



GHANA

September 2017

2017 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVER FOR NONOBSERVANCE OF PERFORMANCE CRITERIA, AND REQUEST FOR EXTENSION AND REPHASING OF THE ARRANGEMENT—PRESS RELEASE; STAFF REPORT; STAFF SUPPLEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GHANA

In the context of the 2017 Article IV Consultation, Fourth Review under the Extended Credit Facility Arrangement, Request for Waiver for Nonobservance of Performance Criteria, and Request for Extension and Rephasing of the Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its August 30, 2017 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on August 30, 2017, following discussions that ended on July 26, 2017, with the officials of Ghana on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 1, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Ghana.

The documents listed below will be separately released:

Letter of Intent sent to the IMF by the authorities of Ghana*

Memorandum of Economic and Financial Policies by the authorities of Ghana*

Technical Memorandum of Understanding*

*Also included in Staff Report

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

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August 30, 2017

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IMF Executive Board Completes Fourth Review Under the ECF, Approves US\$94.2 Million Disbursement and Program Extension; and Concludes 2017 Article IV Consultation with Ghana

- Completion of the fourth ECF review enables the disbursement of SDR 66.42 million (about US\$ 94.2 million).
- The program aims to restore debt sustainability and macroeconomic stability in the country to foster a return to high growth and job creation, while protecting social spending.
- The Executive Board also completed the 2017 Article IV Consultation with Ghana. A related press release will be issued separately.

The Executive Board of the International Monetary Fund (IMF) today completed the fourth review of the arrangement under the Extended Credit Facility (ECF).¹ Completion of the fourth ECF review enables the disbursement of SDR 66.42 million (about US\$94.2 million), bringing total disbursements under the arrangement to SDR 398.52 million (about US\$565.2 million), with the remainder being tied to the remaining reviews. The Board also approved Ghana's request for waivers of non-observance of performance criteria, and modification of one performance criterion; and the extension of the arrangement by one year.

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

Following the Executive Board discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, made the following statement:

Ghana's macroeconomic performance over the years has been mixed. Policy slippages have compounded the adverse impact of shocks and resulted in significant external and domestic imbalances. The new government has committed to macroeconomic stability, fiscal discipline,

¹ The ECF is a lending arrangement that provides sustained program engagement over the medium to long term in case of protracted balance of payments problems. For more details, see <http://www.imf.org/external/np/exr/facts/scf.htm>.

and an ambitious reform agenda. Decisive implementation of these policies and reforms would allow Ghana to reap its economic potential and achieve higher and more inclusive growth rates. These efforts will be supported by the continued implementation of the ECF program.

“The authorities have taken some encouraging steps and the economy is showing signs of recovery. As risks remain tilted to the downside, careful fiscal management will be required to achieve the 2017 program targets and reverse the unfavorable debt dynamics. Additional efforts are needed to address revenue shortfalls, while expenditure control measures should be fully enforced to contain current spending, and prevent the recurrence of domestic arrears. Ongoing fiscal consolidation and implementation of the medium-term debt management strategy will be key to further reducing domestic refinancing risks.

“Fiscal consolidation efforts will need to be anchored in wide-ranging structural fiscal reforms, so that consolidation gains can be sustained over the medium term. These include measures to broaden the tax base, and enhance tax compliance and public financial management, especially considering the large unpaid commitments accumulated in 2016.

“The authorities should tackle energy sector inefficiencies, particularly improving the management of the state-owned enterprises (SOEs). Ongoing debt restructuring efforts are helpful but are no substitute to stemming the SOEs’ ongoing financial losses and put them on a sustainable financial path.

“As inflation continues to decelerate, the Bank of Ghana (BoG) should remain vigilant in order to bring inflation back to target. The BoG should continue to strengthen the credibility of the inflation-targeting framework, which would benefit from efforts in the development of the foreign exchange market. The central bank should also continue its policy on zero financing of the government.

“The authorities have made significant progress in the implementation of the banking system roadmap, in particular through the approval of timebound recapitalization plans for banks found to be undercapitalized, and the resolution of two insolvent banks. Further steps to strengthen the supervisory and regulatory framework, reduce outstanding liquidity assistance, and buttress the microfinance sector will help build a more robust financial sector that is well positioned to support growth and promote financial inclusion.”

The Executive Board also completed the 2017 Article IV Consultation² with Ghana.

Ghana has shown mixed macroeconomic performance in recent years, with significant shocks being amplified by policy slippages and resulting external and domestic imbalances. Growth in 2016 was 3.5 percent, the lowest level in two decades. A recovery of growth is expected in 2017-18, owing to an increase in oil production, declining inflation, and lower imbalances with the right policy implementation.

² Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Following a sizeable fiscal slippage in 2016, the authorities are targeting a significant fiscal consolidation in 2017, which will require sustained revenue collections and spending controls. Inflation has continued to decline and the exchange rate has been broadly stable. The external position has continued to improve, supported by strong foreign investors' participation in the domestic debt market.

Over the medium term, both the fiscal deficit and the current account deficit are projected to decline gradually.

Executive Board Assessment³

Executive Directors agreed with the thrust of the staff appraisal. They commended the corrective actions taken by the new government to bring the program back on track following the large fiscal slippages in 2016. However, Directors noted that Ghana faces long-standing challenges, including exposure to external shocks, budget rigidities, and economic inefficiencies, which have amplified the impact of past policy slippages on domestic and external imbalances. They emphasized that strong implementation of program policies and reforms is critical to address the risks and secure macroeconomic stability. Directors also cautioned about program implementation risks given the revenue underperformance that occurred in the first half of the year, and urged the authorities to expeditiously adopt corrective measures, as needed, to preserve the program targets.

Directors emphasized the need for prudent fiscal adjustment and welcomed the targeted efforts being made to reverse the debt dynamics and reduce financing needs. They underscored that efforts are needed to address revenue shortfalls, while enforcing expenditure control measures to contain current spending and prevent the recurrence of domestic arrears accumulation. Directors stressed that credible fiscal consolidation and implementation of the medium-term debt management strategy will be key to further reducing domestic refinancing risks.

Directors welcomed the wide-ranging reforms in revenue administration and public financial management, noting that these will be essential to make consolidation gains sustainable over the medium term and create fiscal space for priority spending programs. Addressing the shortcomings in spending controls will be essential to deliver lasting adjustment and anchor the credibility of government's budget policies.

Directors emphasized the need to tackle energy sector inefficiencies, particularly improving the management of the state-owned enterprises (SOEs). They also advised that ongoing debt restructuring efforts are helpful but are no substitute to stemming the SOEs' financial losses.

Directors welcomed the deceleration in inflation and encouraged the Bank of Ghana (BoG) to

³ At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

remain vigilant and take action to bring it back to target. They also called for measures to further strengthen the credibility of the inflation targeting framework, which would benefit from efforts in the development of the foreign exchange market and continuation of BoG's policy on zero financing of the government.

Directors commended the progress made in the strengthening the banking system, in particular through the approval of timebound recapitalization plans for undercapitalized banks and the recent resolution of two insolvent banks. They called for further steps to strengthen the supervisory and regulatory framework to address liquidity risks and rising levels of NPLs. Directors also encouraged action to further strengthen the AML/CFT framework.

Directors emphasized that wide-ranging structural reforms remain important for achieving higher and inclusive growth. They highlighted that the reform effort should include further enhancing the business environment, improving infrastructure, including tackling the inefficiencies in the energy sector, and improving access to finance. It is expected that the next Article IV consultation with Ghana will take place in accordance with the Executive Board Decision on consultation cycles for members with Fund arrangement.

Table 1. Ghana: Selected Economic and Financial Indicators, 2014–22

	2014	2015	2016		2017		2018	2019	2020	2021	2022
			Prog.	Est.	Prog.	Proj.					
(Annual percentage change; unless otherwise indicated)											
National accounts and prices											
GDP at constant prices	4.0	3.8	3.3	3.5	7.4	5.9	8.9	5.9	5.1	5.2	5.4
Non-oil GDP	4.0	4.0	3.7	4.8	4.5	4.0	5.0	6.0	6.0	6.0	6.0
Oil and gas GDP	4.5	0.9	-2.4	-16.9	57.0	42.5	64.9	5.5	-3.1	-2.7	-1.7
Real GDP per capita	1.4	1.2	0.8	0.9	4.7	3.3	6.1	3.3	2.5	2.6	2.7
GDP deflator	16.7	16.4	15.3	18.1	10.1	14.2	9.6	9.1	7.4	6.3	6.3
Consumer price index (annual average)	15.5	17.2	17.1	17.5	10.0	11.8	9.0	7.0	6.0	6.0	6.0
Consumer price index (end of period)	17.0	17.7	13.5	15.4	8.0	10.0	8.0	6.0	6.0	6.0	6.0
Consumer price index (excl. food, end of period)	23.9	23.3	17.8	20.2	10.5	13.1	8.0	6.0	6.0	6.0	6.0
(Percent of GDP)											
Gross capital formation ¹	18.8	16.7	22.5	14.5	23.2	13.7	14.7	15.8	17.0	18.2	18.2
Government	5.7	5.2	3.1	4.9	2.9	3.2	3.3	3.5	3.7	3.8	3.9
Private	12.3	10.7	18.7	8.9	19.7	9.9	10.9	11.9	12.9	14.0	14.0
National savings	9.3	9.0	16.1	7.8	17.1	7.9	9.2	10.7	12.3	13.6	13.9
Government	-5.3	-0.2	-0.7	-4.0	0.9	-1.3	-0.5	0.2	0.6	0.9	1.1
Private ²	14.6	9.2	16.8	11.8	16.2	9.2	9.7	10.5	11.6	12.8	12.8
Foreign savings	-9.5	-7.7	-6.4	-6.7	-6.1	-5.8	-5.4	-5.0	-4.7	-4.5	-4.3
Central government budget (cash basis)											
Revenue	18.4	19.6	19.4	17.3	19.2	18.9	18.6	19.0	19.1	18.9	18.7
Expenditure	28.5	26.6	24.6	26.6	22.7	25.2	22.4	22.2	22.1	21.8	21.6
Overall balance ³	-10.1	-7.0	-5.2	-9.3	-3.5	-6.3	-3.8	-3.2	-3.1	-2.9	-2.8
Primary balance ³	0.0	-0.4	1.1	-2.4	2.2	0.2	2.2	2.2	2.0	1.8	1.6
Net domestic financing	7.8	1.8	3.7	8.6	2.3	6.2	3.6	3.2	2.7	2.3	1.9
Central government debt (gross)	70.2	72.2	67.7	73.4	63.6	70.5	66.1	62.8	60.1	57.6	55.1
Domestic debt	31.0	28.5	27.9	32.1	26.0	32.5	30.8	29.8	29.1	28.4	27.2
External debt	39.1	43.7	39.8	41.3	37.7	38.0	35.3	33.0	30.9	29.2	27.8
(Annual percentage change; unless otherwise indicated)											
Money and credit											
Credit to the private sector	41.8	31.7	7.4	9.1	14.2	11.0	14.5	19.9	20.5	17.3	20.2
Broad money (M2+)	36.8	23.3	14.4	24.8	15.1	22.7	15.9	19.2	21.0	16.4	16.5
Velocity (GDP/M2+, end of period)	3.1	3.0	...	2.9	...	2.9	3.0	2.9	2.7	2.6	2.5
Base money	30.2	24.2	14.7	29.6	15.7	26.3	19.2	17.5	18.3	16.9	14.9
Banks' lending rate (weighted average, percent)	29.0	27.5	...	31.7	...	...	...	...	...	...	...
Policy rate (in percent, end of period)	21.0	26.0	...	25.5	...	...	...	...	...	...	...
(Percent of GDP)											
External sector											
Current account balance	-9.5	-7.7	-6.4	-6.7	-6.1	-5.8	-5.4	-5.0	-4.7	-4.5	-4.3
Gross international reserves (millions of US\$)	4,349	4,403	5,140	4,862	5,976	5,783	6,319	6,797	7,483	8,145	8,765
In months of prospective imports of goods and services	2.5	2.6	2.7	2.6	2.9	3.0	3.1	3.2	3.3	3.3	3.4
Total donor support (millions of US\$)	1,092	1,411	844	778	637	977	755	763	407	183	133
In percent of GDP	2.8	3.8	2.0	1.8	1.4	2.1	1.5	1.4	0.7	0.3	0.2
Memorandum items:											
Nominal GDP (millions of GHc)	113,343	136,957	166,768	167,315	197,136	202,389	241,549	279,328	315,464	352,989	395,193
Nominal GDP (millions of US\$)	38,774	36,893	42,638	42,778	...	45,464	49,226	52,863	56,415	60,449	65,127
GDP per capita (US\$)	1,479	1,372	1,551	1,551	1,648	1,608	1,697	1,777	1,850	1,932	2,030

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

¹ Historical expenditure side GDP series was revised in 2017 by the Ghana Statistical Services.

² Including public enterprises.

³ Excludes discrepancy.



GHANA

August 1, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVER FOR NONOBSERVANCE OF PERFORMANCE CRITERIA, AND REQUEST FOR EXTENSION AND REPHASING OF THE ARRANGEMENT

KEY ISSUES

Context: Ghana's macroeconomic performance has been mixed, as over the years recurrent policy slippages have amplified the impact of external and domestic shocks, created persistent imbalances, and contributed to high inflation, exchange rate volatility, and unfavorable debt dynamics. The new government thus faces significant challenges, including a large fiscal slippage that occurred in 2016. Addressing these challenges calls for an ambitious adjustment and reform agenda.

Outlook and Risks: The outlook for 2017 is promising, with a growth rebound driven by a large increase in oil production, declining inflation, and lower internal and external imbalances if the right policies are implemented. But downside risks remain, as fiscal slippages could feed into continued cedi depreciation, compound adverse debt dynamics and create inflationary pressures. At the same time, the government faces significant contingent liabilities from the energy state-owned enterprises (SOEs), the financial sector, and the unpaid claims incurred in 2016 currently being audited.

Fiscal and Monetary Policy: Restoring fiscal discipline and putting debt on a downward path will require credible and sustained fiscal consolidation, underpinned by strong structural fiscal reforms. Monetary policy should remain geared to delivering declining inflation, supported by steps to bolster the performance and credibility of the inflation targeting framework.

Financial Stability: Long-term financial stability requires ensuring the resilience of the Ghanaian banking system and favoring financial inclusion. Ongoing steps by the Bank of Ghana to implement the Financial Stability Roadmap, including recapitalization efforts and corrective actions in response to the asset quality review (AQR), as appropriate, are encouraging and must be followed through decisively.

Program Performance: Following completion of the third review in September 2016, program implementation went significantly off-track, with a sizable fiscal slippage and accumulation of domestic arrears at end-2016. The authorities and staff reached understanding on credible fiscal adjustment, structural reforms, and tangible measures to improve the financial viability of SOE, including better monitoring and oversight, to put the program back on track.

Staff supports completion of the fourth review, the request for waivers of missed targets and the request for an extension of the ECF arrangement by one year, with even rephrasing of the remaining access. While program performance through end-2016 was not satisfactory and implementation risks remain, the new government has demonstrated commitment to policy adjustment and delivered corrective measures, including through fiscal consolidation in early 2017, implementation of financial stability measures, and further structural reforms.

Approved By
Dominique Desruelle
(AFR) and
Mark Flanagan (SPR)

Discussions on the 2017 Article IV consultation and fourth review under the ECF arrangement took place in Accra during April 3-13, 2017, followed by continued discussions from headquarters. The IMF staff team included Annalisa Fedelino (head), John Hooley and Siddharth Kothari (all AFR), Keiichi Nakatani (SPR), Salvatore Dell’Erba (FAD), Eriko Togo (MCM), and Natalia Koliadina (Resident Representative); Constant Verkoren (MCM) provided assistance off-site. Mr. Mojarrad (Executive Director) and Mr. Abradu-Otoo (OED) participated in the discussions. The IMF team met with Vice President Bawumia; Finance Minister Kenneth Ofori-Atta; Bank of Ghana Governor Ernest Addison; other senior officials; and representatives of the donor community and private sector. Nadia Margevich and Yong Wang (AFR) ably contributed to the preparation of this report.

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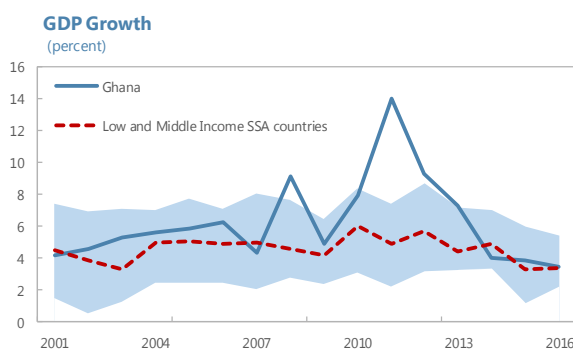
CONTEXT

- 1. Ghana has once again demonstrated its democratic credentials.** Following eight years in opposition, the National Patriotic Party (NPP) won the elections in December 2016, with a strong mandate to pursue macroeconomic stability and “create prosperity and opportunity for all.” The new government came smoothly to power in January 2017.
- 2. The economy has much potential, though still faces deep-rooted challenges.** Compared to regional peers, Ghana has long enjoyed political stability and relatively robust and diversified growth. However, policy implementation has ebbed and waned; the resulting bouts of macroeconomic instability have in turn set the country back, especially when large fiscal slippages have occurred in election years. 2016 was no exception, as the deficit rose to 9.3 percent of GDP. Given its large financing needs, Ghana remains exposed to shifts in investor confidence, underlining the need for strong policies and reform. The latter have been the aim of the IMF-supported program, although its implementation has in the past been disappointing.
- 3. In the current setting, ensuring long-lasting macroeconomic stability is a key policy priority.** Without a stable macroeconomic environment, there cannot be *prosperity and opportunity for all*. For these reasons, discussions with the authorities focused on: (i) policy measures to anchor macroeconomic stability, secure debt sustainability, and build buffers; and (ii) immediate actions to put the IMF-supported program back on track.

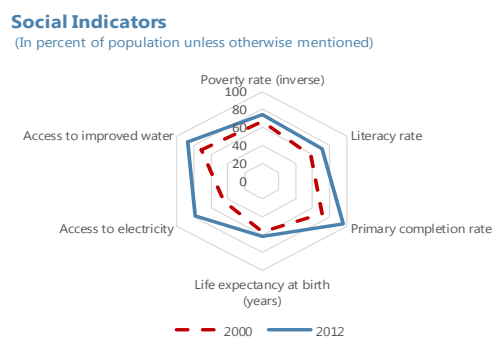
KEY TRENDS AND RECENT DEVELOPMENTS

A. Long-Standing Challenges...

- 4. After over two decades of sustained and fairly inclusive growth and a boom from 2010-13, Ghana has witnessed a sharp slowdown in the last three years.** Between 2000 and 2013, the average real growth rate was 6.6 percent, well above other low and lower-middle income SSA countries. The poverty rate fell sharply, from 53 percent in 1991 to 21 percent in 2012 (last data available), along with improvements in other social indicators. However, after the oil-related boom in 2010-13, growth started decelerating in 2014, and dropped to 3.5 percent in 2016, the lowest level since 1990.



Source: WEO and IMF Staff estimates.
Note: Shaded area excludes top and bottom 20 percent of the distribution.

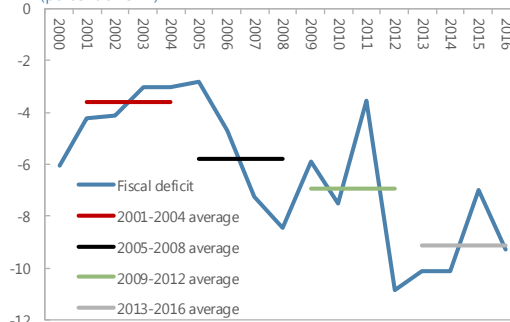


Source: WDI. Data for closest year to 2000 and 2012 that was available for each variable.

5. Recurrent policy slippages have amplified the impact of external and domestic shocks, creating persistent imbalances and contributing to the recent slowdown.

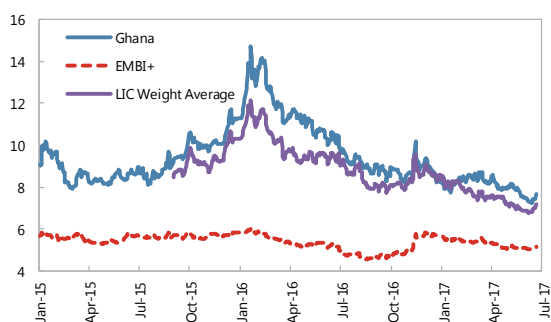
- Over the last decade, large fiscal deficits have added to significant increases in public debt, eroding the fiscal buffers created by the earlier debt relief. Fiscal slippages have been particularly pronounced in election years, setting in motion an increase in external and domestic imbalances from which Ghana has only partially recovered.
- Market access tightened in the context of soaring external and domestic funding needs. The government resorted to central bank financing, with spillovers to inflation, weaker exchange rate, and even higher funding costs. Eurobond spreads and domestic real interest rates surged and domestic maturities shortened, exacerbating rollover risk. Meanwhile, the economy was also buffeted by adverse terms of trade shocks as the prices of key exports significantly dropped, further affecting the exchange rate, fueling inflation, and contributing to the economic slowdown as the external position adjusted.

Fiscal Balance
(percent of GDP)



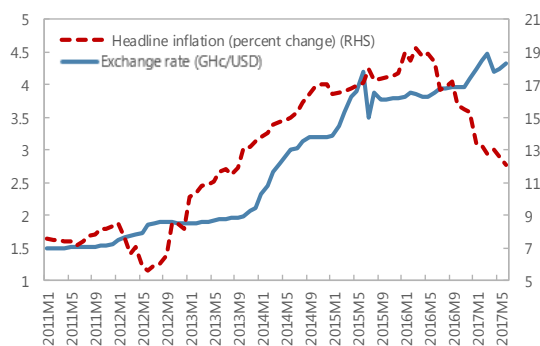
Source: Ghanaian authorities and IMF Staff estimates.

Eurobond Yields to Redemption
(percent)



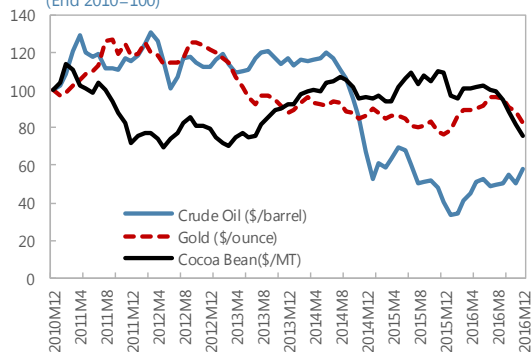
Source: Datastream

CPI Inflation and Exchange Rate



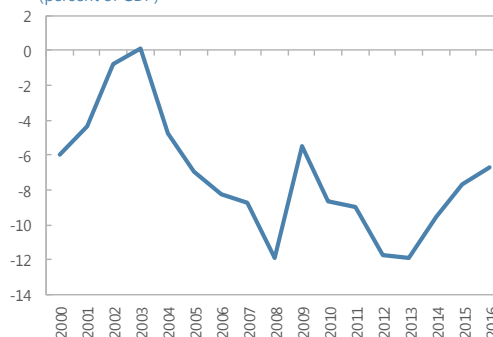
Source: Ghanaian authorities and IMF Staff estimates.

Commodity Prices
(End 2010=100)



Source: Ghanaian authorities and IMF Staff estimates.

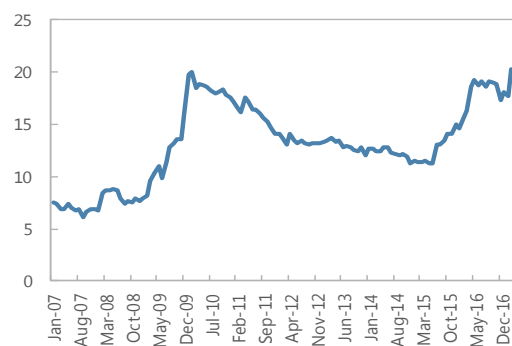
Current Account Balance
(percent of GDP)



Source: Ghanaian authorities and IMF Staff estimates.

- In the state-owned enterprises (SOE) sector, lack of timely utility tariff adjustment, accumulation of cross-arrears, and management inefficiencies translated into severe power shortages, further undermining investor confidence and compounding the economic slowdown.
- Feedback-loops from the domestic economy to the banking sector led to a sharp increase in non-performing loan (NPLs), limiting the ability of the banking system to fund an eventual growth recovery.

Non-performing loans
(percent of total loans)



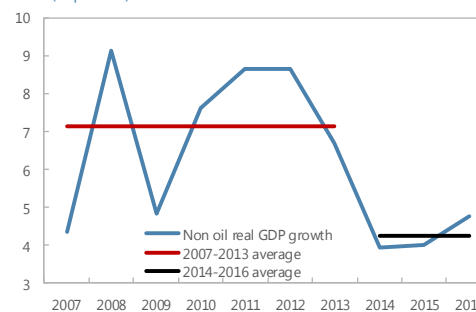
Source: Ghanaian authorities and IMF Staff estimates.

B. ... and Recent Mixed Developments

6. In a repeat of previous election cycles, Ghana saw a sizable fiscal slippage in 2016. The overall deficit ended at 9.3 percent of GDP on a cash basis (against the Third Review target of 5.2 percent of GDP), reflecting revenue shortfalls and large expenditure overruns. In a glaring breach of expenditure controls, outstanding claims (3 percent of GDP) incurred in 2016 came to light in early 2017, with 2 percent of GDP outside the Ghana Integrated Financial Management Information System (GIFMIS).¹

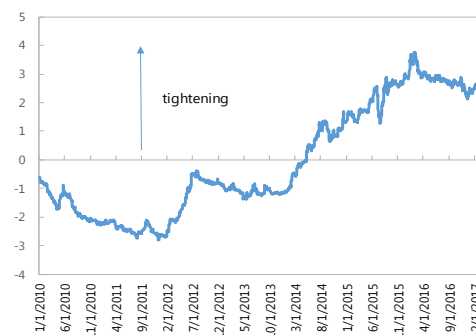
7. The financial cycle amplified the downturn. Growth in banks' balance sheets continued to slow down as growth declined, and financial conditions have generally tightened.² Asset quality in the banking system continued to deteriorate, as shown by the findings of the 2016 Asset Quality Review. At the same time, growth in credit to the private sector declined and the spread between lending and deposit rates increased.

Non-Oil GDP Growth
(In percent)



Source: Ghanaian authorities and IMF Staff estimates.

Financial Conditions Index



Source: Bloomberg and IMF Staff estimates.

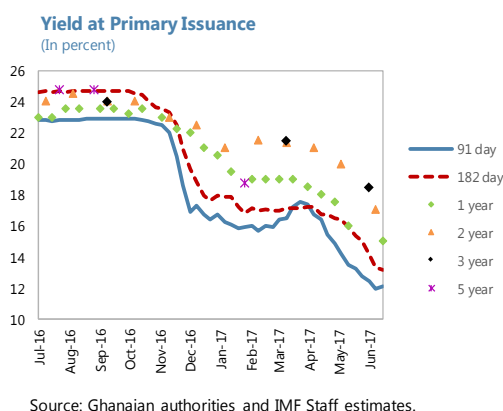
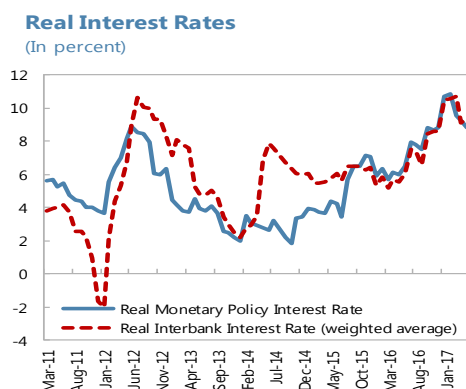
¹ On a commitment basis, the deficit was 8.9 percent of GDP, reflecting repayment of previous arrears of 1.4 percent and new outstanding payments of 1 percent of GDP (the part of unpaid claims included in the GIFMIS). If all unpaid claims were factored in, the deficit on a commitment basis would therefore have been 10.9 percent of GDP

² Staff's index of financial conditions is the first principal component of the Z-scores of six financial market variables: the real monetary policy rate, the real interbank rate, the real T-bill rate, sovereign Eurobond spreads, realized volatilities of the nominal exchange rate, and the stock market index.

8. Despite an improvement in the external position, vulnerabilities persist. A sharp increase in gold exports³ and import compression narrowed the current account deficit to 6.7 percent of GDP in 2016. At the same time, strong FDI and inflows to the domestic debt market helped the Bank of Ghana (BoG) build up net international reserves (NIR) for the first time in six years. However, the gross reserves coverage remained low at 2.6 months of imports, lower than 3- to 3.6-month levels suggested by a reserve adequacy assessment (see Annex I). While the nominal exchange rate was relatively stable during 2016, according to the Fund's exchange rate assessment (EBA-lite), Ghana's external position was weaker than implied by fundamentals, with a REER gap of around 8 percent (see Annex I), largely explained by large fiscal slippages.

9. Some positive developments have emerged since the new government took office, though risks remain elevated:

- Preliminary data shows that overall growth in Q1 2017 was 6.6 percent, with non-oil growth at 3.9 percent.
- Disinflation finally appears to be taking hold. Since H2 2016, inflation has been declining, reaching 12.1 percent in June 2017, helped by exchange rate stability and earlier increases in the monetary policy rate (MPR).
- Declining inflation and an encouraging fiscal outturn through April 2017 (with an overall deficit of 1.3 percent of GDP) have created room for progressively less tight monetary policy. Accordingly, the Monetary Policy Committee (MPC) reduced the MPR to 21 percent in July 2017 (though real rates, while declining, remain elevated); and interest rates on domestic debt instruments have followed suit.



- Financing conditions have recently eased. Ghana's external credit spreads have continued to decline from their peak in February 2016. Following the passage of the 2017 budget, the government had a record bond issuance of over GHc 9 billion (net basis) in April, mostly acquired by non-resident investors. With these inflows, over two thirds of the net domestic financing target for the year has been met, with the average maturity profile of domestic debt

³ Largely attributed to a large increase in small-scale gold producers, whose monitoring was recently tightened.

further lengthening (to almost two years as of May 2017). Partly in response to the large FX inflows, the exchange rate has recovered from the sharp depreciation experienced in Q1 2017.

OUTLOOK AND RISKS

10. Macroeconomic conditions are expected to stabilize over the medium term. In 2017, oil sector growth is projected to rise by over 40 percent owing to stepped-up production in a new field, pushing overall GDP growth to 5.9 percent. Non-oil growth would decline to 4 percent in 2017, with improved power provision and higher (though still subdued) private sector credit growth only partly offsetting the effect of fiscal consolidation. With macro-imbalances receding and positive spillovers from increased oil and gas production,⁴ non-oil growth is expected to rebound to 6 percent by 2019 and gradually converge to its potential level of 5 percent in the long run—with overall growth settling below 5 percent as oil production tapers off (see DSA). Inflation would fall within the BoG's band (8 ± 2 percent) by early 2018 and remain firmly inside it over the medium term. Credit growth to the private sector would remain initially subdued, reflecting banks' balance sheet repair, which will lessen over time. Stronger commodity exports and tight demand management would support a continued decline in the current account deficit, to around 4 percent of GDP in the medium term, in line with the current account norm estimated by External Sector Assessment (ESA, see Annex).

11. The risk of debt distress will likely remain high over the medium term. While the ratio of external debt-to-GDP declined slightly in 2016,⁵ the debt sustainability analysis (DSA) continues to point to high risk of debt distress, with three indicators breaching the thresholds.⁶ The total public debt-to-GDP ratio will remain above the threshold until 2021, with a slightly more elevated trajectory than previously assessed (see DSA). While the front-loaded fiscal adjustment envisaged under the program would help put debt on a sustainable path, slippages (and associated investor reactions) could jeopardize debt sustainability (see below).

12. The balance of risks is tilted to the downside (see Risk Assessment Matrix). Ghana's large financing needs represent a key source of vulnerability, especially on the external front as non-residents hold more than 60 percent of total debt. On the domestic front, risks of further fiscal slippages could feed into continued cedi depreciation, compounding adverse debt dynamics and creating inflationary pressures. At the same time, significant contingent liabilities could arise from the SOE sector, especially energy; the financial sector; and the unpaid claims currently being audited.

Authorities' views

13. The authorities broadly concurred with the outlook and risks and the ESA, although they were more optimistic about the prospect of a quick turnaround. They agreed that the large

⁴ The prospects for the petroleum sector in Ghana depend partly on the resolution of the maritime boundary dispute with Cote d'Ivoire. A ruling by the International Tribunal of the Law of the Sea is slated for September 2017.

⁵ Ghana recently signed a memorandum of understanding with China to develop various economic sectors, with a prospective financing package of \$19 billion. As the package remains uncertain, it is not included in the DSA.

⁶ Large non-residents' participation in the April bond issue (119), while helping meet the 2017 gross financing needs, has also led to the breach by one more indicators (as the DSA is prepared on a residency basis).

financing needs and high levels of debt posed the main downside risk to the economy. However, they thought that several factors could lead to an upside scenario with a significant turnaround in macroeconomic conditions and growth in 2017, despite the fiscal consolidation. They argued that the realignment of government expenditures to productive areas and removal of nuisance taxes would boost productivity, and were confident that various policy actions being pursued will boost private sector activity in the medium term (see Program Issues).

Ghana: Risk Assessment Matrix¹			
Nature/Sources of Risk	Relative Likelihood	Expected Impact If Realized	Policies to Mitigate Risks
<p>Significant further strengthening of the US dollar and/or higher rates. As investors reassess policy fundamentals, as term premia decompress, or if there is a more rapid Fed normalization, lower-rated sovereigns and those with un-hedged dollar exposures could come under stress.</p>	High The government's financing needs remain sizable; and reliance on non-resident investors is high.	High <ul style="list-style-type: none"> • Failure to secure financing would put pressures on interest rates, further dampening growth. • Reduced external financing would worsen the already low foreign reserve cover. Combined with a large current account deficit, this could put pressure on the exchange rate. 	<ul style="list-style-type: none"> • Bolster investors' confidence by implementing credible medium-term fiscal adjustment strategy. • Build buffers to enhance resilience. • Formulate and adopt contingency measures in case financing conditions were to tighten further and more adjustment were needed.
<p>Delayed or insufficient fiscal adjustment. Weaker revenue and further arrears accumulation could derail adjustment.</p>	High Ghana's track record with sustained fiscal adjustment has been weak.	High <ul style="list-style-type: none"> • Could strain public service provision and undermine government's credibility. An associated loss of confidence could also trigger pressures on the exchange rate, with negative impact on inflation, balance sheets, and debt sustainability. 	<ul style="list-style-type: none"> • Implement a credible medium-term fiscal adjustment strategy, with a balance across revenue and expenditure measures. • Tackle the arrear problem by completing the audit of unpaid commitments and claims; and by strengthening the PFM system.
<p>Lower energy prices. Production cuts by OPEC and other major producers may not materialize as agreed.</p> <p>Declines in other commodity prices.</p>	Low Ghana relies heavily on commodity exports.	High <ul style="list-style-type: none"> • Could result in sharp contraction of exports, further weakening the external position, reducing the low reserve buffers and resulting in exchange rate depreciation and inflationary pressures. 	<ul style="list-style-type: none"> • Diversify the economy and export base by improving business environment, and by investing in physical and human capital.
<p>Continued and intensifying weaknesses in the SOE utility sector.</p>	Medium SOEs continue making significant losses.	Medium <ul style="list-style-type: none"> • Could add to the government's risk of debt distress • Could further constrain growth. 	<ul style="list-style-type: none"> • Formulate and implement a credible strategy to tackle energy inefficiencies. • Strengthen monitoring and oversight of SOEs.
<p>Financial stability problems arising from increasing non-performing loans and uncertainty on the health of the banking sector.</p>	Medium The Asset Quality Review found significant under-provisioning.	Medium <ul style="list-style-type: none"> • Could further limit lending to the private sector, reducing investment and growth. • Could create contingent liabilities for the government, adding to the risk of debt distress. 	<ul style="list-style-type: none"> • Fully implement and monitor remedial actions for distressed banks in accordance with the BOG's Financial Sector Roadmap.

¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

ARTICLE IV POLICY DISCUSSIONS: ANCHORING MACROECONOMIC STABILITY

14. Addressing Ghana’s long-standing challenges calls for an ambitious adjustment and reform agenda. Ghana’s objective of an irreversible path to growth and prosperity hinges on locking in macroeconomic stability, which cannot happen without reversing the fiscal deterioration that occurred in 2016. A comprehensive policy package—based on upfront fiscal adjustment but encompassing reforms across all policy areas—is needed to secure lasting progress. As fiscal discipline becomes entrenched, refinancing risks are reduced and fiscal buffers are rebuilt, the policy mix would be rebalanced away from tight monetary policy, with a reduction in real interest rates in turn spurring investment and growth.

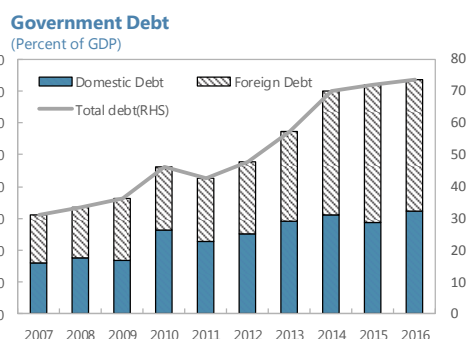
A. Adopting a Credible Fiscal Strategy

Ghana’s poor fiscal performance has led to an increasing debt burden. Reversing the debt dynamics requires credible and sustained fiscal consolidation, underpinned by strong structural fiscal reforms.

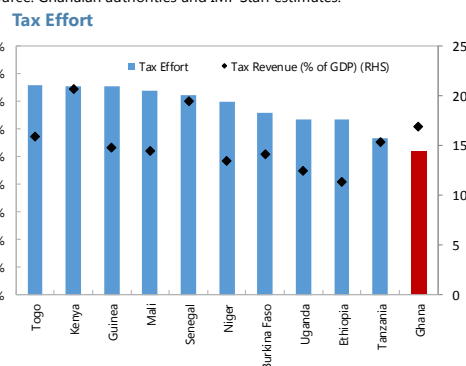
15. Ghana’s debt has increased significantly over the last decade. It has grown from roughly 30 percent of GDP at end-2006, when Ghana benefitted from large debt reduction under the Multilateral Debt Relief Initiative (MDRI), to 73.4 percent of GDP at end-2016. Large and persistent fiscal slippages, especially though not exclusively in election years, have been the key driver of debt growth (Box 1).

16. Several structural weaknesses and rigidities have undermined fiscal discipline.

- On the revenue side, Ghana’s revenue to GDP ratio compares favorably to regional peers, but its tax effort⁷ less so. This reflects weaknesses in tax policy (widespread exemptions) and revenue administration (tax evasion). Revenue projections have also tended to be over-optimistic, affecting the credibility and feasibility of budget targets.
- On the spending side, lax commitment controls have led to frequent and large spending overruns or arrears accumulation. Non-discretionary spending on wages and interest payments and earmarked transfers to statutory funds—jointly



Source: Ghanaian authorities and IMF Staff estimates.



Source: Ricardo Fenochietto, Carola Pessino (2013).

⁷ Defined as the ratio between actual revenue and tax capacity (the maximum revenue a country can ideally achieve).

representing over 110 percent of revenue in 2016—have severely limited fiscal space, often leading the government to improvise unsustainable (and unenforceable) expenditure cuts.

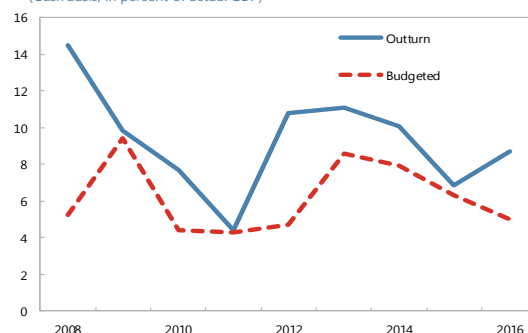
- In addition, increasing use of off-budget activities (through revenue earmarking) have complicated overall budget management.⁸ Proliferation of quasi-fiscal operations of SOEs have added to the drain on public finances. As these operations remain outside fiscal accounts, they hamper a comprehensive assessment of fiscal policies.

Box 1. Ghana's Fiscal Indiscipline and Debt Dynamics

In the past, Ghana has experienced frequent fiscal slippages. In the last three elections (2008, 2012, and 2016) the deficit was on average 6.4 percent of GDP higher than originally budgeted; but even in non-election years, deficits have been larger than budgeted, on average by 1.5 percent of GDP.

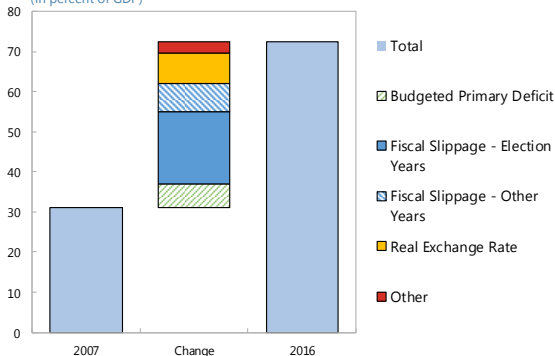
- Slippages in both revenue and expenditure, mostly in election years, have been the single largest driver of government debt (25 percentage points out of the 41 percentage points increase in the debt to GDP ratio over the last decade), with a larger contribution from revenue shortfalls in the last three years—suggesting a proclivity toward optimistic revenue projections.
- Exchange rate depreciation has been the second most important factor, especially in 2014 when the exchange rate depreciated rapidly (by 45 percent in nominal terms, from GHc 2.2 to GHc 3.2 per \$1), contributing to almost 8 percentage points increase in the debt-to-GDP ratio in that year.

Overall Fiscal Deficit
(Cash basis, in percent of actual GDP)



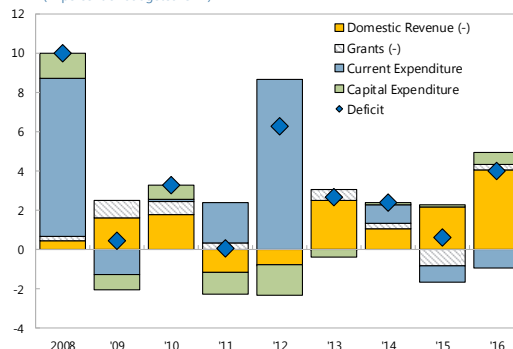
Source: Ghanaian Ministry of Finance.

Government Debt
(in percent of GDP)



Source: Ghanaian authorities and Fund staff estimates.

Deviation between Actual and Budgeted Deficit
(in percent of budgeted GDP)



Sources: Ghanaian Ministry of Finance.

⁸ Before the new legislation capping transfers to statutory funds (see Box 4), the level of pre-determined expenditure through earmarking accounted for about 30 percent of revenues and 20 percent of expenditure.

17. A frontloaded fiscal adjustment strategy can put public debt firmly on a declining path. According to staff's projections, a primary adjustment of 4½ percent of GDP over 2017-18 will be needed to lock in a favorable debt dynamics—at a time when growth would receive a boost from increased oil and gas production. The strategy for 2017 targets a frontloaded primary adjustment of 2½ percent of GDP based on expenditure containment, improved tax compliance, and mobilization of non-tax revenues (see Box 4) but is subject to implementation risk. A further adjustment of 2 percent of GDP will bring the primary surplus to 2.2 percent of GDP in 2018 (see Program Issues). After 2018 fiscal policy should aim to gradually build policy buffers while striking a balance between growth and adjustment. As interest payments come down, the primary surplus would gradually decline to 1½ percent of GDP—still above the debt stabilizing level and thus keeping debt on a downward trajectory—allowing for needed increases in infrastructure spending.

- *Strong and sustained fiscal adjustment is needed to achieve the medium-term fiscal objectives. In the short term, the authorities need to stand ready to implement contingency measures to preserve the fiscal targets if revenues fall below projections or spending pressures emerge. A steady focus on the primacy of the debt reduction objective will anchor fiscal policy over the medium term.*

18. Wide-ranging fiscal reforms are critical to sustain fiscal adjustment in the medium term. Public financial management (PFM) reforms to further improve budget execution and reduce budgetary rigidities would help bolster overall budget management. Going beyond the immediate focus on central government operations to encompass extra-budgetary funds and increase focus on SOEs (see Program Issues) would help strengthen transparency and accountability, while limiting fiscal risks. A revenue mobilization strategy that targets improving tax compliance (see Program Issues) along with addressing untargeted tax expenditures, can have a lasting impact and increase fiscal space. The reform agenda is appropriately ambitious and under way. In staff's views, ongoing reforms should be completed before launching new initiatives (such as the planned Fiscal Council) to keep the momentum and not spread limited resources too thin.

19. Ongoing and planned improvements in debt management are welcome, but they are neither quick wins nor a substitute to fiscal adjustment. Mindful of Ghana's heavy reliance on short-term T-bill issuance, the authorities are making efforts to lengthen domestic debt's maturity and maintain adequate cash buffers to reduce refinancing risks. But given the recent steepening of the yield curve, trade-offs have emerged between increasing tenor and reducing debt service costs.

- *Ongoing efforts to improve debt management and deepen the domestic debt market should be supported by improved cash management to better align primary market operations with cash flow needs. Careful planning to mitigate external refinancing risks is also needed. At the same time, the authorities' increasing focus on liability management operations should not detract from achieving fiscal adjustment (see Program Issues).*

Authorities' views

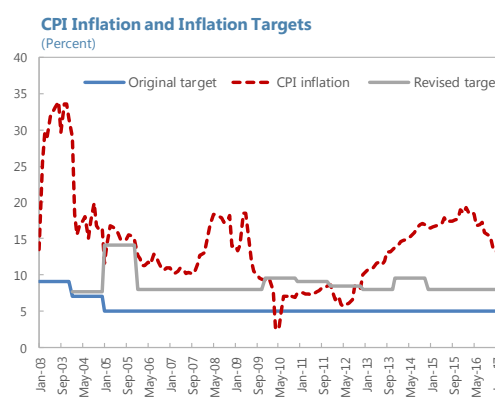
20. The authorities agreed with staff on the need for sustained fiscal consolidation backed by wide-ranging structural reforms. They stressed that the new Economic Management Team was

willing to take difficult decisions to address the challenges facing the economy, as demonstrated by the swift adoption of a law to tackle the politically difficult area of revenue earmarking for statutory funds. In their view, their commitment to increase accountability and transparency will be supported by the establishment of a Fiscal Council, a tangible sign of reform. They were more optimistic than staff on the ability of the GRA to meet the ambitious revenue targets set in the budget. Given the intensified efforts to build cash buffers to mitigate rollover risk, they underlined the importance of monitoring net debt positions going forward (see DSA).

B. Strengthening Monetary and Exchange Rate Policies

The performance and credibility of the inflation targeting framework needs to be strengthened further.

21. Ghana's inflation targeting (IT) framework has had a mixed performance, in part reflecting fiscal dominance.⁹ Inflation has frequently exceeded the BoG's target, even when the latter was revised upward. While negative commodity price shocks have played a role, fiscal overruns have been the main cause of persistent demand-driven inflation—in turn accommodated by the BoG's partial financing of government deficits (Box 2). However, last year Parliament failed to support several amendments to the BoG Act to eliminate government access to BoG financing and enhance central bank governance and autonomy. And FX intervention continues to undermine monetary transmission. Finally, the MPC's recent press statements point to considerable attention to growth in recent policy decisions, possibly creating the perception of a lack of commitment to the primacy of the price stability objective.



Source: Ghanaian authorities and IMF Staff estimates.

- *Amendments to the BoG Act should be pursued, as they represent a robust way to eliminate fiscal dominance and insulate the BoG from possible political pressures to fund the government.*
- *As the central bank backstop is fully removed, securing adequate cash buffers and an emergency standing credit facility from a commercial bank would help minimize government financing risk stemming from unanticipated shortfalls in revenue or auction undersubscriptions.*

⁹ The 2002 BoG Act established price stability as one of the core mandates of the central bank and an inflation objective was set at 5 percent within 3 years. Inflation targeting was then adopted formally in 2007.

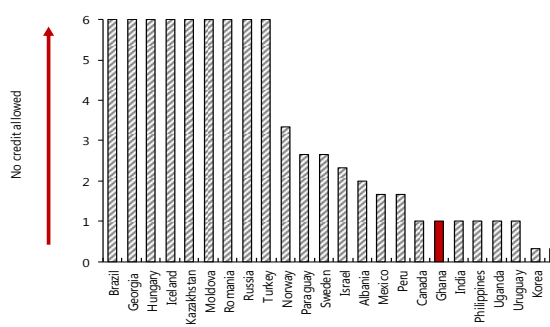
Box 2. Fiscal Dominance and Inflation Targeting

Despite some recent improvements to Ghana's IT framework, fiscal dominance may still undermine its effectiveness. Since 2015, reforms to the policy formulation process, monetary operations and the FX market have helped to strengthen the transmission mechanism of monetary policy. But fiscal dominance remains institutionally embedded: the BoG Board still has government representation and the BoG Act allows lending to the government up to 5 percent of previous year's revenue (10 percent prior to the 2016 amendments), with the terms (interest rate and maturity) subject to negotiation between the BoG and the Ministry of Finance.

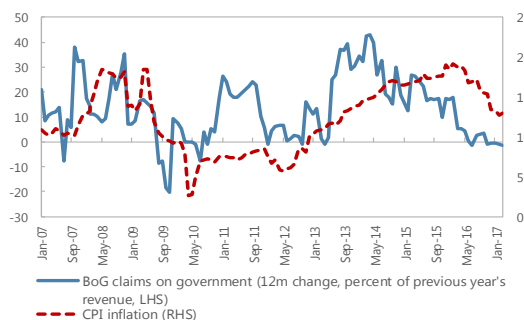
Compared with other inflation targeters, Ghana has relatively lax legal limits on central bank lending to government.¹ And in practice too, BoG lending to the government has averaged around 15 percent of revenue since the adoption of IT, with spikes in times of funding pressures, when the government could not fully finance its overruns in the market. Such lending increased particularly sharply in 2013, peaking at almost 40 percent of revenue by May 2014 and accounted for over 40 percent of the 2014 cash deficit.

Cross-country evidence suggests that higher levels of central bank lending to government are associated with higher inflation. Among low and middle income countries, inflation tends to be more elevated the higher the level of central bank claims on the government.² In Ghana, the increase in deficit financing coincided with a sharp rise in inflation, from 8 percent at end-2012 to 17 percent by end-2014, as well as a generalized deterioration in macroeconomic stability. While there is currently a memorandum of understanding between the MoF and BoG prohibiting central bank financing of the government, embedding this principle in law remains the most effective way to improve the IT framework's credibility in a lasting way.

Index of restrictions on central bank lending to government



BoG lending to government and Inflation (Percent)



Source: Ghanaian authorities and IMF Staff estimates.

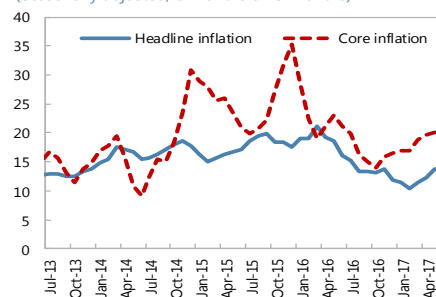
¹ Based on Cukierman, Webb, Neyapti, 1992, "Measuring the Independence of Central Banks and Its Effect on Policy Outcomes," The World Bank Economic Review 6, pp. 353–398.

² The relationship is confirmed by a cross-country regression which also controls for other determinants of inflation and country specific differences.

22. Inflation has been declining but risks lie to the upside. The monetary policy stance tightened over 2016, as real rates increased significantly; and despite the recent reductions in the MPR, they still remain elevated. Staff's baseline projection suggests that this past tightening, together with the expected fiscal consolidation, should lead inflation to fall within the target band in early 2018 while allowing for a further gradual reduction in real rates over 2017. At the same time, an increase in core inflation over the first half of the year may indicate some short-term inflationary

Headline and Core Inflation

(Seasonally adjusted, 3 months on 3 months)



Source: Ghanaian authorities and IMF Staff estimates.

pressures, possibly reflecting the end-2016 fiscal slippage and pass-through from the associated cedi depreciation. Additional risks might stem from further fiscal slippages and higher credit risk premia (see RAM). For example, in a scenario with a 2 percent of GDP larger deficit and higher credit risk premia by 200 basis points for two quarters, inflation would fall to target only in mid-2018, despite a higher MPR path of some 3 percentage points.

- *The BoG should remain vigilant and exercise caution in its easing cycle, avoiding abrupt changes in the MPR going forward.*

23. A coherent and transparent foreign exchange (FX) policy is an important pillar of a credible IT framework. The BoG's net FX sales to banks have contributed to low reserve coverage. In such an environment, the exchange rate should be allowed to adjust in line with fundamentals while FX interventions should be fully consistent with BoG's IT regime. At the same time, the BoG should continue its efforts to develop and deepen the FX market, building on progress achieved last year. Surrender requirements for gold and cocoa export proceeds were eliminated and FX auctions were introduced to intermediate the FX from the cocoa pre-payment loan to the market in a transparent and market-determined way (though shortcomings in auction implementation undermined their effectiveness and led the BoG to discontinue them in March). Staff supports the further elimination of the remaining capital flow management measures (CFMs) as balance of payments pressures recede.¹⁰

- *The BOG should strengthen its FX policy by limiting its interventions to address disorderly market conditions and not supporting directly the value of the cedi. Reviving efforts to develop and deepen the FX market will help reduce volatility and bolster the credibility of the IT framework.*

24. Financial sector problems have hampered the transmission of monetary policy and created risks to the BOG's balance sheet. Banks' weaknesses have contributed to a decline in credit to the private sector and higher lending spreads, complicating the MPR transmission to market rates. In addition, the BoG has extended a significant amount of emergency liquidity assistance (ELA) to several banks, some of which is uncollateralized, posing risks to its balance sheet. This official liquidity injection, together with banks' reluctance to extend new credit, has led to a large build-up of bank liquidity, which the BoG has had to absorb (the net outstanding stock of BoG's liquidity absorptions stood at around GHc 4.5 billion, or over 2 percent of GDP, in May 2017).

- *The BOG should reduce structural excess liquidity in the financial system, while reducing risks to its balance sheet stemming from ELA operations. It should ensure that all ELA exposures are properly collateralized, with prompt supervisory response in cases of non-compliance by banks.*

¹⁰ The authorities introduced three CFMs in response to increasing external vulnerabilities in early 2014. They have since rolled back or eased them in line with the Fund's institutional view on capital flows, with one CFM (conversion requirement of bank withdrawals) still in place.

Authorities' views

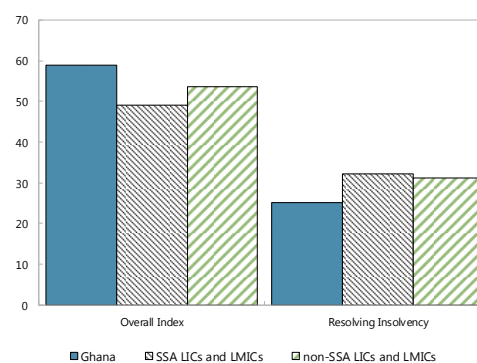
25. The authorities broadly shared the outlook for inflation and the monetary policy stance, though with more balanced risks. They agreed that eliminating fiscal dominance will enhance the effectiveness of the IT framework—as shown by their adherence to the zero-financing ceiling in 2016; however, further amendments to the BoG Act would not be feasible at this juncture. They considered the auction mechanism to be ill-suited for FX intermediation but acknowledged the need to improve FX management, for which they requested technical assistance. Finally, they expressed concern about outstanding ELA exposures and emphasized their commitment to enforcing the relevant guidelines through the identification of additional collateral and a gradual reduction (in part incentivized via penalty rates) of all outstanding facilities.

C. Securing Stronger Growth

Structural reforms—especially in the financial and energy sector—are crucial to reignite and sustain growth. A lasting expansion of the non-oil economy will help absorb the growing labor force.

26. Ghana generally enjoys a favorable business environment in comparison to its peers, although longstanding challenges continue to constrain private sector activity. Ghana outperforms SSA and non-SSA LICs and LMICs in the latest World Bank Doing Business survey. But business surveys consistently identify lack of access to affordable credit, inadequate power supply and high cost of utilities topping the list of key constraints to growth. Thus, the financial and energy sectors stand out for their key role in enabling stronger growth.

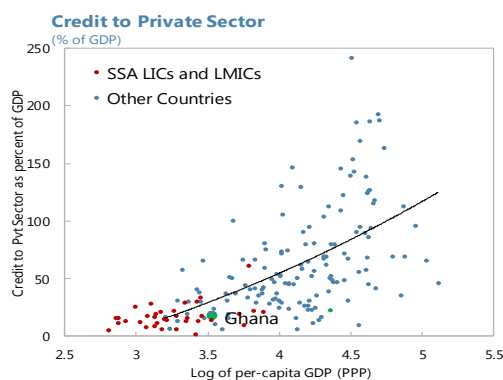
World Bank Doing Business Survey: Distance to Frontier



Source: World Bank Doing Business.

Building a healthier financial sector

27. Financial depth and inclusion remain limited. Credit to the private sector as a percent of GDP is well below what one would expect for a country with Ghana's level of income, reflecting low depth in the financial market and crowding out by the public sector's borrowing. While access to affordable credit is a long-standing problem, financing constraints deepened in 2016, with negative real growth in private sector credit and sharply increased spreads between lending and deposit rates (from already high levels).



Source: WDI and IMF Staff estimates.

28. Greater financial intermediation hinges on a stronger financial sector. While aggregate financial soundness indicators remain adequate, banks' capital adequacy and NPL ratios reflect

significant heterogeneity. The 2016 Asset Quality Review (AQR), completed in March 2017, highlighted substantial provisioning shortfalls in a subset of banks (with capital needs of around 1.6 percent of GDP). Robust implementation of the Financial Sector Roadmap, including recapitalization of undercapitalized banks and timely resolution of insolvent institutions without prospects of private sector rehabilitation, remains imperative to ensure the soundness of the Ghanaian financial sector and safeguard the interests of depositors.¹¹ Deficiencies in AML/CFT were also highlighted in the 2017 Mutual Evaluation Report.¹²

- *The immediate and urgent priority is to bolster financial stability through full implementation of the BoG's Financial Sector Roadmap. In the medium term, key priorities should be strengthening the supervisory and regulatory framework of the banking system through introduction of risk-based supervision with the implementation of the Basel framework. Steps should also be taken to strengthen the AML/CFT framework.*

29. Rehabilitation of microfinance institutions (MFIs) will support financial inclusion.

Although MFIs only account for a small portion of the Ghanaian financial sector, their number has grown significantly over time (to 573 in December 2016) leading the BoG to temporarily cease granting new licenses in June 2017. However, many MFIs are not compliant with minimum paid-up capital and there are indications that some MFIs are operating outside the scope of BoG supervision.

- *Stronger oversight and more rigorous enforcement of existing regulations and resolution of non-compliant institutions are key priorities to ensure that MFIs contribute to inclusive growth.*

Tackling inefficiencies in the energy sector

30. Power shortages have been a recurring problem in Ghana over the past few decades, taking a heavy toll on growth. In recent years demand far outpaced added new capacity, with electricity-intensive sectors like manufacturing and mining being particularly affected.

31. The financial viability of the energy sector remains a key issue. Some positive steps were taken in the past, including electricity tariff adjustments and introduction of the Energy Sector Levy Act (ESLA).¹³ But continued inefficiencies and poor collections have taken a heavy toll on energy companies' balance sheets, standing in the way of investment and capacity expansion, and creating contingent liabilities for the government, as underlined by a recent audit of SOE financial operations (Box 3 and below). The government is currently considering issuing an energy bond (GHc 10 billion,

¹¹ See [IMF Country Report No. 16/321](#).

¹² Deficiencies relate to the effectiveness of risk-based AML/CFT supervision, implementation of preventive measures, in particular for designated non-financial businesses and professions, and reporting of suspicious transactions to the financial intelligence unit.

¹³ The ESLA was enacted in 2016 to, among others, address the legacy debt of the oil refinery and support the payment of power utility debts. These levies serve as collateral and funding for debt restructuring with banks.

or about 5 percent of GDP) backed by ESLA revenues to address legacy liabilities and strengthen the sector's financial position.¹⁴

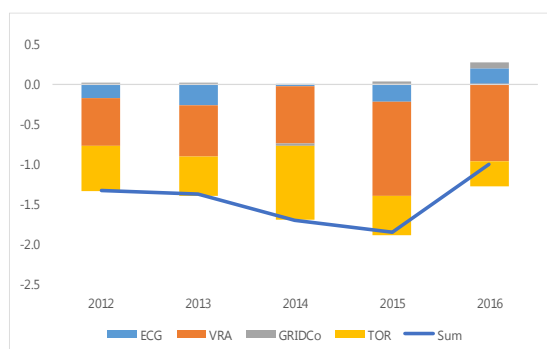
- A holistic strategy is urgently needed to ensure the energy sector's financial viability (see Program Issues). A well-designed energy bond could be part of such strategy, but resolving legacy debt problems will not prevent a further build-up of new liabilities without restoring SOEs' profitability.

Box 3. The Precarious Finances of the Energy Sector SOEs

The SOEs in the energy sector continue to face significant challenges. A recently completed audit conducted by Ernst and Young (EY) (MEFP ¶42), estimated the sector's debt at 13 percent of GDP at end-June 2016 (over 50 percent SOEs' debt to banks, 30 percent arrears to suppliers, and 17 percent inter-sectoral debt). Poor quality of financial data and missing data undermined debt validation. Key highlights include:

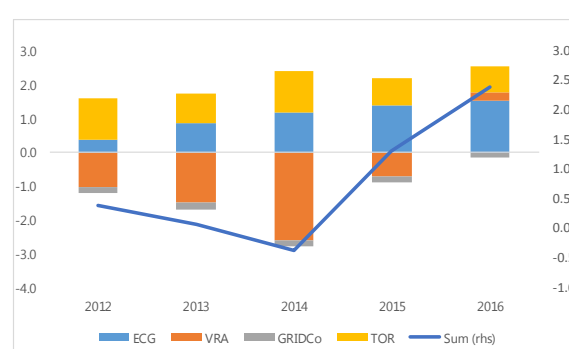
- The overall net income position has marginally improved (left figure), reflecting the tariff increase at end-2015 and the restructuring of Volta River Authority (VRA) and Tema Oil Refinery (TOR) debt via the introduction of the ESLA. However, it still amounted to -1 percent of GDP in 2016.
- The VRA and the Electricity Company of Ghana (ECG) face viability issues. For the VRA, an estimated 32 percent upward tariff revision would be needed to break even. For the ECG, while the end-2015 tariff increase has helped (as shown by the profit posted in 2016), its receivables have continued to accumulate. The inability to collect billed amounts and the subsequent accumulation of payables has cascading effects across the whole utility value chain, especially on the VRA. Thus, the sector's net payables have increased again since 2014, to 2.3 percent of GDP at end-2016 (right figure).
- Other energy companies, including GRIDCO (the transmission company), Ghana Gas, and individual power producers depend on the VRA's financial viability.
- Stronger SOE financial oversight will improve their financial viability. EY is finalizing a financial reporting template to help monitor SOEs' financial situations. Additional measures are being considered, also supported by the World Bank and the Millennium Challenge Corporation (see Program Issues).

Net After Tax Profit (Percent of GDP)



Source: Companies' financial statements.

Net Payables (Percent of GDP)



Source: Companies' financial statements.

¹⁴ This bond will also cover previously restructured bank loans, thus releasing ESLA revenues.

Authorities' views

32. The authorities agreed with staff about the main factors constraining growth. Their aim is to make Ghana the most business-friendly country in Africa and they are taking steps to improve and enhance the business environment (MEFP ¶144-48). They are committed to restoring the financial stability of the banking system through full implementation of the Roadmap. The MOF in collaboration with the Ministry of Energy and Power is also working on a strategy to improve the performance of SOEs in the utility sector. In their view, issuing an energy bond could be a way to unlock cash for the sector and pave the way for its restructuring.

PROGRAM ISSUES

Given the significant slippages in 2016, achieving the program's overall stability objectives will need more time than originally envisaged, requiring an extension of the program by one year.

33. The program for 2017 is based on strong measures (including five prior actions, see below) to start correcting imbalances and kick-start reforms. But one year would not be sufficient to achieve the original program objectives. An extension of the program by one year is therefore needed to entrench adjustment and structural reforms. Reviews will be rephased over the extended program period with disbursements distributed evenly, including the disbursement for the fourth review. The fifth review will have a test date of end-August 2017.

A. Fiscal Policy

34. The new government intends to restore fiscal discipline and revamp fiscal reforms. The ECF program targets a deficit of 6.3 percent of GDP, consistent with the 2½ percent primary adjustment needed in 2017 (see ¶117). The frontloaded fiscal consolidation is expected to result in a decline in the debt to GDP ratio from 73.4 percent in 2016 to 70.5 percent this year.

35. The 2017 budget contains some promising elements (Box 4), but delivering the deficit target of 6.3 percent of GDP in 2017 requires additional measures.

Discretionary goods and services spending and domestically-financed capital outlays will be reduced by 0.8 percent of GDP relative to the budget. Following the mid-year budget review presented to Parliament on July 31, expenditure envelopes were resized and lower allotments were recorded in the GIFMIS to align commitments to the revised expenditure ceilings (prior action, MEFP ¶119). Large part of the savings will come from multi-year projects budgeted in 2017 but

Comparison of Budget and Program (percent of GDP)

	Budget	Prog.	Prog.	Prog.
	2017	2017 H1	2017	2018
Revenues ¹	19.8	8.4	18.9	18.6
Expenditure	26.6	11.0	25.2	22.4
Compensation of employees	7.9	3.9	7.9	7.8
Interest	6.9	3.1	6.5	5.9
Transfers	4.6	1.9	4.4	4.3
Goods and services	1.7	0.5	1.3	1.2
Capital expenditure	3.6	1.4	3.2	3.3
Other expenses ²	1.8	0.3	1.8	0.0
Overall Balance	-6.8	-2.6	-6.3	-3.8

¹ Revenues are net of GRA retentions and tax refunds, and include net IGFs channeled through the budget.

² Includes repayment of arrears and unpaid commitments.

with longer implementation. Social spending will be protected, increasing by 48 percent relative to 2016. Tax revenues were cumulatively about 0.2 percent of GDP below target through April 2017. The government has committed to take contingency measures if underperformance continues (MEFP 120). The further adjustment of 2 percent of GDP in 2018 will be achieved through keeping expenditure contained, lower interest and arrears payments, and higher oil revenues.

Box 4. Key Elements of the 2017 Budget

In the authorities' presentation, the 2017 budget targets a deficit of 6.5 percent of GDP.¹ Key measures include:

- *Reducing budget rigidities.* Recently passed legislation caps transfers to statutory funds to 25 percent of tax revenues, though allowing the MOF to top up priority funds. In the 2017 budget, the National Health Fund was topped up to protect social spending. The new law also allows the MoF to review the operations of the statutory funds and close those that have become obsolete. Expected impact: lower earmarking by 0.9 percent of GDP in 2017.
- *Rationalizing use of Internally Generated Funds (IGFs).* The budget also channels a larger portion of IGF revenues through the central government budget (structural benchmark under the 3rd Review). Expected impact: larger non-tax revenue by 0.6 percent of GDP.
- *Improving tax administration and compliance* (see also MEFP 129-32). The budget aims at curtailing tax exemptions (0.5 percent of GDP) and tightening compliance (0.3 percent of GDP).
- *Eliminating nuisance taxes.* Several taxes perceived to hinder private sector activity, were eliminated or reduced. Expected impact: lower revenue by 0.4 percent of GDP (largely from the abolition of VAT on financial services and reduction in the special petroleum duty).
- *Realigning priority spending.* Under the new Infrastructure for Poverty Eradication Project each of the country's 275 constituencies would be allocated \$1 million. Free secondary high school will start in October. Teachers and nurses training allowances were restored, and a National Identification Scheme and Venture Capital Fund are being launched. Expected impact: difficult to quantify as partly substitutes existing current and capital spending (gross cost of about GHc 2 billion, or 1 percent of GDP, if implemented in one year).

Policy Measures in 2017 Budget

(estimated yield in 2017)

	percent of GDP
Reduce transfer of earmarked revenue relative to baseline	0.9
Channel larger share of IGFs through budget	0.6
Provide tax relief to spur private sector growth including by:	
abolishing VAT on financial transactions	-0.1
reducing Special Petroleum Tax rate from 17.5 to 15 percent	-0.1
Reduce exemptions	0.5
Improve compliance with special tax audit and through data matching	0.3
Sale of Government shares in select listed companies	0.2
Divestiture of select thermal plants	0.9

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

¹ The 6.5 percent of GDP includes 0.2 percent of GDP in sales of shares (below-the-line operation in staff's presentation). In addition, if revenue projections reflected staff estimates, the deficit would be equal to 7.1 percent of GDP.

36. The program also envisages ambitious structural reforms to be implemented over the next year (MEFP Table 5). Key areas being targeted include:

- *Reducing budget rigidities* (MEFP ¶135). Following the passage of the Earmarked Funds Capping and Realignment Act in April 2017 (**prior action**), the authorities intend to continue streamlining earmarking. They will also start publishing the budgets of statutory funds, to bring more oversight and transparency (structural benchmark).
- *Streamlining tax incentives* (MEFP ¶129). The government plans to reform tax incentives, focusing on those that are largely redundant, inequitable, and prone to revenue leakages. Eliminating the source of these leakages—such as tax holidays and reduced income tax rates—will be critical, along with eventually replacing them with policy instruments targeting investment more directly.
- *Enhancing tax compliance* (MEFP ¶129-32). Compliance measures and reduced exemptions are projected to deliver close to 0.8 percent of GDP in additional revenues. The recent replacement of the top Ghana Revenue Authority (GRA) management is a sign of the government’s commitment in this area.¹⁵
- *Strengthening the Ministry of Finance* (MEFP ¶134). The MoF has embarked, with Fund’s technical assistance, on a review of its functions to adequately reflect changes brought by increased automation and the new PFM Act in its organizational structure; it will prepare regulations for the PFM Act, reflecting its reengineered business processes.
- *Enhancing fiscal transparency and expenditure controls* (MEFP ¶136-37). The government will further expand the coverage of GIFMIS; review the role of subvented agencies; and improve control and oversight of payroll across agencies. A swift implementation of the Treasury Single Account (TSA) will help strengthen cash and debt management. Broader coverage of GIFMIS and implementation of the TSA should also help improve the quality of fiscal data and the consistency between above- and below-the-line reporting.

37. The government is committed to clearing all arrears (MEFP ¶122). Additional arrears of GHc 1,048 million were accumulated in 2016, bringing the total arrears recognized under the program to GHc 3.2 billion, all of which will be cleared in 2017.¹⁶ In addition, the Auditor General has initiated an audit of unpaid claims incurred in 2016 (**prior action**), which will review whether proper processes were followed in authorizing these commitments. The audit results are expected to be finalized by October. To the extent that new arrears are confirmed, additional measures, potentially in the area of tax expenditures (see ¶118), will need to be identified to meet the 2018 fiscal targets. The audit is also expected to identify weaknesses in the PFM systems and the government intends to prosecute violations.

38. Problems in the SOE sector are being addressed (MEFP ¶41-42). The financial viability analysis of energy SOEs (Box 3) (prior action) is only an initial step. The publication of the first

¹⁵ Forthcoming recommendations from the Fund’s Tax Administration Diagnostic Assessment Tool (TADAT) will also help strengthen revenue collections.

¹⁶ Of the total unpaid claims from 2016 worth GHc 5 billion (¶16), only those approved in the GIFMIS (GHc 1.6 billion) and not repaid in Q1 2017 are recognized as arrears under the program, as per the Technical Memorandum of Understanding. The validity of the remaining GHc 3.4 billion is uncertain as it bypassed the GIFMIS.

aggregate report on SOEs performance is a signal of the government's intention to strengthen its oversight of SOEs. The government also agreed to include an indicative target on the overall balance and gross payables of the two main SOEs, ECG and VRA, to enhance transparency on their operational performance, and start improving their cash position. To this end, the government will re-institute a clearinghouse system to settle cross-arrears between and across the government and SOEs to ensure timely payments, which will improve SOEs' liquidity (structural benchmark).

39. Gross financing needs in 2017 will exceed 20 percent of GDP and largely be covered through domestic market financing, with no planned Eurobond. Net financing needs will be met through medium-term securities, while the stock of T-bills will be reduced from over 10 percent of GDP to around 6 percent of GDP, in line with the authorities' strategy to lengthen debt maturities. Adequate cash buffers will be kept to exchange bonds maturing in 2018 for new 3- and 5-year benchmark bonds. The authorities bought back part of the Eurobond maturing in 2017 using the proceeds raised through the new Eurobond issued in September 2016, reducing the roll-over risk on external debt for 2017.

Fiscal Financing Needs (in percent of annual GDP, unless otherwise indicated)			
	2016	2017	2018
	Est.	Proj.	Proj.
Gross financing needs	20.3	20.7	12.1
Domestic primary balance ¹ (-)	-1.3	-1.5	-3.9
Interest payments	6.9	6.5	5.9
Amortization	14.7	15.7	10.1
External	2.8	2.7	1.8
Domestic (T-bills)	9.5	8.1	4.7
Domestic (1 year and over)	2.5	5.0	3.6
Financing	20.3	20.7	12.1
Program grants and loans	0.1	1.0	0.4
Grants	0.1	0.0	0.0
Loans	0.0	1.0	0.4
External commercial borrowing (Eurobond)	1.8	0.0	0.0
Domestic debt	17.8	19.3	11.9
Short term	9.8	5.6	4.3
1 year and over	8.1	13.7	7.6
Non-marketable	0.0	0.0	0.0
Use / net sale of financial assets	-2.1	0.4	-0.2
Other ²	2.7	0.0	0.0
Memorandum items:			
Government bank deposits (stock)	5.5	5.3	4.4
Bank of Ghana	2.7	3.0	2.5
Commercial Banks	2.8	2.3	1.9
Government marketable securities (stock)	23.3	25.8	25.2
Short term	10.5	5.9	4.6
1 year and over	12.8	19.8	20.7
of which: held by non-residents	6.9	11.0	11.4
in USD million	2,760	4,745	5,384

Sources: Ghanaian authorities and IMF staff estimates and projections.

¹ Primary balance (measured from financing), excluding grants and foreign-financed capital expenditure.

² 2016 reflects securitization of 2.7 percent of GDP of negative balances.

B. Monetary Policy

40. The authorities are committed to no central bank financing of government under the program (MEFP ¶24). Zero financing is also guaranteed by a memorandum of understanding between the MoF and the BoG. But as fiscal dominance remains a key medium-term risk to inflation, further amendments to the BoG Act should be passed to anchor the IT framework's credibility (structural benchmark for September 2017, as established at the time of the Third Review) and bolster the BOG independence.¹⁷ The new government is of the view that such amendments would not now receive parliamentary support and discussions will continue in the context of the next review.

41. Performance on inflation will continue to be monitored under the program through a monetary policy consultation clause (MPCC).

¹⁷ As also noted by the IMF's safeguards assessment, other amendments to the Act are also needed to enhance the BoG's autonomy to (i) prohibit issuance of guarantees; (ii) ensure government recapitalizes the BoG in case of loss; (iii) cease membership of public servants with voting rights on the Board; and (iv) prohibit ownership of shares in non-core financial institutions.

C. Financial System

42. The revised program targets further steps to strengthen the banking sector. The BoG is in the process of implementing remedial actions in response to the AQR, in accordance with the legal framework. Banks found to be undercapitalized have provided the BoG with timebound recapitalization plans to restore capital adequacy to minimum levels (MEFP ¶26-27). While some have already managed to improve their financial position, including via loan recoveries and the issuance of new capital instruments, others continue to face sizable recapitalization needs. In accordance with the legal framework, insolvent banks unable to demonstrate credible recapitalization measures will need to be resolved (**prior action**). Continued vigilance remains necessary as the implementation of corrective actions progresses.

43. The BoG is committed to clean up banks' balance sheets and reduce the utilization of ELA (MEFP ¶26). The stronger focus on banks' collection efforts, combined with more timely write-offs, will help reduce the outstanding volume of distressed debt on banks' balance sheets and thus unlock the bank lending channel. To prevent entrenchment of exceptional liquidity support, the BOG will seek to strictly enforce banks' ELA repayment plans—prepared in accordance with the BoG's new guidelines for temporary liquidity support. In particular, the BoG will direct its supervisory toolkit to banks that have not been able to mobilize acceptable collateral, and utilize its formal powers (which include restrictions on loan growth) to encourage accelerated repayment timeframes.

44. A comprehensive action plan will help restructure the microfinance sector. The plan (MEFP ¶28, structural benchmark for December 2017) will provide for stronger supervision and regulation of the sector, including the introduction of higher capital and liquidity requirement and more stringent standards pertaining to governance and risk management. The protection of small depositors will be a key objective of the action plan.

45. Steps will be taken to operationalize the framework for crisis management and bank resolution. The new Banks and SDI Act has provided the BoG with enhanced powers to deal with weak institutions. But further amendments, to be prepared in consultation with Fund staff, will be necessary to address residual weaknesses (MEFP ¶27, structural benchmark for October 2017). An action plan to implement the new Deposit Protection Act is also a key deliverable; however, the scheme must not enter into force before financial sector vulnerabilities have been addressed, institutional capacity has been established and initial funding has been mobilized. Legal amendments to the Deposit Protection Act, aimed to strengthen the legal underpinnings of the scheme, are expected to be submitted to Parliament by December 2017 (structural benchmark).

D. Program Modalities and Financing Assurances

46. Three periodic end-June 2016 PCs were missed, and the continuous PC on non-accumulation of domestic arrears was breached in 2017 Q1 (see MEFP ¶12 and Table 1). Given the redesigned program, including the extension, and actions taken to correct the slippages, staff support the government's request for waivers for nonobservance of these PCs. Most structural

benchmarks set at the time of the third review were also missed, though some of these have been implemented with delay (see MEFP ¶13 and Table 3).

47. It is proposed that the conditionality under the ECF arrangement be reset and disbursements rephased. Most of the quantitative performance criteria (PCs) and indicative targets (ITs) for the remainder of the year will remain unchanged, as well as the bands for the MPCC. In addition, a new IT will be introduced on the performance of two SOEs (December 2017) to address the vulnerabilities of the energy sector. Going forward, the non-accumulation of domestic arrears PC would be modified to a periodic PC given difficulty in monitoring it on a continuous basis. New structural benchmarks (SBs) would be set for the period through June 2018, covering PFM and other fiscal reforms, including increasing oversight over SOEs, and financial sector reforms (MEFP, Table 5).

48. The non-concessional debt limits for 2017 have been adjusted (MEFP ¶139). Debt limits for debt management purposes will be set to zero as no Eurobond issuance is planned. On the other hand, the debt limits for key projects will be raised by around US\$500 million relative to the end-June IT established under the Third Review, in response to the authorities' aspiration to accelerate Ghana's economic growth and promote poverty reduction. The key project list remains unchanged except for three new World Bank's project loans; the list will be revised in the context of the fifth review, reflecting the government's development projects currently under preparation. Further, a separate limit for the oil company (GNPC) will be re-established to accommodate its delayed US\$350 million loan. The indicative target for concessional external loans will be set at US\$700 million, covering World Bank's loans including budget support of US\$200 million.¹⁸

49. The program is fully financed and Ghana's capacity to repay the Fund is adequate (see Tables 6 and 11).

- Although Ghana still faces significant financing needs, its external position has been gradually improving reflecting the current account adjustment and robust nonresidents' appetite for Ghanaian debt. Both multilateral and bilateral donors reaffirmed their financial support—with firm commitments for the next 12 months—as the new government assured its commitments to restoring macroeconomic stability under a Fund-supported program. In this context, the Fund's disbursements would contribute to closing the remaining external financing gaps over the program period while bringing international reserves up to comfortable levels, with the remaining access under the ECF arrangement rephased evenly over the remaining five reviews.
- Staff supports the authorities' request to make the use of Fund's disbursements associated with the fourth and fifth reviews for budget support with a view to support BOP needs and minimize the cost of budget financing. The disbursements will be made directly to the government consistent with BoG's zero financing to the latter. A Memorandum of Understanding has been signed between the government of Ghana and Bank of Ghana to safeguard Fund's resources.

¹⁸ Starting in July 2017, the World Bank is supposed to provide credits to Ghana on concessional terms under the new 3-year financing program (IDA18).

- Capacity to repay the Fund is adequate, with maximum outstanding liabilities to the Fund at 2.3 percent of GDP and 5.3 percent of exports. Ongoing external and domestic adjustment would also bolster Ghana's capacity to repay, along with stronger official and private external financing.

STAFF APPRAISAL

Se wo were fi na wosankofa a yenkyi
It is not wrong to go back to what you have forgotten



50. Ghana understandably looks at its future with great confidence and hope, though lessons from the past should not be forgotten. Despite significant gains in growth and poverty reduction, the country continues to struggle with maintaining macroeconomic stability. Repeated episodes of large fiscal slippages in the past have transmitted significant volatility to the economy, contributing to sizable depreciation, high inflation, and widening domestic and external imbalances, including an increasing public debt burden. Various attempts by earlier governments to correct imbalances have been short-lived, as good intentions have floundered against the challenge of budget rigidities, economic inefficiencies, and vested interests; and performance under the ECF program has been disappointing. In rightly setting its aims high, the government should not forget past lessons and properly sequence the implementation of its election promises, especially as it inherited a weakened economy; and clearly and consistently communicate its policies to anchor expectations and lay the seeds of their lasting success.

51. The new government has taken some initial steps and the economy is showing signs of recovery, though risks remain tilted to the downside. Growth is projected to increase in 2017, on the back of a significant increase in oil production; investors have shown strong appetite for Ghana's debt; inflation has been declining and projected to fall to the upper band of the inflation target by year-end; the exchange rate has stabilized after a period of volatility during in the first quarter; and the BoG is set to add \$800 million to its net reserves in 2017, the largest increase since 2011. Despite the recent improvement in the external position, Ghana still faces large financing needs and external imbalances due in large part to past fiscal slippages. The external position remains vulnerable, and Ghana's limited buffers could be severely tested in case of adverse market reactions (for example, if policy implementation fell short of commitments) and deteriorating macroeconomic conditions.

52. In this encouraging yet fragile environment, credible and sustained fiscal adjustment to reverse the debt dynamics and reduce financing needs is critical. The government has started capping revenue earmarking—a key source of budget rigidities—and limiting exemption abuses. The submission to Parliament of a mid-year budget review with revised spending limits signals the government's commitment to achieve the deficit target of 6.3 percent of GDP agreed under the program. New spending programs—such as free secondary education and the one million per constituency initiative—should also be carefully phased in, not only to ease spending pressures but also to ensure best value for money and proper targeting. Well-planned and sequenced implementation is the only way to make these programs sustainable over time. Still, the government needs to stand ready to adopt contingency measures, such as further spending rationalization or phased implementation of budgeted tax cuts, if needed to safeguard the targeted budget deficit.

53. Fiscal structural reforms need to underpin adjustment and help create fiscal space. The 2016 fiscal slippage has raised serious concerns about the authorities' ability to rein in spending, despite continued PFM reforms. Building on the findings of the ongoing audit of unpaid expenditure claims, the authorities are strongly encouraged to take corrective actions. It will be critical to modernize the MOF functions, including by fully implementing the PFM Act, pursuing stronger cash management and monitoring fiscal risk. Stronger revenue administration will be needed to help combat abuses and corruption and create fiscal space for investment and social programs. Improvements will have more lasting impact on revenue mobilization once accompanied by policy changes aimed at reducing untargeted and regressive tax expenditures.

54. Increasing risks from the inefficient energy sector need to be tackled decisively. A financial audit of the energy sector SOEs has confirmed continued losses from inefficient operations and collections, leading to a web of cross-arrears, cashflow shortages, and rising debts—with spillover effects on the financial system and growth. Ongoing debt restructuring efforts can help in disentangling liabilities, but are no substitute to improving SOE management. In staff view, any issuance of an energy sector bond should be preceded by the adoption of concrete measures to ensure the SOEs' financial viability, including stronger monitoring and oversight.

55. Improved debt management can help, but is no panacea. While efforts to reprofile domestic debt toward longer maturities are welcome, there is a limit to these operations' impact on debt dynamics; and they may be costly given the recent steepening of the yield curve. Ultimately, there is no substitute for plain-vanilla above-the-line fiscal adjustment to lower public debt in a sustainable way, despite the benefits of well-targeted below-the-line operations.

56. Monetary policy has a key role to play in steering the economy back to stability. The recent decline in inflation is encouraging but cannot be taken for granted, given still elevated inflation expectations and the risk of further exchange rate shocks. The BoG must remain steadfast in pursuing its core mandate of price stability, and the MPC needs to remain vigilant regarding upside risks to inflation and cautious in its easing cycle. At the same time, the IT framework needs to be strengthened further, through elimination of fiscal dominance and development of the FX market, to help entrench price stability, once achieved.

57. The BoG now faces a great opportunity to build a more robust financial sector, well-positioned to support growth and greater financial inclusion. As financial stability is key to promote sufficient and affordable credit to the economy, the prompt implementation of remedial actions in response to the AQR, including ongoing recapitalization of undercapitalized banks and resolution of banks that cannot be rehabilitated, is a key priority for the near term. Medium-term steps should be focused on strengthening the BoG's supervisory and regulatory framework—including through the adoption of additional amendments of the Banks and SDI Act, the implementation of the Basel II/III capital accord and steps to address deficiencies in the AML/CFT framework. Addressing the NPL overhang is another key priority for spurring sustainable growth.

58. While risks to program implementation remain, Ghana's reform efforts deserve support. Given the slippage in 2016 and the inevitable delays associated with the change in

government, achieving the ECF original program objectives now warrants an extension of the program by one year. The additional year will allow an ambitious yet feasible adjustment path to bring the budget deficit to 3.8 percent of GDP and the debt on a clearly declining trajectory. The Fund, in collaboration with the WB and other development partners, stands ready to help, also in the context of the recently launched Compact with Africa. Staff supports the completion of the fourth review, waivers for the non-observance of performance criteria, and the request for program extension by one year, with even rephrasing of the remaining access. Staff proposes that the next Article IV consultation take place in accordance with the Decision on Article IV Consultation Cycles (Decision No. 14747(10/96), as amended).

Table 1. Ghana: Selected Economic and Financial Indicators, 2014–22

	2014	2015	2016		2017		2018	2019	2020	2021	2022
			Prog.	Est.	Prog.	Proj.					
(Annual percentage change; unless otherwise indicated)											
National accounts and prices											
GDP at constant prices	4.0	3.8	3.3	3.5	7.4	5.9	8.9	5.9	5.1	5.2	5.4
Non-oil GDP	4.0	4.0	3.7	4.8	4.5	4.0	5.0	6.0	6.0	6.0	6.0
Oil and gas GDP	4.5	0.9	-2.4	-16.9	57.0	42.5	64.9	5.5	-3.1	-2.7	-1.7
Real GDP per capita	1.4	1.2	0.8	0.9	4.7	3.3	6.1	3.3	2.5	2.6	2.7
GDP deflator	16.7	16.4	15.3	18.1	10.1	14.2	9.6	9.1	7.4	6.3	6.3
Consumer price index (annual average)	15.5	17.2	17.1	17.5	10.0	11.8	9.0	7.0	6.0	6.0	6.0
Consumer price index (end of period)	17.0	17.7	13.5	15.4	8.0	10.0	8.0	6.0	6.0	6.0	6.0
Consumer price index (excl. food, end of period)	23.9	23.3	17.8	20.2	10.5	13.1	8.0	6.0	6.0	6.0	6.0
(Percent of GDP)											
Gross capital formation ¹	18.8	16.7	22.5	14.5	23.2	13.7	14.7	15.8	17.0	18.2	18.2
Government	5.7	5.2	3.1	4.9	2.9	3.2	3.3	3.5	3.7	3.8	3.9
Private	12.3	10.7	18.7	8.9	19.7	9.9	10.9	11.9	12.9	14.0	14.0
National savings	9.3	9.0	16.1	7.8	17.1	7.9	9.2	10.7	12.3	13.6	13.9
Government	-5.3	-0.2	-0.7	-4.0	0.9	-1.3	-0.5	0.2	0.6	0.9	1.1
Private ²	14.6	9.2	16.8	11.8	16.2	9.2	9.7	10.5	11.6	12.8	12.8
Foreign savings	-9.5	-7.7	-6.4	-6.7	-6.1	-5.8	-5.4	-5.0	-4.7	-4.5	-4.3
Central government budget (cash basis)											
Revenue	18.4	19.6	19.4	17.3	19.2	18.9	18.6	19.0	19.1	18.9	18.7
Expenditure	28.5	26.6	24.6	26.6	22.7	25.2	22.4	22.2	22.1	21.8	21.6
Overall balance ³	-10.1	-7.0	-5.2	-9.3	-3.5	-6.3	-3.8	-3.2	-3.1	-2.9	-2.8
Primary balance ³	0.0	-0.4	1.1	-2.4	2.2	0.2	2.2	2.2	2.0	1.8	1.6
Net domestic financing	7.8	1.8	3.7	8.6	2.3	6.2	3.6	3.2	2.7	2.3	1.9
Central government debt (gross)	70.2	72.2	67.7	73.4	63.6	70.5	66.1	62.8	60.1	57.6	55.1
Domestic debt	31.0	28.5	27.9	32.1	26.0	32.5	30.8	29.8	29.1	28.4	27.2
External debt	39.1	43.7	39.8	41.3	37.7	38.0	35.3	33.0	30.9	29.2	27.8
(Annual percentage change; unless otherwise indicated)											
Money and credit											
Credit to the private sector	41.8	31.7	7.4	9.1	14.2	11.0	14.5	19.9	20.5	17.3	20.2
Broad money (M2+)	36.8	23.3	14.4	24.8	15.1	22.7	15.9	19.2	21.0	16.4	16.5
Velocity (GDP/M2+, end of period)	3.1	3.0	...	2.9	...	2.9	3.0	2.9	2.7	2.6	2.5
Base money	30.2	24.2	14.7	29.6	15.7	26.3	19.2	17.5	18.3	16.9	14.9
Banks' lending rate (weighted average, percent)	29.0	27.5	...	31.7	...	...	...	...	...	...	...
Policy rate (in percent, end of period)	21.0	26.0	...	25.5	...	...	...	...	...	...	...
(Percent of GDP)											
External sector											
Current account balance	-9.5	-7.7	-6.4	-6.7	-6.1	-5.8	-5.4	-5.0	-4.7	-4.5	-4.3
Gross international reserves (millions of US\$)	4,349	4,403	5,140	4,862	5,976	5,783	6,319	6,797	7,483	8,145	8,765
in months of prospective imports of goods and services	2.5	2.6	2.7	2.6	2.9	3.0	3.1	3.2	3.3	3.3	3.4
Total donor support (millions of US\$)	1,092	1,411	844	778	637	977	755	763	407	183	133
in percent of GDP	2.8	3.8	2.0	1.8	1.4	2.1	1.5	1.4	0.7	0.3	0.2
Memorandum items:											
Nominal GDP (millions of GHc)	113,343	136,957	166,768	167,315	197,136	202,389	241,549	279,328	315,464	352,989	395,193
Nominal GDP (millions of US\$)	38,774	36,893	42,638	42,778	...	45,464	49,226	52,863	56,415	60,449	65,127
GDP per capita (US\$)	1,479	1,372	1,551	1,551	1,648	1,608	1,697	1,777	1,850	1,932	2,030

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

¹ Historical expenditure side GDP series was revised in 2017 by the Ghana Statistical Services.² Including public enterprises.³ Excludes discrepancy.

Table 2a. Ghana: Summary of Budgetary Central Government Operations, 2014–22
(GFS 2001, Cash Basis)

	2014	2015	2016		2017		2018	2019	2020	2021	2022
			Prog.	Est.	Prog.	Proj.					
(In percent of GDP, unless otherwise specified)											
Revenue	18.4	19.6	19.4	17.3	19.2	18.9	18.6	19.0	19.1	18.9	18.7
Taxes	15.8	15.7	16.4	15.5	16.6	16.0	16.0	16.3	16.5	16.5	16.4
Direct taxes	7.5	6.4	6.1	5.4	6.3	6.1	6.2	6.6	6.8	6.7	6.6
Indirect taxes	5.5	6.8	7.4	7.4	7.6	6.9	6.9	6.9	6.9	7.0	7.0
Trade taxes	2.7	2.5	2.9	2.6	2.7	3.0	2.9	2.8	2.8	2.8	2.8
Other tax revenues	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other revenue	1.8	1.7	1.8	0.9	1.9	2.0	2.0	2.2	2.2	2.1	2.0
o/w Retentions from IGFs					0.0	0.6	0.6	0.6	0.6	0.6	0.6
Grants	0.7	2.0	1.0	0.7	0.6	0.7	0.5	0.3	0.2	0.2	0.1
Expenditure	28.5	26.6	24.6	26.6	22.7	25.2	22.4	22.2	22.1	21.8	21.6
Expense	23.1	21.4	21.5	22.0	19.8	22.0	19.1	18.8	18.4	18.0	17.6
Compensation of employees	9.7	9.4	8.4	8.7	8.2	7.9	7.8	7.8	7.8	7.8	7.8
Wages and salaries	8.3	7.7	7.0	7.2	7.0	6.9	6.8	6.8	6.8	6.8	6.8
Deferred wage payments	0.5	0.6	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social contributions	0.9	1.1	1.2	1.2	1.2	1.0	0.9	0.9	0.9	0.9	0.9
Purchases of goods and services	1.6	1.0	1.2	1.9	0.9	1.3	1.2	1.3	1.3	1.3	1.2
Interest	6.2	6.6	6.4	6.9	5.7	6.5	5.9	5.4	5.1	4.7	4.4
Domestic	5.4	5.3	5.1	5.5	4.6	5.2	4.8	4.3	4.0	3.7	3.4
Foreign	0.9	1.3	1.3	1.4	1.2	1.3	1.2	1.1	1.1	1.0	1.0
Subsidies	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social transfers	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants to Other Government Units	2.1	3.1	3.9	3.3	4.0	4.3	4.1	4.2	4.2	4.1	4.1
Transfers to Statutory Funds	1.6	2.8	...	3.0	...	2.8	2.7	2.7	2.7	2.8	2.8
Transfer to GNPC from oil revenue	0.5	0.3	...	0.2	...	0.6	0.5	0.6	0.6	0.5	0.5
ESLA transfers	0.0	0.0	...	0.1	...	0.9	0.9	0.9	0.9	0.9	0.9
Other expenses ¹	3.1	1.2	1.4	1.2	1.0	1.8	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets	5.4	5.2	3.1	4.6	2.9	3.2	3.3	3.5	3.7	3.8	3.9
Domestic financed ²	1.1	0.9	0.2	1.2	0.6	1.1	1.1	1.3	1.5	1.6	1.8
Foreign financed	4.3	4.3	2.9	3.4	2.2	2.1	2.2	2.2	2.2	2.2	2.2
Overall balance	-10.1	-7.0	-5.2	-9.3	-3.5	-6.3	-3.8	-3.2	-3.1	-2.9	-2.8
Discrepancy	0.0	-0.6	0.0	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financial transactions	-10.1	-6.4	-5.2	-8.3	-3.5	-6.3	-3.8	-3.2	-3.1	-2.9	-2.8
Net acquisition of financial assets	2.9	-0.3	-0.1	2.1	-0.4	-0.4	0.2	0.2	0.2	0.1	0.1
Currency and deposits	2.8	0.0	-0.1	2.0	-0.4	0.7	0.1	0.0	0.0	0.0	0.0
Bank of Ghana ³	2.4	-1.0	-0.1	1.1	-0.4	0.7	0.1	0.0	0.0	0.0	0.0
Deposit Money Banks	0.4	0.9	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	0.2	-0.3	0.0	0.1	0.0	-1.1	0.2	0.2	0.1	0.0	0.0
Net incurrence of liabilities	13.0	6.1	5.1	10.4	3.1	6.0	4.0	3.4	3.2	3.0	2.9
Domestic	7.8	1.8	3.7	8.6	2.3	6.2	3.6	3.2	2.7	2.3	1.9
Bank of Ghana	3.8	-1.3	0.0	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposit Money Banks	1.2	0.5	0.5	2.7	0.5	1.2	1.1	0.6	0.5	0.5	0.4
Nonbanks	2.8	2.6	3.2	3.3	1.9	5.0	2.5	2.6	2.2	1.9	1.6
Foreign	5.2	4.3	1.4	1.8	0.7	-0.3	0.4	0.2	0.5	0.7	0.9
Borrowing	6.4	6.3	4.2	4.5	3.0	2.4	2.2	1.8	2.4	2.4	2.4
Amortization	-1.2	-2.0	-2.8	-2.8	-2.3	-2.7	-1.8	-1.7	-1.9	-1.8	-1.5
Memorandum items:											
Oil revenue	2.5	1.0	0.8	0.4	1.3	1.2	1.5	2.0	2.1	2.0	1.8
Proceeds from Energy Sector Levies Act (ESLA)	0.0	0.0	0.0	1.0	0.0	0.9	0.9	0.9	0.9	0.9	0.9
Revenue excl. oil, grants, and ESLA (percent of non-oil GDP)	16.4	17.2	17.7	15.5	17.3	16.7	16.9	16.8	16.7	16.7	16.7
Primary balance (excl. discrepancy)	-3.9	-0.4	1.1	-2.4	2.2	0.2	2.2	2.2	2.0	1.8	1.6
Government overdraft at Bank of Ghana	-5.8	-3.2	...	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP (millions of GHc)	113,343	136,957	166,768	167,315	197,136	202,389	241,549	279,328	315,464	352,989	395,193

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

¹ Payments of cash arrears and promissory notes to statutory funds. 2017-18 also includes payment of GHc 1.6 billion of unpaid commitments from 2016.

² Starting in 2015, includes earmarked public sector investment through Ghana Infrastructure Investment Fund.

³ Includes change in overdraft (negative balances). For 2016 also includes \$200 million earmarked for repayment of the Eurobond maturing in 2017.

Table 2b. Ghana: Summary of Budgetary Central Government Operations, 2014–22
(GFS 2001, Cash Basis)

	2014	2015	2016		2017		2018	2019	2020	2021	2022
			Prog.	Est.	Prog.	Proj.					
(In millions of GHC)											
Revenue	20,874	26,824	32,359	28,865	37,940	38,158	45,004	52,992	60,100	66,661	74,083
Taxes	17,855	21,455	27,374	25,929	32,740	32,402	38,659	45,660	52,032	58,090	64,911
Direct taxes	8,487	8,707	10,200	9,107	12,452	12,329	14,990	18,447	21,369	23,743	26,202
Indirect taxes	6,278	9,300	12,407	12,432	14,917	13,997	16,725	19,324	21,917	24,626	27,670
Trade taxes	3,091	3,449	4,767	4,390	5,371	6,076	6,944	7,889	8,746	9,721	11,039
Other tax revenues	218	289	353	280	293	296	345	399	453	508	571
Other revenue	1,986	2,391	3,043	1,515	3,688	3,966	4,909	6,009	6,832	7,409	8,058
o/w Retentions from IGFs						1,157	1,448	1,673	1,898	2,132	2,396
Grants	814	2,689	1,589	1,141	1,219	1,493	1,091	924	783	654	544
Expenditure	32,328	36,410	41,051	44,473	44,828	50,976	54,134	62,032	69,817	76,996	85,225
Expense	26,232	29,277	35,875	36,795	39,130	44,476	46,241	52,389	58,060	63,527	69,748
Compensation of employees	11,034	12,917	14,059	14,623	16,072	16,023	18,771	21,679	24,484	27,396	30,672
Wages and salaries	9,449	10,556	11,723	12,110	13,721	14,047	16,478	19,031	21,493	24,050	26,925
Deferred wages	568	806	280	458	0	18	0	0	0	0	0
Social contributions	1,018	1,555	2,056	2,055	2,350	1,958	2,293	2,648	2,991	3,347	3,747
Purchases of goods and services	1,777	1,388	2,078	3,221	1,775	2,651	2,790	3,524	3,997	4,441	4,940
Interest	7,081	9,075	10,600	11,529	11,297	13,180	14,325	15,192	15,996	16,625	17,388
Domestic	6,111	7,313	8,427	9,225	8,991	10,584	11,513	12,060	12,671	13,126	13,623
Foreign	970	1,762	2,173	2,304	2,305	2,596	2,812	3,131	3,325	3,499	3,765
Subsidies	474	25	50	0	50	50	58	67	76	86	96
Social transfers	0	0	209	0	241	241	234	322	359	398	441
Grants to Other Government Units	2,354	4,267	6,566	5,442	7,793	8,605	9,990	11,604	13,148	14,581	16,211
Transfers to Statutory Funds	1,836	3,799	...	4,975	...	5,618	6,630	7,648	8,658	9,719	10,930
Transfer to GNPC from oil revenue	517	468	...	265	...	1,221	1,302	1,578	1,793	1,832	1,876
ESLA transfers	0	0	...	203	...	1,766	2,058	2,378	2,697	3,031	3,405
Other expenses ¹	3,513	1,604	2,313	1,980	1,903	3,725	73	0	0	0	0
Net acquisition of nonfinancial assets	6,096	7,134	5,177	7,678	5,698	6,500	7,892	9,643	11,758	13,469	15,477
Domestic financed ²	1,265	1,215	413	2,049	1,279	2,245	2,546	3,571	4,732	5,648	6,916
Foreign financed	4,830	5,919	4,763	5,630	4,419	4,255	5,347	6,072	7,026	7,822	8,561
Net lending / borrowing (overall balance)	-11,454	-9,586	-8,693	-15,608	-6,888	-12,819	-9,130	-9,041	-9,718	-10,335	-11,142
Discrepancy	-51	-839	0	-1,735	0	0	0	0	0	0	0
Net financial transactions	-11,403	-8,747	-8,693	-13,873	-6,888	-12,819	-9,130	-9,041	-9,718	-10,335	-11,142
Net acquisition of financial assets	3,299	-445	-145	3,478	-847	-763	520	501	511	230	201
Currency and deposits	3,123	-55	-219	3,365	-847	1,493	125	58	66	74	83
Bank of Ghana ³	2,717	-1,352	-219	1,920	-847	1,493	125	58	66	74	83
Deposit Money Banks	406	1,297	0	1,445	0	0	0	0	0	0	0
Shares and other equity	176	-390	74	113	0	-2,256	395	443	446	156	119
Net incurrence of liabilities	14,702	8,302	8,547	17,351	6,041	12,055	9,651	9,541	10,229	10,565	11,343
Domestic	8,828	2,424	6,150	14,391	4,585	12,593	8,661	9,045	8,613	8,163	7,660
Bank of Ghana	4,299	-1,821	0	4,303	0	0	0	0	0	0	0
Deposit Money Banks	1,404	692	763	4,581	917	2,519	2,598	1,809	1,723	1,633	1,532
Nonbanks	3,125	3,553	5,388	5,507	3,668	10,075	6,062	7,236	6,890	6,530	6,128
Foreign	5,874	5,878	2,397	2,960	1,456	-611	990	497	1,616	2,402	3,683
Borrowing	7,205	8,612	7,005	7,564	5,964	4,761	5,255	5,148	7,641	8,628	9,535
Amortization	-1,331	-2,734	-4,608	-4,604	-4,508	-5,373	-4,265	-4,651	-6,025	-6,225	-5,851
Memorandum items:											
Oil revenue	2,789	1,431	1,333	711	2,653	2,359	3,517	5,529	6,735	7,032	7,158
Proceeds from Energy Sector Levies Act (ESLA)	0	0	0	1,646	0	1,766	2,058	2,378	2,697	3,031	3,405
Revenue excl. oil, grants, and ESLA	17,271	22,704	29,438	25,367	34,068	32,539	38,337	44,160	49,885	55,945	62,976
Primary balance (excl. discrepancy)	-4,373	-511	1,908	-4,079	4,408	362	5,194	6,151	6,278	6,290	6,246
Government overdraft at Bank of Ghana	-6,120	-4,220	...	-4	...	0	0	0	0	0	0
Nominal GDP	113,343	136,957	166,768	167,315	197,136	202,389	241,549	279,328	315,464	352,989	395,193

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

¹ Payments of cash arrears and promissory notes to statutory funds. 2017-18 also includes payment of GHC 1.6 billion of unpaid commitments from 2016.

² Starting in 2015, includes earmarked public sector investment through Ghana Infrastructure Investment Fund.

³ Includes change in overdraft (negative balances). For 2016 also includes \$200 million earmarked for repayment of the Eurobond maturing in 2017.

Table 2c. Ghana: Summary of Budgetary Central Government Operations, 2014–22
(GFS 2001, Commitment Basis)

	2014	2015	2016		2017		2018	2019	2020	2021	2022
			Prog.	Est.	Prog.	Proj.					
(In percent of GDP, unless otherwise indicated)											
Revenue	18.4	19.6	19.4	17.3	19.2	18.9	18.6	19.0	19.1	18.9	18.7
Taxes	15.8	15.7	16.4	15.5	16.6	16.0	16.0	16.3	16.5	16.5	16.4
Direct taxes	7.5	6.4	6.1	5.4	6.3	6.1	6.2	6.6	6.8	6.7	6.6
Indirect taxes	5.5	6.8	7.4	7.4	7.6	6.9	6.9	6.9	6.9	7.0	7.0
Trade taxes	2.7	2.5	2.9	2.6	2.7	3.0	2.9	2.8	2.8	2.8	2.8
Other tax revenues	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other revenue	1.8	1.7	1.8	0.9	1.9	2.0	2.0	2.2	2.2	2.1	2.0
Grants	0.7	2.0	1.0	0.7	0.6	0.7	0.5	0.3	0.2	0.2	0.1
Expenditure	29.4	24.8	23.1	26.1	21.3	23.3	22.4	22.2	22.1	21.8	21.6
Expense	23.7	19.6	20.0	21.2	18.4	20.1	19.1	18.8	18.4	18.0	17.6
Compensation of employees	10.9	8.8	8.3	8.7	8.2	7.9	7.8	7.8	7.8	7.8	7.8
Wages and salaries ¹	9.0	7.7	7.0	7.3	7.0	6.9	6.8	6.8	6.8	6.8	6.8
Social Contributions	1.8	1.1	1.2	1.5	1.2	1.0	0.9	0.9	0.9	0.9	0.9
Purchases of goods and services	1.6	1.0	1.2	2.1	0.9	1.3	1.2	1.3	1.3	1.3	1.2
Interest	6.2	6.6	6.4	6.9	5.7	6.5	5.9	5.4	5.1	4.7	4.4
Domestic	5.4	5.3	5.1	5.5	4.6	5.2	4.8	4.3	4.0	3.7	3.4
Foreign	0.9	1.3	1.3	1.4	1.2	1.3	1.2	1.1	1.1	1.0	1.0
Subsidies	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social transfers	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants to Other Government Units	3.2	3.1	3.9	3.5	3.5	4.3	4.1	4.2	4.2	4.1	4.1
Transfers to Statutory Funds	2.7	2.8	...	3.2	...	2.8	2.7	2.7	2.7	2.8	2.8
Transfer to GNPC from oil revenue	0.5	0.3	...	0.2	...	0.6	0.5	0.6	0.6	0.5	0.5
ESLA transfers	0.0	0.0	...	0.1	...	0.9	0.9	0.9	0.9	0.9	0.9
Net acquisition of nonfinancial assets	5.7	5.2	3.1	4.9	2.9	3.2	3.3	3.5	3.7	3.8	3.9
Domestic financed	1.4	0.9	0.2	1.5	0.6	1.1	1.1	1.3	1.5	1.6	1.8
Foreign financed	4.3	4.3	2.9	3.4	2.2	2.1	2.2	2.2	2.2	2.2	2.2
Net lending / borrowing (overall balance)	-10.9	-5.2	-3.7	-8.9	-2.0	-4.5	-3.7	-3.2	-3.1	-2.9	-2.8
Discrepancy	0.0	-0.6	0.0	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financial transactions	-10.9	-4.6	-3.7	-7.8	-2.0	-4.5	-3.7	-3.2	-3.1	-2.9	-2.8
Net acquisition of financial assets	2.9	-0.3	-0.1	2.1	-0.4	-0.4	0.2	0.2	0.2	0.1	0.1
Net incurrence of liabilities	13.8	4.3	3.6	9.9	1.6	4.1	4.0	3.4	3.2	3.0	2.9
Domestic ²	8.6	0.0	2.1	8.1	0.9	4.4	3.6	3.2	2.7	2.3	1.9
Debt securities	7.8	1.8	3.7	8.6	2.3	6.2	3.6	3.2	2.7	2.3	1.9
Bank of Ghana	3.8	-1.3	0.0	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposit Money Bank	1.2	0.5	0.5	2.7	0.5	1.2	1.1	0.6	0.5	0.5	0.4
Nonbanks	2.8	2.6	3.2	3.3	1.9	5.0	2.5	2.6	2.2	1.9	1.6
Other accounts payable ²	0.8	-1.6	-1.4	-0.5	-1.0	-1.8	0.0	0.0	0.0	0.0	0.0
Foreign	5.2	4.3	1.4	1.8	0.7	-0.3	0.4	0.2	0.5	0.7	0.9
Loans	6.4	6.3	4.2	4.5	3.0	2.4	2.2	1.8	2.4	2.4	2.4
Amortization	-1.2	-2.0	-2.8	-2.8	-2.3	-2.7	-1.8	-1.7	-1.9	-1.8	-1.5
Memorandum items:											
Oil revenue	2.5	1.0	0.8	0.4	1.3	1.2	1.5	2.0	2.1	2.0	1.8
Proceeds from Energy Sector Levies Act (ESLA)	0.0	0.0	0.0	1.0	0.0	0.9	0.9	0.9	0.9	0.9	0.9
Revenue excl. oil, grants, and ESLA	15.2	16.6	17.7	15.2	17.3	16.1	15.9	15.8	15.8	15.8	15.9
Primary balance (excl. discrepancy)	-4.7	1.4	2.7	-2.0	3.7	2.0	2.2	2.2	2.0	1.8	1.6
Government overdraft at Bank of Ghana	-5.4	-3.1	...	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP (millions of GHc)	113,343	136,957	166,768	167,315	197,136	202,389	241,549	279,328	315,464	352,989	395,193

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

¹ Includes deferred wage payments.

² Reflects net change in stock of arrears and unpaid commitments.

Table 2d. Ghana: Summary of Budgetary Central Government Operations, 2014–22
(GFS 2001, Commitment Basis)

	2014	2015	2016		2017		2018	2019	2020	2021	2022
			Prog.	Est.	Prog.	Proj.					
Revenue	20,874	26,824	32,359	28,865	37,940	38,158	45,004	52,992	60,100	66,661	74,083
Taxes	17,855	21,455	27,374	25,929	32,740	32,402	38,659	45,660	52,032	58,090	64,911
Direct taxes	8,487	8,707	10,200	9,107	12,452	12,329	14,990	18,447	21,369	23,743	26,202
Indirect taxes	6,278	9,300	12,407	12,432	14,917	13,997	16,725	19,324	21,917	24,626	27,670
Trade taxes	3,091	3,449	4,767	4,390	5,371	6,076	6,944	7,889	8,746	9,721	11,039
Other tax revenues	218	289	353	280	293	296	345	399	453	508	571
Other revenue	1,986	2,391	3,043	1,515	3,688	3,966	4,909	6,009	6,832	7,409	8,058
Grants	814	2,689	1,589	1,141	1,219	1,493	1,091	924	783	654	544
Expenditure	33,270	34,001	38,458	43,679	41,957	47,234	54,061	62,032	69,817	76,996	85,225
Expense	26,852	26,867	33,282	35,528	36,259	40,733	46,168	52,389	58,060	63,527	69,748
Compensation of employees	12,318	12,111	13,779	14,623	16,072	16,006	18,771	21,679	24,484	27,396	30,672
Wages and salaries ¹	10,254	10,556	11,723	12,171	13,721	14,047	16,478	19,031	21,493	24,050	26,925
Social contributions	2,064	1,555	2,056	2,452	2,350	1,958	2,293	2,648	2,991	3,347	3,747
Purchases of goods and services	1,777	1,388	2,078	3,587	1,775	2,651	2,790	3,524	3,997	4,441	4,940
Interest	7,081	9,075	10,600	11,529	11,297	13,180	14,325	15,192	15,996	16,625	17,388
Domestic	6,111	7,313	8,427	9,225	8,991	10,584	11,513	12,060	12,671	13,126	13,623
Foreign	970	1,762	2,173	2,304	2,305	2,596	2,812	3,131	3,325	3,499	3,765
Subsidies	2,079	25	50	0	50	50	58	67	76	86	96
Social transfers	0	0	209	0	241	241	234	322	359	398	441
Grants to Other Government Units	3,598	4,267	6,566	5,789	6,825	8,605	9,990	11,604	13,148	14,581	16,211
Transfers to Statutory Funds	3,081	3,799	...	5,321	...	5,618	6,630	7,648	8,658	9,719	10,930
Transfer to GNPC from oil revenue	517	468	...	265	...	1,221	1,302	1,578	1,793	1,832	1,876
ESLA transfers	0	0	...	203	...	1,766	2,058	2,378	2,697	3,031	3,405
Net acquisition of nonfinancial assets	6,418	7,134	5,177	8,150	5,698	6,500	7,892	9,643	11,758	13,469	15,477
Domestic financed	1,588	1,215	413	2,521	1,279	2,245	2,546	3,571	4,732	5,648	6,916
Foreign financed	4,830	5,919	4,763	5,630	4,419	4,255	5,347	6,072	7,026	7,822	8,561
Net lending / borrowing (overall balance)	-12,396	-7,177	-6,099	-14,813	-4,017	-9,076	-9,057	-9,041	-9,718	-10,335	-11,142
Discrepancy	-51	-839	0	-1,735	0	0	0	0	0	0	0
Net financial transactions	-12,345	-6,338	-6,099	-13,079	-4,017	-9,076	-9,057	-9,041	-9,718	-10,335	-11,142
Net acquisition of financial assets	3,299	-445	-145	3,478	-847	-763	520	501	511	230	201
Net incurrence of liabilities	15,644	5,892	5,954	16,557	3,170	8,313	9,577	9,541	10,229	10,565	11,343
Domestic ²	9,770	14	3,557	13,597	1,713	8,924	8,587	9,045	8,613	8,163	7,660
Debt securities	8,828	2,424	6,150	14,391	4,585	12,593	8,661	9,045	8,613	8,163	7,660
Other accounts payable ²	942	-2,232	-2,313	-795	-1,904	-3,743	-73	0	0	0	0
Foreign	5,874	5,878	2,397	2,960	1,456	-611	990	497	1,616	2,402	3,683
Loans	7,205	8,612	7,005	7,564	5,964	4,761	5,255	5,148	7,641	8,628	9,535
Amortization	-1,331	-2,734	-4,608	-4,604	-4,508	-5,373	-4,265	-4,651	-6,025	-6,225	-5,851
Memorandum items:											
Oil revenue	2,789	1,431	1,333	711	2,653	2,359	3,517	5,529	6,735	7,032	7,158
Proceeds from Energy Sector Levies Act (ESLA)	0	0	0	1,646	0	1,766	2,058	2,378	2,697	3,031	3,405
Revenue excl. oil, grants, and ESLA	17,271	22,704	29,438	25,367	34,068	32,539	38,337	44,160	49,885	55,945	62,976
Primary balance (excl. discrepancy)	-5316	1,899	4,501	-3,284	7,280	4,104	5,268	6,151	6,278	6,290	6,246
Government overdraft at Bank of Ghana	-6,120	-4,220	...	-4	...	0	0	0	0	0	0
Nominal GDP (millions of GHc)	113,343	136,957	166,768	167,315	197,136	202,389	241,549	279,328	315,464	352,989	395,193

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

¹ Includes deferred wage payments.

² Reflects net change in stock of arrears and unpaid commitments.

Table 3. Ghana: Monetary Survey, 2014–22¹

	2014	2015	2016	2017		2018	2019	2020	2021	2022
			Est.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(In millions of GHC, unless otherwise indicated)										
I. Monetary Survey										
Net foreign assets	8,991	11,188	14,947	21,759	24,105	30,064	36,235	44,939	52,012	58,710
Net domestic assets	27,852	34,244	41,746	38,053	45,457	50,540	59,822	71,253	83,290	98,912
Domestic claims	41,582	46,842	58,451	56,583	62,686	70,438	80,336	92,047	103,832	119,251
Net claims on central government	13,906	12,832	19,170	15,577	19,377	21,975	23,784	25,507	27,140	28,671
Claims on other sectors	27,676	34,010	39,281	41,005	43,309	48,463	56,551	66,540	76,693	90,580
Claims on public non-financial corporation	5,362	4,649	7,263	4,642	7,788	7,788	7,788	7,788	7,788	7,788
Claims on private sector	22,254	29,306	31,968	34,079	35,471	40,624	48,713	58,701	68,854	82,741
Other	60	54	50	2,284	50	50	50	50	50	50
Other items (net)	-13,730	-12,598	-16,705	-18,530	-17,230	-19,898	-20,513	-20,794	-20,542	-20,339
Money and quasi-money (M3)	36,843	45,432	56,692	59,812	69,561	80,604	96,057	116,192	135,303	157,621
Broad money (M2)	27,530	33,871	43,452	45,427	53,914	62,836	73,858	88,940	102,156	117,336
Foreign exchange deposits	9,313	11,562	13,240	14,385	15,648	17,768	22,199	27,253	33,147	40,285
II. Central Bank										
Net foreign assets	8,678	9,954	11,880	16,725	18,211	23,149	28,305	34,328	40,386	46,633
Net domestic assets	3,107	4,682	7,088	2,688	5,750	5,413	5,267	5,377	6,048	6,702
Net domestic claims	4,876	9,100	18,155	10,993	11,249	10,911	10,765	10,875	11,547	12,200
Claims on other depository corporations	-5,507	-1,054	4,662	13	68	-270	-416	-306	365	1,019
Net claims on central government	6,888	6,419	9,621	7,485	7,310	7,310	7,310	7,310	7,310	7,310
Claims on other sectors ²	3,496	3,735	3,871	3,496	3,871	3,871	3,871	3,871	3,871	3,871
Other items (net) ³	-1,769	-4,418	-11,067	-8,305	-5,498	-5,498	-5,498	-5,498	-5,498	-5,498
Base money ⁴	11,785	14,636	18,968	19,413	23,962	28,562	33,572	39,705	46,435	53,335
Currency in circulation (net of cash in vaults)	6,896	8,510	10,140	12,654	12,722	15,819	19,084	22,508	26,310	30,771
Currency in banks (cash in vault)	846	1,026	1,235	1,191	1,442	1,567	1,775	2,061	2,283	2,530
Bank deposits in BOG ⁴	3,274	4,024	5,988	4,492	8,193	9,571	11,106	11,079	13,253	14,803
Liabilities to other sectors	769	1,076	1,606	1,076	1,606	1,606	1,606	1,606	1,606	1,606
(In 12-month percentage change; unless otherwise indicated)										
Memorandum items:										
Base money	30.2	24.2	29.6	15.7	26.3	19.2	17.5	18.3	16.9	14.9
M2	33.0	23.0	28.3	15.7	24.1	16.6	17.5	20.4	14.9	14.9
M2+ ⁵	36.8	23.3	24.8	15.1	22.7	15.9	19.2	21.0	16.4	16.5
Credit to the private sector	41.8	31.7	9.1	14.2	11.0	14.5	19.9	20.5	17.3	20.2
M2-to-GDP ratio (in percent)	24.3	24.7	26.0	23.0	26.6	26.0	26.4	28.2	28.9	29.7
M2-to-Non-Oil GDP ratio (in percent)	26.1	25.7	26.5	24.3	27.6	27.6	28.1	29.9	30.5	31.2
Base money multiplier (M2/base money)	2.3	2.3	2.3	2.3	2.3	2.2	2.2	2.2	2.2	2.2
Credit to the private sector (in percent of GDP)	19.6	21.4	19.1	17.3	17.5	16.8	17.4	18.6	19.5	20.9
Sources: Ghanaian authorities; and Fund staff estimates and projections.										
¹ End of period.										
² Include public enterprises and local governments.										
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, 2014–22

	2014	2015	2016	2017		2018	2019	2020	2021	2022
				Est.	Prog.					
	(In millions of U.S. dollars)									
Current account	-3,698	-2,836	-2,866	-2,837	-2,643	-2,677	-2,663	-2,664	-2,730	-2,829
Trade balance	-1,387	-3,107	-1,773	-2,709	-1,449	-508	-199	9	161	27
Exports, f.o.b.	13,213	10,358	11,137	12,528	12,045	13,485	14,494	15,347	16,413	17,702
Of which: cocoa	2,613	2,764	2,572	2,925	2,195	1,774	1,885	1,952	2,022	2,095
Of which: gold	4,388	3,213	4,919	4,014	5,277	5,834	6,228	6,677	7,144	7,654
Of which: oil	3,725	1,931	1,345	2,924	2,122	3,313	3,602	3,576	3,561	3,589
Imports, f.o.b.	-14,600	-13,465	-12,910	-15,237	-13,494	-13,993	-14,693	-15,337	-16,252	-17,675
Of which: oil	-3,694	-2,047	-1,825	-2,557	-1,823	-1,860	-1,943	-2,028	-2,118	-2,216
Services (net)	-2,602	-1,167	-1,293	-1,116	-1,859	-2,439	-2,621	-2,818	-3,009	-3,281
Income (net)	-1,717	-1,132	-1,256	-1,634	-1,463	-2,055	-2,234	-2,319	-2,419	-2,389
Of which: interest on public debt	-552	-777	-1,052	-1,287	-1,155	-1,447	-1,576	-1,701	-1,842	-1,845
Transfers	2,008	2,570	1,457	2,622	2,127	2,325	2,391	2,463	2,537	2,814
Official transfers	10	195	26	4	17	4	0	0	0	0
Other transfers	1,999	2,375	1,431	2,619	2,111	2,322	2,391	2,463	2,537	2,814
Capital and financial account	3,649	2,937	3,268	3,300	3,255	3,036	3,257	3,439	3,508	3,574
Capital account	0	474	274	284	318	219	175	140	112	90
Financial account	3,649	2,463	2,994	3,015	2,937	2,817	3,082	3,299	3,396	3,484
Foreign direct investment (net)	3,357	2,971	3,471	3,030	2,955	2,954	2,643	2,539	2,569	2,605
Portfolio investment (net)	595	940	1,264	739	2,209	1,060	1,117	1,481	1,059	738
Other investment (net)	-303	-1,448	-1,741	-754	-2,227	-1,196	-679	-721	-232	141
Medium and long term (net)	-149	-983	-1,532	-945	-1,143	-771	-598	-416	-190	114
Official (net)	932	472	-31	-145	-343	29	102	184	310	514
Government oil investments	-145	38	-29	0	0	-81	-84	-83	-83	-84
Amortization	-473	-730	-1,177	-945	-1,042	-915	-819	-884	-872	-765
Disbursements	1,550	1,164	1,177	800	699	1,025	1,004	1,151	1,265	1,362
Private (net)	-1,081	-1,455	-1,501	-800	-800	-800	-700	-600	-500	-400
Short-term (net)	-155	-465	-209	191	-1,084	-425	-80	-304	-42	28
Errors and omissions	12	-433	-66	0	0	0	0	0	0	0
Overall balance	-37	-332	335	462	612	359	594	775	778	745
Financing	37	332	-335	-462	-612	-359	-594	-775	-778	-745
Changes in net reserves (-, incr.) ¹	85	106	-335	-612	-1,044	-559	-594	-775	-778	-745
of which: Use of Fund credit (net)	-12	172	164	274	-74	77	-15	-89	-115	-125
Residual gap	...	-226	0	-150	-432	-200	0	0	0	0
Official donor support	...	226	0	150	432	200	0	0	0	0
Memorandum items:	(Percent of GDP, unless otherwise indicated)									
Current account	-9.5	-7.7	-6.7	-6.1	-5.8	-5.4	-5.0	-4.7	-4.5	-4.3
Trade balance	-3.6	-8.4	-4.1	-5.8	-3.2	-1.0	-0.4	0.0	0.3	0.0
Official transfers	0.0	0.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital and financial account	9.4	8.0	7.6	7.1	7.2	6.2	6.2	6.1	5.8	5.5
Foreign direct investment (net)	8.7	8.1	8.1	6.5	6.5	6.0	5.0	4.5	4.3	4.0
Overall balance	-0.1	-0.9	0.8	1.0	1.3	0.7	1.1	1.4	1.3	1.1
Oil-net exports	0.1	-0.3	-1.1	0.8	0.7	3.0	3.1	2.7	2.4	2.1
Non-oil current account	-9.6	-7.4	-5.6	-6.9	-6.5	-8.4	-8.2	-7.5	-6.9	-6.5
Gross foreign assets ²										
Millions of U.S. dollars	5,461	5,865	6,251	7,177	7,282	7,899	8,461	9,230	9,975	10,679
Months of imports	3.2	3.4	3.4	3.5	3.7	3.8	3.9	4.1	4.1	4.1
Gross international reserves ³										
Millions of U.S. dollars	4,349	4,403	4,862	5,976	5,783	6,319	6,797	7,483	8,145	8,765
Months of imports	2.5	2.6	2.6	2.9	3.0	3.1	3.2	3.3	3.3	3.4
Net international reserves										
Millions of U.S. dollars	3,200	3,184	3,431	4,429	4,475	5,035	5,628	6,403	7,181	7,926
Months of imports	1.8	1.9	1.9	2.2	2.3	2.4	2.6	2.8	2.9	3.0
Nominal GDP in U.S. dollars	38,774	36,893	42,778	46,610	45,464	49,226	52,863	56,415	60,449	65,127

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

¹ The Fund's disbursements associated with the Fourth and Fifth Reviews to be used for budget support are included in 2017.

² Includes foreign encumbered assets and oil funds.

³ Excludes foreign encumbered assets and oil funds.

Table 5. Ghana: Financial Soundness Indicators

	December 2013	December 2014	December 2015	December 2016	June 2017
Capital Adequacy					
Regulatory capital to risk weighted assets	18.5	17.9	17.7	17.8	14.8
Regulatory Tier I capital to risk-weighted assets	14.7	15.3	14.5	14.4	12.9
Asset Quality					
Nonperforming loans net of loan-loss provision to gross loans	8.3	11.2	14.9	15.8	17.9
Nonperforming loans to total gross loans	12.0	11.3	14.9	17.3	21.2
Bank provisions to nonperforming loans	78.3	69.5	69.9	72.5	75.1
Profitability and Earnings					
Return on assets	4.5	4.7	3.1	2.5	2.4
Return on equity	31.1	32.3	21.4	18.0	17.7
Liquidity					
Liquid asset to total assets	21.7	26.8	26.5	27.2	25.4
Liquid asset to short-term liabilities	28.2	34.8	34.3	35.1	32.5
Liquid assets/total deposits	33.7	42.5	40.7	42.8	40.4
Source: Ghanaian authorities					
Note: These indicators do not fully reflect the results of the recent Asset Quality Review					

Table 6. Ghana: External Financing Requirements and Sources, 2016–19
(millions of U.S. dollars)

	2016	2017	2018	2019
			proj.	
I. Total financing requirements	-6,323	-6,631	-5,564	-4,948
Current account balance (excl. official transfers)	-2,892	-2,660	-2,680	-2,663
o/w: Exports	11,137	12,045	13,485	14,494
Imports	-12,910	-13,494	-13,993	-14,693
Debt amortization ¹	-1,242	-1,116	-1,022	-927
Private financing (net)	-1,501	-800	-800	-700
Short-term (net) ²	-230	-1,134	-525	-180
Gross reserves accumulation	-459	-921	-536	-478
II. Total available financing	6,157	6,182	5,176	4,856
Project grants	274	318	219	175
Disbursement from external creditors	1,177	699	1,025	1,004
Foreign direct investment (net)	3,471	2,955	2,954	2,643
Portfolio investment (net)	1,264	2,209	1,060	1,117
Oil Funds (net)	-29	0	-81	-84
III. Financing gap	-167	-449	-388	-92
IV. Expected sources of financing	26	265	204	0
Other IFIs (WB, AfDB)	0	248	200	0
Other program support	26	17	4	0
of which: Program grants	26	17	4	0
of which: Bilateral program loans	0	0	0	0
V. Residual gap	-141	-184	-184	-92
ECF program	229	184	184	92
Memorandum items:				
Gross international reserves				
Millions of U.S. Dollars	4,862	5,783	6,319	6,797
Months of imports	2.6	3.0	3.1	3.2
Net international reserves				
Millions of US dollars	3,519	4,563	5,122	5,716
Months of imports	1.9	2.3	2.5	2.7
Current account balance (in percent of GDP)	-6.7	-5.8	-5.4	-5.0
Nominal GDP (USD million)	42,778	45,464	49,226	52,863
Oil prices (USD / bbl)	44.0	50.2	50.1	51.9

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 7. Ghana: Selected Indicators on the Millennium Development Goals, 1990–2017

	Earliest	Earliest Year	Latest	Latest Year
Eradicate extreme poverty and hunger				
Income share held by lowest 20 percent	7.0	1987	5.2	2005
Malnutrition prevalence, weight for age (percent of children under 5)	25.1	1993	14.3	2008
Poverty headcount ratio at \$1.90 a day (PPP) (percent of population)	40.0	1987	25.2	2005
Prevalence of undernourishment (percent of population)	40.5	1991	5.0	2011
Achieve universal primary education				
Literacy rate, youth female (percent of females ages 15-24)	65.5	2000	89.9	2015
Literacy rate, youth male (percent of males ages 15-24)	75.9	2000	91.3	2015
Persistence to last grade of primary, total (percent of cohort)	71.7	1971	83.7	2013
Primary completion rate, total (percent of relevant age group)	65.8	1971	101.1	2015
School enrollment, primary (percent net)	61.3	1999	91.1	2015
Promote gender equality and empower women				
Proportion of seats held by women in national parliaments (percent)	9.0	1997	10.9	2016
Ratio of female to male enrollments in tertiary education	17.7	1971	69.5	2015
Ratio of female to male primary enrollment	84.0	1971	100.0	2015
Ratio of female to male secondary enrollment	64.3	1971	94.9	2015
Reduce child mortality				
Immunization, measles (percent of children ages 12-23 months)	16.0	1980	89.0	2015
Mortality rate, infant (per 1,000 live births)	125.1	1960	42.8	2015
Mortality rate, under-5 (per 1,000)	210.9	1960	61.6	2015
Improve maternal health				
Adolescent fertility rate (births per 1,000 women ages 15-19)	148.3	1960	66.1	2015
Births attended by skilled health staff (percent of total)	40.1	1988	73.7	2014
Maternal mortality ratio (modeled estimate, per 100,000 live births)	634.0	1990	319.0	2015
Pregnant women receiving prenatal care (percent)	82.4	1988	90.5	2014
Combat HIV/AIDS, malaria, and other diseases				
Children with fever receiving antimalarial drugs (percent of children under age 5 with fever)	61.0	1998	48.5	2014
Incidence of tuberculosis (per 100,000 people)	216.0	2000	160.0	2015
Prevalence of HIV, total (percent of population ages 15-49)	1.50	1990	1.6	2015
Ensure environmental sustainability				
CO2 emissions (metric tons per capita)	0.2	1960	0.6	2013
Forest area (percent of land area)	37.9	1990	41.0	2015
Improved sanitation facilities (percent of population with access)	7.0	1990	14.9	2015
Improved water source (percent of population with access)	55.5	1990	88.7	2015
Terrestrial protected areas, (percent of total land area)	14.6	1990	15.1	2014
Develop a global partnership for development				
Aid per capita (current US\$)	37.8	1990	72.7	2011
Debt service (PPG and IMF only, percent of exports, excluding workers' remittances)	6.5	1975	11.5	2015
Internet users (per 100 people)	0.0	1990	14.1	2011
Mobile cellular subscriptions (per 100 people)	0.0	1990	129.7	2015
Telephone lines (per 100 people)	0.3	1990	1.1	2011
Other				
Fertility rate, total (births per woman)	6.7	1960	4.1	2015
GNI per capita, Atlas method (current US\$)	190.0	1962	1,480.0	2015
GNI, Atlas method (current US\$) (billions)	1.4	1962	40.5	2015
Gross capital formation (percent of GDP)	24.4	1960	24.6	2015
Life expectancy at birth, total (years)	45.8	1960	61.5	2015
Literacy rate, adult total (percent of people ages 15 and above)	57.9	2000	76.6	2015
Employment to population ratio, 15+, total (percent)	66.9	2000	75.4	2013
Trade (percent of GDP)	63.6	1960	99.2	2015

Source: World Development Indicators database, 2017.

Table 8. Ghana: Summary Table of Actual External Borrowing Monitor
(January 1, 2016 to December 31, 2016)

PPG external debt	Volume of new debt in 2016		PV of new debt in 2016 (program purposes)		PV of new debt in 2016 ¹ (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
By sources of debt financing	1,334.5	100	1,230.5	100	1,359.2	100
Concessional debt, of which	108.6	8	56.7	5	56.7	4
Multilateral debt	0.0	0	0.0	0	0.0	0
Bilateral debt	108.6	8	56.7	5	56.7	4
Other	0.0	0	0.0	0	0.0	0
Non-concessional debt, of which	1,225.9	92	1,173.8	95	1,302.5	96
Semi-concessional	290.1	22	238.1	19	238.1	18
Commercial terms	935.8	70	935.8	76	1,064.5	78
By Creditor Type	1,334.5	100	1,230.5	100	1,359.2	100
Multilateral	75.0	6	75.0	6	78.2	6
Bilateral - Paris Club	245.0	18	196.2	16	196.2	14
Bilateral - Non-Paris Club	67.2	5	27.9	2	27.9	2
Other	947.2	71	931.4	76	1,056.9	78
Uses of debt financing	1,334.5	100	1,230.5	100	1,359.2	100
Infrastructure	361.2	27	282.2	23	297.3	22
Social Spending	148.3	11	123.3	10	123.3	9
Budget Financing	750.0	56	750.0	61	860.4	63
Other	75.0	5.6	75.0	6.1	78.2	5.8
Memo items						
Indicative projections						
Year 2	0.0		0.0		0.0	
Year 3	0.0		0.0		0.0	

Sources: Ghanaian authorities and IMF staff estimates.

¹ The PV of an external loan could be larger than its face value when its interest rate is larger than the discount rate used for this assessment (5 percent).

Table 9. Ghana: Summary Table of Projected External Borrowing Program
(January 1, 2017 to December 31, 2017)

PPG external debt	Volume of new debt in 2017		PV of new debt in 2017 (program purposes)		PV of new debt in 2017 ¹ (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
By sources of debt financing	2,168.2	100	1,786.9	100	1,832.1	100
Concessional debt, of which	592.5	27	340.3	19	340.3	19
Multilateral debt	347.4	16	225.1	13	225.1	12
Bilateral debt	245.2	11	115.2	6	115.2	6
Other	0.0	0	0.0	0	0.0	0
Non-concessional debt, of which	1,575.7	73	1,446.6	81	1,491.8	81
Semi-concessional	1,356.7	63	1,227.6	69	1,227.6	67
Commercial terms	218.9	10	218.9	12	264.2	14
By Creditor Type	2,168.2	100	1,786.9	100	1,832.1	100
Multilateral	582.4	27	388.5	22	388.5	21
Bilateral - Paris Club	303.1	14	182.1	10	182.1	10
Bilateral - Non-Paris Club	146.4	7	121.6	7	122.3	7
Other	1,136.4	52	1,094.6	61	1,139.1	62
Uses of debt financing	2,168.2	100	1,786.9	100	1,832.1	100
Infrastructure	1,723.9	80	1,483.7	83	1,528.6	83
Social Spending	150.9	7	118.2	7	118.4	6
Budget Financing	247.4	11	160.2	9	160.2	9
Other	46.0	2.1	24.9	1.4	24.9	1.4
Memo Items						
Indicative projections						
Year 2	1,969.2		493.5		508.4	
Year 3	0.0		0.0		0.0	

Sources: Ghanaian authorities and IMF staff estimates.

¹ The PV of an external loan could be larger than its face value when its interest rate is larger than the discount rate used for this assessment (5 percent).

Table 10. Ghana: Proposed Schedule of Reviews and Disbursements Under the ECF Arrangement, 2015–19¹

Amount of Purchase		Availability Date	Conditions
Millions of SDR	Percent of Quota ²		
83.025	11.25	April 3, 2015	Executive Board approval of the three-year ECF arrangement
83.025	11.25	August 31, 2015	The Executive Board completed the First Review under the three-year ECF arrangement
83.025	11.25	January 13, 2016	The Executive Board completed the Second Review under the three-year ECF arrangement
83.025	11.25	September 28, 2016	The Executive Board completed the Third Review under the three-year ECF arrangement
66.42	9.00	April 15, 2017	Observance of the performance criteria for June 30, 2016, and completion of the Fourth Review under the arrangement
66.42	9.00	September 15, 2017	Observance of the performance criteria for August 31, 2017, and completion of the Fifth Review under the arrangement
66.42	9.00	February 15, 2018	Observance of the performance criteria for December 31, 2017, and completion of the Sixth Review under the arrangement
66.42	9.00	August 15, 2018	Observance of the performance criteria for June 30, 2018, and completion of the Seventh Review under the arrangement
66.42	9.00	February 15, 2019	Observance of the performance criteria for December 31, 2018, and completion of the Eighth Review under the arrangement
664.2	90.00	Total under the ECF arrangement ³	

¹In addition to the generally applicable conditions under the ECF arrangement.

²Based on Ghana's current quota of 738 SDR millions. Effective February 19, 2016, Ghana's quota doubled, from 369 SDR millions previously.

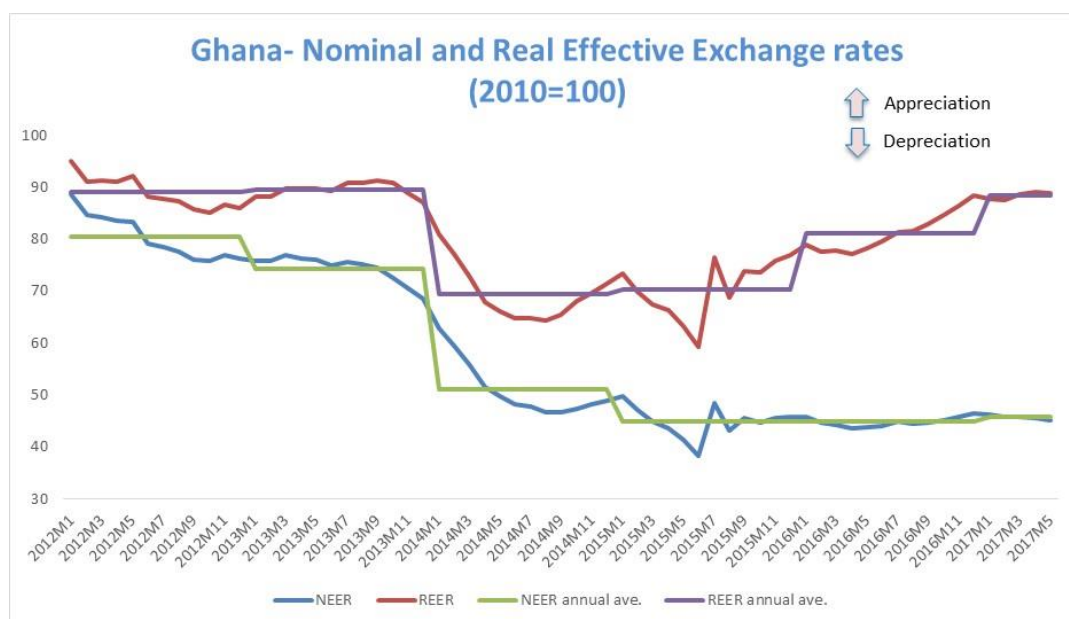
³Total under the ECF arrangement upon approval was 180 percent of quota.

Table 11. Ghana: Indicators of Capacity to Repay the Fund, 2017–31

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Fund obligations based on existing credit (in millions of SDRs)															
Principal	53.7	77.5	77.5	64.1	83.2	90.3	66.4	66.4	58.1	24.9	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.5	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Fund obligations based on existing and prospective credit (in millions of SDRs)															
Principal	53.7	77.5	77.5	64.1	83.2	90.3	99.6	126.2	124.5	91.3	66.4	33.2	6.6	0.0	0.0
Charges and interest	0.5	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Total obligations based on existing and prospective credit															
In millions of SDRs	54.2	78.8	78.8	65.4	84.5	91.5	100.9	127.5	125.8	92.6	67.7	34.5	7.9	1.3	1.3
In millions of US\$	74.5	109.3	109.4	90.9	117.3	126.9	139.9	176.7	174.4	128.4	93.8	47.8	11.0	1.8	1.8
In percent of gross international reserves	1.3	1.7	1.6	1.2	1.4	1.4	1.5	1.8	1.6	1.1	0.8	0.4	0.1	0.0	0.0
In percent of exports of goods and services	0.4	0.5	0.5	0.4	0.5	0.5	0.5	0.6	0.5	0.4	0.3	0.1	0.0	0.0	0.0
In percent of debt service ¹	3.0	4.4	4.4	3.1	3.8	4.2	3.7	5.7	5.6	4.0	3.2	1.4	0.3	0.0	0.0
In percent of GDP	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0
In percent of quota	7.3	10.7	10.7	8.9	11.4	12.4	13.7	17.3	17.1	12.6	9.2	4.7	1.1	0.2	0.2
Outstanding Fund credit															
In millions of SDRs	741.3	796.6	785.5	721.4	638.2	548.0	448.3	322.1	197.6	106.3	39.9	6.6	0.0	0.0	0.0
In millions of US\$	1028.1	1105.6	1091.4	1001.8	885.2	759.0	621.0	446.2	273.7	147.2	55.2	9.2	0.0	0.0	0.0
In percent of gross international reserves	17.8	17.5	16.1	13.4	10.9	8.7	6.6	4.4	2.5	1.3	0.5	0.1	0.0	0.0	0.0
In percent of exports of goods and services	5.3	5.2	4.8	4.2	3.5	2.8	2.2	1.5	0.9	0.4	0.2	0.0	0.0	0.0	0.0
In percent of debt service ¹	41.6	44.7	43.5	34.2	28.7	25.4	16.3	14.5	8.8	4.5	1.9	0.3	0.0	0.0	0.0
In percent of GDP	2.3	2.2	2.1	1.8	1.5	1.2	0.9	0.6	0.3	0.2	0.1	0.0	0.0	0.0	0.0
In percent of quota	100.4	107.9	106.4	97.8	86.5	74.3	60.8	43.7	26.8	14.4	5.4	0.9	0.0	0.0	0.0
Net use of Fund credit (in millions of SDRs)															
Disbursements	132.8	132.8	66.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	53.7	77.5	77.5	64.1	83.2	90.3	99.6	126.2	124.5	91.3	66.4	33.2	6.6	0.0	0.0
Memorandum items:															
Nominal GDP (in millions of US\$)	45,464	49,226	52,863	56,415	60,449	65,127	70,162	75,256	80,534	86,156	92,098	98,436	105,251	112,543	120,403
Exports of goods and services (in millions of US\$)	19,390	21,213	22,551	23,821	25,350	27,094	28,721	30,211	31,720	33,491	35,500	37,786	40,215	42,760	45,463
Gross international reserves (in millions of US\$)	5,783	6,319	6,797	7,483	8,145	8,765	9,365	10,063	10,793	11,492	12,041	12,492	13,314	14,116	15,208
Debt service (in millions of US\$)	2,471	2,473	2,506	2,928	3,083	2,989	3,808	3,080	3,111	3,238	2,956	3,501	3,765	4,132	4,113
Quota (millions of SDRs)	738	738	738	738	738	738	738	738	738	738	738	738	738	738	738
Sources: IMF staff estimates and projections.															
¹ Total debt service includes IMF repayments.															

Annex I. External Sector Assessment

1. While the Nominal Effective Exchange Rate (NEER) has been relatively stable over the last three years following a sharp depreciation in 2014, the Real Effective Exchange Rate (REER) has shown gradual appreciation in 2016. Nominal depreciation was smaller than suggested by inflation differentials, presumably reflecting active FX intervention by the Bank of Ghana (BoG), leading to some real appreciation in 2016. This trend continued in early 2017. Both the NEER and REER have a seasonal pattern, with a tendency to appreciate towards year-end owing to large capital inflows (associated with the lump-sum disbursement of a large cocoa-related syndicated loan, see below) and larger cocoa exports.



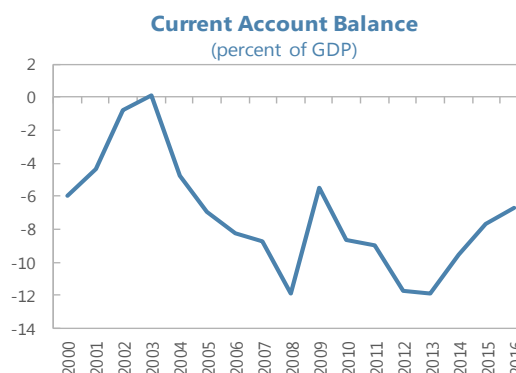
2. Ghana's current account is weaker than fundamentals and desirable policy settings based on the Fund's model-based exchange rate assessment tool (EBA-lite¹). Based on the current account model, the current account norm is projected at 4.2 percent of GDP, with the current account gap of 2.5 percent of GDP largely explained by the policy gap mainly due to large fiscal slippages, suggesting a REER gap of around 8 percent. This assessment is reinforced by the external sustainability approach, which points to the current account norm of 4.1 percent of GDP with a medium-term target of net international investment position of 60 percent of GDP.² This assessment is broadly consistent with the findings in the previous Article IV consultation concluded in 2014. According to staff's current projections, the current account deficit is projected to decline towards the norm over the projection period, supported by frontloaded fiscal consolidation and an improvement in the oil trade balance (Box 1).

¹ For details please see <https://www.imf.org/en/Publications/Policy-Papers/Issues/2016/12/31/Methodological-Note-on-EBA-Lite-PP5017>.

² This is in line with the average of frontier markets.

Box 1. Ghana's current account adjustment

Following a significant widening in recent years, the current account deficit started reversing in 2014. Fiscal slippages and aggressive capital investments, along with some overvaluation as reported in earlier Article IV consultations, had contributed to worsen the current account deficits through 2013. The cumulative current account adjustment over 2015-16, covered under the current Fund-supported program, was 2.9 percent of GDP, in line with the original program projections. While hydrocarbon (both oil and gas) production is expected to increase going forward,¹ the authorities should tackle structural impediments, such as unstable power supply and wide-spreading of a cocoa tree disease, to further increase production capacity in gold and cocoa. Diversification of non-commodity exports, including in agro and fishery industries, is essential.

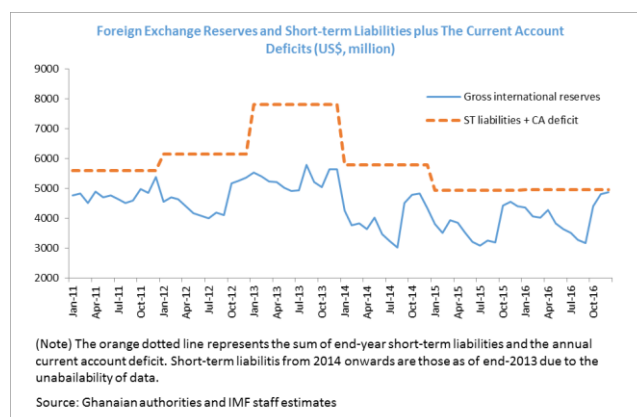
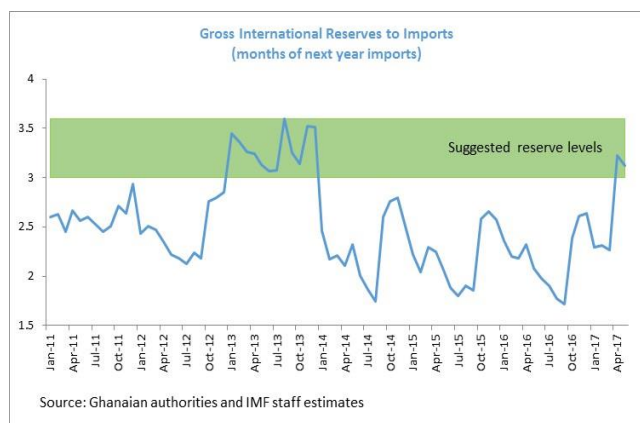


¹Oil production is expected to reach its peak in 2019.

3. According to the Fund's cost-benefit reserve assessment,³ Ghana's optimal reserve level is around 3.3 month of imports. This analysis suggests a range of benchmark reserves between 3.0 and 3.6 months of imports depending on the choice of costs of holding reserves—broadly consistent with the authorities' medium-term target of reserves coverage. Robust capital inflows enabled the BoG to accumulate net international reserves in 2016 for the first time in six years. While gaps have been narrowing, reserves remain below comfortable levels⁴ relative to the Fund's reserves adequacy metrics, and as measured by the expanded Greenspan-Guidotti rule (which compares the level of reserves with short-term debt plus the current account deficit). The reserves to broad money ratio—which measures the resiliency to capital flights—has shown a somewhat declining trend in the recent years while staying over the frequently-used comfort level of 20 percent with a wide margin.

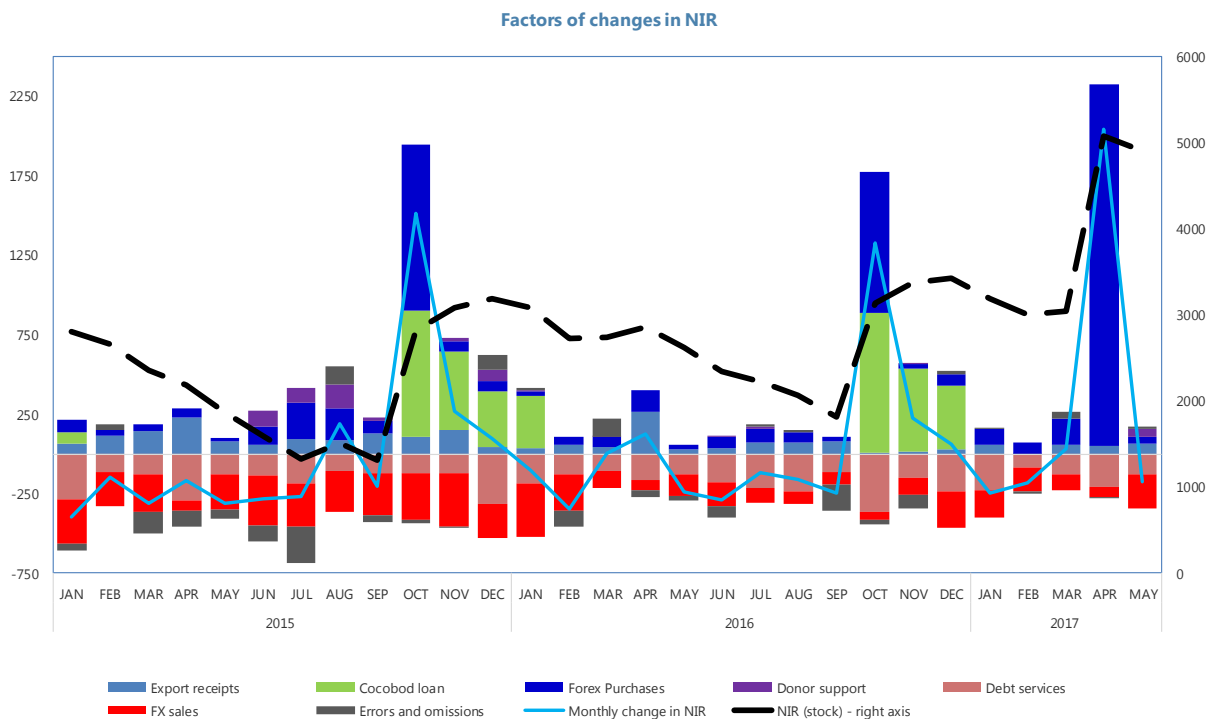
³ This approach weighs the benefits of holding reserves (with the view to smooth domestic absorption / consumption in case of large exogenous shocks) against the opportunity cost of holding reserves. See <http://www.imf.org/external/np/spr/ara/>.

⁴ The authorities have broadened the coverage of services in the balance of payments, which led to a sharp drop in reserves coverage from 2015.

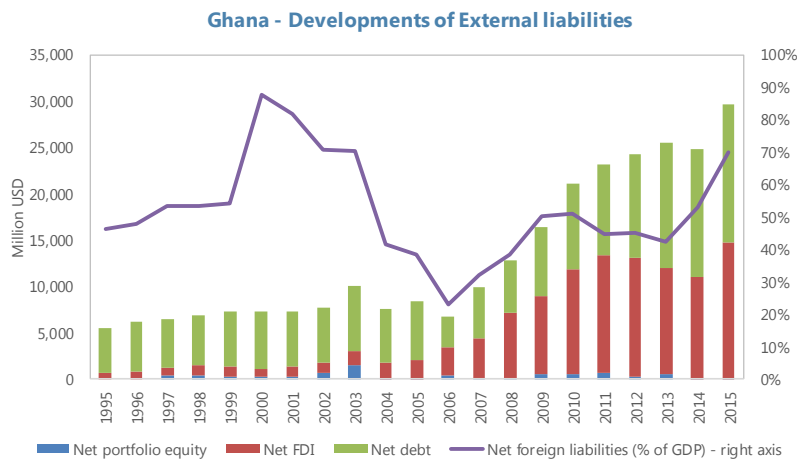


4. A more coherent intervention strategy would help further build up reserves to more comfortable levels. The BoG has been selling reserves to meet market's FX demands in a discretionary manner, using mainly the proceeds of the annual Cocobod prepayment loans⁵ and Eurobonds—which typically materialize in the fourth quarter. The BoG has gradually abolished surrender requirements and introduced one-way FX auction (for selling foreign currencies) in November 2016 – which was subsequently suspended in early 2017. While reserves build-up rests on occasional large capital inflows, a more transparent and articulately-planned intervention strategy is needed to build up reserves in a sustained way, especially in the context of abolishment of surrender requirements.

⁵ Ghana has annually received cocoa prepayment loans of around US\$2 billion in the fourth quarter, which are collateralized by cocoa export receipts. The Cocobod purchases cocoa beans from local producers in local currency and collectively export them based on pre-determined prices with global importers.



5. Capital inflows have been robust in the post HIPC-MDRI era. Both FDI and external debt have contributed to a large increase in external liabilities from 23 percent of GDP in 2006 to 70 percent of GDP in 2015. External debt to GDP levels have steadily grown since Ghana gained access to the international capital markets in 2007. Due to repeated fiscal slippages and large depreciation from 2014 onwards, external debt-to-GDP ratio has soared rapidly. Impressive levels of inward FDI were driven by the oil sector after a discovery of a large oil field in Ghana. With oil production expected to reach its peak in 2019, FDI is projected to slow down in the medium term, although the government’s pro-business economic policies might help mitigate the declining trend. Further correcting fiscal imbalances and reserves build-up would increase the sustainability of Ghana’s international investment position.



Staff assessment**6. Based on the above assessment, Ghana's overall external position appears weaker than warranted by fundamentals and external stability hinges upon securing fiscal sustainability.**

Staff's exchange rates assessment tools suggest that Ghana's current account is currently weaker than the norms derived by the Fund's exchange assessment tools (EBA-lite), primarily reflecting sizable fiscal deficits in the last few years. Even after a moderate build-up, reserve levels remain below optimal levels, possibly driven by the BoG's one-way intervention strategy. Though the current account deficit has been narrowing in line with the initial program projections, it is projected to stay above the norm in the medium term. External sustainability rests on continued robust capital and FDI inflows. A softening of nonresidents investors' demand for domestic debts would bring Ghana back into a vicious cycle and unwind recent improvements in the current account balance. Anchoring confidence among investors with ambitious and front-loaded fiscal adjustments, is key to strengthening Ghana's external position.

Appendix I. Letter of Intent

Accra, July 31, 2017

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

Dear Ms. Lagarde,

1. The government of Ghana requests the IMF Executive Board to complete the fourth review of the Extended Credit Facility (ECF) arrangement and to approve the disbursement of the fifth tranche of the loan based on partial implementation of end-June 2016 performance criteria (PC) and satisfactory implementation of prior actions.

2. As documented in the attached Memorandum of Economic and Financial Policies (MEFP), economic performance was off-track in 2016 and the program was severely compromised and further exacerbated in the run-up to the elections held in December 2016. When we came into office in January 2017, we inherited a weakened economy (a budget deficit of 9.3 percent of GDP, a negative primary balance of 2.4 percent of GDP and a debt-to-GDP ratio of 73 percent) that made it impossible to achieve the program objectives by year-end 2017. In addition, reflecting the lag in policy implementation due to the change of government (our budget, although prepared and approved in record time, was only enacted in late March), we will need more time to fulfil the original program objectives and strike the right balance between adjustment and growth. To ensure that we bring the program back on track and achieve its objectives, we would like to request the IMF Executive Board to approve waivers for the non-observance of the program targets in 2016, including the primary fiscal balance, net international reserves, net change in the stock of arrears, and non-accumulation of domestic arrears. We will complete the program through our budget cycle of January 2018 through December 2018 and therefore request approval to modify the length of the arrangement by one year and reschedule disbursements evenly. Additionally, as a sign of our commitment to the program, we have implemented three prior actions, with two to be completed in time for the Board discussion.

3. The MEFP lays out specific government policies for 2017 that will strengthen program implementation, enabling us to meet program objectives by the end of 2018. We will implement fiscal measures to contain financing needs, stabilize public debt, and avoid arrears accumulation through the enforcement of the Public Financial Management Act, and the expanded rollout of the Ghana Integrated Financial Management Information System (GIFMIS). The Bank of Ghana (BOG) also remains committed to bringing inflation down to its medium-term target by maintaining a tight monetary policy and refraining from providing any financing to the government. Finally, we are continuing with the implementation of the financial sector Roadmap, with the aim to buttress financial stability and achieve sustainable credit growth.

4. The government believes that the measures and policies set forth in the attached MEFP are appropriate and sufficient to achieve the 2017 objectives. However, we stand ready to take any additional measures, if necessary. We will work with the IMF on the adoption of such measures in advance of revising any policies in the MEFP, in accordance with the Fund's policies. We will hold timely discussions with the IMF staff on the possible terms of non-concessional external borrowing to ensure that such borrowing strengthens confidence in the program, does not jeopardize debt sustainability, and is in line with the Fund's debt limit policy.

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

Sincerely yours,

/s/

Ken Ofori-Atta
Minister for Finance

/s/

Ernest Addison
Governor of Bank of Ghana

Attachments:

Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Appendix I—Attachment I

Memorandum of Economic and Financial Policies, 2017–18

1. This memorandum provides the government’s assessment of economic developments and program implementation, and outlines policies aiming to achieve objectives under the IMF-supported ECF.

I. INTRODUCTION

2. In January 2017, the New Patriotic Party (NPP) took office in Ghana, after another peaceful election and successful transition process. The new administration inherited a difficult economic situation, resulting from weak economic management, compounded by challenges with domestic revenue mobilization and several policy reversals including unconstrained expenditures which ended 2016 with a large fiscal deficit and rising debt stock. The first order of business of the new government and its Economic Management Team, is to return the economy to the path of macroeconomic stability and boost the productive sectors of the economy.

3. Given the depth of the challenges, the government moved swiftly to present its maiden budget in March 2017, highlighting very bold policy initiatives to tackle structural rigidities in the budget, boost productivity through the abolishment of nuisance taxes while plugging revenue leakages and reducing import exemptions, tightening expenditure controls to minimize inefficiencies, and reducing the incidence of poverty through initiatives that will generate jobs.

II. RECENT ECONOMIC DEVELOPMENTS

4. **Ghana’s economic growth decelerated in 2016, affected by a significant decline in oil production.** GDP growth slowed further to 3.5 percent in 2016, compared with 3.8 percent in 2015. Improved performance of the non-oil economy, particularly strong growth in the services sector, only partially offset the decline in oil production. Limited access to finance—private sector credit growth slowed in 2016—affected private sector growth. Growth picked up in the first quarter of 2017 to 6.6 percent, driven by a 59 percent increase in oil and gas production.

5. **Inflation has been declining, supported by tight monetary policy.** Inflation reached 15.4 percent at end-December 2016, compared with 17.7 percent in December 2015. It further declined to 12.1 percent in June 2017, as a result of base effects and lower domestic food price pressures. In view of the consistent declines in headline inflation and inflation expectations, easing underlying inflation pressures and some improvement in the macroeconomic fundamentals, the Monetary Policy Committee (MPC) lowered the monetary policy rate by 50 bps in November to 25.5 percent, 200 bps in March 2017 to 23.5 percent, 100 bps in May to 22.5 percent, and by another 150 bps in July to 21 percent.

6. **Fiscal consolidation was reversed in 2016.** The overall fiscal deficit was higher than envisaged, reaching 9.3 percent of GDP on a cash basis, compared with 7 percent of GDP in 2015. The slippage resulted from a significant revenue shortfall and expenditure overrun. In addition to a decline in oil revenues, tax and non-tax revenues weakened across the board, particularly in the second half of the year. Tax compliance and enforcement were weak, and some programmed non-tax revenue proceeds from sale of goods and services and dividends were not realized.

Government expenditures increased in the run-up to elections, exceeding budgeted targets, particularly outlays on goods and services and foreign-financed capital spending. The higher-than-budgeted foreign-financed capital expenditure was due to faster disbursements of project loans. In spite of the wage bill overrun, the wage bill as a share of GDP and tax revenue continued to decline moderately; for example, the wage-to-GDP ratio declined from 7.7 percent of GDP in 2015 to 7.2 percent in 2016. Outstanding payments and claims of some 3 percent of GDP at end-2016 were also reported. The government has initiated a special audit to verify the legality, magnitude and nature of these unpaid commitments. Gross public debt increased by 1.2 percentage point of GDP, reaching 73.4 percent of GDP at end-2016.

7. The fiscal outturn through May of 2017 was in line with expectations. The overall deficit on a cash basis was 2.3 percent of GDP from above the line (2.2 percent from financing), remaining on track at the end of May of 2017. Although revenues were slightly below target, the trend is expected to be reversed over the rest of the year as the government's new policies take effect. Expenditures will be strictly monitored and constrained to match revenue inflows to ensure that the target deficit is achieved.

8. Financing conditions have improved. Following a US\$750 million Eurobond issuance in September 2016, Ghana's credit spreads have been tightening. On the domestic front, T-bill yields have been declining, to 12¹/₂ percent at end-July, compared with 22³/₄ percent a year ago. Investors' interest in the domestic debt market remains strong, supporting the government's effort to reprofile debt by extending maturities. Non-concessional debt limits for end-June and end-December 2016 were met. Up to end-2016, total contracting of non-concessional external loans for projects (cumulatively from 2015) and concessional external loans reached US\$ 1,006 million and US\$ 101 million, respectively. GNPC's loan equivalent to US\$ 350 million, which was included in the non-concessional debt limit for 2015, was not contracted in time by end-2016 due to a delay in negotiations. Non-concessional loans used for debt management purposes amounted to US\$ 919 million, including the US\$750 million Eurobond. The proceeds of this Eurobond were partly used to buy back the 2017 Eurobond, with \$200 million set aside to finance full repayment at maturity (October 2017), reducing the vulnerabilities associated with the bullet nature of the Eurobond.

9. External pressures have subsided with improved reserve buffer. The exchange rate was relatively stable for most part of 2016. However, the cedi came under pressure in the last two months of 2016 resulting in the currency depreciating by 9.6 percent in the year. Pressures continued in the first two months of 2017, which led to a further depreciation of 6.2 percent by end-February. The cedi has since regained ground, unwinding most of the depreciation seen earlier in the year. The cumulative depreciation for the year to mid-July was 3.3 percent. The local currency has been supported by significant inflows of foreign exchange from renewed non-resident participation in the domestic bond market and improvement in the external sector. The foreign exchange inflows have enabled the Bank of Ghana (BoG) to increase its gross international reserves from US\$ 4.9 billion (2.7 months of import cover) at end-December 2016 to US\$6.2 billion (3.2 months) at end-May 2017.

10. The overall banking sector remains profitable, despite some weaknesses. The sector recorded return on assets and returns on equity of 2.4 percent and 17.7 percent respectively at end-June 2017. However, a recently-undertaken Asset Quality Review (AQR) highlighted

provisioning and capital shortfalls. Some banks exceeded single obligor limits, with capital erosion following the AQR generating further pressures. There were also instances where a few banks were granted single obligor exemptions under the previous Banking Act mainly to the energy sector. Taking into account that the new Banks and SDI Act does not provide for waivers of single obligor exposures, waivers granted under the previous legislation are being phased out. Some banks have accessed the BoG's emergency liquidity facility for more than the three month-maximum stipulated in regulations. The weak economy and problems in the power sector adversely affected the banking system, as indicated by high nonperforming loans, which reached 21.2 percent of total gross loans in June 2017.

III. PROGRAM PERFORMANCE

11. Ghana signed on to a three-year IMF-supported ECF Program in April 2015. Since then, there have been three Program reviews culminating in the disbursement of US\$464 million. The fourth review assesses program performance criteria up to end-June 2016.

12. End-June 2016 quantitative performance criteria (PC) were mostly missed (Table 1). The strong performance in 2015 was derailed during 2016. Several PCs, including the primary fiscal balance, net international reserves, and net change in the stock of arrears, were not achieved, while the continuous PC on non-accumulation of domestic arrears was breached in the first quarter of 2017.¹ While the end-June 2016 government wage bill was within the target, the end-December 2016 wage bill ceiling was exceeded by a small margin. Inflation exceeded the inner band of the Monetary Policy Consultation Clause (MPCC) in June 2016 and a consultation was held with IMF staff.² However, the end-December 2016 inflation of 15.4 percent was within the inner band of the MPCC. Zero central bank financing of the government was observed at end-June 2016 and for the rest of the year. Arrears' clearance picked up and was brought in line with the program target by end-December.

13. Implementation of structural benchmarks (SB) saw little progress (Table 3). Out of eleven SBs which were set at the time of the third review (and whose test dates have passed), only one—rolling out GIFMIS to twenty-five central government Ministries, Departments, and Agencies (MDAs) generating IGFs—was met, while two others were implemented with delay. Structural reforms further slowed in the run-up to the elections. Little progress was made in the following areas:

- Strengthening control of net hiring and the wage bill. The work on developing the interface between the payroll of subvented agencies and the centralized mechanized payroll was stalled, due to the objections by the subvented agencies, particularly the Police;

¹ As per the arrear definition in the TMU, the continuous PC was breached in Q1 2017 because the outstanding payments from 2016 that were recorded in the GIFMIS were not yet cleared, pending the results of the audit.

² See Staff Report for the third review under the Extended Credit Facility Arrangement, ¶26.

- Reducing borrowing costs. The central budgetary government Treasury Single Account (TSA) was not completed, because of weak coordination between the Controller's and Accountant General's Office and MDAs;
- Strengthening financial stability. Completion of the AQR took longer than anticipated as further information was necessary on the restructuring of the obligations of the Bulk Distribution Companies (BDC). Final results were distributed in March 2017, prompting the BoG to engage with undercapitalized banks on corrective actions. Banks are now implementing their recapitalization plans in accordance with the timeframes prescribed by the Banks and Specialized Deposit-Taking Institutions (SDI) Act. The two SBs relating to amendments of the (i) Banks and SDI Act and (ii) Deposit Protection Act have not yet been met mainly because of a reconstitution of Ghana's Parliament in January 2017, making it impossible for Parliament to consider amendments to these Acts by March 2017 as scheduled. Besides, it is critical that the BOG collates views of all stakeholders to be able to present a holistic set of amendments to Parliament.

IV. THE GOVERNMENT'S ECONOMIC PROGRAM IN THE PERIOD AHEAD

14. To set the foundation for becoming the most business-friendly country and fastest growing economy in SSA region by 2019, the government's macroeconomic program in the period ahead will be guided by the macroeconomic objectives as set out in the 2017 Budget Statement. Currently, the government is working towards a successor medium-term development plan which will encompass the government's overarching economic strategy for both economic and social transformation.

15. The government, therefore, with its 2017 Budget has introduced a significant number of initiatives aimed at addressing some of the major structural deficiencies in the management of economy: low revenue collection, expenditure overruns and corruption, high wage bill, rigidity of the fiscal structure caused by heavy earmarking of tax revenue and high debt service payments.

Macroeconomic Framework for 2017 and the Medium Term

16. Outlook for 2017. GDP growth is expected to pick up to about 6 percent in 2017, with a major contribution from the petroleum sector. Petroleum production is expected to increase by 39 percent, as oil production at the new (TEN) Field is expected to increase markedly, with first gas having already been realized in May 2017. Growth in the non-oil sector is expected to be constrained by ongoing fiscal consolidation and weak commodity prices, though this is likely to be offset by improved power supply and easing of domestic private sector bank credit conditions.

17. Medium-Term Outlook. The economy is expected to grow at an average rate of about 7 percent per annum from 2017 to 2019, with the major contribution from the non-oil sector. The non-oil sector would benefit from improved macroeconomic conditions, including price and exchange rate stability, better access to finance, and growth-enhancing measures to be implemented by the government, including reducing infrastructure gaps and improving business environment.

Fiscal Policy for 2017 and the Medium Term

18. The 2017 budget aims at restoring fiscal discipline and takes important steps to mobilize revenue and tackle budget rigidities. Although a number of “nuisance” taxes have been abolished as part of the government’s vision of moving the country from a taxation-based to a production-based economy, measures to broaden the tax base, improving tax compliance and plugging of revenue leakages are vigorously being pursued. Domestic revenue mobilization is being revamped with the strengthening of tax administrative and compliance measures. Additionally, revenue leakages are being tackled holistically to include personnel and system changes. Non-oil tax revenue is estimated at 16 percent of GDP in 2017. The new government has moved in record time to address the structural rigidities in the budget by enacting into law the capping and realignment of earmarked funds to twenty-five percent of tax revenue in 2017 (although the Act gives the Minister the option to top up funds which are deemed a priority area). This has freed up resources for government’s priority programs. The reduced allocations to statutory funds is close to 0.9 percent of GDP relative to baseline. The Act also allows for a larger share of internally generated funds of agencies to be channeled through the central government budget (Structural Benchmark under the Third Review), which will generate 0.6 percent of GDP in non-tax revenue. The budget also includes provision for raising 1.2 percent of GDP from the sale of thermal power plants and shares in publicly listed companies.

19. Expenditures will be controlled to meet the deficit target of 6.3 percent of GDP. As reflected in the mid-year budget review presented to Parliament on July 31, we have adjusted expenditures downwards in goods and services and capital expenditure by 0.8 percent of GDP relative to the budget. Most of these savings will arise from multi-year projects which were budgeted for in 2017 but will take longer to execute. We also revised allotments of MDAs in GIFMIS to reflect the lower spending envelope. Given updated revenue projections, these measures will allow us to meet the deficit target of 6.3 percent of GDP, compared with the target of 6.5 percent of GDP in the budget (6.8 percent of GDP in IMF presentation, due to the difference in treatment of the sale of shares).

20. If revenues underperform, we will make further adjustments to meet the fiscal deficit target. These adjustments could take the form of further curtailment of discretionary spending on goods and services and capital and we will also consider revenue measures.

21. The government plans to further reduce the deficit in 2018 and the medium term with the aim of putting debt on a clearly declining path. We plan to bring the deficit down from 6.3 percent in 2017 to 3.8 percent in 2018. Over the medium term we will generate primary surpluses, sufficient to eliminate a potential risk of debt distress and strengthen Ghana’s debt sustainability.

22. We are striving to eliminate all government arrears by end -2019. The government will refrain from accumulating any new arrears in 2017 and will repay all outstanding arrears by end- 2019 following the outcome of an audit of outstanding commitments generated as at end-2016. The audit is expected to be completed by October. The government has made provision to clear arrears worth 1.8 percent of GDP in 2017, which will eliminate all arrears recognized under the program (including the GHC 1,048 million of new arrears accumulated in 2016). Any further arrears that are verified by the audit will be settled in 2018 and 2019.

Monetary Policy Issues

23. Monetary policy will continue to be guided by the Bank of Ghana's inflation targeting (IT) framework.

Inflation is projected to fall inside the target band of 8 ± 2 percent in 2018, following expected further improvement in macroeconomic fundamentals. However, the MPC will continue to monitor developments and take necessary action towards the attainment of its inflation target.

24. The 2016 Amendments to the BoG Act reduced fiscal dominance. The BoG has continued to strengthen its monetary policy formulation process and communication, consistent with best IT practices. The amended BoG Act was passed in August 2016 and among others seeks to improve governance and enhance autonomy of the central bank in the pursuit of price and financial stability. The new Act also stipulates that central bank financing of government should not exceed 5 percent of the previous fiscal year's total revenue. This is expected to reduce fiscal dominance in the policy formulation process and enhance the inflation targeting framework. Despite this provision in the Amended Act, the BoG and the MOF have signed an MOU committing to the central bank's zero-financing of government. A zero limit on central bank financing, together with other provisions to enhance the BoG's autonomy, will be considered for future amendments of the Act.

25. FX auctions have been suspended following problems in implementation. On the recommendation of the IMF, the BoG started an auction of FX to the market in November 2016 to intermediate the proceeds from the syndicated cocoa loan in a market-determined and transparent way. After six auctions, however, the process was stopped as the BoG perceived it to have an undesirable impact on the exchange rate – on auction days, the cedi's depreciation spiked. The BoG has since reverted to bilateral interventions in the FX market to smoothen volatilities by providing FX liquidity as needed. This has contributed positively to the relative stability of the cedi.

Financial Sector Issues

26. The BoG has been implementing the Roadmap for Financial Stability to address the weaknesses in the banking sector. The BoG launched the AQR Update in September 2016 and is currently implementing follow-up actions that seek to protect the interests of depositors and ensure the soundness and stability of the Ghanaian financial sector. As part of the its commitment to address banking sector weaknesses in accordance with the legal framework, the BoG has requested for recapitalization plans from all solvent banks that have been identified as undercapitalized. Implementation of the plans is being closely monitored by the BoG and, based on progress to date, these banks are expected to meet the minimum capital adequacy ratio within the timeframe prescribed by the Banks and SDI Act. In addition, the BoG started daily and bi-monthly liquidity monitoring of banks in September 2016 and approved a Guide for Financial Publication and a Guideline for Emergency Liquidity Assistance also in September 2016. Going forward, the BoG is ensuring strict compliance with the new guidelines on emergency liquidity assistance, including through strict collateralization requirements, continuous monitoring of repayment plans and punitive interest rates. Finally, the BoG is addressing the elevated level of non-performing loans through more concerted efforts to step up recoveries and write-offs by

banks; more timely enforcement of collaterals; and more stringent oversight of banks' credit risk management frameworks and lending policies.

27. The legal framework for financial sector supervision and regulation has been strengthened, with the approval of the new laws. The new Banks and Specialized Deposit-Taking Institutions Act, 2016 (Act 930) was enacted and became operational in February 2017. The BoG is currently reviewing the Act, reflecting input from the industry as appropriate, and will submit additional enhancements to Parliament, in consultation with IMF staff, that will further strengthen the regulatory framework and resolution regime. The authorities are developing an implementation plan for the new deposit insurance scheme that will seek to ensure that the scheme does not enter into force before all conditions for its effective functioning have been met and financial sector vulnerabilities have been substantially ameliorated.

28. The BoG is strengthening the supervision of the microfinance sector. Serious weaknesses in the sector have posed challenges for regulation and supervision. These include undercapitalization, unlicensed operations, the large numbers of licensed MFIs vis-à-vis limited staffing numbers and supervisory resources, the lack of good corporate governance structures and sound risk management practices among licensed MFIs, and the lack of regular and accurate prudential reporting by licensed MFIs. The BoG is currently preparing a comprehensive action plan for the reform of the sector, including measures to improve supervision and regulation, enforce prudential rules and strengthen the financial soundness of individual institutions. Measures taken so far have targeted improvements in returns submission and risk-based supervision and tougher sanctions against non-compliance and capacity building of supervision staff. Future plans include the regular publication of licensed MFIs in good standing and the establishment of an Apex body to assist the BoG in regulating and supervising the sector.

V. STRUCTURAL REFORM AGENDA

A. Tax Policy and Revenue Administration

29. While the government's focus is on reducing taxes to enhance production, we are also determined to tackle the systemic abuse in the exemptions regime and improve compliance. There is an ongoing review of the regime on import duty exemptions and tax reliefs with a view to eliminating abuses and improving efficiency in the applications of these incentives. To this end, beneficiaries of import exemptions have been asked to pay the duties upfront and later apply for a refund. The government has opened an escrow account to process the refunds and plans have been put in place to process these refunds within 3 weeks instead of the initial 30 days. The policy has resulted in a drop in total exemptions. For instance, total exemptions as at May 2017 was GH¢825.37 million as compared to GH¢1,154.13 million for the same period in 2016. Exemption beneficiaries have complained about cash flow challenges. However, after assuring them of timely refunds, beneficiaries have generally accepted the policy. Initial indications have shown that some beneficiaries after paying the taxes are not able to prove justification for the refund.

30. The Ghana Revenue Authority (GRA) will also undertake warehousing and re-performance audits as well and audits of free zones to reduce leakages and improve compliance. Data-matching exercises which compare customs and VAT data filings of companies

are also being conducted to identify tax-leakages. This work is providing important information with respect to sources of non-compliance. Preliminary findings suggest large discrepancies between various source of tax declarations. An action plan has been developed to tackle these compliance risks, including a strong communication campaign to inform and sensitize taxpayers. Companies that have already been identified as non-compliant have received notice of the discrepancies and are requested to provide explanations, or make payments within 30 days, beyond which they are subject to penalties. Some companies have already started to make full payments.

31. The government in the medium term will focus on enhancing tax revenue generation and modernisation of the tax administration. A new nine-member board of the GRA has been inaugurated in May, with the aim to revamp and boost the revenue collection effort. Furthermore, the GRA has received Technical assistance to use the Tax Administration Diagnostic Assessment Tool (TADAT). TADAT provides an assessment baseline of tax administration performance that can be used to determine reform priorities. Further technical assistance has already been requested to help design a new reform agenda. Subsequent assessments will manage to highlight reform achievements.

32. The government also plans to institute the following measures to broaden the tax base:

- **Pass an Act to support the Common Reporting Standards and Automatic Exchange of Information (AEOI) protocols.** This is part of our international obligations on exchange of information. This will ensure that local financial institutions collate and report financial information of non-resident account holders of participating countries to the GRA for the purposes of compliance and vice-versa. This Act is in addition to current requirements for the provision of information;
- **Commence implementation of the Excise Tax Stamp Act, 2013 (Act 873) to boost revenue collection and curtail under-invoicing and smuggling.** The policy has faced a number of technical challenges, which have delayed implementation. Most of the technical issues have been resolved and implementation will begin in the fourth quarter of the year in a phased-in basis;
- **Complete the roll-out of the Geographic Positioning System Project** which is currently being deployed on a pilot basis to identify potential taxpayers and to register them to pay taxes;
- **Roll-out the National Identification Scheme** to broaden the tax base and accelerate financial inclusion. The scheme would help formalize the economy through the establishment of a national database, which can be linked to the databases of other institutions such as the Police, National Health Insurance Scheme (NHIS), Passport Office, Immigration, Courts, GRA, and the Driver and Vehicle Licensing Authority (DVLA).

- **Use third party information such as GIFMIS data on payments**, data from regulatory bodies such as Financial Intelligence Centre, Economic and Organized Crime Office, to identify new taxpayers and for further assessment purposes;
- **Systematically implement the TIN system** under the Revenue Administration Act. Since the passage of the Act in 2016, several fora have been held for stakeholders to discuss their role in the exercise and the obligations placed on them by the Act. Teams were sent to all MDAs to carry out on-site registration of their staff. Employers have also been granted the mandate to collect and submit forms on behalf of their employees. Approximately 200,000 forms have been received and processed since the exercise commenced in November 2016; and
- **Complete the roll-out of TRIPS™**: The TRIPS™ has been rolled out in 33 GRA offices with 31 offices outstanding as at the end of June. The remaining offices will be included by the end of 2017. The main risk is the timeliness of relocation of some offices, which are moving to new locations.

B. Public Finance Management

33. We have started to implement the Public Financial Management (PFM) Act approved in 2016. There is now an urgent need to draft regulations in support of the new Act, with planned submission to Parliament by December 2017. An important area to cover is budget execution and commitment controls. During the preparation of the 2017 budget, it emerged that MDAs had unpaid commitments in excess of budgetary allocations, by roughly GHc5.0 billion. Currently, an audit is taking place to validate these unpaid commitments and to ascertain whether financial rules and regulations were adhered to. The audit will also allow the review of the system of controls and provide recommendations on appropriate remedial actions where weaknesses and abuses existed in the awarding process.

34. We are working to improve the operations of the MOF to enhance budget execution, credibility and transparency. Current organizational arrangements and existing functions at the MOF have not kept abreast with the pace of PFM reforms. A technical assistance mission has reviewed the functions of the MOF, to ensure that they take full advantage of the automation introduced with GIFMIS and adequately reflect the thrust of the PFM Act. We intend to hire a long-term consultant to implement the mission recommendations. This will involve among other: establishing a cash management unit to better link commitment approvals to cash availability; centralizing forecasting function to help develop a Medium-Term Fiscal Framework, with more credible revenue projections and realistic medium-term aggregate expenditure ceilings. We are also working to improve the capacity to enhance fiscal risks management and control of SOEs, including the setting-up of a fiscal risk unit in the MOF by October 2017. As a complementary step, we are considering a number of initiatives to enhance fiscal transparency. We have recently published for the first time an aggregate report on the performance of SOEs. We will also publish the budget of statutory funds.

35. We introduced a legal cap on revenue earmarking as a first step to addressing the rigidities in the budget and to allow the government to better manage public funds. In 2016, three budget items, wages and salaries, interest payments and statutory payments have

accounted for more than 100 percent of government revenues. The lack of fiscal space and the associated rigidities in the budget have hindered our ability to direct public spending to high-priority areas and respond to external shocks. We therefore introduced the Earmarked Funds Capping and Realignment Bill, passed into law under a certificate of urgency in March 2017. The new Act introduces a cap on the transfers to Earmarked Funds to 25 percent of tax revenues in any year (these funds have represented more than one third of government revenue). Over time, we plan to review the operations of statutory funds to reduce spending inefficiencies and improve transparency and accountability, as their spending occurs outside the budget. We have introduced a provision allowing the Minister to commence a review of the legislative basis of statutory funds, to determine whether the funds have outlived their usefulness, and in that case, proceed with their elimination.

36. We are strengthening expenditure controls to generate savings and create space for financing priority needs. We will continue working toward tightening the controls of the government payroll. As of April 2017, we suspended the salaries of 26,589 workers who had not been biometrically registered with the Social Security and National Insurance Trust (SSNIT). Since then, the salaries of 24,609 workers have been activated following submissions from SSNIT. Currently, 1,980 employees remain suspended. We will continue to implement strategies aimed at cleaning up the payroll and rationalizing the payroll costs, including completing a study on subvented agencies, revamp the civil service reform strategy and finalize the roll-out of the HRMIS to all MDAs. The GIFMIS processes are being reinforced to ensure that expenditure controls are strengthened. The interface of payroll for selected public universities to the GIFMIS will be completed by end December 2017. Interface to GRA on pilot basis has been completed. We have subsequently engaged a consultant to complete the interface with the three Universities.

37. We are planning to make the Treasury Single Account operational by end-August. As a first step, the government has evaluated the impact on the banking system of transferring government bank balances from commercial banks to the TSA. The evaluation, conducted by the Controller and Accountant General's Department (CAGD), together with the BoG, with the help of technical assistance, concluded that no adverse impact is expected on the banking system. However, we are phasing the implementation to minimize any unintended impact on liquidity. We are therefore developing a work plan to complete the TSA by August 2017. The plan involves continuous consultations between the MOF, BoG, CAGD, individual banks and MDAs to, among others, identify specific bank accounts to be transferred or closed.

C. Debt Management

38. Our debt management strategy will focus on bringing down the cost of debt and minimizing refinancing risks. Some re-profiling operations have been conducted, including the debut issuance of a 15-year callable bond, to alleviate refinancing risk, in accordance with the Medium-Term Debt Management Strategy. We are seeking to further lengthen the maturity profile and reduce refinancing risks through a program of buy-backs and exchanges while also maintaining adequate cash buffers. We have increased transparency in the primary market with publication of an improved quarterly auction calendar and will also publish an Annual Borrowing Plan. To develop the secondary market in the medium term, we plan to create a limited number

of benchmark securities, and operationalize securities lending, short-selling and repurchase agreements.

39. For 2017 the non-concessional external debt will continue to be subject to two ceilings: (i) for debt management purpose and (ii) for projects critical for national development, and for which concessional financing is not available. The debt ceiling for debt management will be set to zero, reflecting no planned Eurobond issuance. The debt ceiling for priority infrastructure projects would be set at US\$ 2,250 million on a cumulative basis from the beginning of 2015—an increase of US\$520 million, compared with the end-June 2017 indicative target in the Third Review. A separate limit on GNPC’s non-concessional borrowing to accommodate the delayed GNPC loan of US\$ 350 million will be maintained. The use of non-concessional external loans will be restricted to projects included in the priority project list (¶31 of the TMU), which would help reduce the infrastructure gap and implement development objectives explained in the Ghana Shared Growth and Development Agenda (GSGDA) II and the 2017 Budget. Concurrently, an indicative target on concessional external borrowing would be raised by US\$300 million to accommodate the World Bank’s budget support and project loans, which are supposed to be provided on concessional terms under the IDA’s new multi-year lending program (IDA18).

40. We have been strengthening our debt management system to avoid delays in debt service and associated penalties. We are working on recommendations, especially on the processes for debt payments with IMF technical assistance. This is being done in conjunction with the provisions in the PFM law on debt payments.

D. Restructuring of Energy Sector State-Owned Enterprises (SOEs)

41. We have been developing a plan for strengthening the, particularly in the energy SOEs. The MOF and the MOE have completed an extensive review of the final draft of the Debt Validation and Viability Analysis of the SOEs prepared by Ernst and Young (and are in the process of reverting to them for finalization), covering the Electricity Company of Ghana (ECG), the Volta River Authority (VRA), GRIDCO (electricity transmission company), Ghana Gas (GNGC), and the Tema Oil Refinery (TOR). The report estimated these companies’ end-June 2016 stock of debt at GHc23.78 billion (14 percent of GDP), of which GHc 22 billion (13 percent of GDP) was validated. Specifically, the validated stock of loans amounted to GHc 10.8 billion (6.4 percent of GDP), of which loans contracted or guaranteed by the government amounted to GHc 6.25 billion (3.7 percent of GDP). The stock of arrears to creditors and suppliers amounted to GHc 6.7 billion (4 percent of GDP) and inter-SOE arrears, to GHc 3.2 billion (1.9 percent of GDP). To address concerns raised by the audit about the financial viability of the SOEs, we decided to take a three-pronged approach: (i) to restructure the SOE debt; (ii) to strengthen the payment discipline; and (iii) to introduce private sector participation in distribution, by concessioning the ECG under the Second Compact with the Millennium Challenge Corporation (MCC). More specifically:

- (i) The government intends that the current indebtedness in the three power sector utilities—VRA, ECG, GRIDCO as well as arrears relating to the validated foreign exchange under-recoveries in the downstream petroleum sector—will be paid off under an ESLA receivable backed instrument through the incorporation of an SPV. Under the proposed SPV

arrangement, a debt service Escrow Account will be created to which all future receivables will be assigned.

(ii) We decided to reactivate a clearinghouse mechanism to manage the inter-utility and utility-government liabilities to improve collection rates. The mechanism would include all SOEs and the government.

(iii) We have been working with the MCC on concessioning the ECG by end-2018. Out of six companies, which expressed interest in concession, five remain interested, following the May 2017 bidding conference. We are completing the work on the new Tariff Methodology, which will be presented to our development partners and to the bidders by end-June 2018.

42. We are strengthening monitoring of the financial performance of the SOEs. To this end, E&Y in response to our request, has developed a financial reporting template for all energy sector SOEs. We shall rigorously enforce its operation. Additionally, we are putting in place a standing technical committee to oversee the successful implementation and subsequent monitoring of the proposed plan (funding solution, greater efficiency mechanisms and corporate governance solutions) to ensure optimum results. Under the above plan, for example, we envisage monitoring the financial situation of the VRA and the ECG on regular (monthly, quarterly) basis, using an “overall balance” defined as the sum of net after tax profits, excluding government subsidy on an accrual basis, with a zero ceiling on the accumulation of gross payables.

VI. POLICIES TO SUPPORT GROWTH AND POVERTY REDUCTION

43. In spite of the major macroeconomic and structural challenges we face as a nation, we are setting the stage for creating job opportunities, easing hardships and securing a bright future for our citizens, businesses and industries. We have, therefore, designed policy initiatives to help improve the business environment, instill fiscal discipline and promote investment in critical infrastructure especially in rural and deprived communities.

Supporting Private Sector Development

44. We have embarked on the implementation of growth-enhancing initiatives which would be integrated into our National Development Strategy. The National Industrial Revitalization Program (NIRP) is one of our initiatives established to provide technical and financial support to existing companies currently distressed or facing operational challenges, but are deemed to be viable to benefit from the stimulus package which will put them in operation in the shortest possible time.

45. The National Entrepreneurship and Innovation Plan (NEIP) is a flagship initiative which will be the primary vehicle for providing an integrated support for early stage (start-ups and small) businesses. It will focus on the provision of business development services, business incubators, and funding for youth-owned businesses. The NEIP will enable qualified new businesses to emerge and give them the space to grow, position them to attract financing, and provide business development support services. The programme will assist these businesses to

secure markets during the critical formative years, and tap into a wide supply chain and network during their growth years.

Supporting Economic Growth Across the Board

a. **The government intends to pursue an inclusive development strategy aimed at radically improving basic infrastructure at the constituency level, especially in rural and deprived communities.** The Infrastructure for Poverty Eradication Program (IPEP) will be our main vehicle for tackling these challenges. The IPEP is designed to direct our capital expenditure towards local, constituency-level specific infrastructure and economic development priorities, with particular emphasis on rural and deprived communities. Under the IPEP, every one of our 275 constituencies will be allocated the equivalent of US\$1 million annually. It is expected that the projects selected, under standardized guidelines, will fall in the following categories: (a) One-District-One-Factory; (b) One-Village-One-Dam; (c) Small Business Development; (d) Agricultural Inputs (including equipment); (e) "Water for All" Projects; and (f) Sanitation Projects.

46. In the agriculture sector, the government will focus on promoting the Fertilizer Subsidy program and the Agricultural Mechanization Service Centers, among others.

Supporting the Poor and Vulnerable

47. We will alleviate poverty through regional development and social assistance to the most vulnerable. In order to fight extreme poverty and vulnerabilities, the government continues to improve Ghana's social protection policy implementation and systems. The government, through the Ghana Social Opportunities Project (GSOP) worked to improve targeting in social protection spending, increase access to conditional cash transfers nationwide, increase access to employment and cash earning opportunities for the rural poor during the agricultural off-season, and improve economic and social infrastructure in target districts. In 2016, the Ministry of Gender, Children and Social Protection, together with the Ministry of Local Government and Rural Development and various development partners collaborated in the implementation of programs such as Labour Intensive Public Works (LIPW); the Livelihood Empowerment Against Poverty (LEAP), among others.

48. The government will continue to demonstrate its commitment to poverty eradication through poverty-related expenditures incurred by MDAs and MMDAs on activities geared towards the reduction of poverty. These are cross-functional expenditures which support the provision of basic education, primary health care, poverty-focused agriculture, rural water, feeder roads and rural electrification.

- **In education,** the policy is to improve access to education at all levels. The government will implement the comprehensive free public Senior High School (SHS) programme starting with the 2017/18 academic year. This will include technical and vocational institutes. 58 percent of the total allocation to the sector will be used to improve basic education.
- **In health care,** the government is focusing on improving primary health care. It will devote about 56.7 percent of the total sector allocation to primary health care programmes.

VII. PROGRAM MONITORING

49. The program will continue to be monitored based on periodic performance criteria, continuous performance criteria, Monetary Policy Consultation Clause, and indicative targets as of end-August 2017 and end-December 2017, set out in Table 2, with indicative targets for end-September 2017. Structural benchmarks set out in Table 5 will be used for monitoring progress on structural reforms. Detailed definitions and reporting requirements for all performance criteria are contained in the Technical Memorandum of Understanding (TMU) attached to this memorandum, 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 fifth and sixth reviews under the program is expected on or after September 15, 2017, and on or after February 15, 2018 with end-August 2017, and end-December 2017 as test dates, respectively.

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

	2015		End-March 2016		End-June 2016			Met/Not met	End-September 2016			End-December 2016				
	Actual	Target	Adjusted target	Actual	Target	Adjusted target	Actual		Target	Revised target	Adjusted target	Actual	Target	Revised target	Adjusted target	Actual
I Quantitative Performance Criteria²																
Primary fiscal balance of the government (floor in millions of cedis)	328	13	-75	-1,706	723	941	-2,126	Not met	1,227	...	1,401	-2,688	2,083	...	2,133	-2,344
Wage bill (ceiling; in millions of cedis)	10,556	2,928		2,845	5,853		5,791	Met	8,783	...		8,910	11,723	...		12,110
Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars) ³	2,241	-555		-489	-357	-430	-798	Not met	-928	-1,161	-1,274	-1,239	832	600	480	329
Net change in stock of arrears (ceiling, millions of cedis)	-2,699	-630		-331	-1,476		-611	Not met	-2,313	...		-1,652	-2,313	...		-2,438
II Continuous Performance Criteria																
Gross financing of BoG to the Government and SOEs (ceiling; in millions of cedis) ⁴	15,612	15,814		15,606	15,814		15,301	Met	15,814	...		15,624	15,814	...		15,394
Non-accumulation of external arrears (ceiling; millions of U.S. dollars)	0	0		0	0		0	Met	0	...		0	...		...	...
Non-accumulation of new domestic arrears (ceiling; millions of cedis)	0	0		0	0		0	Not met	0	...		0	...		...	0
Contracting or guaranteeing of new external nonconcessional debt (ceiling; millions of U.S. Dollars) ⁵																
o/w: Debt for a debt management purpose ⁶	1,150	1,000		75	1,150		75	Met	1,150	1,175		825	1,150	1,175		919
Debt for projects (cumulative from the beginning of 2015) ⁷	589	1,000		589	1,000		808	Met	1,000	1,230		808	1,000	1,230		1,006
Debt for project (GNPC) ⁸	0	...		...	...		...	...	...	350		0	...	350		0
III Monetary Policy Consultation Clause																
Twelve-month consumer price inflation (percent)																
Outer band (upper limit)	20.7	20.5			19.0				16.9	19.0			13.0	16.5		
Inner band (upper limit)	19.7	19.5			18.0				15.9	18.0			12.0	15.5		
Central target rate of inflation	17.7	17.5		19.2	16.0		18.4	Not met	13.9	16.0		17.2	10.0	13.5		15.4
Inner band (lower limit)	15.7	15.5			14.0				11.9	14.0			8.0	11.5		
Outer band (lower limit)	14.7	14.5			13.0				10.9	13.0			7.0	10.5		
IV Indicative Target																
Net Domestic Assets of Bank of Ghana (ceiling; millions of cedis) ⁹	4,682	4,031		5,685	3,818		7,766	Not met	6,447	12,101		10,554	265	6,667		7,654
Contracting or guaranteeing of new external concessional debt (ceiling; millions of U.S. Dollars)	202	400		4	400		86	Met	400	...		86	400	...		101
Social Protection (floor, in million of cedis)	2,489	522		471	1,050		715	Not met	2,573	...		1,180	3,022	...		1,641
Memorandum item:																
Primary fiscal balance of the government (excluding discrepancy)	-511	13		151	723	939	-540	Not met	1,227	...		-2,152	2,083	...		...

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

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

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

⁴ Defined as a level.

⁵ The two subceilings, one for a debt management purpose and the other for projects, apply starting from the date of completion of the second review. Prior to this date, the ceiling remains as specified in Table 1 of the August 25, 2015 Supplementary Letter of Intent, and as specified in the August 2015 TMU.

⁶ Nonconcessional debt used to improve the overall public debt profile, including Eurobonds.

⁷ Debt for projects does not include GNPC's loan equivalent to US\$ 350 million. The debt limits for projects were raised by US\$230 million to accommodate World Bank's project loans.

⁸ Associated with nonconcessional debt to be contracted by GNPC, which had been counted against the 2015 limits but delayed for unforeseen reasons.

⁹ Net domestic assets is computed using the program's exchange rate of GHc 3.4 per U.S.\$1 for 2015 and GHc 4.0 per U.S.\$1 for 2016 as defined in the attached Technical Memorandum of Understanding (TMU). Defined as a level.

Table 2. Ghana: Proposed Quantitative Program Targets¹
(Cumulative from the beginning of the calendar year, unless otherwise indicated)

	2016	End-Mar 2017		End-Aug 2017	End-Sep 2017	End-Dec 2017	
	Actual	Target ⁹	Adjusted target	Actual	Target ¹⁰	Target	
I Quantitative Performance Criteria²							
Primary fiscal balance of the government (floor in millions of cedis)	-2,344	652	609	831	1,186	1,144	361
Wage Bill (ceiling; in millions of cedis)	12,110	3,424		3,190	9,345	10,520	14,047
Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars) ³	329	-420		-469	731	188	805
Non-accumulation of new domestic arrears (ceiling; millions of cedis)	0	0		1,048	0	0	0
Net change in stock of arrears (ceiling, millions of cedis)	-2,438	-518		-92	-1,000	-1,555	-3,220
II Continuous Performance Criteria							
Gross financing of BoG to the Government and SOEs (ceiling; in millions of cedis) ⁴	15,394	15,814		15,356	15,394	15,394	15,394
Non-accumulation of external arrears (ceiling; millions of U.S. dollars) ...		0		0	0	0	0
Contracting or guaranteeing of new external nonconcessional debt (ceiling; millions of U.S. Dollars) ⁵							
o/w: Debt for a debt management purpose ⁶	919	1,150		0	0	0	0
Debt for projects (cumulative from the beginning of 2015)	1,006	1,730		1,534	2,250	2,250	2,250
Debt for project (GNPC) ⁷	0			0	350	350	350
III Monetary Policy Consultation Clause							
Twelve-month consumer price inflation (percent)							
Outer band (upper limit)		14.5			14.4	14.0	13.0
Inner band (upper limit)		13.5			13.4	13.0	12.0
Central target rate of inflation	15.4	11.5		12.8	11.4	11.0	10.0
Inner band (lower limit)		9.5			9.4	9.0	8.0
Outer band (lower limit)		8.5			8.4	8.0	7.0
IV Indicative Targets							
Net Domestic Assets of Bank of Ghana (ceiling; millions of cedis) ⁸	7,654	7,694		6,792	3,615	5,910	5,653
Contracting or guaranteeing of new external concessional debt (ceiling; millions U.S. Dollars)	101	400		0	700	700	700
Net after tax profit of ECG and VRA (floor; millions of cedis)							107
Change in accounts payables of ECG and VRA (ceiling; millions of cedis)							0
Social Protection (floor, in million of cedis)	1,641				1,627	1,835	2,425

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

² Performance criteria for end-August and end-December, and Indicative targets for end-March and end-September 2017.

³ Program definition excludes foreign currency deposits in BOG. Defined as a change from end-2016.

⁴ Defined as a level.

⁵ The two subceilings, one for a debt management purpose and the other for projects, apply starting from the date of completion of the second review. Prior to this date, the ceiling remains as specified in Table 1 of the August 25, 2015 Supplementary Letter of Intent, and as specified in the August 2015 TMU.

⁶ Nonconcessional debt used to improve the overall public debt profile, including Eurobonds.

⁷ Associated with nonconcessional debt to be contracted by GNPC, which had been counted against the 2015 limits but delayed for unforeseen reasons.

⁸ Net domestic assets is computed using the program's exchange rate of GHc 4.0 per U.S.\$1 for 2016 and GHc 4.4 per U.S.\$1 for 2017 and as defined in the attached Technical Memorandum of Understanding (TMU). Defined as a level.

⁹ Indicative target set during 3rd Review.

¹⁰ August performance criteria replace June indicative targets set during 3rd Review.

Table 3. Ghana: Performance with respect to Structural Reform Benchmarks from 3rd Review¹

Category	Proposed Structural Benchmarks	Indicative Timeframe	Remarks
Non-Tax Revenue	- Adopt and implement legal and regulatory changes to improve management of Internally Generated Funds (IGFs) and channel a larger share of revenues through the central government budget.	December 2016. Not met.	Later implemented with the adoption of the Earmarked Funds Capping and Realignment Act in April 2017.
Human Resource Management	- Finalize roll-out of the HRMIS to remaining MDAs.	December 2016. Not met.	Proposed to be reset to December 2017.
TSA	- Roll-out GIFMIS to 25 central government MDAs generating IGFs, including the 20 highest generating IGFs, and close all related bank accounts in commercial banks. - Complete the central budgetary government TSA.	December 2016. Met. December 2016. Not Met.	 Proposed to be reset to August 2017.
Payroll of Subvented Agencies	- Interface the payroll of the following agencies: University of Ghana, University of Cape Coast, Kwame Nkrumah University of Science, and the Police.	December 2016. Not met.	Proposed to be reset to December 2017.
Legal Framework	- Adopt regulations for the implementation of the new PFM Act.	March 2017. Not met.	Proposed to be reset to December 2017.
Human Resource Management	- Integrate the GIFMIS Payroll, financial HRMIS and Hyperion in the Health and Education sectors.	June 2017 Not met.	Proposed to be reset to August 2017 (Health) and December 2017 (Education)
Financial Stability	- Completion of an updated Asset Quality Review of the banking system by BoG, in accordance with Terms of Reference that have been agreed with IMF staff, and supervisory follow-up measures communicated to the participating institutions.	November 2016. Not met.	Partly due to delays in the completion of the third-party review. Measure was implemented in March 2017.

¹ This Table covers only structural conditionality whose test date has already passed. For a complete list of measures, see also Table 5.

Table 3. Ghana: Performance with respect to Structural Reform Benchmarks from 3rd Review (concluded)

- Review of banks' recapitalization/restructuring plans and liquidity support exit plans by the BoG and communication of decision to banks.	February 2017. Not met.	Partly due to delays in the completion of the third-party review. Included in the prior action on the financial sector.
- Submit to Parliament Amendments to the Banks and SDI Act, in consultation with IMF staff, to address important weaknesses in the current legislation.	March 2017. Not met.	Mainly due to the reconstitution of Parliament in January 2017 and delayed publication of the Act in February 2017. Proposed to be reset to October 2017.
- Submit to Parliament Amendments to the Deposit Protection Act, in consultation with IMF staff, to address important weaknesses in the current legislation.	March 2017. Not met.	Mainly due to the reconstitution of Parliament in January 2017 and delayed publication of the Act in February 2017. Proposed to be reset to December 2017.

Table 4. Ghana: Prior Actions for Completing the Fourth Review under the ECF

Prior Action	Economic Rationale	Status
Complete the audit and financial viability analysis of SOEs being conducted by external auditors and share report with IMF staff.	Strengthen oversight of SOEs	Met
Approval by the BoG, in consultation with IMF staff, of credible and time-bound recapitalization plans for banks found to be undercapitalized, and initiation of resolution proceedings for insolvent banks that cannot demonstrate credible recapitalization measures.	Strengthen resilience and stability of the banking system	Not yet met
Initiate audit of unpaid commitments.	Ascertain fiscal costs from commitments outside PFM system	Met
Submit to Parliament, in consultation with IMF staff, legislation to reduce the level of existing revenue earmarking, and strengthen oversight of statutory funds by integrating them into the budgetary process.	Reduce budget rigidities and increase fiscal transparency	Met
Submission to Parliament of mid-year budget review in line with program objective and recording of revised spending limits in the Ghana Integrated Financial Management Information System (GIFMIS).	Restore fiscal discipline	Not yet met

Table 5. Ghana: Proposed Structural Benchmarks for 2017-18

Proposed Structural Benchmarks	Economic Rationale	Indicative Timeframe
Submit to Parliament regulations for the implementation of the new PFM Act.	Strengthen the PFM system	November 2017 Reset Structural Benchmark missed in March 2017.
Finalize roll out of the HRMIS to remaining MDAs.	To strengthen control on net hiring and the wage bill	December 2017. Reset Structural Benchmark missed in December 2016.
Interface the payroll of the following agencies: University of Ghana, University of Cape Coast, Kwame Nkrumah University of Science and the Police.	To strengthen control on the wage bill	December 2017 Reset Structural Benchmark missed in December 2016.
Complete roll-out of GIFMIS to all Internally Generated Funds (IGFs), except DVLA and the Free Zone Board; and all Statutory Funds, except DACF and NHIS.	Increase fiscal transparency	August 2017
Complete roll out of GIFMIS to DVLA and the Free Zone Board, DACF, and NHIS.	Increase fiscal transparency	December 2017
Integrate the GIFMIS Payroll, financial HRMIS and Hyperion in the Health sector.	To strengthen control on net hiring and the wage bill	August 2017 Reset Structural Benchmark missed in June 2017.
Integrate the GIFMIS Payroll, financial HRMIS and Hyperion in the Education sector.	To strengthen control on net hiring and the wage bill	December 2017 Reset Structural Benchmark missed in June 2017.
Complete the central government TSA.	Reduce borrowing costs	August 2017
Re-establish the clearing house mechanism to prevent arrears accumulation between the government and SOEs, and between SOEs.	Improve SOEs performance	August 2017

Table 5. Ghana: Proposed Structural Benchmarks for 2017-18 (concluded)

Publish budgets of statutory funds, including expenditure details.	Increase fiscal transparency	December 2017
Establish a Fiscal Risk Unit at the Ministry of Finance, to start monitoring, among others, risks associated and SOEs.	Improve fiscal risk management	September 2017
Publish a report detailing the implementation of the Subvented Agencies Act containing: (i) an assessment of the relevance of each agency to meet government's objective; and (ii) the potential savings to the budget from their closure/commercialization.	Contain expenditures	December 2017
Submit to Parliament legislation to restructure the tax incentives regime in Ghana, in line with IMF recommendations.	Increase tax revenues	June 2018
Adopt (by Parliament) amendments to the BoG Act, which would include: (i) elimination of central bank financing of Government; (ii) removal of the voting rights of the MOF member of the Board; (iii) disqualification of government members, members of Parliament and civil servants from the Board and MPC; (iv) removal of the provision allowing BoG to provide guarantees for loans granted by foreign institutions to government and government agencies; (v) a requirement for the government to recapitalize the BoG in the event that the BoG suffers losses; and (vi) prohibition of the BoG from owning shares in financial institutions not related to supporting the BoG's core functions (including disposing of existing shares after a transitional period).	Strengthen the inflation targeting framework	September 2017
Fully enforce the ELA guidelines, including approval by the BoG of plans, submitted by all of ELA beneficiaries, for the timely repayment of the outstanding facilities.	Strengthen resilience and stability of the banking system	August 2017
Submit to Parliament legal amendments to the Banks and SDI Act, prepared in consultation with IMF staff, to address important weaknesses in the current legislation.	Strengthen resilience and stability of the banking system	October 2017
Submit to Parliament legal amendments to the Deposit Protection Act, prepared in consultation with IMF staff, to address important weaknesses in the current legislation.	Strengthen resilience and stability of the banking system	December 2017
Approval, by the BoG Management, of an action plan for improving the resilience and oversight of the MFI sector, prepared in consultation with IMF staff.	Strengthen financial stability and increase financial inclusion	December 2017

Appendix I—Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) defines the variables subject to quantitative targets (performance criteria and indicative targets), as specified in the authorities' Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) of March 20, 2015. It also describes the methods to be used to assess the program performance and the information requirements to ensure adequate monitoring of the targets. The authorities will consult with the Fund before modifying measures contained in this TMU, 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:** For the purpose of the program, the exchange rates of the Ghanaian cedi (GH¢) to the U.S. dollar will be GH¢4.00 per US\$1 for 2016 and GH¢4.40 for 2017. 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-August 2017 and end-December 2017. 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 fiscal balance of the government on a cash basis, measured in terms of financing (below the line);
- a continuous ceiling on gross credit to government by the Bank of Ghana (level);
- a floor on the net international reserves of the Bank of Ghana (level);
- a ceiling on wages and salaries;
- a ceiling on the net change in the stock of domestic arrears;
- a ceiling on non-accumulation of new domestic arrears;
- a continuous ceiling on non-accumulation of new external arrears;

- a ceiling on the contracting or guaranteeing of new external non-concessional debt, with two sub-ceilings on (i) debt for debt management purposes and (ii) debt for projects integral to the development program for which concessional financing is not available; and
 - a monetary policy consultation clause set for the twelve-month rate of **consumer price inflation**, with discussions with the Fund to be held if inflation is outside the target bands.
5. **Indicative targets** are established as:
- a floor on poverty-reducing government expenditures;
 - a ceiling on the contracting or guaranteeing of new external concessional debt;
 - a ceiling on net domestic assets of Bank of Ghana (level);
 - a ceiling on the change in accounts payable of Electricity Company of Ghana (ECG) and Volta River Authority (VRA); and
 - a floor on the net after tax profit (excluding government subsidies) of ECG and VRA.

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 central 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 central government's tax and non-tax net proceeds from the sale of oil, excluding any revenue allocated to Ghana National Petroleum Corporation (GNPC).

9. The **wage bill** of the central government 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. The primary deficit is defined 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, minus domestic and external interest payments.

11. **Domestic payments arrears** are payments not made “when due”. These will be measured as the sum of five components. The first component, arrears to the government’s statutory funds, represents any delay of more than one month in revenue transfers to these statutory funds, relative to the normal payment schedule (typically monthly or quarterly, and defined as a specific percentage of the previous month or quarter’s revenue collections).¹ The second component, employees compensation arrears (consisting of wages and salaries, pensions, gratuities, and social security arrears), is defined as payments outstanding after the agreed date for payment to staff or the social security fund. The third component, debt service arrears, is defined as payments of domestic and external interest, amortization, promissory notes, that are due and not settled within the grace period specified in the contract. The fourth component, the MDAs expenditure arrears (road and other MDAs expenditure arrears), is defined as approved invoices on the GIFMIS system that remain unpaid three months after the quarter in which the invoices were approved by the MDA. The fifth component, arrears to SOEs,² is defined as payments for debt owed to SOEs that are due and not settled within 30 days after the end of the quarter.

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

Overview of Social Protection Programs	
1. National Health Fund (NHF)	2. Provision of free school uniforms
3. Livelihood Empowerment Against Poverty (LEAP)	4. Provision of government's subsidy for Senior High Schools
5. Fertilizer Subsidy	6. Progressive implementation of free Senior High School Program
7. Basic Education Certificate Examination	8. Feeding grant for special schools for the handicapped
9. Capitation grant for Public Basic Schools across the country	10. Printing and Distribution of Exercise Books to Basic School Pupils under the Social Intervention Program

¹ Transfers to the statutory funds are scheduled as follows: (i) District Assemblies Common Fund—quarterly, with a one-quarter lag; (ii) Social Security Fund, National Health Fund, Ghana Education Trust Fund, Road Fund, Petroleum-related Fund—monthly, with a one-month lag.

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

11. Provide 10million free exercise books to Public Basic Schools across the country	12. First Phase of Maths and Science Reforms for 13,000 KGS, 14,000 Primary School and 8,000 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 claims on the government resulting from accrued interest on government securities less government deposits as defined in the monetary template.

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

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

B. Bank of Ghana

18. **Net foreign assets** are defined in the monetary survey as short- and long-term foreign assets minus liabilities of the BoG that are contracted with nonresidents. Short-term foreign assets include: monetary gold (valued at the spot market rate for gold, US\$/fine ounce, London), holdings of SDRs, reserve position in the IMF, foreign notes and travelers checks, foreign securities, positive balances with correspondent banks, encumbered external assets and other positive short-term or time deposits. Short-term foreign liabilities include foreign currency liabilities contracted by the BoG at original maturities of one year or less (including overdrafts), outstanding liabilities to the IMF, deposits of international institutions at the BoG and swaps with non-resident commercial banks. Long-term foreign assets and liabilities are comprised of: other foreign assets, investments abroad,

other long-term liabilities to nonresidents, and bilateral payment agreements. All values not in U.S. dollars are to be converted to U.S. dollars at the program exchange rate defined in paragraph 2. A more detailed listing of accounts to be included in the measure of net foreign assets is contained in the monetary template provided to the IMF on January 21, 2015.

19. **Net international reserves** (NIR) of the BoG are defined for program monitoring purposes³ as short-term foreign assets of the BoG, minus short-term external liabilities. The definition of NIR will exclude short-term foreign assets that 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). All values not in U.S. dollars are to be converted to U.S. dollars at the average of buying and selling exchange rates against the U.S. dollar as defined in paragraph 2.

Net international reserves are defined as:

- Short-term assets (composed of: Gold, Holdings of SDR, Foreign Notes and Coins, Foreign Securities/Short-term Deposits, Disposal Balances with Correspondent Banks, Fixed Deposits (excludes encumbered assets), any other short-term foreign assets),
- **Minus:** foreign short-term liabilities (composed of Deposits of International Institutions, Liabilities to International Commercial Banks, Swap Deal Payable 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,
- **Minus** MoF's liabilities to the IMF used for budget support,
- **Minus** all positive foreign currency deposits at the BoG held by resident deposit money banks (which includes the stock of swaps deal payable with resident banks), public institutions, nonfinancial public enterprises, other financial institutions, and the private sector.⁴
- **Minus** all Bank of Ghana deposits with Ghana International Bank London (GIB).

20. **Net domestic assets** of the Bank of Ghana are defined as the difference between reserve money and net foreign assets of the BoG, converted from U.S. dollars to cedis at the program exchange rate. In accordance with the treatment for net international reserves, government deposits at the BoG from disbursements of Fund resources for budget financing are also subtracted.

³ Note this definition differs from the one reported in the Balance of Payments and Monetary Survey which reflects a more traditional definition of foreign assets and liabilities based on a residency basis.

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

21. **Outstanding gross credit to government and public enterprises by the Bank of Ghana** for program monitoring purposes is defined as the total amount of (i) all BoG loans and advances to government and public 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 TMU 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 the purposes of this TMU, the 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 do not result in a change of security ownership.

C. Monetary Policy Consultation Clause

22. The consultation bands around the projected 12-month rate of inflation in consumer prices (as measured by the headline consumer price index (CPI) published by the Ghana Statistical Service), are specified in the Performance Criteria table in the MEFP. If the observed 12-month rate of CPI inflation falls outside the lower or upper outer bands specified Performance Criteria table for end-August 2017 and end-December 2017 test dates, the authorities will complete a consultation with the IMF Executive Board which would focus on: (i) the stance of monetary policy and whether the Fund-supported program remains on track; (ii) the reasons for program deviations, taking into account compensating factors; and (iii) proposed remedial actions if deemed necessary. When the consultation with the IMF Executive Board is triggered, access to Fund resources would be interrupted until the consultation takes place and the relevant program review is completed. In addition, the authorities will conduct discussions with Fund staff should the observed year-on-year rate of CPI inflation fall outside the inner bands specified for the end of each test date in the Performance Criteria table.

D. Non-Accumulation of New External Arrears

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

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

24. For the purposes of this TMU, the definition of debt is set out in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements (Executive Board's Decision No.15688-(14/107). The definition also refers to commitments contracted or guaranteed for which value has not been received. The definition of debt is as follows:

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

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

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

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

(b) Under the definition of debt set out in point 8(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

25. **For the purposes of the ceiling on the contracting or guaranteeing of new non-concessional external debt**, external debt is any debt as defined in paragraph 24, which is denominated in foreign currency, i.e., currency other than Ghanaian cedis (GH¢).⁵

26. Nonconcessional external debt is defined as external debt contracted or guaranteed by the government (defined in paragraph 6), the BoG, and specific public enterprises (defined in

⁵ Excluded from this performance criterion are the use of Fund resources, rollover of BOG’s existing liabilities, normal import-related credits, pre-export financing credits of public enterprises, cocoa loans collateralized by cocoa contracts, and individual leases with a value of less than US\$100,000.

(continued)

paragraph 27) on non-concessional terms (defined in paragraph 28)⁶. External debt and its concessionality will be reported by the Debt Management Division of the Ministry of Finance and Economic Planning, and will be measured in U.S. dollars at current exchange rates.

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

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

29. For loans carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the loan would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the loan contract. The program reference rate for the six-month USD LIBOR is 3.34 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -250 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -300 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -100 basis points. For interest rates on currencies other than Euro, JPY, and GDP, the spread over six-month USD LIBOR is -200 basis points.⁷ Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added.

30. Starting from the completion of the second review, the performance criterion on new non-concessional external debt includes two sub-ceilings on (i) debt for debt management purposes and (ii) debt for projects integral to the development program for which concessional financing is not available. Debt for debt management purposes is defined as non-concessional debt used to

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

⁷ The program reference rate and spreads are based on the "average projected rate" for the six-month USD LIBOR over the following 10 years from the Fall 2014 World Economic Outlook (WEO).

improve the overall public debt profile. The debt management sub-ceiling shall be cumulative from the beginning of each calendar year.

31. The sub-ceiling on any contracting or guaranteeing of non-concessional external debt for projects integral to the development program for which concessional financing is not available refers to debt for those projects specified in the list below. Any contracting or guaranteeing of non-concessional external debt for projects other than those listed below results in the nonobservance of the PC. The total amount of contracting of non-concessional external debt for projects on this list will be strictly limited to US\$ 2,250 million on a cumulative basis from the beginning of 2015. Amounts applied toward this limit do not count toward the sub-ceiling on non-concessional borrowing for debt management purposes.

- Takoradi Port Expansion 2
- Supply Agricultural equipment under Food for Africa programme
- Electricity Company Ghana Limited Prepaid meter distribution
- Construction and Equipping of Ten (10) Polyclinics in the Central Region
- Self-help electrification project (SHEP) - 4 -Hunan
- 4 District Hospitals and accident and emergency center in Bamboi, Somanya, Tolong, Weta, and Buipe
- Kumasi market phase 2
- SHEP five regions-CWE
- Strengthening of Lots 1,2& 4 Central Corridor
- Eastern Corridor Road Project Refinancing for Section I: Asikuma Junction - Have and Section II: Nkwanta - Oti Damanko
- Obetsebi Lamptey Drainage network and Interchange
- Bekwai Hospital Rehabilitation
- Sugarcane Development and Irrigation Project
- KARPOWER PROJECT B
- Takoradi 4 Thermal Power Project (T4)
- Renovation of Ghana Missions Abroad
- Works at Kumasi Airport
- Development of Tamale Airport- terminal building and related infrastructure phase
- Eastern University
- Damango Yendi Water project
- Tema to Akosombo - Western Railway Line Construction Project in Ghana
- Transport Sector Project (World Bank)
- Rural Water and Sanitation (World Bank)
- Secondary Education Improvement (World Bank)

32. Further an additional sub-ceiling of US\$ 350 million for a project is established for 2017 in the context of third review to accommodate GNPC's non-concessional borrowing, which was counted against debt limits for 2016 but did not materialize due to unforeseen delays in its loan negotiation with the creditor.

F. SOEs

33. The net after tax profit of ECG is defined as the difference between total operating revenues and total costs as reported in the unaudited income statement. Total operating revenues are defined as the sum of: (i) sales of electricity; and (ii) all other operating income, excluding proceeds from central government transfers or payments of ECG's obligations on ECG's behalf. Total costs are defined as the sum of: (i) power purchases and all operating costs related to electricity distribution to be borne by ECG; (ii) administrative expenses, including on wages and remuneration of the board of directors, and provisions; (iii) depreciation; (iv) interest expense and any other financial costs.

34. The net after tax profit of VRA is defined as the difference between total operating revenues and total costs as reported in the unaudited income statement. Total operating revenues are defined as the sum of: (i) sales of electricity; and (ii) all other operating income, excluding proceeds from central government transfers or payments of VRA's obligations on VRA's behalf. Total costs are defined as the sum of: (i) generation of electric power and all operating costs related to electricity generation to be borne by VRA; (ii) administrative expenses, including on wages and remuneration of the board of directors, and provisions; (iii) depreciation; (iv) financial expenses and any other financial costs, including foreign exchange gain/losses from foreign currency denominated transactions and exchange fluctuation gains/losses on foreign currency denominated loans.

35. The zero ceiling on change in gross payables of VRA and ECG applies to the total stock of payables, current and non-current, due to trade creditor, related parties and other creditors.

G. Adjustors to the Program Targets

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

Primary fiscal deficit of the government

36. 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

37. The net international reserve (NIR) floors will be adjusted upward for any excess of budget grants and loans relative to the program baseline excluding the IMF's budget support (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 excluding the IMF's budget support.

Budget Financing and oil revenues, 2016 ^{1/} (GH¢ millions, cumulative from the start of the calendar year)				
	March	June	September	December
Program grants	0	0	112	133
Program loans	0	600	844	844
Oil revenues, net of transfers to GNPC	325	460	785	1,640

^{1/} Used to compute adjustors for performance criteria for end-March, end-June, end-September, and end-December.

Budget Financing and oil revenues, 2017 ^{1/} (GH¢ millions, cumulative from the start of the calendar year)				
	March	August	September	December
Program grants	0	0	73	73
Program loans	0	211	617	1902
o/w: IMF Program loan for budget support	0	0	406	811
Oil revenues, net of transfers to GNPC	391	800	800	1138

^{1/} Used to compute adjustors for performance criteria and indicative targets for end-March , end-August, end September, and end December.

H. Provision of Data to the Fund

38. 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
Updated list of (prioritized) projects to be financed by non-concessional loans and concessional loans.	Monthly, within six weeks of the end of each month.
Cash flow of the central government and cash flow projections.	Monthly, within six weeks of the end of each month
Income, cash flow, and debt service projections for the state-owned energy utilities.	Monthly, within six weeks of the end of each month
Itemized data on the proceeds from the energy sector levies.	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

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

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)
Composition of banking system and nonbanking system net claims on government.	Monthly, within four weeks of the end of each month.
Financial soundness indicators.	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.
Itemized overview of outstanding liquidity support, granted to financial institutions,	Monthly, within four weeks from 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, and (ii) debt service paid and 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.

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

Disbursements of grants and loans by creditor	Quarterly, within four weeks of the end of each quarter.
Other data (to be provided by GSS)	
Overall consumer price index.	Monthly, within two weeks of the end of each month.
National accounts by sector of production, in nominal and real terms.	Annual, within three months of the end of each year (switching to quarterly when they become available).
Quarterly financial statements of main state-owned enterprises. (i) Tema Oil Refinery; (ii) Ghana National Petroleum Company; (iii) Ghana National Gas Company; (iv) Volta River Authority; and (v) Electricity Company of Ghana; (vi) GRIDCO; (vii) Ghana Water Company Limited.	Quarterly, within three months of end of quarter
Quarterly financial statements of GIIF	Quarterly, within three months of end of quarter
Annual financial statements of main state-owned enterprises. (i) Tema Oil Refinery; (ii) Ghana National Petroleum Company; (iii) Ghana National Gas Company; (iv) Volta River Authority; and (v) Electricity Company of Ghana; (vi) GRIDCO; (vii) Ghana Water Company Limited.	Annual, within six months of end of year
Electricity pricing (to be provided by the Ministry of Energy) Data on the tariff structure and the cost of producing electricity.	Quarterly, within four weeks of the end of each quarter.
Petroleum pricing (to be provided by the Ministry of Energy) (i) a breakdown of costs, including the ex-refinery price, duties, levies, and margins, for each of the individual petroleum products; and (ii) the indicative maximum price approved in the bi-weekly review of petroleum pricing for each of the individual petroleum products.	Bi-weekly, within two days of the completion of the pricing review. See above.



GHANA

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION,
FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY
ARRANGEMENT, REQUEST FOR WAIVER FOR
NONOBSERVANCE OF PERFORMANCE CRITERIA, AND
REQUEST FOR EXTENSION AND REPHASING OF THE
ARRANGEMENT—INFORMATIONAL ANNEX

August 1, 2017

Prepared By

African Department

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RELATIONS WITH THE FUND

(As of May 31, 2017)

Membership Status: Joined: September 20, 1957		<u>Article VIII</u>
General Resources Account:	SDR Million	% Quota
Quota	738.00	100.00
Fund holdings of currency (Exchange Rate)	645.62	87.48
Reserve Tranche Position	92.46	12.53
SDR Department:	SDR Million	% Allocation
Net cumulative allocation	353.87	100.00
Holdings	120.62	34.09
Outstanding Purchases and Loans:	SDR Million	% Quota
ECF Arrangements	655.32	88.80

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Apr 03, 2015	Apr 02, 2018	644.20	332.10
ECF ^{1/}	July 15, 2009	July 23, 2012	387.45	387.45
ECF ^{1/}	May 09, 2003	Oct 31, 2006	184.50	184.50

^{1/} Formerly PRGF.

Overdue Obligations and Projected payments to Fund ^{2/}

(SDR Million; based on existing use of resources and present holdings of SDRs):

	2017	2018	Forthcoming		
			2019	2020	2021
Principal	46.90	77.49	77.49	64.11	83.21
Charges/Interest	0.64	1.29	1.29	1.29	1.29
Total	47.54	78.78	78.78	65.41	84.51

^{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 Framework
I. Commitment of HIPC assistance	
Decision point date	February 2002
Assistance committed	
by all creditors (US\$ Million) ^{1/}	2,186.00
Of which: IMF assistance (US\$ million)	112.10
(SDR equivalent in millions)	90.05
Completion point date	July 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 ^{2/}	4.25
Total disbursements	94.30

^{1/} 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.

^{2/} Under the enhanced framework, an additional disbursement was 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.

Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million) ^{1/}	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

^{1/} The MDRI provided 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provided debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remained 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 determined whether a country qualified for assistance under the HIPC Initiative and decided 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 received 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 was linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

Safeguards Assessment

The latest Safeguards Monitoring Report (June 2016) concluded that progress in addressing the remaining safeguards recommendations has been slow. The Bank of Ghana (BOG) has selectively implemented some recommendations, specifically, it has ensured continuation of quality external audits, improved disclosures in its financial statements, and established procedures to monitor credit to government. However, half of the 2015 recommendations is still outstanding. These include controls over data compilation, a risk-assessment of the BOG's involvement with its London-based subsidiary (Ghana International Bank), and the lack of standard agreements to mitigate credit risk in domestic swap transactions.

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 arises from the limitation/prohibition on purchasing and transferring foreign exchange 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 foreign exchange proceeds from cocoa exports funded through the cocoa syndicated loan 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 June 2017, the average exchange rate for transactions in the interbank market was GH¢ 4.3629 per U.S. dollar.

Article IV Consultation

The 2014 Article IV consultation discussions were held in Accra during February 12-25, 2013. 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 2011, and a Financial System Stability Assessment (FSSA) was issued to the Executive Board in 2011. An FSAP update was presented to the Board in May 2011.

Technical Assistance

Subject	Department	Date
Diagnostic mission on VAT administration	FAD	2015
Diagnostic mission on indirect taxes	AFW2	2015
Multi-topic fiscal mission	FAD	2015
Risk management in tax and customs administration	FAD	2015
PFM Law	FAD	2015
Wage bill and energy subsidies	FAD	2015
Modeling and forecasting of natural resource revenue	FAD	2015
Strengthening macro-fiscal policy formulation	FAD	2015
Performance monitoring and evaluation	AFW2	2015
Review of the GRA Strategic Plan	FAD	2015
Project management framework	FAD	2015
Resource revenue modeling	FAD	2016
Public investment management assessment (PIMA)	FAD	2016
Ministry of Finance restructuring	FAD	2016
Debt recording and debt servicing	FAD	2016
Treasury Single Account	FAD	2016
Fiscal reporting and budget transparency	AFW2	2016
Debt recording and payment execution	FAD	2016
Resource revenue modeling (follow-up)	FAD	2016
Tax administration	FAD	2016
Government Finance Statistics and fiscal reporting	AFW2	2016
Tax expenditure	FAD	2016
TRIPS implementation and process review	FAD	2016
Data matching exchange project	AFW2	2017
	FAD	2017
Advancing TSA and cash management	FAD	2017
TADAT	FAD	2017
Advancing reorganization of the Ministry of Finance	FAD	2017

Basel II/III Part 1	MCM	2014
Deepening domestic debt market and debt management	MCM	2015
Basel II/III Part 1	MCM	2015
Enhancing offsite supervision Part I	AFW2	2015
FOREX operations	MCM	2015
Review of prudential reports	MCM	2015
Capital market development	MCM	2015
Enhancing offsite supervision Part III	MCM	2015
Banking supervision	AFW2	2016
Assessment of banking supervision	MCM	2016
Enhancing risk focused supervision	MCM	2017
Bank restructuring and resolution	MCM	2017
Domestic debt market deepening	MCM	2017
National accounts	AFW2	2014
Balance of payments statistics	STA	2014
Consumer and producer prices	STA	2014
Quarterly national accounts	AFW2	2015
Consumer and producer prices	STA	2016
National accounts	AFW2	2016
Government finance Statistics	STA	2016
National Accounts	AFW2	2017
AML/CFT structures and tools	LEG	2014
AML/CFT structures and tools	LEG	2015
Public Financial Management Law	LEG	2015
AML/CFT—risk-based supervision	LEG	2016
AML/CFT—risk-based supervision	LEG	2017
Monetary Policy Formulation and Communication	ICD	2016
Managing tax administration reform program	ICD	2016
Monetary policy formulation: forecasting and policy analysis	ICD	2017

Resident Representative

The Fund has had a Resident Representative office in Accra since June 1985. The current resident representative, Ms. Natalia Koliadina, assumed the post at end-September 2015.

JOINT WORLD BANK-IMF WORK PROGRAM, 2017–18

	Products	Provisional timing of mission	Expected delivery date
A. Mutual information on relevant work programs			
Bank work program in next 12 months	Improving the governance of the state-owned enterprises	First mission in June 2016	Completed
	Public financial management reform project	First mission in October 2016	December 2017
	Financial sector supervision	First mission in May 2016	June 2018
	Ghana National Financial Inclusion and Development Strategy	First mission in April 2016	July 2017
	Ghana—Energy Sector Transformation Initiative Project	Ongoing	December 2017
	Statistics program for results	First mission in September 2017	
IMF work program in next 12 months	Article IV Consultation	April 2017	Board meeting in August 2017
	Public Financial Management regulations	September 2017	December 2017
	Strengthening fiscal data integrity and financial reporting	August 2017	November 2017
	TSA implementation and cash management	February 2018	
	Foreign Exchange Operations	August 2017	
	Lender of last resort	August 2017	
	Strengthening of inflation targeting framework	Ongoing	
	Risk-based supervision	June 2017	
B. Requests for work program inputs			
World Bank request to IMF	Regular updates on the status of the ECF and macroeconomic projections.		Continuous

IMF request to World Bank	Regular update on Bank's financing to Ghana, and other activities, including in the energy sector, financial sector, and public financial management.	Continuous
C. Agreement on joint products and missions		
Joint products in next 12 months	Joint Bank-Fund Debt Sustainability Analysis (Update)	April 2017 August 2017

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

General: Data provision is broadly adequate for standard surveillance, though some shortcomings remain in the quality and timeliness of certain data. 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, particularly with fiscal data which have been released with delays.

National accounts: Ghana compiles annual and quarterly estimates of GDP by production at current and constant (2006) prices following the 1993 System of National Accounts. The Ghana Statistical Service (GSS) has been publishing annual GDP on the expenditure basis at current and constant (2006) prices, with the latest data for 2016. The compilation of the annual national accounts needs to be further strengthened, including by improving the methodology and source data.

Price Statistics: The CPI is based on household expenditures in 2005-06 and is therefore unlikely to be representative of current expenditure patterns. The GSS plans to update the CPI weights to 2012-13 household expenditures during 2017. The GSS also plans to update in 2018 the PPI weights to 2014 from 2003, to better reflect current output.

Ghana participates in the Prices Module of the Enhanced Data Dissemination Initiative (EDDI) Phase 2 (EDDI2) supported by the United Kingdom Department for International Development (DFID).

Labor statistics: The scarcity of labor statistics is a cause for concern, although the recently published 2015 Labor Force Survey provides interesting information. However, wage and employment statistics are almost nonexistent. 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: The quality and timeliness of government finance statistics needs to be improved. Monthly government accounts are published irregularly and with significant delays. Fiscal discrepancy remains significant, complicating assessment of the budget deficit. Moreover, monthly fiscal reports prepared by the Ministry of Finance are not internally consistent due to (i) the difference in coverage between above-the-line and below-the-line entries; (ii) inconsistent use of cash and accrual basis; (iii) the timing of certain transactions; and (iv) the use of various sets of source data. To address these shortcomings, the government has formed a joint Ministry of Finance-Bank of Ghana working group which is expected to reach understandings on a consistent data coverage and sources of data. The implementation of the Treasury Single Account, slated for August 2017, and strengthening and expanding the operations of the Ghana Integrated Financial Management Information System (GIFMIS) would help improve fiscal reporting. IMF TA missions have suggested short-term temporary solutions to alleviate current data quality problems.

At present fiscal accounts include only central government accounts, with significant activities at the regional and district level and through the statutory funds remaining outside government finance statistics. The operations of statutory funds, such as the SSNIT (currently regarded as a public financial corporation by the authorities), the Ghana Education Trust Fund (GETF) and the District Assemblies

Common Fund (DACF), are not yet covered in the fiscal accounts. Although the majority of local government expenses are directly met from budgetary accounts, the revenue of local governments and related spending, and transactions financed from the DACF are not yet covered. Extending the coverage of fiscal data to general government is strongly encouraged.

Monetary and financial statistics: While the Bank of Ghana (BOG) has made significant progress on implementing the recommendations on monetary and financial statistics, continued efforts are needed to expand the institutional coverage and improve the timeliness of the data reporting.

A March 2017 monetary and financial statistics mission assisted in expanding the compilation framework to include rural banks, savings and loans companies, and credit unions in the coverage of the standardized report form (SRF) 2SR for other depository corporations and to compile SRF 4SR for other financial corporations, covering leasing companies, finance houses, and mortgage finance companies. The BOG agreed to improve the source data for these new institutions and report the expanded SRF 2SR and an SRF 4SR to STA by end-December 2017.

Financial sector surveillance: BOG reports the 12 core financial soundness indicators (FSIs) and 7 of the 13 encouraged FSIs for deposit takers on a quarterly basis with a lag of one quarter for posting on the IMF's FSI website.

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 Controller and Accountant General Department (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.

External sector statistics: The Balance of Payments Office (BPO) of the Research Department of the BOG is responsible for the compilation and dissemination of balance of payments and International Investment Position (IIP) data for Ghana. Ghana participates in the external sector module of EDDI and has benefited extensively from technical assistance in developing and undertaking enterprise surveys of cross-border financial flows and stocks (Foreign Assets and Liabilities Survey (FALS)), with a view to improve the quality of balance of payments statistics and IIP statistics. However, there are still some challenges with the timeliness of the data. Next steps include the implementation of a small timely sample quarterly survey of cross-border capital. Despite the progress achieved in improving the data sources and compilation techniques, substantial work is still needed to strengthen existing, and develop new, data sources to improve the accuracy and reliability of the current and capital, and financial account. The International Transactions Reporting System (ITRS) should be made a reliable data source to the extent possible, and be used at its full potential and as a cost-efficient way to receive information for the current, capital, and financial account. ITRS reporting is being revised to ensure that it serves as: (i) a broad indicator of BOP current, capital, and financial account transactions; and (ii) a data source for transactions of which direct reporting is not feasible.

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. 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 oil.

II. Data Standards and Quality

Participant in the General Data Dissemination System (GDDS) since July 20, 2005. Its metadata and improvement plan were last updated on September 25, 2014. Its data ROSC was published on July 7, 2004.

Ghana disseminates 14 of the 15 data categories under the GDDS (see Table).

Ghana is currently in the Baseline of the e-GDDS because the authorities do not publish a National Summary Data Page (NSDP). An e-GDDS mission to Accra in October 2016 assisted in completing all preparations for the implementation of the e-GDDS and publication of an online NSDP. Ghana is encouraged to finalize this work by publishing an online NSDP.

Ghana: Table of Common Indicators Required for Surveillance
(As of June 30, 2017)

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of Publication ⁶
Exchange Rates	Feb 2014	Feb 2014	D	M	NA
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Apr 2017	June 2017	M	M	Q
Reserve/Base Money	Apr 2017	June 2017	M	M	I
Broad Money	Apr 2017	June 2017	M	M	I
Central Bank Balance Sheet	Apr 2017	June 2017	M	M	I
Consolidated Balance Sheet of the Banking System	Apr 2017	June 2017	M	M	I
Interest Rates ²	Apr 2017	May 2017	M	M	I
Consumer Price Index	May 2017	June 2017	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 2013	Feb 2014	M	M	I
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Dec 2013	Feb 2014	M	Q	I
External Current Account Balance	Dec 2015	May 2016	Q	Q	Q
Exports and Imports of Goods and Services	Dec 2015	May 2016	Q	Q	Q
GDP/GNP	2016	June 2017	Q/A	Q/A	Q/A
Gross External Debt	Dec 2014	Feb 2014	M	I	A

International Investment Position ⁷	2014	May 2016	NA	NA	NA
<p>¹ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.</p> <p>² Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.</p> <p>³ Foreign, domestic bank, and domestic nonbank financing.</p> <p>⁴ The general government consists of the central government (budgetary funds, extrabudgetary funds, and social security funds) and state and local governments.</p> <p>⁵ Including currency and maturity composition.</p> <p>⁶ Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).</p> <p>⁷ Includes external gross financial assets and liability positions vis-à-vis non residents.</p>					



GHANA

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVER FOR NONOBSERVANCE OF PERFORMANCE CRITERIA, AND REQUEST FOR EXTENSION AND REPHASING OF THE ARRANGEMENT—DEBT SUSTAINABILITY ANALYSIS

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Prepared by the International Monetary Fund and the International Development Association¹

Ghana continues to face high risk of external debt distress. While Ghana managed to go through the December 2016 presidential election without market disruptions, the public debt-to-GDP ratio remains elevated. Significant fiscal slippages in 2016 have contributed to more elevated medium-term debt trajectories compared to the Third Review—with two external debt indicators still breaching thresholds under the baseline scenario and minor breaches by an additional indicator.² The assessment of high risk of debt distress is reinforced by more protracted breaches of the public debt benchmark compared to earlier DSAs. Though Ghana is well-prepared for the Eurobond coming due in October 2017, it is still facing high levels of gross fiscal financing needs, which require nonresidents' continued demand for domestic debt. Restoring and maintaining debt sustainability will hinge on credible and sustained fiscal consolidation to anchor investors' confidence, supported by appropriate debt and cash management, and broad structural reform to ensure higher and inclusive growth. The authorities reaffirmed their commitments to fiscal consolidation to strengthen debt sustainability; they confirmed their plans to seek an appropriate financing mix to strike a balance between mitigating rollover risk and reducing debt service costs.

¹ Prepared in collaboration with Ghanaian authorities. The previous DSA was prepared in October 2016 (IMF Country Report No. 16/321).

² The World Bank's Country Policy and Institutions Assessment (CPIA) ranks Ghana as a medium performer in terms of the quality of policy and institutions (the average CPIA in 2013–15 is 3.54). Thus, the external debt burden thresholds for Ghana are (i) PV of debt-to-GDP ratio: 40 percent; (ii) PV of debt-to-exports ratio: 150 percent; (iii) PV of debt-to-revenue ratio: 250 percent; (iv) debt service-to-exports ratio: 20 percent; and (v) debt service-to-revenue ratio: 20 percent. Ghana was downgraded to a medium performer from a high performer at the time of the second ECF review reflecting the deterioration in its CPIA scores.

A. Background and Macroeconomic Assumptions

1. Large fiscal slippages in 2016 set back consolidation efforts. The cash-based fiscal deficit turned out at 9.3 percent of GDP in 2016 relative to the program target of 5.2 percent of GDP, reflecting broad-based revenue underperformance and significant expenditure overruns. In addition, the new government disclosed unpaid claims equivalent of 3 percent of GDP, out of which 2 percent of GDP had bypassed proper PFM procedures, now being audited. While central government's public and publicly-guaranteed external debt has stabilized somewhat as a share of GDP, total public debt has increased by 1 percentage point to 73.9 percent of GDP in 2016, around 3.5 percentage points higher than projected in the previous DSA. Also, it is worthwhile to mention that the share of external debt has increased by around 7 percentage points since 2011, to 66 percent, taking account of increased nonresidents' holdings of cedi-denominated domestic debt.

2. Despite the authorities' commitment to renewed fiscal consolidation, meeting gross financing needs remains challenging. The 2017 budget targets a deficit of 6.5 percent of GDP (authorities' definition). The original 2017 fiscal target would be broadly met by 2018, with a one year delay. Even with ambitious fiscal consolidation, gross financing needs (GFN, including redemption of T-bills) would remain elevated above 20 percent of GDP in 2017, significantly higher than the GFN benchmark for emerging economies under the DSA for market access countries (15 percent). Given the increasing share of nonresidents' investors³ in the domestic debt market, restoring debt sustainability will be critical to anchor confidence. Staff are proposing additional fiscal measures in 2017 to achieve a primary balance sufficient to deliver a sustained reduction in the public debt ratio.

3. The authorities have actively engaged in debt management operations. The Medium-Term Debt Management Strategy (MTDS)⁴ targets lengthening the average maturity of domestic debt. Robust non-residents demand continued to enable the authorities to issue longer-term debt, including a large issuance of domestic bonds equivalent to around US\$ 2 billion issued in April 2017.⁵ On the external front, proceeds from the US\$750 million Eurobond issued in September 2016 were partly used to buy-back part of the 2017 Eurobond, with around US\$200 million set aside for the remaining 2017 Eurobond redemption.⁶

4. The authorities remain committed to cautiously contracting external loans under the debt limits. Under the Fund program, the debt limits for 2017 will be adjusted vis-a-vis the indicative targets set under the Third Review.⁷ The limits for debt management purposes will be set to zero given no planned

³ As in the previous DSAs, this DSA uses the residency criterion for defining external debt to reflect properly the vulnerabilities associated with nonresidents' holdings of domestic debt.

⁴ In April /May 2015, the IMF and World Bank provided technical assistance to develop the MTDS.

⁵ Nonresidents' investors are allowed to invest in domestic bonds with maturity of 2 years and longer.

⁶ The authorities have also pre-repaid a part of the expensive Eurobond issued in 2015, by issuing domestically US dollar-denominated debt in the amount of US\$94 million.

⁷ Starting with the second review, non-concessional debt limits have been set separately for debt management purposes where non-concessional borrowing, including Eurobonds, is used to improve the overall public debt profile; and for projects integral to national development. The latter is set on a cumulative basis from the beginning of 2015.

issuance of a Eurobond (earlier included), while those for key projects will be increased to US\$ 2,250 million to accommodate new projects to revamp economic growth and promote poverty reduction.

5. The long-term macroeconomic projections remain broadly unchanged (Box 1).

Box 1. Baseline Macroeconomic Assumptions

Real GDP-growth: At 3.5 percent, real growth in 2016 was stronger than previously projected. While oil production was interrupted by problems at the Jubilee oil field, the non-oil sector performed well, possibly reflecting the fiscal expansion towards the end of the year. In 2017, oil production is expected to increase significantly due to a new oil field coming on stream, while non-oil growth is expected to slow down due to tight fiscal and monetary policies. Starting in 2020, as oil production tapers off (oil production is expected to peak in 2019 under current assumptions), non-oil growth will reach its long-run steady-state rate of around 5 percent. Tackling structural impediments, including still-unstable power supply, scaling-up of infrastructure, and diversifying the non-commodity economy will be key to increasing potential GDP.

	2016	2017	2018	Medium term (first 6 years)	Long-term (last 15 years)
Real GDP Growth					
			(annual percentage change)		
Previous DSA	3.3	7.4	8.4	6.0	5.3
Current DSA	3.5	5.9	8.9	6.1	4.7
Inflation (GDP deflator)					
			(annual percentage change)		
Previous DSA	15.3	10.1	5.7	8.2	6.2
Current DSA	18.1	14.2	9.6	8.8	6.2
Real interest rate (foreign debt)					
			(percent)		
Previous DSA	5.2	4.0	3.0	3.3	3.0
Current DSA	6.6	5.5	5.0	4.8	4.4
Current account balance					
			(in percent of GDP)		
Previous DSA	-6.4	-6.1	-5.0	-5.1	-4.0
Current DSA	-6.7	-5.8	-5.4	-5.0	-4.0
Primary fiscal balance					
			(in percent of GDP)		
Previous DSA	1.1	2.2	2.3	1.7	0.4
Current DSA	-1.4	0.2	2.2	1.6	0.4

Inflation: With a tight monetary policy and stabilized exchange rates, inflation (CPI) trended down in 2016 to 15.4 percent (yoy) at end-2016. Inflation is expected to decline further to within the BOG's medium-term target of 8 ± 2 percent by end-2018. Inflation rates are projected to converge to around 6 percent over the projection period. However, fresh pressures on the cedi and the possibility of further fiscal slippages pose short-term upside risks to the inflation outlook.

Government balances: Following the 2016 fiscal slippages (see para. 1), the authorities have committed to sustained fiscal consolidation. The expected longer-term increase in hydrocarbon revenues will contribute to maintain the overall deficit at sustainable levels. Following a significant correction in 2017-18, the primary balance is projected to remain at around $1\frac{1}{2}$ - $2\frac{1}{2}$ percent of GDP over the medium term.

Current account balance: The current account deficit improved in 2016 to 6.7 percent of GDP, reflecting an increase in gold production and smaller non-oil imports. The cumulative current account adjustments since 2014 were in line with the original projections under the Fund-supported program. WEO oil prices are assumed to recover to around US\$54 per barrel by 2020 from around US\$45 in 2016, and subsequently stabilize in real terms afterwards. A gradual recovery in oil prices would help Ghana further bringing the current account to a sustainable level as oil / gas production exceeds refined oil imports. With tight fiscal and monetary policies, the current account deficit would continue improving to below 5 percent of GDP in the medium term, with the long-run current account deficit around 4 percent of GDP. Gross international reserves would steadily increase and maintain reserve coverage of above 3-month imports in the long run.

Financing flows: Mainly driven by the hydrocarbon sector, Ghana has enjoyed strong FDI inflows over the past years, standing near 8 percent of GDP in 2016. Going forward, FDI is projected to decline gradually as oil production reaches its peak, and eventually stabilize around 3 percent of GDP over the long run. Consistent with Ghana's improving income status and sustained market access, grants are projected to decline to less than 1 percent of GDP in the medium- to long term. Borrowing is projected to become increasingly non-concessional, to be used for key infrastructure projects. A series of Eurobond issues is envisaged to roll over maturing Eurobonds, assumed to be repaid in amortization payments rather than bullet payments.

6. In line with standard DSA procedures,⁸ the analysis below is based on the concept of gross debt. At the same time, the authorities have intensified efforts to build cash buffers, in both domestic and foreign exchange in the sinking fund, to reduce rollover risk.

B. External Debt Sustainability Analysis⁹

7. The medium-term debt trajectories have shifted upwards compared to the previous DSA (Table 3 and Figure 1). While the thresholds for the PV of external PPG debt-to-GDP and PV-to-revenue ratios would be breached for five and two years, respectively, the debt service-to-revenue ratio is projected to stay well above the threshold over the entire projection period, with an upward shift compared to the previous projections. In order to improve the debt service-to-revenue ratio, the authorities should continue to seek stronger domestic revenue mobilization along with a proper financing mix.

8. The debt outlook remains sensitive to standard shocks. The standard stress tests suggest Ghana is particularly vulnerable to one-time exchange rate depreciation and a decline in exports, confirming the need to diversify the economy and increase its resiliency to external shocks.

C. Public Debt Sustainability Analysis

9. Lack of fiscal adjustment would further worsen the public debt outlook, with more protracted breaches of the public debt benchmark (Table 4 and Figure 2). Under the baseline including fiscal adjustment, all debt indicators are expected to improve and stabilize (note however that reflecting the fiscal slippage in 2016, the PV of debt-to-GDP ratio for 2017 is projected to be 10 percentage points larger than at the time of the Third Review). Even with front-loaded fiscal adjustments under the IMF program, the public debt would decline below the benchmark of 56 percent only by 2022. Public debt sustainability is also significantly vulnerable to exchange rate shocks. Further, the historical scenario points to unsustainable debt trajectories.

10. Contingent liabilities, especially from state-owned enterprises (SOEs) and the banking system, also represent a material risk to debt sustainability. High levels of systemic loss and poor fee collection capacity have complicated the financial viability of the state-owned power distributor (ECG), which led to accumulation of cross arrears among ECG, the government (and agencies), and other SOEs. Further, the recently-conducted Asset Quality Review also highlighted substantial under-provisioning and capital shortfalls for some banks, which the authorities are addressing.

D. Conclusions

11. While fiscal adjustment would bring public debt back to a sustainable path, meeting larger gross financing needs in the near term hinges on continued investor confidence. Ghana's medium-

⁸ See SM/13/292.

⁹ Public external debts cover debts contracted or guaranteed by the central government, and those contracted by major state-owned enterprises (SOEs) without government guarantee.

term debt trajectories have worsened compared to the previous DSA, and gross financing needs are expected to remain elevated in the near term. Given the increasing share of nonresidents in the domestic debt market, macroeconomic stability underpinned by credible fiscal consolidation will be key to anchoring investors' sentiment. Additional significant fiscal slippages could seriously jeopardize debt sustainability. Ghana should continue engaging with development partners to maximize concessional loans and make every effort to expedite disbursements under existing commitments from multilateral agencies.¹⁰

12. The authorities broadly concurred with the staff's views on Ghana's debt sustainability. They reaffirmed their commitments to fiscal consolidation to strengthen debt sustainability. They have also echoed the need to seek an appropriate financing mix along with proactive debt management and proper cash management in a close consultation with the Fund and the Bank.¹¹ Given the increased use of cash buffers as well as external assets in the sinking fund, the authorities were of the view that using net debt measures would more accurately represent Ghana's debt outlook, and requested to pay attention to both gross and net debt concepts going forward.

¹⁰ Disbursements under budget support loans from the World Bank and the African Development Bank did not materialize in 2016 due to a delay in meeting conditions under loan agreements.

¹¹ A recently initiated World Bank project "Ghana Economic Management Strengthening" (GEMS) contains a dedicated debt management component, which will help to build capacity to pursue active operations in this area.

Table 1. Ghana: External Debt Sustainability Framework, Baseline Scenario, 2014–37 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical ^{6/} Standard ^{6/}		Projections						2017-2022			2023-2037	
	2014	2015	2016	Average	Deviation	2017	2018	2019	2020	2021	2022	Average	2027	2037	Average	
External debt (nominal) 1/	45.4	53.2	52.9			55.5	52.8	50.7	49.7	48.4	45.7		39.7	33.4		
<i>of which: public and publicly guaranteed (PPG)</i>	41.1	49.2	48.9			51.5	48.8	46.7	45.7	44.4	41.7		35.7	29.4		
Change in external debt	10.1	7.7	-0.2			2.5	-2.7	-2.0	-1.0	-1.3	-2.7		-1.6	-0.7		
Identified net debt-creating flows	9.1	1.9	-8.7			-3.4	-4.9	-2.8	-2.1	-2.1	-2.0		0.0	0.2		
Non-interest current account deficit	6.8	4.5	3.2	7.3	2.6	2.4	2.1	1.9	1.6	1.5	1.6		1.9	1.3		1.7
Deficit in balance of goods and services	10.3	11.6	7.2			7.3	6.0	5.3	5.0	4.7	5.0		5.6	4.1		
Exports	39.4	44.7	40.8			41.2	41.7	41.4	40.8	40.5	40.2		37.3	35.1		
Imports	49.6	56.3	48.0			48.4	47.7	46.7	45.8	45.2	45.2		42.9	39.2		
Net current transfers (negative = inflow)	-5.2	-7.0	-3.4	-6.3	1.7	-4.7	-4.7	-4.5	-4.4	-4.2	-4.3		-3.4	-2.1		-3.0
<i>of which: official</i>	0.0	-0.5	-0.1			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0		
Other current account flows (negative = net inflow)	1.7	-0.2	-0.5			-0.2	0.9	1.1	1.0	1.0	0.9		-0.3	-0.7		
Net FDI (negative = inflow)	-8.7	-8.1	-8.1	-7.7	2.0	-6.5	-6.0	-5.0	-4.5	-4.3	-4.0		-2.7	-1.8		-2.6
Endogenous debt dynamics 2/	11.0	5.5	-3.8			0.7	-1.1	0.3	0.7	0.7	0.4		0.7	0.7		
Contribution from nominal interest rate	2.7	3.2	3.6			3.6	3.5	3.2	3.2	3.1	2.8		2.4	2.1		
Contribution from real GDP growth	-1.7	-1.8	-1.6			-2.9	-4.5	-2.9	-2.4	-2.4	-2.4		-1.7	-1.5		
Contribution from price and exchange rate changes	10.0	4.1	-5.7			...	...	...	...	...	...		...	...
Residual (3-4) 3/	1.0	5.8	8.4			5.9	2.2	0.7	1.1	0.7	-0.7		-1.6	-0.9		
<i>of which: exceptional financing</i>	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0		
PV of external debt 4/	...	...	49.7			53.5	50.4	48.1	47.0	45.5	42.7		37.1	30.7		
In percent of exports	...	...	121.6			130.0	120.9	116.2	115.0	112.2	106.2		99.5	87.5		
PV of PPG external debt	...	...	45.7			49.5	46.4	44.1	43.0	41.5	38.7		33.1	26.7		
In percent of exports	...	...	111.8			120.2	111.3	106.6	105.2	102.4	96.3		88.8	76.1		
In percent of government revenues	...	...	275.6			273.2	255.3	236.8	228.5	221.8	208.2		186.6	155.0		
Debt service-to-exports ratio (in percent)	15.7	17.2	19.7			21.0	18.5	16.0	16.8	18.8	20.6		19.2	16.2		
PPG debt service-to-exports ratio (in percent)	12.2	14.6	17.6			18.7	16.3	13.7	14.5	16.5	18.3		16.7	13.5		
PPG debt service-to-revenue ratio (in percent)	27.2	37.1	43.5			42.4	37.4	30.5	31.5	35.8	39.6		35.0	27.6		
Total gross financing need (Millions of U.S. dollars)	1682.7	1504.1	1355.2			2075.8	1907.0	1876.7	2266.1	2953.5	3831.3		5927.2	9334.6		
Non-interest current account deficit that stabilizes debt ratio	-3.3	-3.3	3.4			-0.1	4.8	4.0	2.7	2.8	4.3		3.6	2.0		
Key macroeconomic assumptions																
Real GDP growth (in percent)	4.0	3.8	3.5	6.8	3.4	5.9	8.9	5.9	5.1	5.2	5.4	6.1	4.5	4.6	4.7	
GDP deflator in US dollar terms (change in percent)	-22.0	-8.4	12.1	1.7	13.2	0.4	-0.5	1.4	1.5	1.8	2.3	1.1	2.3	2.2	2.2	
Effective interest rate (percent) 5/	6.3	6.8	7.8	5.9	1.1	7.2	6.8	6.5	6.7	6.6	6.3	6.7	6.3	6.7	6.4	
Growth of exports of G&S (US dollar terms, in percent)	-5.9	8.1	5.9	14.5	17.2	7.1	9.7	6.6	5.2	6.3	7.0	7.0	6.0	6.3	6.0	
Growth of imports of G&S (US dollar terms, in percent)	-14.5	7.9	-1.1	10.8	17.7	7.2	6.6	5.3	4.6	5.8	7.7	6.2	6.0	6.0	6.0	
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	5.6	11.1	10.9	6.0	3.4	1.3	6.4	3.8	-0.5	0.6	
Government revenues (excluding grants, in percent of GDP)	17.7	17.6	16.6			18.1	18.2	18.6	18.8	18.7	18.6		17.8	17.2	17.6	
Aid flows (in Millions of US dollars) 7/	278.5	724.3	291.7			335.5	222.3	174.9	140.0	112.0	89.6		29.4	3.2		
<i>of which: Grants</i>	278.5	724.3	291.7			335.5	222.3	174.9	140.0	112.0	89.6		29.4	3.2		
<i>of which: Concessional loans</i>	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0		
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.3	1.1	0.9	0.6	0.4	0.2		0.2	0.0	0.1	
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			11.8	17.4	16.6	10.0	6.3	3.7		4.4	-0.5	1.1	
Memorandum items:																
Nominal GDP (Millions of US dollars)	38774.1	36892.6	42777.9			45464.1	49226.3	52863.3	56415.2	60448.8	65126.7		92098.0	179965.5		
Nominal dollar GDP growth	-18.9	-4.9	16.0			6.3	8.3	7.4	6.7	7.1	7.7	7.3	6.9	6.9	7.0	
PV of PPG external debt (in Millions of US dollars)	...	...	18192.3			21293.8	21938.1	22589.1	23673.4	24590.2	24758.0		29949.3	47211.6		
(PVt-PVt-1)/GDPT-1 (in percent)	...	...	...			7.3	1.4	1.3	2.1	1.6	0.3	2.3	0.6	0.5	1.4	
Gross workers' remittances (Millions of US dollars)	1638.4	1966.1	1572.9			2320.0	2552.0	2628.6	2707.4	2788.6	2872.3		3171.3	3843.1		
PV of PPG external debt (in percent of GDP + remittances)	...	...	44.0			47.1	44.1	42.0	41.0	39.6	37.1		32.0	26.2		
PV of PPG external debt (in percent of exports + remittances)	...	...	102.6			107.0	99.0	95.2	94.2	91.9	86.8		81.3	71.8		
Debt service of PPG external debt (in percent of exports + remittance)	...	...	16.2			16.6	14.5	12.2	13.0	14.9	16.5		15.3	12.8		

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt. PPG external debt is based on a residency criterion, thus including local debt held by nonresidents. SoE's debt not guaranteed by the government is also included.

2/ Derived as $(r - g - p(1+g))/(1+g+p+gp)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and p = 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, 2014–37
(In percent of GDP, unless otherwise indicated)

	Actual			Average ^{5/}	Standard Deviation ^{5/}	Estimate					Projections			
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-22 Average	2027	2037	2023-37 Average
Public sector debt 1/	66.6	72.9	73.9			73.0	68.2	64.6	61.7	59.2	55.6		46.3	38.8
<i>of which: foreign-currency denominated</i>	41.1	49.2	48.9			51.5	48.8	46.7	45.7	44.4	41.7		35.7	29.4
	0.6	0.7	0.7											
Change in public sector debt	12.4	6.3	0.9			-0.9	-4.8	-3.6	-2.9	-2.5	-3.6		-2.6	-0.8
Identified debt-creating flows	12.0	1.1	-0.4			-2.6	-4.2	-3.0	-2.2	-2.0	-1.9		-0.6	-0.3
Primary deficit	3.8	-1.0	0.9	3.2	2.4	-0.9	-2.5	-2.4	-2.2	-1.9	-1.6	-1.9	-0.4	-0.2
Revenue and grants	18.4	19.6	17.3			18.9	18.6	19.0	19.1	18.9	18.7		17.8	17.2
<i>of which: grants</i>	0.7	2.0	0.7			0.7	0.5	0.3	0.2	0.2	0.1		0.0	0.0
Primary (noninterest) expenditure	22.2	18.6	18.1			17.9	16.2	16.6	16.8	17.0	17.2		17.4	17.0
Automatic debt dynamics	8.2	2.1	-1.3			-0.5	-1.7	-0.6	0.0	0.0	-0.4		-0.2	-0.1
Contribution from interest rate/growth differential	-0.1	0.8	1.3			-0.4	-2.2	-0.6	0.2	0.1	-0.3		-0.1	0.0
<i>of which: contribution from average real interest rate</i>	2.0	3.2	3.7			3.7	3.8	3.3	3.3	3.2	2.8		2.0	1.7
<i>of which: contribution from real GDP growth</i>	-2.1	-2.5	-2.4			-4.1	-5.9	-3.8	-3.1	-3.1	-3.0		-2.1	-1.7
Contribution from real exchange rate depreciation	8.3	1.3	-2.5			-0.1	0.5	-0.1	-0.2	-0.1	-0.1		...	...
Other identified debt-creating flows	0.0	0.0	0.0			-1.2	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0			-1.2	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Residual, including asset changes	0.4	5.2	1.3			1.7	-0.6	-0.5	-0.7	-0.5	-1.6		-2.0	-0.5
Other Sustainability Indicators														
PV of public sector debt	...	...	70.6			71.0	65.8	62.0	58.9	56.3	52.7		43.7	36.2
<i>of which: foreign-currency denominated</i>	...	...	45.7			49.5	46.4	44.1	43.0	41.5	38.7		33.1	26.7
<i>of which: external</i>	...	...	45.7			49.5	46.4	44.1	43.0	41.5	38.7		33.1	26.7
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...
Gross financing need ^{2/}	22.6	22.5	24.0			22.5	14.8	12.0	12.1	12.5	12.2		10.3	7.0
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	409.2			376.5	353.3	326.8	309.2	298.0	281.3		245.7	210.0
PV of public sector debt-to-revenue ratio (in percent)	...	...	426.0			391.8	362.0	332.6	313.2	301.0	283.3		246.1	210.0
<i>of which: external ^{3/}</i>	...	...	275.6			273.2	255.3	236.8	228.5	221.8	208.2		186.6	155.0
Debt service-to-revenue and grants ratio (in percent) ^{4/}	70.2	73.7	73.4			78.0	66.3	55.0	56.7	60.1	58.4		50.7	38.6
Debt service-to-revenue ratio (in percent) ^{4/}	73.1	81.9	76.5			81.2	67.9	56.0	57.5	60.7	58.8		50.8	38.6
Primary deficit that stabilizes the debt-to-GDP ratio	-8.7	-7.3	-0.1			-0.1	2.3	1.2	0.7	0.5	2.0		2.3	0.5
Key macroeconomic and fiscal assumptions														
Real GDP growth (in percent)	4.0	3.8	3.5	6.8	3.4	5.9	8.9	5.9	5.1	5.2	5.4	6.1	4.5	4.6
Average nominal interest rate on forex debt (in percent)	6.4	7.0	8.0	6.1	1.2	7.4	6.9	6.7	6.8	6.8	6.4	6.8	6.4	6.9
Average real interest rate on domestic debt (in percent)	2.8	3.7	2.6	3.1	1.4	4.9	7.2	6.5	7.2	7.5	6.9	6.7	4.1	3.9
Real exchange rate depreciation (in percent, + indicates depreciation)	26.7	3.2	-5.0	1.9	10.7	-0.1	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	16.7	16.4	18.1	16.6	1.7	14.2	9.6	9.1	7.4	6.3	6.3	8.8	6.3	6.2
Growth of real primary spending (deflated by GDP deflator, in percent)	4.9	-12.9	0.8	-0.6	4.6	4.7	-1.9	8.7	6.8	5.9	6.9	5.2	4.9	4.4
Grant element of new external borrowing (in percent)	...	...	...	...	...	5.6	11.1	10.9	6.0	3.4	1.3	6.4	3.8	-0.5

Sources: Country authorities; and staff estimates and projections.

1/ The domestic debt covers the debt stock of the central government. The external debt covers those contracted and guaranteed by the central government. SoEs' debt not guaranteed by the government is also included. 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, 2017–37
(In percent)

	Projections							2037	2037
	2017	2018	2019	2020	2021	2022	2027		
PV of debt-to GDP ratio									
Baseline	49	46	44	43	41	39	33		27
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2017-2037 1/	49	50	49	50	50	48	39		22
A2. New public sector loans on less favorable terms in 2017-2037 2	49	45	43	43	42	39	35		32
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	49	47	46	45	43	40	35		28
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	49	49	55	54	52	49	36		26
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	49	50	55	54	52	48	41		33
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	49	45	42	41	40	37	32		26
B5. Combination of B1-B4 using one-half standard deviation shocks	49	49	51	50	49	46	38		30
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	49	64	61	60	58	54	46		37
PV of debt-to-exports ratio									
Baseline	120	111	107	105	102	96	89		76
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2017-2037 1/	120	119	119	122	123	120	103		63
A2. New public sector loans on less favorable terms in 2017-2037 2	120	108	105	105	103	97	93		91
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	120	106	102	102	99	93	86		74
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	120	133	164	163	160	152	118		92
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	120	106	102	102	99	93	86		74
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	120	107	102	101	98	92	86		74
B5. Combination of B1-B4 using one-half standard deviation shocks	120	113	111	111	108	102	91		77
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	120	106	102	102	99	93	86		74
PV of debt-to-revenue ratio									
Baseline	273	255	237	229	222	208	187		155
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2017-2037 1/	273	274	265	265	266	260	217		127
A2. New public sector loans on less favorable terms in 2017-2037 2	273	247	233	228	223	210	195		185
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	273	257	245	238	232	217	195		162
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	273	270	296	287	281	266	200		152
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	273	274	293	285	277	260	233		194
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	273	246	226	219	213	200	180		150
B5. Combination of B1-B4 using one-half standard deviation shocks	273	270	276	268	261	245	213		175
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	273	350	326	317	308	289	259		215

Table 3. Ghana: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017–37 (concluded)

(In percent)

Debt service-to-exports ratio

Baseline	19	16	14	15	17	18	17	14
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	19	16	14	15	17	19	20	12
A2. New public sector loans on less favorable terms in 2017-2037 2	19	16	10	10	10	10	13	12
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	19	16	14	14	16	18	16	13
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	19	18	18	20	22	24	27	17
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	19	16	14	14	16	18	16	13
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	19	16	14	14	16	18	16	13
B5. Combination of B1-B4 using one-half standard deviation shocks	19	17	14	15	17	19	18	14
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	19	16	14	14	16	18	16	13

Debt service-to-revenue ratio

Baseline	42	37	30	32	36	40	35	28
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	42	37	31	32	36	40	42	24
A2. New public sector loans on less favorable terms in 2017-2037 2	42	37	23	22	23	21	27	24
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	42	39	33	34	39	43	37	29
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	42	37	32	35	39	43	45	28
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	42	42	39	41	46	51	44	35
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	42	37	31	31	36	39	34	27
B5. Combination of B1-B4 using one-half standard deviation shocks	42	41	36	37	42	46	42	32
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	42	54	44	45	51	57	49	39
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	-1	-1	-1	-1	-1	-1	-1	-1

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, 2017–37

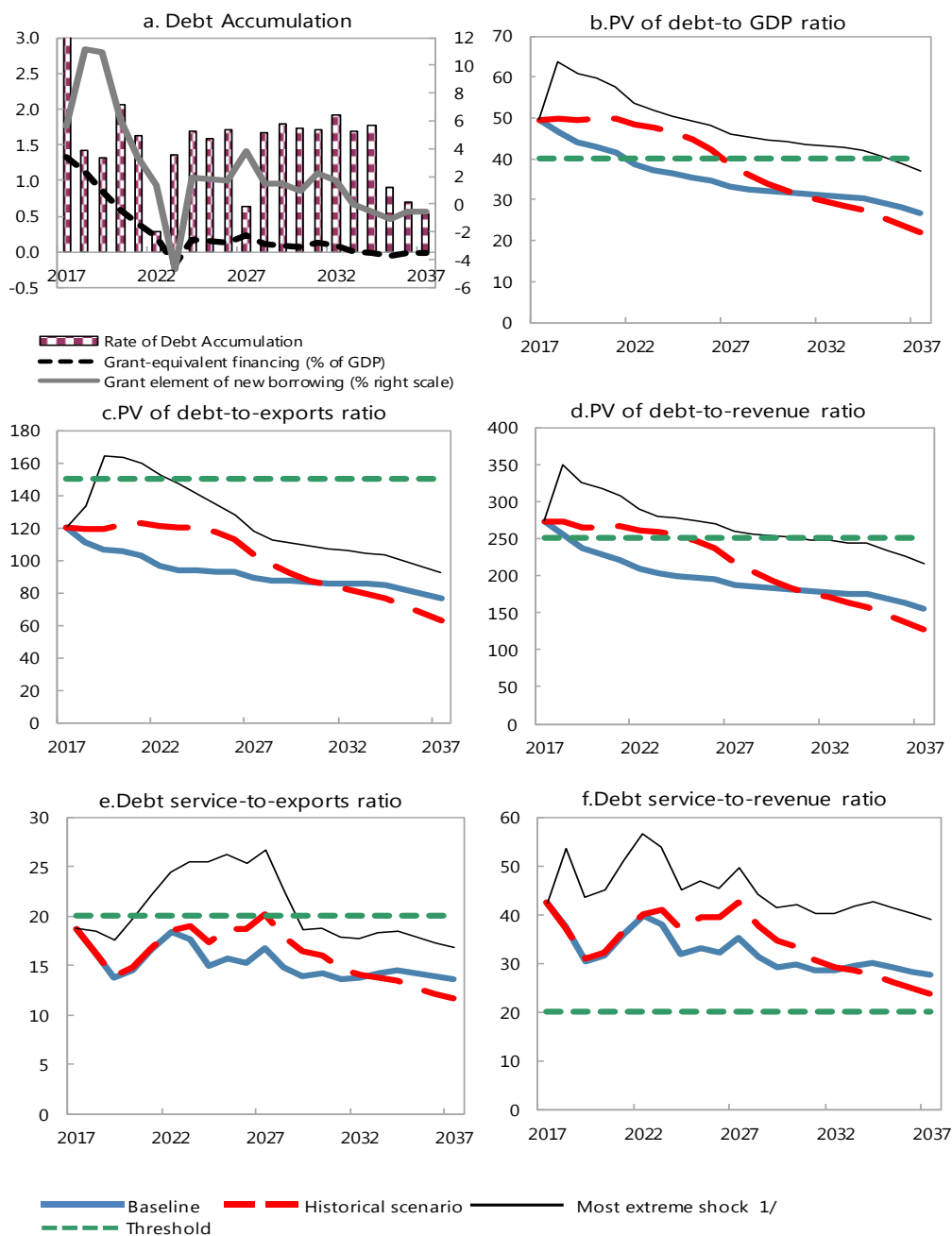
	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
PV of Debt-to-GDP Ratio								
Baseline	71	66	62	59	56	53	44	36
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	71	73	74	75	76	76	78	83
A2. Primary balance is unchanged from 2017	71	67	65	63	61	58	48	33
A3. Permanently lower GDP growth 1/	71	66	63	61	59	57	54	68
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20	71	70	69	67	66	63	60	64
B2. Primary balance is at historical average minus one standard deviations in 2018-201	71	74	78	75	72	68	58	49
B3. Combination of B1-B2 using one half standard deviation shocks	71	75	78	76	74	71	64	61
B4. One-time 30 percent real depreciation in 2018	71	90	86	83	80	77	72	78
B5. 10 percent of GDP increase in other debt-creating flows in 2018	71	76	72	69	66	62	52	44
PV of Debt-to-Revenue Ratio 2/								
Baseline	376	353	327	309	298	281	246	210
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	376	390	389	393	402	404	436	481
A2. Primary balance is unchanged from 2017	376	362	342	331	325	312	272	192
A3. Permanently lower GDP growth 1/	376	356	333	320	313	302	304	397
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20	376	376	365	353	349	338	339	369
B2. Primary balance is at historical average minus one standard deviations in 2018-201	376	397	411	392	380	362	325	282
B3. Combination of B1-B2 using one half standard deviation shocks	376	403	413	398	390	376	360	355
B4. One-time 30 percent real depreciation in 2018	376	484	452	434	424	410	406	450
B5. 10 percent of GDP increase in other debt-creating flows in 2018	376	407	379	360	349	331	295	255
Debt Service-to-Revenue Ratio 2/								
Baseline	78	66	55	57	60	58	51	39
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	78	68	58	68	75	77	83	91
A2. Primary balance is unchanged from 2017	78	66	56	60	64	64	57	36
A3. Permanently lower GDP growth 1/	78	67	56	58	62	62	60	72
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20	78	70	60	63	69	68	67	69
B2. Primary balance is at historical average minus one standard deviations in 2018-201	78	66	59	73	81	73	68	54
B3. Combination of B1-B2 using one half standard deviation shocks	78	69	61	74	81	75	73	68
B4. One-time 30 percent real depreciation in 2018	78	75	70	76	85	88	94	106
B5. 10 percent of GDP increase in other debt-creating flows in 2018	78	66	60	73	69	68	62	48

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

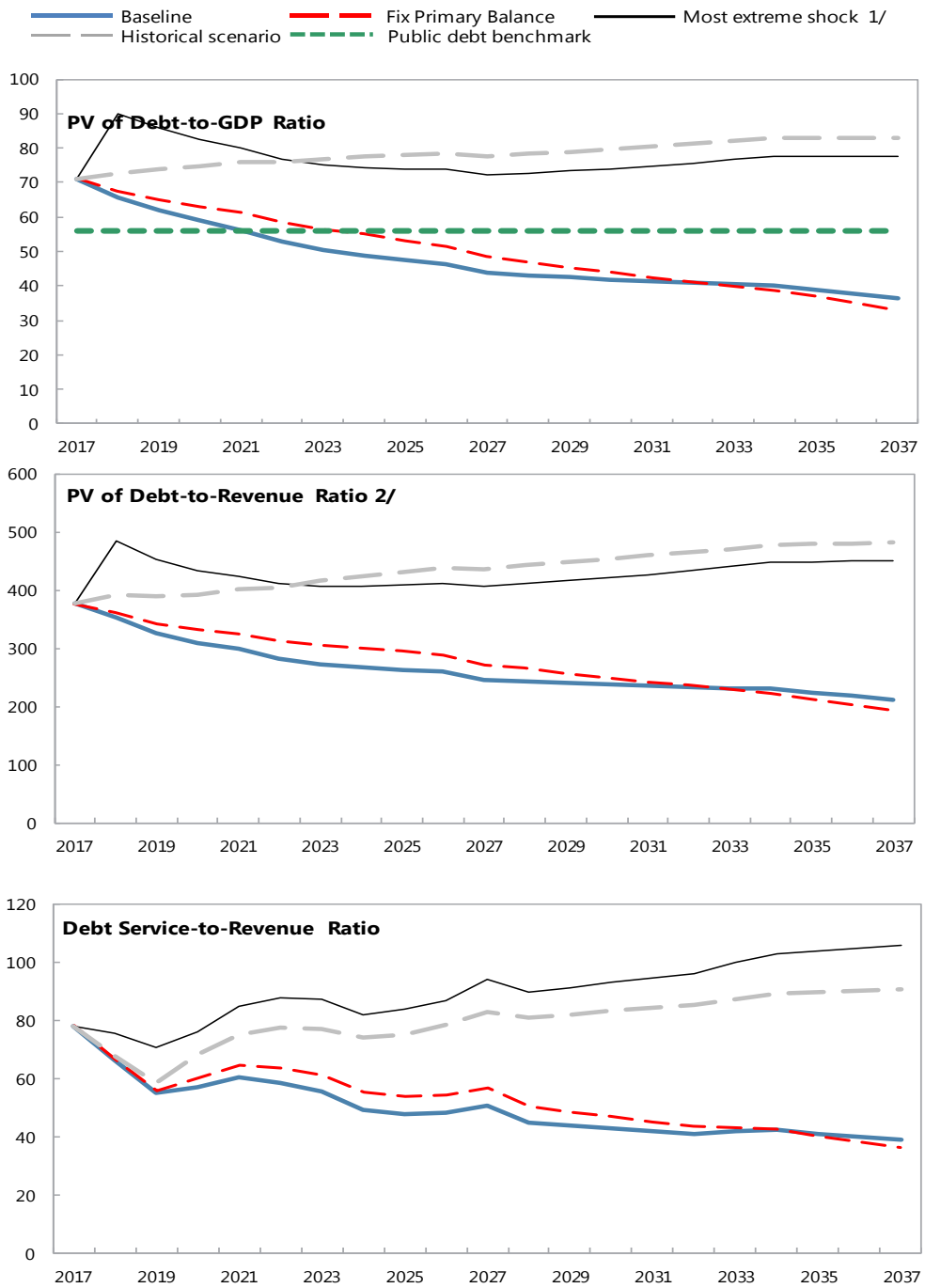
Figure 1. Ghana: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2017–37 1/



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 2027. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Ghana: Indicators of Public Debt Under Alternative Scenarios, 2017–37 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 2027.

2/ Revenues are defined inclusive of grants.



GHANA

August 25, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVER FOR NONOBSERVANCE OF PERFORMANCE CRITERIA, AND REQUEST FOR EXTENSION AND REPHASING OF THE ARRANGEMENT—SUPPLEMENTARY INFORMATION

Approved By
Dominique Desruelle
(AFR) and **Mark**
Flanagan (SPR)

Prepared by the Ghana team.

This supplement provides additional information since the Staff Report (EBS/17/87) was circulated to the Executive Board, including the fulfillment of two prior actions for the fourth review. It does not alter the thrust of the staff appraisal.

A. Update on Ghana's Macroeconomic Performance

1. **Macroeconomic performance has remained broadly satisfactory, although careful fiscal management will be required to achieve the 2017 program targets.**

Recent data point to continued disinflation, with July inflation falling to 11.9 percent. On the fiscal front, preliminary H1 data (still subject to revisions) suggest continued revenue underperformance: tax revenues were 0.5 percent of GDP below target compared to the program, largely driven by corporate income taxes, petroleum taxes and import duties; non-tax revenues also underperformed, by 0.3 percent of GDP, reflecting slower disbursement of project grants and lower oil revenues.¹ Expenditure has been catching up from earlier low levels, though remained below program projections by about 0.4 percent of GDP. Overall, the budget deficit came in at 2.9 percent of GDP (3.2 percent when measured from the financing side), compared to 2.6 percent of GDP under the program. Achieving the August and end-December PC on the primary balance will require continued effort to increase tax collection and contain

¹ Lower non-tax revenues had only a small impact on the overall deficit: lower project grants were matched by lower capital expenditures and lower oil revenue resulted in lower transfers to GNPC.

expenditures; the authorities are well aware of the risks to the program targets, and as indicated in the mid-year budget review (see below), they stand ready to take contingency measures to achieve the targeted deficit of 6.3 percent of GDP, including through further cuts in discretionary spending. The Ghana Revenue Authority has also intensified efforts to improve tax compliance, focusing on corporate taxes and import duties which have underperformed in the first half of the year.

Comparison of Budget and Program
(percent of GDP)

	Budget	Prog.	Prov.	Prog.	Prog.
	2017	2017 H1	2017 H1	2017	2018
Revenues ¹	19.8	8.4	7.7	18.9	18.6
Expenditure	26.6	11.0	10.5	25.2	22.4
Compensation of employees	7.9	3.9	3.9	7.9	7.8
Interest	6.9	3.1	3.3	6.5	5.9
Transfers	4.6	1.9	1.6	4.4	4.3
Goods and services	1.7	0.5	0.4	1.3	1.2
Capital expenditure	3.6	1.4	1.2	3.2	3.3
Other expenses ²	1.8	0.3	0.1	1.8	0.0
Overall Balance	-6.8	-2.6	-2.9	-6.3	-3.8
Primary balance (from financing)	0.1	0.5	0.2	0.2	2.2

¹ Revenues are net of GRA retentions and tax refunds, and include net IGFs channeled through the budget.

² Includes repayment of arrears and unpaid commitments.

B. Status of Prior Actions

2. All pending prior actions were implemented. Following the presentation of the mid-year budget review by the Minister of Finance to Parliament on July 31, 2017, the Budget Directorate issued revised cash allotments to spending agencies in line with the lower spending limits; the revised expenditure envelope should be sufficient to deliver a budget deficit of 6.3 percent of GDP, as agreed under the program. In addition, the Bank of Ghana has taken important steps to strengthen the financial system, following the completion of the Asset Quality Review (AQR) in March.

- Recapitalization.** Consistent with the AQR's terms of reference, banks found to be undercapitalized during the AQR have been requested to identify measures to improve their capital adequacy ratios (CAR) and provide the Bank of Ghana with time-bound recapitalization plans (MEFP 126). Following a review of these plans, the management of the Bank of Ghana has concluded during a special meeting held on August 8, 2017 that the submitted plans are credible and should enable the relevant institutions to comply with regulatory requirements within the mandatory timeframe. To date, three undercapitalized banks have already restored their regulatory capital to minimum levels and the four significantly undercapitalized are showing progress in strengthening their CAR. The Bank of Ghana will continue to monitor the implementation of the plans and stands ready to take further action if the desired results are not achieved.
- Bank resolution.** On August 14, 2017, the BoG intervened two insolvent banks that had proved unable to demonstrate credible (private sector) rehabilitation measures. The two banks, at end-2016 accounting for approximately 3 percent of banking system deposits, were resolved via purchase and assumption transactions that included the banks' deposit portfolios, liquid assets and performing loans. Preliminary estimates suggest that the assuming bank

(Ghana Commercial Bank, GCB, the second largest bank in Ghana) will receive government bonds of around GHS 1.6 billion (0.8 percent of GDP) to balance assets and liabilities (final numbers will only be available after due diligence on the transferred assets). Residual assets and liabilities of the failed banks have been placed into receiverships managed by PricewaterhouseCoopers under BOG oversight; recoveries, if any, will be distributed to remaining creditors in accordance with the creditor hierarchy. Media commentary has been generally supportive and the branches transferred to GCB have not experienced material deposit outflows. The authorities have completed the transaction transparently through a competitive bidding process and structured it to ensure least cost outcomes. The government will need to issue a bond to GCB (not yet reflected in the program as the modalities and exact magnitude of the required government support are still being defined).

**Statement by Mr. Mojarrad, Executive Director for Ghana, Mr. Jbili,
Senior Advisor to the Executive Director, and Mr. Abradu-Otoo,
Advisor to the Executive Director
August 30, 2017**

On behalf of our Ghanaian authorities, we thank staff and management for their continued support to Ghana. Our authorities appreciate the constructive Article IV engagement and concur with staff assessment of program implementation and policy recommendations. Ghana's challenges have been compounded by the recent policy slippages under the ECF-supported program, but the new government that took office in January 2017 is resolved to address them and forge ahead with its ambitious reform agenda. With a highly positive growth outlook over the medium term, steadfast implementation of reforms should put the Ghanaian economy on a durable path of sustained and inclusive growth.

Recent Economic Developments and Outlook

Growth decelerated in 2016 relative to the outturn in 2015, but was slightly better than initially projected. The slowdown was caused by a substantial decline in oil and gas production resulting from a repair shutdown of the Floating Production Storage and Offloading (FPSO) vessel. The non-oil sector, however, grew at 4.8 percent relative to the program target of 3.7 percent and an outturn of 4.0 percent in 2015, reflecting improved performance in the services and industrial sectors following some normalization of the energy supply situation. Although inflation decelerated in 2016, it remained elevated with pressures stemming from utility and fuel price increases at the beginning of 2016. Fiscal consolidation efforts suffered a setback and the overall cash deficit increased to 9.3 percent of GDP compared with 7 percent of GDP in 2015 and the third review target of 5.2 percent of GDP. The underperformance resulted largely from revenue shortfalls and expenditure overruns associated with the 2016 electoral cycle. The current account deficit narrowed in 2016 under the effects of a sharp increase in gold exports and compression of imports, and gross international reserves strengthened, although they remained below comfortable levels relative to the Fund's reserves adequacy metrics. After going through bouts of excessive volatility in the last two months of 2016 and the first quarter of 2017, the exchange rate has since regained ground, reversing most of the earlier depreciation and remaining largely stable following the approval of the 2017 budget and large forex inflows from renewed non-resident participation in the domestic bond market.

The medium-term growth outlook remains favorable, with overall growth picking up to an average of about 7 percent over 2017-19. This will be supported by the coming on stream of significant oil and gas production from the new Tweneboa Enyenra Ntomme (TEN) oil field and positive fallout of growth-enhancing measures in the non-oil sector. Inflation is decelerating and the latest available data for July 2017 show a further decline to 11.9 percent.

Continued tight monetary policy, exchange rate stability, and renewed commitment to fiscal consolidation are expected to bring inflation down to single digits by the end of 2018 and improve the inflation outlook going forward. The current account deficit is projected to narrow further, and gross international reserves, which have increased significantly to 3.4 months of import cover as at July 2017, will likely remain at a comfortable level in the period ahead.

Program Performance

The authorities concur with staff assessment of the slippages in program implementation in the run-up to the December 2016 elections. As detailed in the report and the MEFP, most PCs were missed, inflation exceeded the inner band of the Monetary Policy Consultation Clause (MPCC) in June 2016, triggering a consultation with staff, and structural reform implementation lagged in many respects. Nonetheless, advances were made in a few areas. The end-June 2016 government wage bill was within the target, although the end-December ceiling was exceeded by a small margin; arrears' clearance picked up during the year and as brought in line with the program target by end-December 2016; the zero-central bank financing of the government was observed over the whole year; and the end-December inflation of 15.4 percent was within the inner band of the MPCC. In the structural reform area, the establishment of a treasury single account has begun with the movement of all government accounts to the Bank of Ghana (BoG). Commercial banks are also required to transfer all balances in revenue accounts to BoG by the end of September 2017. An expanded rollout of the Ghana Integrated Financial Management Information System (GIFMIS) and strengthened processes are being reinforced to ensure expenditure controls.

The authorities have taken corrective actions, passing a strong budget and implementing five prior actions, including a critical one regarding the resolution of insolvent banks. In the light of these corrective actions and the strengthened program implementation, the authorities request Executive Board approval of waivers for the non-observance of relevant performance criteria and a modification of the program end date from April 2018 to coincide with their budget cycle ending December 2018 with re-phasing of the remaining scheduled disbursements.

Fiscal Policy and Debt Management

Mindful of the implications of the large fiscal deficit on public debt and the broader economy, the authorities are committed to restore fiscal discipline, reverse the fiscal deterioration of 2016, and help put debt on a downward and sustainable path. Under the 2017 budget, steps have been taken to broaden the tax base, address rigidities that have plagued the budgeting process over the years with the legislation of a policy on the capping of transfers to statutory and earmarked funds to 25 percent of tax revenues, rationalize the use of internally generated funds, pursue efforts to improve tax administration and compliance, and realign spending priorities. These measures will create fiscal space to free up resources for priority programs

(MEFP ¶18).

In line with the PFM Act, a mid-year budget review was presented to Parliament on July 31, 2017, following which the authorities adjusted expenditure downwards in goods and services and in capital outlays, to achieve a further decline in the overall budget deficit to 6.3 percent of GDP against the budget target of 6.5 percent of GDP. The authorities have committed to make further adjustments to meet the fiscal deficit target, should revenues underperform by curtailing discretionary spending and considering revenue measures. Additional domestic arrears accumulated in 2016 are currently being audited to validate the claims and ascertain their size before they are paid. The government has committed to clear arrears equivalent to 1.8 percent of GDP in 2017, which will eliminate all arrears recognized under the program as well as 20 percent of the new arrears following the validation of the audit. The remaining new arrears would be expected to be settled by 2019.

With the risk of debt distress likely to remain elevated for some time, the authorities' Medium Term Debt Management Strategy is focused on bringing down the fiscal deficit and the cost of debt to minimize refinancing risks. Some re-profiling operations of the debt instruments were conducted in the first quarter of the year, including issuance in April 2017 of a 15-year callable bond to alleviate refinancing risk. The government is also seeking to further lengthen the debt maturity profile through a program of buy-backs and exchanges while also maintaining adequate cash buffers. Transparency has been increased in the primary debt market with publication of a quarterly auction calendar, and plans are advanced to begin publishing annual borrowing plans. For 2017, contractual non-concessional external borrowing will continue to be subject to ceilings for debt management purposes and for projects critical for national development, for which concessional financing is not available. The use of non-concessional external loans is being restricted to projects included in the priority list to help reduce the infrastructure gap and implement development programs outlined in the Ghana Shared Growth and Development Agenda (GSGDA) II and the 2017 budget. To forestall recurrences of lapses in debt service repayment and associated penalties, the authorities have been strengthening their debt management systems in line with provisions in the PFM Act, and have been working closely with IMF technical assistance in this area.

Monetary Policy

The monetary policy stance remains tight despite the recent easing. With the ongoing fiscal consolidation and stable exchange rate, inflation has been trending down consistent with the expected gradual deceleration towards the medium-term target of 8 ± 2 percent in 2018. The authorities will continue to monitor price developments closely and stand ready to tighten monetary policy if necessary to ensure that inflation and inflation expectations remain well anchored. Following the suspension of foreign exchange auctions, the central bank will continue its bilateral interventions to provide FX liquidity to the market as needed to smooth out excessive volatility.

Monetary policy will continue to be guided by the BoG's inflation targeting framework (IT), which is being enhanced through ongoing efforts to reduce fiscal dominance, including the commitment to continue implementing a zero-central bank financing of government under an agency agreement between the Ministry of Finance and the central bank. While amendment to the BoG Act would strengthen its independence, the authorities have indicated that they will reopen a discussion of the issue at a higher level, including the legislature. A reexamination of the communications aspect of the IT framework is being carried out for enhancements and fine tuning.

Financial Sector

Ghana's banking sector is profitable, but faces many challenges associated with high NPLs, liquidity problems, and erosion of capital in some banks. Building a more robust financial sector to support growth and foster greater financial inclusion is high on the authorities' agenda. Following the 2016 updated Asset Quality Review (AQR)—completed in March 2017—which revealed substantial provisioning shortfalls in nine banks, a financial sector roadmap was drawn up, entailing remedial actions, including recapitalization of capital-deficient banks, which is underway, stepped efforts to accelerate recoveries and write-offs by banks, and resolution of insolvent banks that could not be rehabilitated. To this effect, on August 14, 2017, the authorities revoked the licenses of two insolvent banks under a purchase and assumption agreement whereby the good assets and deposit liabilities of the affected banks were taken over by one of the largest banks. The resolution actions are in line with the provisions of the new Banks and Specialized Deposit Taking Institutions (SDIs) Act and the aftermath developments are being monitored closely, although market reaction thus far has been muted. On liquidity management, the central bank is working to prevent the entrenchment of the exceptional liquidity support granted to banks over the past two years, including through strict enforcement of Emergency Liquidity Assistance (ELA) repayment plans by banks in line with the central bank's new guidelines. Going forward, BoG will focus on strengthening its supervisory and regulatory framework—including through the adoption of additional amendments of the Banks and SDI Act, the implementation of Basel II/III capital accord, and actions to address deficiencies in the AML/CFT framework.

Addressing the weaknesses of the microfinance institutions will enhance their contribution to inclusive growth. Plans are moving forward to strengthen their supervision, introduce higher capital and liquidity requirements, and bring on board more stringent standards pertaining to governance and risk management.

Structural Reforms

The authorities remain committed to pursuing wide-ranging structural reforms in support of their strategy of achieving a higher and more inclusive growth. As detailed in the MEFP,

efforts will continue to focus on resolving the financial difficulties of the energy sector SOEs, which is critical in supporting private sector development; strengthening public financial management and accelerating fiscal reforms; improving basic infrastructure; streamlining regulations and procedures to further enhance the business environment; and strengthening social protection and poverty alleviation. Improving governance and building strong institutions will help make Ghana even more attractive for investment.

The authorities remain committed to addressing the challenges of the energy sector SOEs, especially in dealing with the issues of the legacy debt and ensuring continued viability of these enterprises. The authorities are fully aware that steadfast implementation of reforms in the energy sector will have positive effects on the economy, including the banking sector. At the time of completion of the third review, the government engaged the services of a reputable audit firm to carry out a comprehensive audit and validation of the debt situation and financial viability of SOEs in the energy sector (MEFP ¶41). Based on the findings of this report, which underwent extensive review by the authorities, a three-pronged approach was developed to restructure the SOEs debt, strengthen the payment discipline, and introduce private sector participation in the downstream distribution of electricity through concession of the Electricity Company of Ghana under the second compact with the Millennium Challenge Corporation. In addition, as part of the authorities' efforts to ensure viability of these firms, steps are being taken to improve their management practices, monitor closely their financial performance, and institute mechanisms to strengthen financial oversight.

Conclusion

After a temporary setback in program implementation in 2016, the new government inaugurated in January 2017 has shown strong commitment to address program slippages, reduce imbalances, and pursue critical reforms to put the economy on a path of higher, sustainable, and more inclusive growth. The authorities have delivered on key prior actions, including capping of transfers to earmarked funds and taking bold steps to withdraw the license of two insolvent banks, and are firmly resolved to continue with strong program implementation within the proposed extended time framework. The authorities look forward to close cooperation and continued policy dialogue with the Fund and are grateful to the Executive Board and Management for their guidance and support.