance with the requirements of GFSM 2001. In 2009, an STA mission provided guidance on the compilation of a partial financial balance sheet for budgetary central government, and proposed that information on debt stocks that is available on a monthly basis be reported for the inclusion in the *International Financial Statistics (IFS)*. However, these data have not yet been submitted to STA.

The coverage of fiscal data transactions is limited to budgetary central government; to general government is strongly encouraged. The latest quarterly government finance data published in the *IFS* are for December 2013; the latest data covered in the *Government Finance Statistics Yearbook (GFSY)* are for 2011.

Debt Statistics: The responsibility for external debt recording and payment is divided among three agencies. The Ministry of Finance and Economic Planning (MOFEP), through its Aid and Debt Management Unit (ADMU), maintains the external debt database. It is responsible for recording debt payment obligations, issuing payment requests, and tracking HIPC debt relief. The CAGD confirms the legality of the payment and authorizes the release of public funds. It is responsible for accounting for debt payments and rendering reports to parliament. The BOG as the payment agent for the government verifies payments made to ADMU and CAGD.

To enable systematic comparison of the budget, the balance of payments and the BOG cash-flow data, the authorities should clearly identify the government subsectors for which data are reported and prepare a clear classification of financing, outstanding debt, and guarantees issued.

Monetary and Financial Statistics: While BOG has made significant progress on implementing the previous missions’ recommendations on monetary and financial statistics, continued efforts are needed to expand the institutional coverage and improve the timeliness of the data reporting. The June 2011 TA mission assisted in improving the data mapping for compiling the standardized report forms (SRFs) for central bank and other depository corporations BOG has used the updated mapping to compile and report monetary aggregates for publication in the IFS, which has improved quality. The 2011 mission also assisted in mapping the statistical returns for other financial institutions (OFIs) to SRFs with a view to expanding the data coverage. However, no further progress

has been made on including OFIs in the monetary statistics.	
Financial Sector Surveillance: With regard to financial soundness indicators (FSIs), Ghana currently does not report data to the Fund for dissemination on the Fund website.	
External Sector Statistics: Ghana participates in the external sector module of EDDI and has benefited extensively from technical assistance The BOG reports balance of payments and IIP data to STA on annual basis following the methodology set out in the *Balance of Payments Manual*, fifth edition, and participates in the Coordinated Direct investment Survey. There has been continued progress including enhancements to the International Transactions Reporting System (ITRS). However, timeliness, frequency, and reliability of data need to be improved. A number of key tasks that should be completed to enable the estimation of reliable quarterly balance of payments and IIP statistics and the implementation of the sixth edition of the *Balance of Payments and International Investment Position Manual* and. To improve timeliness, a more speedy integration of collected data in the balance of payments is needed. Other key actions are: (i) the expansion of source data; (ii) completion of the grossing up procedure for non response in the Foreign Assets and Liabilities Survey (FALS); conducting a quarterly small sample survey of foreign assets and liabilities, selected services, and primary income transactions; and improving coverage in the oil and gas category.	
Trade Statistics: Currently, the GSS is not publishing timely monthly trade statistics, although the data are available from the Customs, Excise, and Preventive Service (CEPS). The staff has recommended that the GSS collaborate with the CEPS to process customs data within six weeks and with the Ministry of Trade and Industry (MOT) and the BOG to identify and reduce discrepancies in trade statistics and to ensure that imports into bonded warehouses are not double-counted. Data collection procedures of the CEPS need to be improved, and there is also room for improving trade volume data collected by the CEPS through customs invoices, which would help the GSS to extract meaningful import and export unit values. The May 2010 STA mission found that Balance of Payments Office (BPO) of the BOG treats goods that are temporarily imported into Ghana without passing the customs authorities (i.e., not yet captured by customs) and then sold to enterprises in the free zone as exports. This treatment would imply that free trade zones are treated as located outside the Ghanaian economic territory, which should not be the case. Fund staff has recommended that the GSS produce export unit values for major export commodities, such as gold and cocoa. A high coverage of the country's export bundle can be obtained from just three major exports—cocoa, gold, and unwrought aluminum. In contrast, deflation of imports is likely to require an iterative procedure to strike a balance between coverage of the index and its stability, owing to the heterogeneity of the basket.	
II. Data Standards and Quality	
Ghana participates in the General Data Dissemination System (GDDS) since July 20, 2005.	

Ghana: Table of Common Indicators Required for Surveillance
(As of March, 2015)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	Feb 2015	Feb 2015	D	M	NA
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Feb 2015	Feb 2015	M	M	Q
Reserve/Base Money	Dec 2014	Feb 2015	M	M	I
Broad Money	Dec 2014	Feb 2015	M	M	I
Central Bank Balance Sheet	Jan 2015	Feb 2015	M	M	I
Consolidated Balance Sheet of the Banking System	Jan 2014	Mar 2014	M	M	I
Interest Rates[2]	Jan 2015	Feb 2015	M	M	I
Consumer Price Index	Jan 2015	Feb 2015	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – general government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3] – central government	Dec 2014	Feb 2015	M	M	I
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec 2014	Feb 2015	M	Q	I
External Current Account Balance	Dec 2014	Feb 2015	Q	Q	Q
Exports and Imports of Goods and Services	Dec 2014	Feb 2015	Q	Q	Q
GDP/GNP	2013, Q32014	Dec 2014	Q/A	Q/A	Q/A
Gross External Debt	Dec 2014	Jan 2015	M	I	A
International Investment Position[7]	2013	October 2014	A	NA	NA

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extrabudgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).
[7] Includes external gross financial assets and liability positions vis-à-vis non residents.

GHANA

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

March 20, 2015

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

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

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

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

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

A. Background and Macroeconomic Assumptions

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

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

Table. Key Macroeconomic Assumptions

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

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

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

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

Box. Baseline Macroeconomic Assumptions

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

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

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

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

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

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

B. External Debt Sustainability Analysis

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

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

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

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

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

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

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

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

C. Public Debt Sustainability Analysis

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

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

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

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

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

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

D. Conclusion

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

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

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

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

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

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

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

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

(In percent of GDP, unless otherwise indicated)

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

Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

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

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

Table 2. Ghana: Public Sector Debt Sustainability Framework, Baseline Scenario, 2011-2034

(In percent of GDP, unless otherwise indicated)

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

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

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

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

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

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

(In percent)

Debt service-to-exports ratio

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

Debt service-to-revenue ratio

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

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

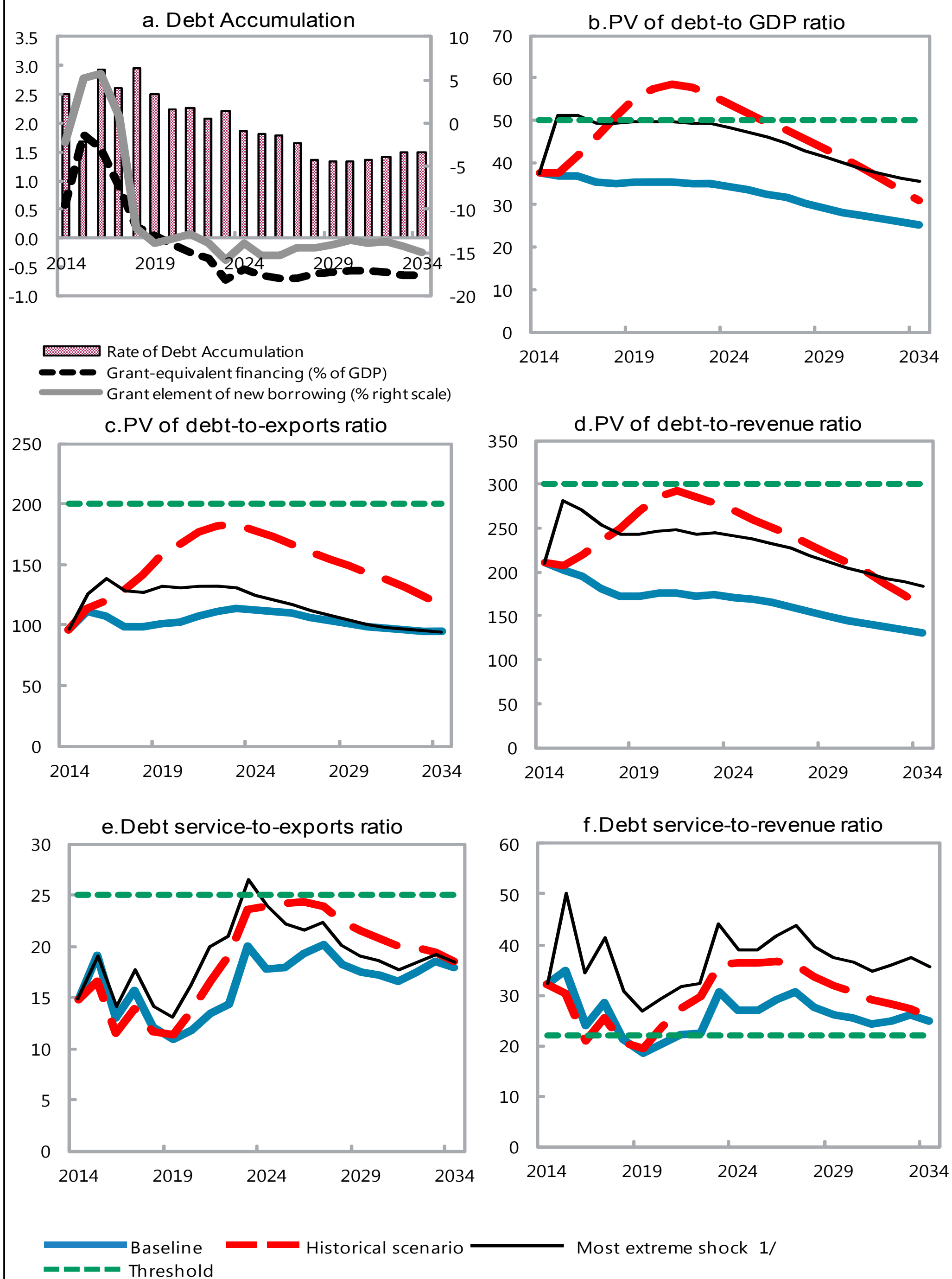
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

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

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

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

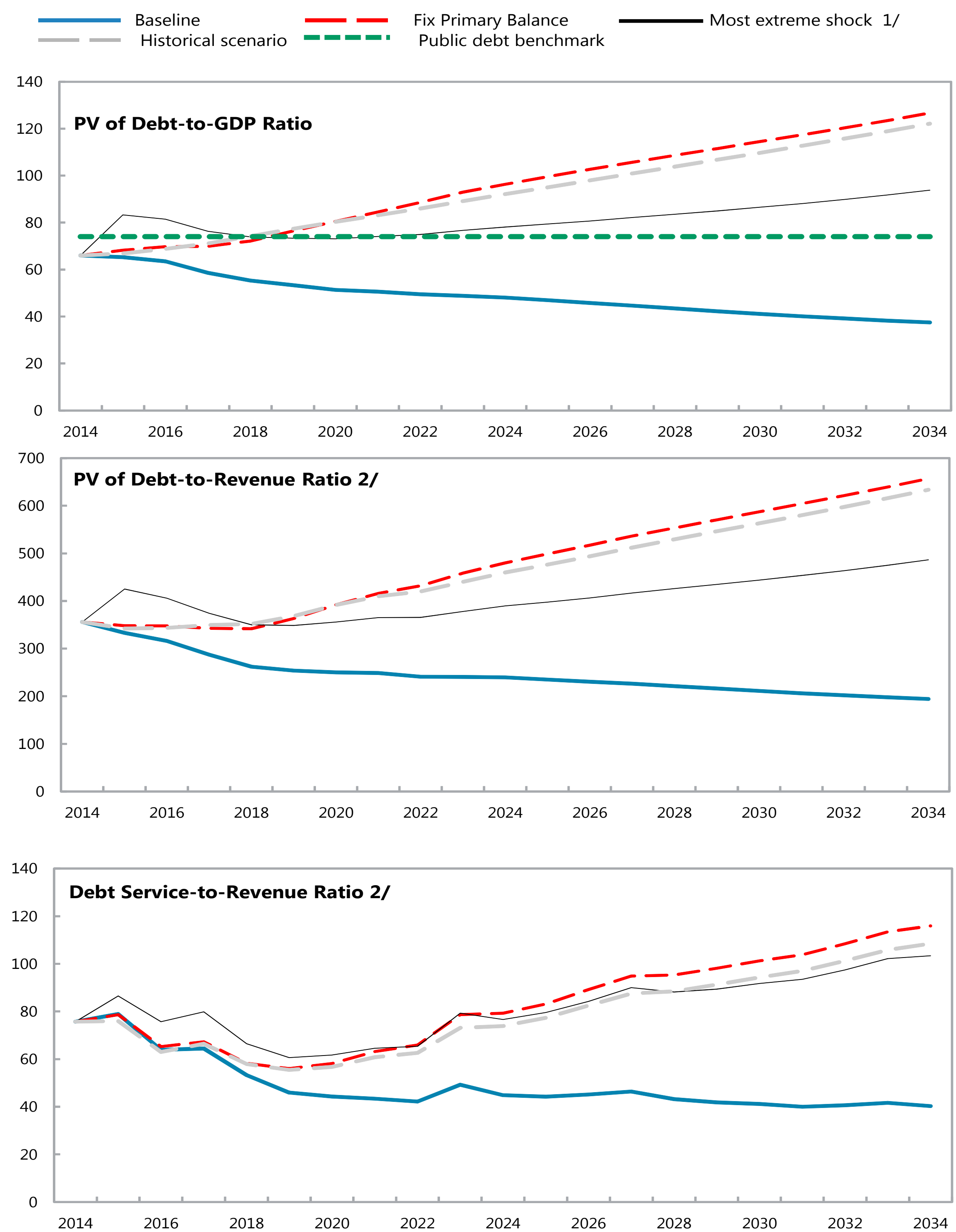
Figure 1. Ghana: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2014-2034 1/



Sources: Country authorities; and staff estimates and projections.

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

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



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

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International Monetary Fund
Washington, D.C. 20431 USA

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

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

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

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

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

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

"Achieving key fiscal objectives will require strict containment of expenditure, in particular of the wage bill and subsidies. The government's efforts to mobilize additional revenues will also help create more space for social spending and infrastructure investment, in particular in the energy sector. The government is rightly adjusting expenditures further to mitigate the shortfall in oil revenue and avoid a larger debt build-up. Moreover, a prudent borrowing strategy will be needed to ensure that financing needs are met at the lowest possible cost.

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

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

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

Annex

Recent Economic Developments

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

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

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

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

Program Summary

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

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

The main pillars of the program are: (i) a sizeable and frontloaded fiscal adjustment to restore debt sustainability, focusing on containing expenditures through wage restraint and limited net hiring, as well as on measures to mobilize additional revenues; (ii) structural reforms to strengthen public finances and fiscal discipline by improving budget transparency, cleaning-up and controlling the payroll, right-sizing the civil service, and improving revenue collection; (iii) restoring the effectiveness of the inflation targeting framework to help bring inflation back into single digit territory; and (iv) preserving financial sector stability. To alleviate the potential adverse impact of the strong fiscal adjustment on the most vulnerable in society and protect real income of the poor, which was dented by three years of high inflation, the government is committed to use part of the resulting fiscal space to safeguard social and other priority spending under the program, including expanding the targeted social safety nets—such as the Livelihood Empowerment Against Poverty (LEAP) program.

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

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

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

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

[1] Including public enterprises and errors and

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

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

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

Recent Economic and Social Developments

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

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

The Outlook for 2015 and the Medium-Term

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

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

Fiscal Policy and Structural Reforms

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

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

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

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

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

Monetary and Exchange Rate Policies

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

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

Financial Sector Policies

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

Conclusion

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