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GHANA

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FIFTH AND SIXTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR WAIVERS FOR NONOBSERVANCE OF PERFORMANCE CRITERIA, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GHANA

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

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 30, 2018, following discussions that ended on March 29, 2018, with the officials of Ghana on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on April 16, 2018.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Ghana.

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

Letter of Intent sent to the IMF by the authorities of Ghana*
Memorandum of Economic and Financial Policies by the authorities of Ghana*
Technical Memorandum of Understanding*
*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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Press Release No. 18/156
FOR IMMEDIATE RELEASE
April 30, 2018

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IMF Executive Board Completes Fifth and Sixth Reviews Under the Extended Credit Facility, and Approves US$191 Million Disbursement for Ghana

On April 30, 2018 the Executive Board of the International Monetary Fund (IMF) completed the fifth and sixth reviews of Ghana's economic performance under the program supported by an Extended Credit Facility (ECF) arrangement. Completion of the reviews enables the disbursement of SDR 132.84 million (about US$191 million), bringing total disbursements under the arrangement to SDR 531.36 million (about US$764.1 million).

During the review, adjustments were made to the program to ensure that it remains on track and to enhance its prospects of success. In this context, the Executive Board also granted waivers, including for deviations in a few program targets.

Ghana's three-year arrangement was approved on April 3, 2015 (see Press Release No.15/159) for SDR 664.20 million (about US$955.2 million or 180 percent of quota at the time of approval of the arrangement). It aims to restore debt sustainability and macroeconomic stability in the country to foster a return to high growth and job creation, while protecting social spending.

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

"Implementation of the ECF-supported program has significantly improved in 2017. Growth has rebounded, the fiscal deficit has declined, leading to a primary surplus for the first time in fifteen years, the external position has strengthened, generating a build-up of external buffers, and key steps have been taken to address fragilities in the financial sector. Reforms should continue to entrench these hard-won gains.

"The authorities' commitment to fiscal discipline and the expenditure restraint shown in 2017 to meet the end-year deficit target are commendable. The government should continue to implement its fiscal consolidation program, with the adjustment focused mainly on increased domestic revenue mobilization. The recent announcement to enact revenue measures in the context of the mid-year budget review in July is welcome. Such measures will be critical to ensure that Ghana's fiscal policies can be sustained over time.

"Gains from fiscal consolidation and macroeconomic stability need to be underpinned by continued efforts to implement wide-ranging and ambitious reforms. The public financial management regulations recently submitted to Parliament should help strengthen budget formulation and execution. Stronger oversight over the management of public finances should continue to be pursued, also in line with recommendations from the audit of unpaid bills.

"As the debt burden remains elevated, continued prudence in debt management is essential to reduce the risks associated with market-based borrowing. It will be important as intended, to undertake liability management operations with part of the proceeds from the planned Eurobond to help mitigate foreign-exchange roll-over risk and smooth the debt maturity profile.

"Monetary policy should continue to be focused on achieving the inflation target. In this context, while the decision to extend and publish the memorandum of understanding on zero financing of the government by the Bank of Ghana is welcome, additional amendments to the Bank of Ghana Act would be a more robust way to eliminate the prospect of fiscal dominance.

"The authorities should continue addressing fragilities in the financial sector. Further actions to tackle the overhang in non-performing loans and more progress on regulatory reforms and in strengthening oversight and cleaning up the microfinance sector will help support credit to the private sector. The recent bank intervention should be followed up with decisive action to restore the bank's solvency and financial viability.

"The Fund is looking forward to the successful completion of the ECF arrangement in the coming year and stands ready to continue to support Ghana in the future."

Table 1. Ghana: Selected Economic and Financial Indicators, 2016–20

	2016	2017		2018		2019	2020
		Prog.	Prov.	Prog.	Proj.	Proj.	Proj.
	(Annual percentage change; unless otherwise indicated)						
National accounts and prices							
GDP at constant prices	3.7	5.9	8.4	8.9	6.3	7.6	5.5
Non-oil GDP	5.0	4.0	4.0	5.0	5.0	6.0	6.0
Oil and gas GDP	-16.9	42.5	95.9	64.9	20.0	22.4	1.3
Real GDP per capita	1.1	3.3	5.7	6.1	3.6	4.9	2.9
GDP deflator	17.8	14.2	12.7	9.6	11.1	8.2	8.0
Consumer price index (annual average)	17.5	11.8	12.4	9.0	9.3	8.0	8.0
Consumer price index (end of period)	15.4	10.0	11.8	8.0	8.0	8.0	8.0
Consumer price index (excl. food, end of period)	18.2	13.1	13.6	8.0	8.0	8.0	8.0
Gross capital formation	14.5	13.7	13.6	14.7	14.1	14.7	15.1
Government	4.9	3.2	3.1	3.3	2.7	2.9	2.8
Private	8.9	9.9	9.9	10.9	10.9	11.4	11.9
National savings	7.8	7.9	9.0	9.2	9.9	10.6	11.2
Government	-4.0	-1.3	-2.0	-0.5	-3.3	-1.3	-1.4
Private[1]	11.8	9.2	11.0	9.7	13.2	11.8	12.6
Foreign savings	-6.7	-5.8	-4.5	-5.4	-4.2	-4.1	-3.9
Central government budget (cash basis)							
Revenue	17.2	18.9	17.5	18.6	17.9	17.9	17.8
Expenditure	26.6	25.2	23.4	22.4	24.3	22.5	22.3
Overall balance[2]	-9.3	-6.3	-6.0	-3.8	-6.4	-4.5	-4.5
Overall balance excluding financial sector related costs[2]	-9.3	-6.3	-6.0	-3.8	-4.5	-4.5	-4.5
Primary balance[2]	-2.4	0.2	0.7	2.2	0.1	2.0	1.9
Primary balance excluding financial sector related costs[2]	-2.4		0.7		2.0	2.0	1.9
Overall balance (from financing)	-8.2	-6.3	-5.9	-3.8	-6.4	-4.5	-4.5
Central government debt (gross)	73.4	70.5	71.8	66.1	70.3	67.0	65.0
Domestic debt[3]	32.1	32.5	34.8	30.8	34.8	34.4	35.2
External debt	41.3	38.0	37.0	35.3	35.5	32.6	29.8
Money and credit							
Credit to the private sector (commercial banks)	14.4	11.0	12.8	14.5	17.8	18.8	18.9
Broad money (M2+)	22.0	22.7	16.7	15.9	20.3	18.8	21.7

Velocity (GDP/M2+, end of period)	3.0	2.9	3.1	3.0	3.0	3.0	2.8
Base money	29.6	26.3	13.1	19.2	21.0	19.5	22.5
Banks' lending rate (weighted average, percent)	31.7	…	29.3	…	…	…	…
Policy rate (in percent, end of period)	25.5	…	20.0	…	…	…	…
				(Percent of GDP)			
External sector							
Current account balance	-6.7	-5.8	-4.5	-5.4	-4.2	-4.1	-3.9
Gross international reserves (millions of US$)	4,862	5,783	5,491	6,319	5,909	6,371	6,962
in months of prospective imports of goods and services	2.6	3.0	2.9	3.1	2.9	3.0	3.1
Net international reserves (millions of US$)	3,431	4,475	4,531	5,035	5,035	5,510	6,195
in months of prospective imports of goods and services	1.8	2.3	2.4	2.4	2.5	2.6	2.8
Total donor support (millions of US$)	778	977	814	755	456	608	327
in percent of GDP	1.8	2.1	1.7	1.5	0.9	1.1	0.5
Memorandum items:							
Nominal GDP (millions of GHc)	167,353	202,389	204,610	241,549	241,717	281,457	320,594
Nominal GDP (millions of US$)	42,788	45,464	47,015	49,226	51,619	56,725	60,752
National Currency per U.S. Dollar (period average)	3.9		4.4		4.7	5.0	5.3
GDP per capita (US$)	1,552	1,608	1,663	1,697	1,780	1,907	1,992
Central Government Debt excluding ESLA bond	73.4	70.5	69.5	66.1	67.8	64.9	63.2

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

[1] Including public enterprises.

[2] Excludes discrepancy.

[3] Includes ESLA bond.

INTERNATIONAL MONETARY FUND

GHANA

April 16, 2018

FIFTH AND SIXTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR WAIVERS FOR NONOBSERVANCE OF PERFORMANCE CRITERIA, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Program performance improved in 2017 and macroeconomic conditions have strengthened considerably. Growth increased on the back of expanded oil production; inflation declined; the fiscal deficit was significantly reduced, leading to a primary surplus for the first time in fifteen years; the exchange rate regained stability; and the external position improved, with a large reserve build-up. Challenges remain, though, as a still elevated (albeit declining) debt burden and the economy's exposure to risks limit policy space; and progress in meeting structural benchmarks remains mixed. Program discussions focused on policies to lock in recent gains to secure continued stability and progress beyond the Fund-supported program (in line with the authorities' goal of "irreversibility" of sound policies). More specifically:

- **Fiscal adjustment** is needed to lock in a declining debt dynamic, supported by increased domestic revenues as the revenue base is limited and spending retrenchment cannot be sustained indefinitely, also as new spending programs come on line.

- The **monetary policy framework** needs to remain anchored to delivering declining inflation, with steps to underpin the credibility of the inflation targeting framework.

- Long-term **financial stability** requires resilient and well-managed institutions, supported by a robust financial safety net. Ongoing initiatives to strengthen the financial sector are welcome and need to proceed steadfastly, to create an environment supportive of credit growth and financial inclusion.

- **Wide-ranging structural reforms,** to promote transparency and accountability and address inefficiencies in the economy, are key to creating inclusive growth.

Staff recommends completion of the fifth and sixth reviews, as most end-August and end-December performance criteria were met and corrective actions have been taken for those unmet. The authorities are committed to bringing the Fund-supported program to successful completion in the coming year, via continued policy adjustment and reform, including through sustained fiscal discipline, implementation of financial stability measures, and further structural reforms.

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

Discussions on the fifth and sixth reviews under the ECF arrangement took place in Accra during February 21-March 1, building on an earlier mission in October 2017. The IMF staff team included Annalisa Fedelino (head), John Hooley, Siddharth Kothari and Leandro Medina (all AFR), Farayi Gwenhamo (SPR), Salvatore Dell'Erba (FAD), Constant Verkoren (MCM), Natalia Koliadina (Resident Representative) and Osa Ahinakwah (local economist, ResRep office). Mr. Mojarrad (Executive Director) and Mr. Desruelle (AFR) participated in some of 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 Alice Mugnier (AFR) ably contributed to the preparation of this report.

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APPENDIX

BACKGROUND

1. **Much progress was achieved in 2017 in addressing macroeconomic imbalances.** Growth rebounded; fiscal adjustment led to a primary surplus—a first since 2003—and a decline in the debt-to-GDP ratio; inflation continued to drop; the current account adjustment proceeded at a faster pace than programmed, resulting in larger accumulation of foreign exchange reserves; and the exchange rate regained stability. The authorities deserve credit for steering the course of the economy after inheriting challenging macroeconomic conditions.

2. **However, important work remains for 2018, the last year of the ECF arrangement**. The authorities' efforts are focused on successfully completing IMF-supported programs and getting closer to realizing their vision of "Ghana beyond aid." Anchoring macroeconomic stability, with sustained stronger growth and lower debt and deficits, will require continued adjustment and reforms. Accelerating key structural reforms and addressing remaining economic challenges are key to put Ghana on an "irreversible path" of sound policies to ensure inclusive growth and job creation—a key government goal.

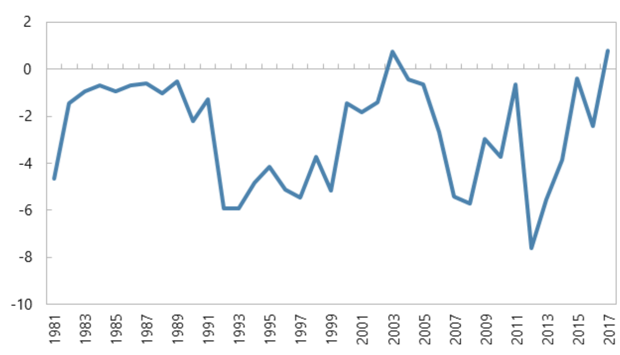
ECONOMIC DEVELOPMENTS AND OUTLOOK

A. Gains in Stabilization

3. **Growth prospects have rebounded.** Preliminary estimates put non-oil GDP growth at 4.7 percent over Q1-Q3, slightly higher than projections. Overall growth reached 8.4 percent, reflecting increased oil production.

4. **The budget deficit was significantly reduced, with a primary surplus for the first time since 2003.** Despite large revenue underperformance, the authorities managed to reduce the overall deficit to 6 percent of GDP, from 9.3 percent of GDP in 2016—below the 6.3 percent of GDP target (Box 1). The strong fiscal adjustment led to a primary surplus of 0.7 percent of GDP and a decline in the debt/GDP ratio for the first time since 2011, from 73.4 percent of GDP in 2016 to 71.8 percent of GDP in 2017 (including the energy bond, see ¶6).

Primary Balance
(percent of GDP)



Source: Ghana authorities and IMF Staff estimates.

5. **There have been important developments in governance.** The Auditor General (AG) tabled the report on all arrears and unpaid claims as of end-2016 in Parliament; out of claims worth over GHc 11 billion, only GHc 6.3 billion were validated. Remedial actions to strengthen accountability will be taken up, including by the newly established Office of the Special Prosecutor.

Box 1. 2017 Fiscal Outturn

The 2017 outturn was marked by a large revenue shortfall. Tax revenues were lower than programmed (0.7 percent of GDP), on account of trade taxes (0.5 percent of GDP) and VAT (0.3 percent of GDP reflecting high refunds). Lower non-tax revenues (0.6 percent of GDP) reflected implementation problems with the new policy on retaining internally generated funds (IGFs) of central government agencies.

Primary expenditures were contained to match lower revenues. In particular spending on goods and services was contained; arrears clearance was lower than programmed as the government was awaiting results from the audit of unpaid claims; earmarked transfers to other government units were low;[1] and domestic capital expenditure was contained but partially offset by higher than budgeted foreign financed capital spending. At the same time, non-discretionary spending on wages exceeded programmed levels, largely reflecting retroactive payments (see MEFP ¶12).

2017 Fiscal Performance
(percent of GDP)

	2017 Prog.	2017 Prov.
Revenues[1]	18.9	17.5
Tax	16.0	15.3
Non-tax	2.8	2.2
Expenditure	25.2	23.4
Compensation of employees	7.9	8.2
Interest	6.5	6.6
Transfers	4.3	3.4
Goods and services	1.5	1.2
Capital expenditure	3.2	3.1
Other expenses[2]	1.8	0.9
Overall balance	-6.3	-6.0
Discrepancy	0.0	0.0
Overall balance (below-the-line)	-6.3	-5.9
Primary balance (above-the-line)	0.2	0.7
Primary balance (below-the-line)	0.2	0.7

[1] Revenues are net of GRA retentions
[2] Includes repayment of arrears and unpaid commitments.

[1] Transfers to government units were 0.9 percent of GDP below program. Lower revenues (hence lower earmarked transfers), use of ESLA to clear arrears, and lower transfers to the oil company (as repairs to the oil field were pushed back to 2018) account for 0.4 percent of GDP. The remaining 0.5 percent of GDP shortfall was due to lower than programmed transfers to statutory funds in Q1, in absence of the budget and given the audit of all outstanding payments from 2016; regular transfers were made to SFs starting from Q2.

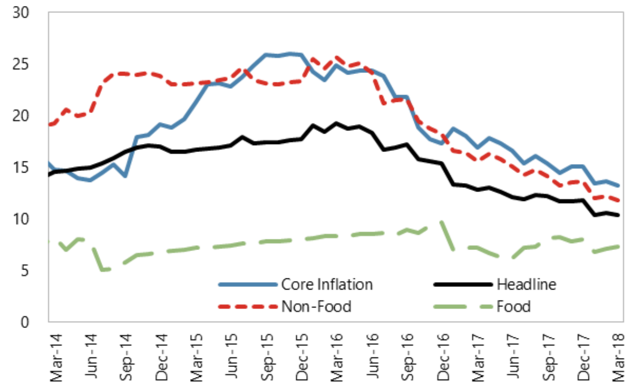
6. **The government successfully shifted financing to long-dated securities.** The net domestic financing requirement for 2017 (GHc 14 billion) was met comfortably due to a reopening in November of 7, 10 and 15-year securities for GHc 5.3 billion, with high demand from non-resident investors. Meanwhile, yields on government securities remained relatively stable. An 'energy bond' for the restructuring of debts of state-owned enterprises (SOEs) in the energy sector was also issued in November and reopened in January 2018, for a cumulative GHc 5.2 billion.[1]

7. **Inflation has continued to decline, supported by a tight monetary policy stance.** Headline inflation declined from 15.4 percent at the end-2016 to 11.8 percent in December 2017 (within the inner band of the Monetary Policy Consultation Clause (MPCC)), with a further decline to 10.4 percent in March 2018. The Monetary Policy Committee decided to reduce the Monetary Policy Rate (MPR) by 200bp to 18 percent at its March meeting (following a cumulative decrease by 550

[1] As the authorities do not consider ESLA Plc (the SPV which issued the bonds) as part of the government sector, they exclude the bond from government debt. However, as the bond will be serviced using government revenues (part of the levies instituted by the Energy Sector Levies Act of 2015), it is considered government debt under GFS standards, and treated as such by staff.

bps in 2017)—thus the real MPR remains elevated at above 7 percent. The cedi depreciated by only 5 percent against the dollar in 2017, supported by strong non-resident participation in the domestic bond market and better than expected balance of payments performance. On a real effective basis, the cedi was also relatively stable, as nominal depreciation against the currencies of Ghana's major trading partners broadly offset inflation differentials.

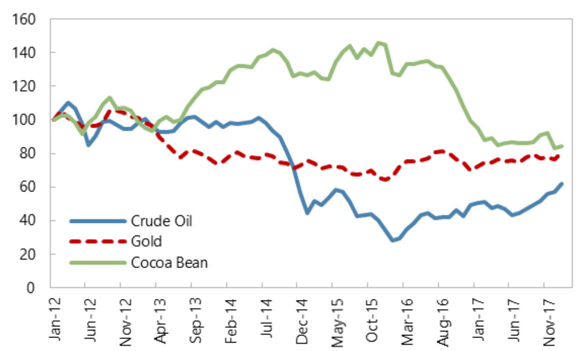
CPI Inflation
(percent, y-o-y change)



Source: Ghana authorities and IMF Staff estimates.

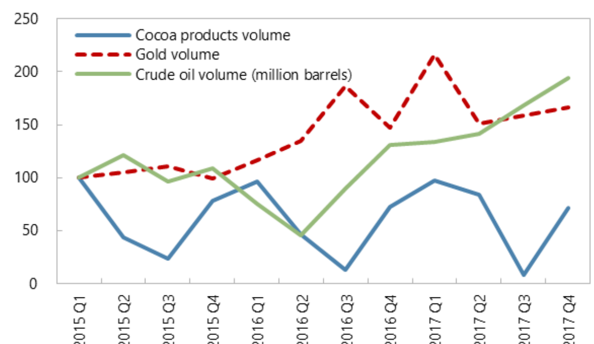
8. **Significant export growth supported a reduction in the current account deficit, to an estimated 4.5 percent of GDP in 2017.** Gold, cocoa and petroleum export volumes increased by 18, 14 and 87 percent respectively and the value of cocoa exports held up despite low world prices.[2] Imports fell by 1.8 percent driven by a decline in non-oil imports. The balance of payments recorded an overall surplus of 2.3 percent of GDP, helped also by robust portfolio investment inflows and leading to a significant build-up of foreign exchange reserves, to US$5.5 billion (excluding oil funds and encumbered assets) by end-December 2017.

Commodity Prices
(index; Jan 2012=100)



Source: Ghana authorities and IMF Staff estimates.

Export Volumes for Key Commodities
(index; 2015 Q1=100)

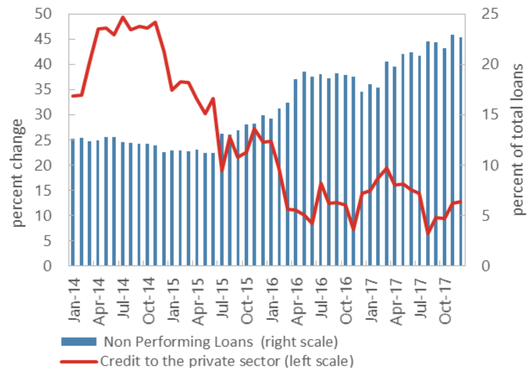


Source: Ghana authorities and IMF Staff estimates.

[2] Following the sharp decline in the price of cocoa beans in Q3 2016, low cocoa prices, if sustained, will affect export earnings with a lag due to high pre-set forward market prices.

9. Credit growth has remained subdued, partly reflecting the continuous increase of nonperforming loans (NPLs). Credit growth to the private sector has declined sharply from a peak of around 50 percent in 2014 to 12.8 percent at end-2017, despite an environment of excess liquidity and robust deposit growth. At the same time, NPLs have continued to increase, reaching GHc 8.2 billion in December 2017 or 22.7 percent (Box 2). In part, the increase in NPLs is the result of more stringent application of loan classification requirements and earlier loss recognition following the Asset Quality Review.

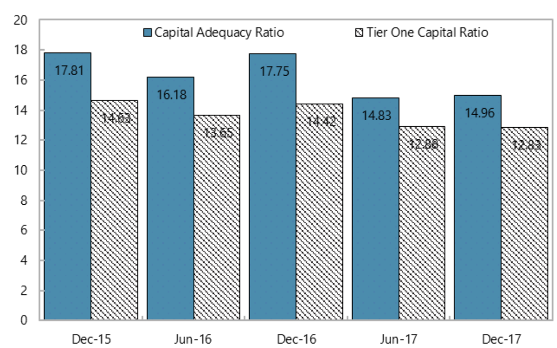
Credit to the Private Sector and NPLs



Source: Ghana authorities and IMF Staff estimates.

10. Financial system fragilities continue to persist, despite the roll-out of financial sector reforms. Banking sector capital (15 percent in December 2017) remains well above the regulatory minimum. However, ratios vary significantly among individual banks, as also shown by the BoG's recent decision to appoint an official administrator for one of the largest banks with severe capital and liquidity shortfalls.[3] Still, many institutions will need to raise equity (or pursue mergers) to comply with the new minimum statutory capital requirements by end-2018. The banking system remains profitable, but net income is declining amidst elevated provisioning needs and lower interest spreads. Moreover, banks' reliance on (largely uncollateralized) liquidity support remains significant (close to GHc 1.1 billion or about 0.5 percent of GDP, excluding the two resolved banks). Specialized deposit-taking institutions (SDI, including microfinance institutions and savings and loan companies) are also displaying significant weaknesses, with many institutions being undercapitalized or facing liquidity pressures.[4]

Regulatory Capital
(in percent)



Source: Bank of Ghana

B. Outlook and Risks

11. Although the economy has stabilized, staff's risk assessment has not materially changed since the fourth review. Overall GDP growth would decrease to 6.3 percent in 2018, reflecting lower growth in oil production compared to 2017, while non-oil growth would increase

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[3] Also see press release issued by the BoG on March 20, 2018, available at http://www.bog.gov.gh/privatecontent/Public_Notices/Bank%20of%20Ghana%20appoints%20official%20administrator%20for%20UNIBANK%20GH%20LTD.pdf.

[4] See "Status of the Financial Sector in Ghana," available at https://www.bog.gov.gh/privatecontent/Public_Notices/State%20of%20the%20Banking%20System.pdf.

reflecting improved confidence;[5] and inflation would hit the target (8 percent) by late 2018. The balance of risks remains tilted to the downside, with debt still at high risk of distress. The realization of contingent liabilities makes the DSA less favorable compared to the last review, with four indicators breaching the thresholds (see DSA).

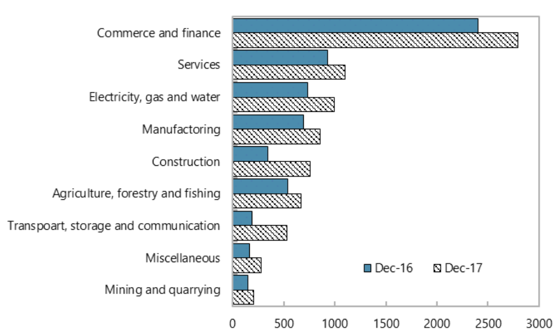
Box 2. Trends in Nonperforming Loans

Credit trends can be explained, at least in part, by the continuous increase of nonperforming loans (NPLs). High NPL levels have an adverse impact on credit supply and loan pricing, as banks tighten their credit stance and increase lending rates (the bank balance sheet channel), but also weigh on credit demand as overindebted borrowers tend to delay new investments (the credit demand channel). Together, these two trends can give rise to a vicious cycle whereby low asset quality and decreasing lending activity erodes bank profitability, hampering banks' ability to clean up their balance sheets and eroding economic growth.

Cross-country experiences also provide ample evidence of a significant and largely non-linear relationship between macroeconomic developments and asset quality. Typically, a slowdown in economic growth and exchange rate pressures (for countries with a significant reliance on foreign currency denominated loans) lead to an increase in NPL, while subdued lending in response to elevated risk perceptions adversely impacts economic recovery—trends that can also be observed for Ghana.

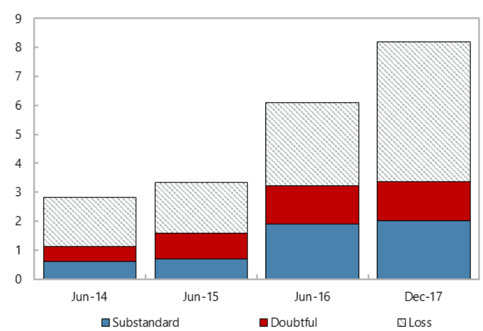
Most of the outstanding NPLs in Ghana relate to the private sector, with indigenous private enterprises accounting for 78.2 percent and households for 5.3 percent (data as of October 2017). The share of public sector NPLs declined over the past year, largely due to the restructuring of the outstanding debts of electricity companies and the oil refinery. Three sectors—commerce and finance, services and electricity, gas and water—account for about 60 percent of total NPLs, but the highest NPL ratios can be found in the manufacturing and agricultural sectors (about one third each). Almost 60 percent of NPLs are deemed uncollectible (i.e., classified as "loss" as per BoG's classification rules).

Distribution of Nonperforming Loans
(Percent)



Source: Bank of Ghana

Asset Quality Distribution
(GHc billion)



Source: Bank of Ghana

Addressing the NPL overhang will free up banks' balance sheets for new lending. Loans overdue for more than one year account for about half of the outstanding NPLs, which is indicative of the system's inability to deal with debt distress in a timely manner.

[5] 2018 oil production is lower than previously projected due to the deferred 9-12 week shut-down of the Jubilee field from 2017 to 2018.

POLICY DISCUSSIONS

A. Fiscal Policy

12. **Keeping the fiscal program on track is essential for building credibility and keeping a downward debt path.** There is little space for fiscal slippages and the authorities are keenly aware of the need to mobilize domestic revenues to improve adjustment composition and achieve "Ghana beyond aid" (MEFP ¶2).

13. **The 2018 budget targets a primary balance of 2 percent of GDP and an overall deficit of 4.5 percent of GDP (excluding one-off costs for the financial sector).**[6] These targets imply a further 1.3 percent of GDP primary adjustment relative to 2017, and a cumulative tightening of 4.4 percent of GDP over two years. In staff's view, the pace of consolidation is appropriate (though 0.2 percent of GDP lower than envisaged at the time of the 4th review), given the need to protect social and infrastructure spending while still ensuring a declining debt path. The overall deficit including one-off financial sector costs (tentatively estimated at 1.9 percent of GDP, see Section E) is expected to be higher, at 6.4 percent of GDP.

14. **Recently adopted measures bring the 2018 fiscal framework in line with the program.** The 2018 budget relies primarily on revenue administration measures and continued expenditure restraint, including by capping transfers to statutory funds (Box 3). Given limited fiscal space (wages and interest payments comprise almost 100 percent of tax revenues) and already high debt service-to-revenue ratio, the authorities agree with staff on the need to mobilize additional domestic revenues. In addition, staff view the revenue projections in the budget as optimistic, thus requiring measures equivalent to about ½ percent of GDP to meet the deficit target of 4.5 percent of GDP. The authorities have announced their commitment to introduce additional revenue measures in the context of the mid-year budget review in July 2018 (MEFP ¶19) (**prior action**), considering Ghana's untapped revenue potential (Box 4).[7] In the meantime, they have scaled back Q2 cash allotments, and agreed to make further spending reductions in the second half of the year (overall amounting to GHc 850 million, while still protecting social spending), in case revenue measures are not enacted. In staff's view, these steps are sufficient to safeguard the deficit target. As in 2017, the authorities are committed to meeting the 2018 targets by taking additional measures if needed (MEFP ¶21).

15. **Over the medium term, the authorities intend to maintain a primary surplus of about 2 percent of GDP—sufficient to bring down debt vulnerabilities—while also clearing all arrears.** They are committed to mobilizing more revenues in the context of the 2019 budget, also to offset the one-off revenue measures in the 2018 budget (MEFP ¶22). The estimated stock of outstanding arrears is GHc 3.9 billion at end-2017 (factoring in the audit results and arrears repayment in 2017).

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[6] The primary balance in the authorities' presentation is 1.6 percent of GDP, which translates to 2 percent of GDP in staff's presentation reflecting the different treatment of the ESLA bond (interest payments of 0.4 percent of GDP are not included under "Interest" and recorded as an "ESLA transfer" in the authorities' presentation).

[7] As revenue measures have not been introduced yet, staff has not factored them into the baseline projections.

The government intends to clear all arrears by 2021, prioritizing claims of the private sector (MEFP ¶23).

Box 3. Key Elements of the 2018 Budget

On the revenue side, the 2018 budget focuses on revenue administration measures. The authorities aim to raise 0.5 percent of GDP through various initiative including special audits, introduction of electronic point-of-sale devices, and implementation of an excise stamp regime. Given weaknesses at the GRA and history of delay in implementing similar projects, staff assume a yield of 0.2 percent of GDP from these measures. The budget also plans to raise 0.3 percent of GDP through sale of communication spectrum and telecom license (one-off revenues that will need to be offset in 2019). On the policy front, the budget introduced a levy on foreign marine gas (previously exempt and causing smuggling) and an African Union (AU) levy of 0.2 percent on all imports from non-AU countries. The government presented a tax amnesty bill to Parliament (although no revenue yield has been assumed in the budget), and proposed to introduce some new tax incentives for REITS, young entrepreneurs, and financial services.

Revenue Measures in 2018 Budget

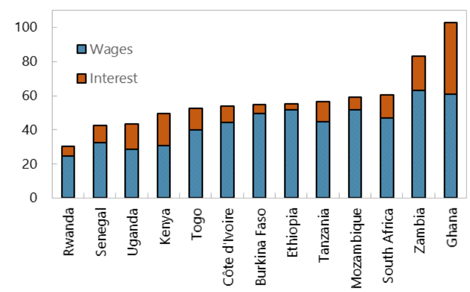
Measure	GoG Estimated Yield		IMF Assumed Yield	
	GHc millions	% of GDP	GHc millions	% of GDP
Compliance Measures	1,170	0.48	540	0.22
Special audits	180	0.07	180	0.07
Electronic fiscal devices	500	0.21	100	0.04
Excise stamp regime	120	0.05	40	0.02
Suspense regime review	300	0.12	150	0.06
Review of exemptions	70	0.03	70	0.03
Communication spectrum ($50mn)	240	0.10	240	0.10
Prepayment of telcos license renewal	460	0.19	460	0.19
African Union Levy	154	0.06	154	0.06
Levies on marine gas oil (Foreign)	130	0.05	130	0.05
Share of property taxes for central government	150	0.06	150	0.06
Total	**2,304**	**0.95**	**1,674**	**0.69**

On the expenditure side, transfers to statutory funds will remain capped. However, unlike 2017, the budget also reduces transfers for equity financing to the national oil company, GNPC. Under the Akufo-Addo Program for Economic Transformation (AAPET), various programs such as free Senior High School, Planting for Food and Jobs, one-district one-factory, and one-village one-dam will continue. New programs were also announced. The proposed Nation Builders Corp is the largest, with plans to hire 100,000 graduates across the country to combat unemployment (not as part of the civil service, with modest salaries and without allowances and benefits). The program, expected to cost about 0.2 percent of GDP, will be partially funded through allocations from the District Assemblies Common Fund as the people employed will work at the district level and will be tasked with improving service delivery in health, education, agriculture and sanitation, and help with revenue collections.

On the financing side, the budget also plans to raise GHc 1.7 billion from divestment and GHc 1.4 billion from monetizing future gold royalties.

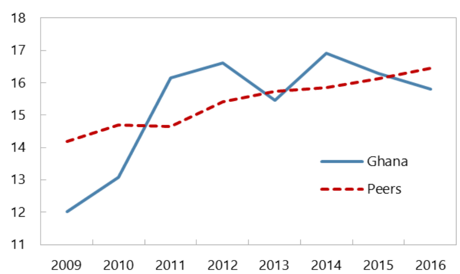
Box 4. Wanted: Tax Policy Measures

Limited fiscal space and continued need for fiscal consolidation means that revenue mobilization is a key priority for Ghana. Non-discretionary spending on wages and interest payments constitute a much higher share of tax revenue in Ghana compared to peer countries, leaving little space for developmental spending. Furthermore, foreign grants have fallen and are expected to remain low, highlighting the need (in line with the authorities' goal) to move beyond aid. In this context, stronger revenue mobilization would ensure that the government's priority programs (such as free secondary education) can be funded sustainably, while needed fiscal adjustment to reduce the large public debt can still be pursued.

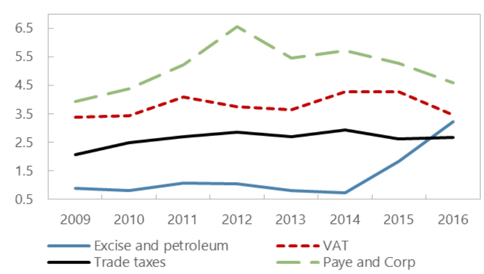


Source: World Economic Outlook.

Domestic tax collection in Ghana, however, has stalled. After a steep rise in tax ratios between 2009 and 2011, mainly due to an increase in direct taxes, tax collection has remained flat in the last 5 years, even as peer countries have seen an increase. This overall performance is particularly striking considering the large increase in petroleum taxes, by almost 3 percent of non-oil GPD, that occurred between 2014 and 2016 after the adoption of the Special Petroleum Tax (SPT) and the Energy Sector Levies Act. This disproportionate increase in petroleum taxes has been almost entirely offset by a marked erosion of direct taxes and VAT, while the performance of import duties has remained flat.

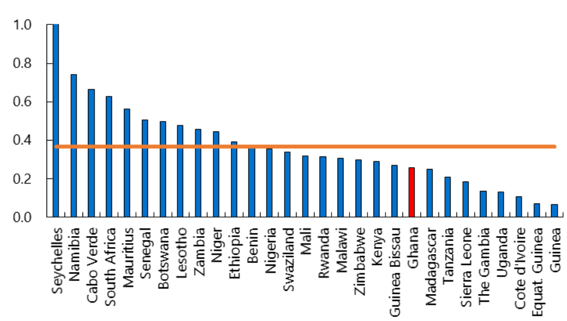


Source: World Economic Outlook.



Source: Ghana authorities and IMF Staff estimates.

Several challenges plague the tax system, leading to poor performance. C-efficiency of the VAT in Ghana is well below the SSA average.[1] On direct taxes, while the top marginal tax rates (25 percent for corporate and personal income tax) are competitive relative to peers, both these categories have seen a decline in collections as a share of GDP in recent years. Evasion and problems with tax administration undoubtedly play a role in the poor tax performance. However, the complexity of the tax system, especially the proliferation of exemptions and special regimes, leads to both direct and indirect revenue losses—the latter by creating opportunities for tax avoidance and increasing the burden on tax administration.



Source: IMF Staff estimates.

[1] C-efficiency is the ratio of actual VAT collections upon expected collections given the tax rate.

Box 4. Wanted: Tax Policy Measures (concluded)

Concrete tax policy measures are needed to meet developmental objectives. While improving compliance should remain an important component of the strategy to mobilize revenues, international experience shows that tax administration measures take time to deliver. Further, recent technical assistance (TA) in revenue administration has identified significant weaknesses at the GRA (including lack of timely and reliable taxpayers' data, see below), which may further delay expected revenue gains from administrative measures. Instead, shifting the focus from revenue administration to tax policy measures to raise revenues will reduce the pressure on GRA, and is likely to lead to a more durable and sustainable increase in domestic revenues, along with a more fair and broad-based distribution of the tax burden.

Recent TA has suggested some potential areas where tax policy measures can help mobilize revenues.

- **Direct tax exemptions:** Several sectors benefit from reduced corporate tax rates and tax holidays. Some of these tax holidays can be discontinued (mutual funds, venture capitals), while others can be replaced by a system which better targets investment. A temporary corporate minimum tax (a charge on turnover which can be deducted against regular income tax) can be potentially introduced to ensure everybody pays a fair share. Such a tax would be difficult to avoid through tax planning, but could be removed once the tax base is broadened.
- **Indirect taxes:** Analysis based on data from 2015 indicates significant non-standard exemptions for VAT and import duties (including on items which are or can potentially be produced locally, such as cocoa, cereals and vegetables, among others). In addition, there is scope to impose an excise on luxury cars and repeal some recently introduced indirect tax relief (removal of VAT on fee-based financial services, real estate transactions). A more comprehensive review of the VAT regime is also needed.
- **Free zones (FZs):** A comprehensive review of the FZs regime can help mobilize substantial revenues. Steps can include**:** (i) replacing tax holidays with investment allowances, (ii) reducing the maximum domestic sales allowed by FZ companies from 30 to 20 percent, (iii) narrowing VAT and import duty exemptions for FZ companies, and (iv) restricting the granting of FZ status to companies in newly designated geographical-limited "industrial parks" (replacing the current system of having "free-standing" FZ companies rather than in designated areas).
- **Broader policy design issues in mining and oil and gas sectors.** The authorities have expressed strong interest in TA in this area, which could help them identify suitable measures to ensure a fair share of revenues from these sectors. There is also significant scope to make potentially large revenue gains from enforcing current legislation, for example by executing costs audits to detect possible profit shifting by companies in these sectors.
- **Comprehensive review of tax rates:** The government should conduct a holistic review of the tax system, reassessing key rates like the VAT, corporate income tax, excises and personal income tax. Developing a Medium-Term Revenue Strategy to guide short-term revenue measures would be helpful. The authorities' plans in this area are encouraging.

B. Financing and Debt Management Strategy

16. Increased issuance of longer-term maturities has led to lower gross financing needs. The average time to maturity of domestic debt increased from 5.5 years at end-2016 to 7.2 years at end-2017 (MEFP ¶6); and gross financing needs in 2018 have declined, to 15 percent of GDP. The authorities also intend to strengthen debt management further, through introduction of buy-backs and exchanges for debt maturing in the second half of 2018. Other planned financing initiatives, like monetizing future gold royalties (Box 2), should be carefully evaluated, given potential costs in terms of reduced budget flexibility in the future.

Fiscal Financing Needs
(in percent of GDP, unless otherwise indicated)

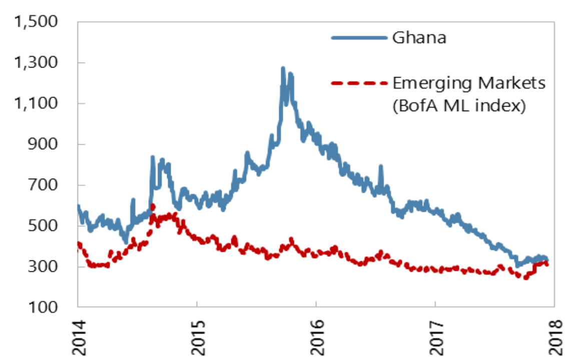
	2017 Proj.	2018 Proj.
Gross financing needs	**22.6**	**15.0**
Domestic primary balance[1] (-)	-2.6	-1.3
Interest payments	6.6	6.5
Accumulation of deposits	1.1	0.0
Loans to SOEs[2]	2.3	0.5
Amortization	15.2	9.2
External[3]	2.4	2.0
Domestic (T-bills)	8.0	3.3
Domestic (1 year and over)	4.8	4.0
Financing	**22.6**	**15.0**
Program grants and loans	0.7	0.5
Grants	0.0	0.0
o/w loans	0.7	0.5
IMF	0.2	0.5
Other	0.5	0.0
External commercial borrowing (Eurobond)[3]	0.0	1.5
Domestic debt	21.9	12.8
Short term	3.9	2.0
1 year and over	15.7	10.2
Net use / sale of financial assets	-0.1	0.3
Other	0.1	0.0

Sources: Ghanaian authorities and IMF staff estimates and projections.
[1] Primary balance (measured from financing), excluding grants and foreign-financed capital expenditure.
[2] On-lending of ESLA bonds to SOEs.
[3] Does not include Eurobond proceeds intended for debt management.

17. The authorities' borrowing plan for 2018 includes non-concessional funding. Ghana has been increasingly accessing market financing in recent years, as concessional sources of finance have gradually declined following increases in its income per capita levels. Given currently favorable market conditions, the authorities thus plan to issue up to $2.5 billion in a Eurobond, and to borrow a further $500 million in commercial loans. In staff's view, the request is justified:

- Out of the Eurobond proceeds, $1.75 billion will be allocated for debt management purposes, to smooth the spikes in debt maturities in 2023 by repurchasing debt in a broadly NPV neutral manner.[8] The authorities will anchor the liability management operations in the DSA and the revised Medium-Term Debt Strategy; and will provide an update on the use of proceeds in the context of mid-year budget review.

Eurobond Spreads vs US 10-year Bonds



Source: Datastream.

- The remaining $750 million from the Eurobond and the additional $500 million will be allocated to projects critical to the authorities' development plans in the areas of infrastructure (roads and railways), health (hospitals), sanitation, agriculture, and education that are already allocated funds in the budget, in line with the President's Coordinated Program (MEFP ¶61) and in consultation

[8] The IMF's Monetary and Capital Market's Department is providing extensive technical assistance on debt management, in cooperation with the World Bank.

with the World Bank and other stakeholders. The alternative would be to borrow funds on the domestic market, with a trade-off between lower currency risk and likely worse maturity profile and higher debt servicing costs. It would also put pressure on domestic markets (MEFP ¶52).

C. State-Owned Enterprises

18. SOE reforms are advancing, but financial risks from SOEs remain significant. After the issuance of the energy bond to address legacy debt in the sector, the government is implementing initiatives to improve operational performance of SOEs. The cash waterfall mechanism, supported by the World Bank to improve cashflow among energy sector firms by fairly allocating payments based on available collections, will be implemented in Q2 2018 (MEFP ¶55). To enhance oversight, the government has submitted to cabinet a law to introduce a new statutory body (Single Entity) in charge of monitoring SOEs. Additional steps include the concession of the distribution company, Electricity Company of Ghana; and the restructuring of the main generation company, the Volta River Authority (MEFP ¶56). Despite progress, the financial position of SOEs remains precarious, and unless improved, it will continue to represent significant contingent liabilities for the government. The recent reduction in electricity tariffs could also prove risky if demand does not increase as expected and efficiency gains from greater use of gas do not materialize (MEFP ¶54).

19. New challenges have also emerged from the cocoa sector. The large fall in cocoa prices (from US$3,300 per ton in April 2016 to about US$2,000 per ton in mid- 2017) and the decision to maintain the producer price at US$1,900 per ton have compounded financial challenges for Ghana Cocoa Board (COCOBOD). Staff is of the view that supporting farmers' income should be directly and transparently funded by the budget, and a pricing formula should be adopted. At this stage, the authorities are not considering a policy change, also in light of recent increases in world cocoa prices.

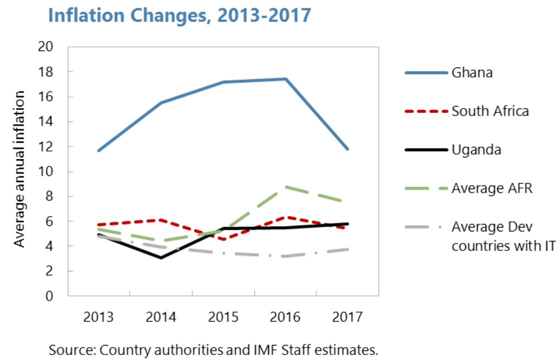
D. Monetary and Exchange Rate Policy

20. Although declining, inflation remains high (and higher than in comparators, Box 5). The authorities are committed to reach the inflation target of 8 percent by end-2018 (MEFP ¶24). While the recent lowering of the MPR appears appropriate, given the current high real policy rate and expectations of further decline in inflation, the MPC should remain focused on upside risks to inflation in continuing its easing cycle.

21. The BoG introduced some changes to its monetary operations framework in January. Floating rate 56-day bills were reintroduced to absorb structural excess liquidity in longer-dated instruments, while 14-day BoG bills at the Monetary Policy Rate (MPR) were suspended. The floor of the overnight corridor was also reduced, followed by a reduction in the interbank rate. The authorities explained that this was a temporary measure taken in response to a lower than expected January inflation outturn and reversed it following the March MPC meeting, restoring the symmetric corridor. They also agreed that going forward, the MPC will remain solely responsible for setting the appropriate monetary stance; and any future policy change will continue to be pre-announced and explained to the market.

Box 5. Inflation Targeting and Price (In)Stability

Inflation in Ghana has been declining, although it had been persistently high in the past. Despite the formal adoption of inflation targeting (IT) in 2007—the second country in sub-Saharan Africa (SSA) after South Africa—Ghana's inflation has nonetheless remained high compared to peers. Over the last three years, Ghana's inflation rate has averaged 15.5 percent, significantly higher than the average 7.2 percent in Sub-Saharan African countries[1] and 3.5 percent in selected developing and emerging market countries with an IT framework.[2]

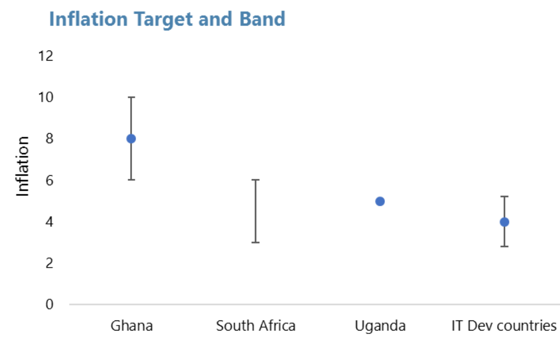


Source: Country authorities and IMF Staff estimates.

Persistently high inflation has been driven by key factors:

- Earlier years of fiscal dominance and weak liquidity management resulted in significant creation of liquidity, and undermined the BoG independence and credibility. However, in the last couple of years, tight monetary policy and the implementation of the zero financing to the budget have led to inflation deceleration.
- FX pass-through and import prices have pushed inflation upward.

Ghana's medium-term inflation target and tolerance bands are also much higher than in other IT countries, including in SSA. Ghana's current target is the highest target in the world, at 8 percent with ±2 percent bands. In the sample above, the average inflation target is 4 percent with average bands of 1.2 percent. Furthermore, IT countries in SSA have much lower targets.[3]



Source: Country authorities and IMF Staff estimates.

Persistent inflation is problematic for many reasons, most importantly because high inflation rates tax the poor, as they spend most of their income on basic consumption goods and their consumption basket is mostly inelastic. When weighted by income, inflation is usually higher in the lower income percentiles.[4]

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[1] SSA country sample includes Angola, Cabo Verde, Cameroon, Congo, Cote d'Ivoire, Kenya, Lesotho, Nigeria, Sao Tome and Principe, and Zambia.

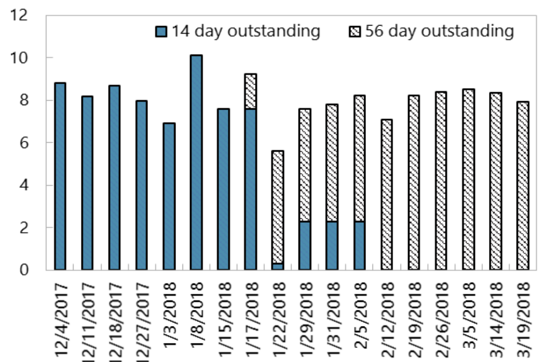
[2] The IT sample includes Albania, Armenia, Brazil, Colombia, Guatemala, India, Indonesia, Mexico, Peru, Philippines, Romania, Serbia, Thailand, and Turkey.

[3] Uganda has a target of 5 percent, while South Africa enacted bands of 3 to 6 percent.

[4] Albanese (2007) proposes that the observed cross-country correlation between average inflation and income inequality is the outcome of a distributional conflict underlying the determination of fiscal policy (Albanese, S., 2007, "Inflation and Inequality," Journal of Monetary Economics, Volume 54, Issue 4, May 2007, pp1088-1114).

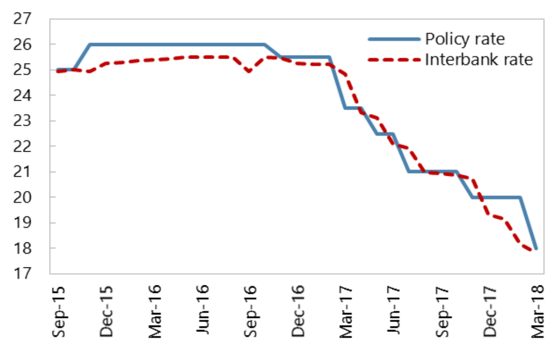
22. The BoG plans to strengthen its FX operations framework. It will develop a new FX policy to encourage market development and ensure transparent and market-based operations. Currently, the BoG's sales of FX for intermediation purposes are undertaken daily and on an ad-hoc bilateral basis, which discourages interbank trading. There is also an opportunity to deepen the market further, by removing a quasi-guarantee of FX conversion provided to foreign portfolio investors and, given the removal of surrender requirements in 2016, ensuring that cocoa export proceeds (other than those used for loan repayments) are sold to commercial banks (MEFP ¶27). Regarding capital flow management measures, a $1,000 limit on over-the-counter withdrawals from foreign exchange accounts (FEA) and foreign currency accounts (FCA), classified as a CFM, was rescinded in August 2014. However, a limit of US$10,000 withdrawal per travel and annual transfer without documentation is still in place. Removal of this restriction would be consistent with the Fund's institutional view on CFMs and warranted given that BOP pressures have waned.

BoG Sterilization Bills
(GHc billion)



Source: Ghana authorities and IMF Staff estimates.

Selected Interest Rates
(percent)



Source: Ghana authorities and IMF Staff estimates.

23. The BoG's institutional framework has been strengthened but risks to its balance sheet remain. Although in staff's view further amendments to the BoG Act are the most robust way to safeguard the BoG's independence—as the authorities also recognize—they are not politically feasible at this juncture. The MoF and BoG have therefore extended their Memorandum of Understanding (MoU) capping BoG financing to the government at zero through 2020 (the end of the current government's mandate) and published it on the MoF website (MEFP ¶25) **(prior action)**.[9] The MoF has also agreed to take over the ownership and financing of a guarantee scheme for lending to the agricultural sector (GIRSAL) (MEFP ¶26), although the BoG will not be reimbursed for capital already injected. The BoG has instructed all banks to repay outstanding emergency liquidity assistance to reduce risks to its balance sheet (reset structural benchmark for end-June).

E. Financial Stability

24. Given elevated risks to financial stability, efforts to strengthen the financial sector's resilience remain critically important. While most of undercapitalized banks according to the 2016 Asset Quality Review have since addressed their capital shortfall, one large bank proved unable to

[9] https://www.mofep.gov.gh/news-and-events/2018-04-04/fiscal-agency-mou-between-the-bog-and-mof

restore its capital position (see below). The BoG's announcement that outstanding liquidity support will not be renewed at maturity (MEFP ¶29) is welcome, along with the recent establishment of a credit committee to coordinate the future provision of liquidity support. The BoG will nonetheless need to monitor closely banks' repayment capacity to prevent liquidity pressures.

25. The BoG's recent intervention of one of the largest banks underscores its commitment to tackling lingering weaknesses heads on. The official administrator (OA) was appointed on March 20, 2018, and as per the Banks and SDI Act, has till June 18, 2018 (90 days) to develop a rehabilitation plan, guided by a detailed valuation of the bank's balance sheet. Next steps will be decided by the BoG once the OA's analyses are available. While these are crucial steps to effectively halt unsound banking practices and protect depositors, careful planning remains necessary to identify and implement options for rehabilitating the bank. Conducting a thorough review of the factors that have contributed to the bank's deterioration and taking further steps to strengthen the regulatory and supervisory framework—including through greater scrutiny of banks' risk control frameworks and stronger enforcement of fit and proper requirements—is important to help prevent recurrence. In parallel, decisive steps are needed to put the microfinance sector on a stronger footing—notably via timely implementation of the restructuring plan, backstopped by public sector funding (as agreed by the authorities), enhanced supervisory scrutiny and more stringent licensing requirements going forward (MEFP ¶33). A buffer is included in the baseline (tentatively estimated at 1.9 percent of GDP) to cover the costs of financial sector clean-up.[10]

26. Efforts to reduce the NPL overhang will support credit growth. The BoG will need to push for actions to reduce NPLs (a new structural benchmark for end-June) including through accelerated write-offs of uncollectible loans, enhanced recovery actions by banks (including more timely enforcement of collaterals) and more stringent oversight of banks' loan origination and credit risk management policies (MEFP ¶32). A longer transitional period for the entry into force of higher minimum statutory capital requirements could support NPL clean-up efforts by allowing for accelerated loss recognition in the near term.

27. Efforts to strengthen financial sector oversight hinge on further regulatory reforms. Engagement with the banking sector on the (draft) Basel II/III regulation is welcome (MEFP ¶33) but the completion of impact assessments, together with test reporting, remains important to ensure banks' operational readiness. The BoG's intention to introduce the Internal Capital Adequacy Assessment Process (Pillar 2) by end-2018 is welcome, but near-term focus should be on robust implementation of Pillar 1, including full integration of the Pillar 1 requirements in the BoG's risk-based supervisory framework. In addition, the authorities are moving ahead with further amendments of the Banks and SDI Act to strengthen the resolution toolkit (SB reset to end-August). Empowering the Deposit Protection Corporation, in due course, to contribute funding to deposit transfers on a least cost basis (i.e., purchase and assumption transactions), as an alternative to depositor reimbursement will provide for additional flexibility when dealing with distressed banks.

[10] This includes the issuance of a bond to Ghana Commercial Bank (GCB) of GHc 2.2 billion (0.8 percent of GDP), to cover the shortfall between the assumed liabilities and acquired assets of the two banks resolved last August.

28. Post-resolution activities, following the closure of two banks in August 2017, are progressing. With the issuance of a bond to Ghana Commercial Bank (GCB), the authorities have effectively concluded last year's resolutions. The operationalization of a centralized resolution function—covering all segments of the financial sector under the BoG's purview and, ideally, segregated from BoG's supervisory function—will improve the BoG's capacity with any future distress.

F. Structural Reforms

29. Progress with structural reforms remains mixed, though with recent encouraging signs. Of the 17 outstanding structural benchmarks (SBs, mostly reset from previous reviews), only one was met, five were implemented with delay while 11 remain not met, although with notable progress for six SBs (MEFP Table 3). While several benchmarks thus remained unmet, progress in key areas including PFM regulations and the financial sector is welcome. Furthermore, several important reforms that were not part of program conditionality were implemented, including in the areas of governance (special prosecutor) and tax administration (rollout of TRIPS, excise stamps). The authorities indicated that, in their first year in government, they focused primarily on implementing policies to address macroeconomic imbalances and had in some cases underestimated technical problems in meeting the SBs, especially in the area of system reforms related to the HR and financial management systems. They nonetheless remain committed to meet all benchmarks by the end of the program. Staff was encouraged by recent progress and recognized that, going forward, the pace of implementation should improve.

- **Public Financial Management.** New regulations for the PFM Act were submitted to Parliament in March (MEFP ¶40). Following the recommendations of the Auditor General's audit of the unpaid bills, the regulations strengthen commitment controls and the role of internal audits. Data integrity issues have slowed down the rollout of the Human Resource Management Information System (HRMIS) (MEFP ¶44). When roll-out of HRMIS to the Ghana Education Service is completed (expected in H1 2018), the system will cover almost 70 percent of the public service workforce. Lack of cooperation from some agencies has instead slowed down the transfer of commercial bank accounts to the BoG. The number of outstanding bank accounts is small, and the Control and Accountant General Department has agreed to complete the process in H1 2018 (MEFP ¶46).

- **Tax Administration.** The Tax Administration Diagnostic Assessment Tool (TADAT) highlighted weaknesses in tax administration, and the Ghana Revenue Authority (GRA) has requested a follow-up TA mission to design a medium-term reform plan. Lack of reliable taxpayers' data remain a key bottleneck to improve performance and compliance. As a first step, the GRA made the deployment of the tax administration IT system (TRIPS) a priority. After seven years of delays, the TRIPS system now covers all GRA offices, although more work is needed to fully operationalize it. The authorities also plan to introduce measures to improve taxpayers' compliance (MEFP ¶38).

PROGRAM MODALITIES AND FINANCING ASSURANCES

30. **Program performance has improved.** Three PCs were missed in end-August, and two at end-December 2017. PCs on wage bill and clearance of domestic arrears were both missed at end-August and end-December while the primary fiscal balance PC was missed at end-August but met at end-December. Inflation has remained within the inner band of the MPCC. The authorities have strengthened controls over the wage bill, and have developed an arrears clearance plan following the results of the audit of unpaid claims. Given the actions taken to correct the slippages, staff support the government's request for waivers for nonobservance of these PCs (MEFP ¶12). As noted above, most SBs were missed though with progress in key arears (PFM regulations and TSA) (MEFP ¶40, ¶46 and Table 3). Given improved performance, it is proposed to conclude two reviews.

31. **Program performance will continue to be monitored semi-annually, based on performance criteria (PCs), indicative targets (ITs), and structural benchmarks (SBs).** For 2018, program performance will be assessed relative to the proposed PCs for end-June 2018 and end-December 2018, including periodic PC, continuous PCs and monetary policy consultation clause (MPCC), (MEFP ¶71 and Table 2). ITs will be set for end-April 2018 and end-September 2018. The PCs and ITs are defined in the attached Technical Memorandum of Understanding (TMU) along with the relevant adjustors. The TMU proposes modifications to adjust the definition of social spending (to better reflect the new governments priorities)[11] and to drop the IT on Central Bank NDA in 2018 (as we now have a strong track-record under the MPCC). New structural benchmarks are proposed to support the program's ultimate objectives, several of the unmet benchmarks are being rescheduled (MEFP Table 4), while some are being removed as they are less relevant now given recent developments such as adoption of PFM regulations. Staff considers the overall reform plans under the program achievable given the authorities' recent pace of implementing structural reforms. As planned financial sector costs are one-off outlay essential for cleaning up the financial system, supporting growth, and protecting small depositors, they will be accommodated in the primary balance PC through an adjustor.

32. **Non-concessional external debt will continue to be subject to two ceilings:** (i) for debt management purpose and (ii) for priority development projects, which cannot be financed on concessional terms (MEFP ¶52). The limit for debt management purposes is proposed to be set at US$1,750 million in 2018 (part of the planned Eurobond (Section B), to buy back existing Eurobonds). Such borrowing will continue to be guided by a comprehensive cost-risk analysis including timely consultation with the Fund. The debt limit for key projects (cumulative since 2015) is proposed to be raised by US$1,250 million (of which $750 million to be funded by the new Eurobond) relative to the end-December 2017 PC set under the fourth review, in response to the authorities' objective to accelerate economic growth and promote poverty reduction (see projects priority list, TMU ¶31).

[11] The definition of social spending now includes new programs introduced in 2017 like Planting for Food and Jobs and Zongo Development Fund, and the reinstated nurse and teacher trainee allowances.

33. Financing assurances are in place for the fifth and sixth reviews and Ghana's capacity to repay the Fund is adequate (Tables 6 and 9).

- The program is fully financed for one year, with firm financial commitments from development partners in place.
- Capacity to repay remains adequate. Maximum outstanding liabilities to the Fund will reach 2.2 percent of GDP and 4.9 percent of exports as the external position will continue to improve.
- Staff supports the authorities' request to make the use of Fund's disbursement associated with the fifth and sixth 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.

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34. 2017 saw tangible improvements in macroeconomic conditions, for which the authorities deserve praise. Growth increased on the back of stronger oil production, while inflation continued to decline; the external position strengthened, resulting in a larger-than-programmed accumulation of foreign exchange reserves; the nominal exchange rate remained relatively stable following several episodes of volatility during the past few years; a primary fiscal surplus was achieved—the first since 2003 (and only the second since the 1980s). While revenues came in lower than programmed, tight spending controls ensured that the fiscal target could be met with a margin. The Bank of Ghana closed two insolvent banks and is taking additional steps to secure financial stability. The Auditor General completed the audit of unpaid bills through end-2016, pointing to serious cases of non-compliance and misreporting of domestic spending claims.

35. 2018 will be a key test year—the last under the ECF arrangement—to entrench hard-won macroeconomic gains and continue reforms. Central to the reform strategy is the need for sustained fiscal adjustment to reduce the debt burden, while creating fiscal space for much-needed social and infrastructure spending, as per the government's program. Institutional reforms, in line with commitments under the program, should be completed to anchor lasting adjustment.

36. There cannot be lasting fiscal adjustment without increasing domestic revenue mobilization. Already tax revenues are almost wholly absorbed by interest payments and the wage bill. The recent announcement to enact revenue measures in the context of the mid-year budget review is thus a welcome step to rebalance adjustment away from spending cuts, which cannot be credibly and indefinitely sustained. Swift passage of these measures in July will be critical to ensure that Ghana's fiscal policies can be sustained beyond the Fund program, and to provide a better underpinning for the 2018 target. As a commitment to deliver the targeted budget deficit of 4.5 percent of GDP, in line with the program, the authorities are resizing cash releases until revenue measures are implemented. On the spending side, greater oversight and accountability following the Auditor General's report on unpaid claims should help reduce waste and corruption, provided corrective actions (including to address non-compliance cases) are decisively put in place. Planned controls over the wage bill are paramount to reduce spending rigidities. The tax amnesty should be a one-off program and improvements in tax administration should be pursued forcefully to minimize incentive for evasion in the future.

37. Contingent liabilities pose a key risk to fiscal performance. The government had to fund the debt restructuring of the energy-sector SOEs via the ESLA bond in 2017. Ongoing steps to strengthen the oversight over SOEs will thus be instrumental to stem their financial losses and prevent feedback-loops to the budget and the banking system. A buffer of 1.1 percent of GDP is included in the baseline to cover potential financial sector's clean-up costs.

38. Fiscal structural reforms to increase transparency and accountability will underpin fiscal discipline. The PFM regulations recently submitted to Parliament strengthen budget formulation and execution; steps to complete the TSA should continue vigorously; and stronger oversight over the management of public finances—at any level—should continue to be pursued.

39. As the debt burden remains elevated, continued prudence in debt management is essential to reduce the risks associated with market-based borrowing. It will be important to deploy proceeds from the planned Eurobond into liability management to help mitigate FX roll-over risk, given bunching of existing maturities in the future. And while the successful lengthening of domestic debt maturities has reduced gross financing needs and is a sign of increased investors' confidence, caution should be paid not to lock in high real rates for long maturities, as inflation is set to continue to decline; and not to become over-reliant on foreign demand, which might be subject to "sudden stops."

40. Monetary policy should continue to be focused on achieving the inflation target. The decline in headline inflation and inflation expectations—jointly with continued fiscal adjustment and exchange rate stability—provided the space for the recent monetary policy easing. While there may still be room for some further easing, as inflation continues to trend down, the MPC should proceed cautiously regarding the scope and timing, remaining vigilant regarding upside risks to inflation. At the same time, reintroducing the 14-day BoG bill at the policy rate as a complement to the 56-day BoG bill will bolster the credibility of the policy rate signal and help with short-term liquidity management.

41. The institutional framework for monetary policy needs further strengthening. While additional amendments to the BoG Act are the most robust way to safeguard the BoG's independence and eliminate the prospect of fiscal dominance, the authorities' decision to extend and publish the MoU is a welcome step. In order to limit risks to its balance sheet, it will be important—in line with recent safeguard recommendations—for the BoG to move the guarantee scheme for lending to the agricultural sector (GIRSAL) to the budget as planned; and seek repayment of all outstanding—largely uncollateralized—liquidity assistance by mid-year and strengthen the governance and risk-management of such operations.

42. Financial stability remains a key priority to foster sustainable economic growth and financial inclusion. Tangible actions are needed to expeditiously tackle the NPL overhang, while further progress on regulatory reforms will be instrumental in fostering resilience and strengthening oversight. The clean-up of the microfinance sector should proceed, and public sector resources have been set aside. Recent steps by the BoG to intervene a large bank by appointing an official administrator are testament to its commitment to promote a resilient financial sector, and should be followed by decisive actions to restore solvency, address liquidity shortfalls and put the bank's business model on a sustainable footing.

43. Ultimately, entrenched macroeconomic stability and implementation of much-needed structural reforms are the surest way to lift Ghana onto a higher sustained growth path. The ECF arrangement fully supports the objectives of growth and job creation, while also placing emphasis on inclusivity through the protection of social spending. Staff look forward to continued cooperation to help the authorities achieve their aspirations through an "irreversible path of sound policies."

44. Staff supports the authorities' request for the completion of the fifth and sixth reviews under the ECF arrangement and request of waivers. Given progress in 2017, the authorities' demonstrated commitment to sound economic management, financial sector restructuring and structural reforms warrant continued Fund support.

Table 1. Ghana: Selected Economic and Financial Indicators, 2016–20

	2016	2017		2018		2019	2020
		Prog.	Prov.	Prog.	Proj.	Proj.	Proj.
		(Annual percentage change; unless otherwise indicated)					
National accounts and prices							
GDP at constant prices	3.7	5.9	8.4	8.9	6.3	7.6	5.5
Non-oil GDP	5.0	4.0	4.0	5.0	5.0	6.0	6.0
Oil and gas GDP	-16.9	42.5	95.9	64.9	20.0	22.4	1.3
Real GDP per capita	1.1	3.3	5.7	6.1	3.6	4.9	2.9
GDP deflator	17.8	14.2	12.7	9.6	11.1	8.2	8.0
Consumer price index (annual average)	17.5	11.8	12.4	9.0	9.3	8.0	8.0
Consumer price index (end of period)	15.4	10.0	11.8	8.0	8.0	8.0	8.0
Consumer price index (excl. food, end of period)	18.2	13.1	13.6	8.0	8.0	8.0	8.0
Gross capital formation	14.5	13.7	13.6	14.7	14.1	14.7	15.1
Government	4.9	3.2	3.1	3.3	2.7	2.9	2.8
Private	8.9	9.9	9.9	10.9	10.9	11.4	11.9
National savings	7.8	7.9	9.0	9.2	9.9	10.6	11.2
Government	-4.0	-1.3	-2.0	-0.5	-3.3	-1.3	-1.4
Private[1]	11.8	9.2	11.0	9.7	13.2	11.8	12.6
Foreign savings	-6.7	-5.8	-4.5	-5.4	-4.2	-4.1	-3.9
Central government budget (cash basis)							
Revenue	17.2	18.9	17.5	18.6	17.9	17.9	17.8
Expenditure	26.6	25.2	23.4	22.4	24.3	22.5	22.3
Overall balance[2]	-9.3	-6.3	-6.0	-3.8	-6.4	-4.5	-4.5
Overall balance excluding financial sector related costs[2]	-9.3	-6.3	-6.0	-3.8	-4.5	-4.5	-4.5
Primary balance[2]	-2.4	0.2	0.7	2.2	0.1	2.0	1.9
Primary balance excluding financial sector related costs[2]	-2.4		0.7		2.0	2.0	1.9
Overall balance (from financing)	-8.2	-6.3	-5.9	-3.8	-6.4	-4.5	-4.5
Central government debt (gross)	73.4	70.5	71.8	66.1	70.3	67.0	65.0
Domestic debt[3]	32.1	32.5	34.8	30.8	34.8	34.4	35.2
External debt	41.3	38.0	37.0	35.3	35.5	32.6	29.8
Money and credit							
Credit to the private sector (commercial banks)	14.4	11.0	12.8	14.5	17.8	18.8	18.9
Broad money (M2+)	22.0	22.7	16.7	15.9	20.3	18.8	21.7
Velocity (GDP/M2+, end of period)	3.0	2.9	3.1	3.0	3.0	3.0	2.8
Base money	29.6	26.3	13.1	19.2	21.0	19.5	22.5
Banks' lending rate (weighted average, percent)	31.7	…	29.3	…	…	…	…
Policy rate (in percent, end of period)	25.5	…	20.0	…	…	…	…
		(Percent of GDP)					
External sector							
Current account balance	-6.7	-5.8	-4.5	-5.4	-4.2	-4.1	-3.9
Gross international reserves (millions of US$)	4,862	5,783	5,491	6,319	5,909	6,371	6,962
in months of prospective imports of goods and services	2.6	3.0	2.9	3.1	2.9	3.0	3.1
Net international reserves (millions of US$)	3,431	4,475	4,531	5,035	5,035	5,510	6,195
in months of prospective imports of goods and services	1.8	2.3	2.4	2.4	2.5	2.6	2.8
Total donor support (millions of US$)	778	977	814	755	456	608	327
in percent of GDP	1.8	2.1	1.7	1.5	0.9	1.1	0.5
Memorandum items:							
Nominal GDP (millions of GHc)	167,353	202,389	204,610	241,549	241,717	281,457	320,594
Nominal GDP (millions of US$)	42,788	45,464	47,015	49,226	51,619	56,725	60,752
National Currency per U.S. Dollar (period average)	3.9		4.4		4.7	5.0	5.3
GDP per capita (US$)	1,552	1,608	1,663	1,697	1,780	1,907	1,992
Central Government Debt excluding ESLA bond	73.4	70.5	69.5	66.1	67.8	64.9	63.2

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

[1] Including public enterprises.

[2] Excludes discrepancy.

[3] Includes ESLA bond.

Table 2a. Ghana: Central Government Operations, 2016–20

(GFS 2001, Cash Basis)

	2016	2017		2018		2019	2020
		Prog.	Prov.	Prog.	Proj.	Proj.	Proj.
	(In percent of GDP, unless otherwise specified)						
Revenue[1]	17.2	18.9	17.5	18.6	17.9	17.9	17.8
Taxes	15.5	16.0	15.3	16.0	15.6	16.0	16.1
Direct taxes	5.4	6.1	6.4	6.2	6.6	6.9	7.0
Indirect taxes	7.4	6.9	6.4	6.9	6.5	6.4	6.4
Trade taxes	2.6	3.0	2.5	2.9	2.6	2.8	2.7
Other tax revenues	0.2	0.1	0.2	0.1	0.2	0.2	0.2
Other revenue	0.9	2.0	1.2	2.0	1.8	1.5	1.4
o/w Retentions from IGFs		0.6	0.0	0.6	0.1	0.1	0.1
Grants	0.7	0.7	0.8	0.5	0.2	0.2	0.1
Expenditure	26.6	25.2	23.4	22.4	24.3	22.5	22.3
Expense	22.0	22.0	20.3	19.1	21.5	19.6	19.5
Compensation of employees	8.7	7.9	8.2	7.8	8.0	7.8	7.8
Wages and salaries	7.2	6.9	7.1	6.8	6.9	6.7	6.7
Deferred wage payments	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Social contributions	1.2	1.0	1.2	0.9	1.0	1.1	1.1
Purchases of goods and services	1.9	1.3	1.2	1.2	1.4	1.5	1.6
Interest	6.9	6.5	6.6	5.9	6.5	6.6	6.4
Domestic	5.5	5.2	5.4	4.8	5.2	5.1	5.1
Foreign	1.4	1.3	1.2	1.2	1.3	1.4	1.3
Subsidies	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Social transfers	0.0	0.1	0.0	0.1	0.1	0.1	0.1
Grants to Other Government Units	3.3	4.3	3.4	4.1	3.3	3.2	3.1
Transfers to Statutory Funds	3.0	2.8	2.2	2.7	2.5	2.4	2.4
Transfer to GNPC from oil revenue	0.2	0.6	0.5	0.5	0.4	0.5	0.4
ESLA transfers	0.1	0.9	0.7	0.9	0.3	0.2	0.2
Other expenses [2]	1.2	1.8	0.9	0.0	2.2	0.4	0.3
o/w: financial sector related costs			0.0		1.9	0.0	0.0
Net acquisition of nonfinancial assets	4.6	3.2	3.1	3.3	2.7	2.9	2.8
Domestic financed	1.2	1.1	0.5	1.1	1.2	1.2	1.6
Foreign financed	3.4	2.1	2.6	2.2	1.5	1.7	1.2
Overall balance	-9.3	-6.3	-6.0	-3.8	-6.4	-4.5	-4.5
Overall balance excluding financial sector related costs	-9.3	-6.3	-6.0	-3.8	-4.5	-4.5	-4.5
Discrepancy	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
Net financial transactions	-8.2	-6.3	-5.9	-3.8	-6.4	-4.5	-4.5
Net acquisition of financial assets	2.1	-0.4	3.5	0.2	0.3	0.2	0.1
Currency and deposits	2.0	0.7	1.1	0.1	0.0	0.0	0.0
Bank of Ghana[3]	1.1	0.7	1.5	0.1	0.0	0.0	0.0
Deposit Money Banks	0.9	0.0	-0.5	0.0	0.0	0.0	0.0
Shares and other equity	0.1	-1.1	0.1	0.2	-0.3	0.2	0.1
Loans[4]	...		2.3		0.5	...	...
Net incurrence of liabilities	10.3	6.0	9.4	4.0	6.7	4.7	4.6
Domestic	8.6	6.2	9.2	3.6	5.4	4.6	5.0
Bank of Ghana	2.6	0.0	0.0	0.0	0.0	0.0	0.0
Deposit Money Banks	2.7	1.2	0.4	1.1	1.6	0.9	1.0
Nonbanks	3.3	5.0	8.8	2.5	3.8	3.7	4.0
Foreign	1.8	-0.3	0.2	0.4	1.3	0.1	-0.4
Borrowing	4.5	2.4	2.6	2.2	6.6	1.9	1.2
Amortization	-2.8	-2.7	-2.4	-1.8	-5.4	-1.8	-1.6
Memorandum items:							
Oil revenue	0.4	1.2	1.2	1.5	1.3	1.6	1.7
Proceeds from Energy Sector Levies Act (ESLA)	1.0	0.9	0.8	0.9	0.7	0.6	0.6
Revenue excl. oil, grants, and ESLA (percent of non-oil GDP)	15.5	16.7	15.5	16.9	16.5	16.4	16.3
Primary balance (excl. discrepancy)	-2.4	0.2	0.7	2.2	0.1	2.0	1.9
Primary balance excluding financial sector related costs	-2.4		0.7		2.0	2.0	1.9
Nominal GDP (millions of GHc)	167,353	202,389	204,610	241,549	241,717	281,457	320,594

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

[1] Revenues in staff's presentation differ to that of the authorities as staff reports revenues net of retentions of the revenue agency.

[2] Payments of cash arrears and promissory notes to statutory funds. 2018 also includes one-off costs related to the financial sector.

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

[4] Includes onlending to SoEs using the proceeds from issuance of the 'energy bond'.

Table 2b. Ghana: Central Government Operations, 2016–20
(GFS 2001, Cash Basis)

	2016	2017		2018		2019	2020
		Prog.	Prov.	Prog.	Proj.	Proj.	Proj.
	(In millions of GHc)						
Revenue[1]	28,865	38,158	35,782	45,004	43,156	50,479	56,915
Taxes	25,929	32,402	31,330	38,659	37,778	45,085	51,660
Direct taxes	9,107	12,329	13,067	14,990	15,937	19,305	22,536
Indirect taxes	12,432	13,997	13,160	16,725	15,615	17,953	20,400
Trade taxes	4,390	6,076	5,103	6,944	6,225	7,826	8,724
Other tax revenues	280	296	440	345	516	599	685
Other revenue	1,515	3,966	2,477	4,909	4,271	4,126	4,387
Nontax revenue	1,021	2,224	883	2,665	1,943	1,287	1,474
o/w Retentions from IGFs		1,157	0	1,448	256	297	340
Grants	1,141	1,493	1,535	1,091	591	670	182
Expenditure	44,473	50,976	47,964	54,134	58,624	63,201	71,333
Expense	36,795	44,476	41,632	46,241	52,078	55,093	62,358
Compensation of employees	14,623	16,023	16,821	18,771	19,295	21,909	24,956
Wages and salaries	12,110	14,047	14,445	16,478	16,762	18,742	21,348
Deferred wages	458	18	0	0	0	0	0
Social contributions	2,055	1,958	2,376	2,293	2,533	3,167	3,608
Purchases of goods and services	3,221	2,651	2,482	2,790	3,348	4,286	5,207
Interest	11,529	13,180	13,572	14,325	15,713	18,477	20,596
Domestic	9,225	10,584	11,039	11,513	12,507	14,468	16,386
Foreign	2,304	2,596	2,533	2,812	3,206	4,009	4,210
Subsidies	0	50	0	58	172	200	229
Social transfers	0	241	23	234	257	323	365
Grants to Other Government Units	5,442	8,605	6,976	9,990	7,934	8,898	10,007
Transfers to Statutory Funds	4,975	5,618	4,596	6,630	6,136	6,872	7,839
Transfer to GNPC from oil revenue	265	1,221	930	1,302	1,002	1,378	1,411
ESLA transfers	203	1,766	1,450	2,058	796	649	757
Other expenses[2]	1,980	3,725	1,758	73	5,358	1,000	1,000
o/w: financial sector related costs			0		4,500	0	0
Net acquisition of nonfinancial assets	7,678	6,500	6,331	7,892	6,546	8,108	8,975
Domestic financed	2,049	2,245	1,021	2,546	2,964	3,273	5,258
Foreign financed	5,630	4,255	5,310	5,347	3,583	4,835	3,717
Net lending / borrowing (overall balance)	-15,608	-12,819	-12,181	-9,130	-15,468	-12,722	-14,418
Overall balance excluding financial sector related costs	-15,608	-12,819	-12,181	-9,130	-10,968	-12,722	-14,418
Discrepancy	-1,807	0	-55	0	0	0	0
Net financial transactions	-13,801	-12,819	-12,126	-9,130	-15,468	-12,722	-14,418
Net acquisition of financial assets	3,491	-763	7,137	520	674	443	446
Currency and deposits	3,378	1,493	2,207	125	35	0	0
Bank of Ghana[3]	1,920	1,493	3,150	125	35	0	0
Deposit Money Banks	1,458	0	-943	0	0	0	0
Shares and other equity	113	-2,256	231	395	-662	443	446
Loans[4]	...		4,699		1,301	...	...
Net incurrence of liabilities	17,293	12,055	19,263	9,651	16,143	13,165	14,864
Domestic	14,333	12,593	18,896	8,661	13,017	12,867	15,995
Bank of Ghana	4,303	0	-10	0	0	0	0
Deposit Money Banks	4,522	2,519	824	2,598	3,905	2,573	3,199
Nonbanks	5,507	10,075	18,081	6,062	9,112	10,293	12,796
Foreign	2,960	-611	367	990	3,125	298	-1,131
Borrowing	7,564	4,761	5,280	5,255	16,073	5,392	3,975
Amortization	-4,604	-5,373	-4,913	-4,265	-12,948	-5,094	-5,106
Memorandum items:							
Oil revenue	711	2,359	2,408	3,517	3,208	4,622	5,290
Proceeds from Energy Sector Levies Act (ESLA)	1,646	1,766	1,619	2,058	1,700	1,802	1,910
Revenue excl. oil, grants, and ESLA	25,367	32,539	30,220	38,337	37,657	43,385	49,532
Primary balance (excl. discrepancy)	-4,079	362	1,391	5,194	245	5,755	6,178
Primary balance excluding financial sector related costs	-4,079		1,391		4,745	5,755	6,178
Nominal GDP	167,353	202,389	204,610	241,549	241,717	281,457	320,594

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

[1] Revenues in staff's presentation differ to that of the authorities as staff reports revenues net of retentions of the revenue agency.

[2] Payments of cash arrears and promissory notes to statutory funds. 2018 also includes one-off costs related to the financial sector.

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

[4] Includes onlending to SoEs using the proceeds from issuance of the 'energy bond'.

Table 2c. Ghana: Central Government Operations, 2016–20
(GFS 2001, Commitment Basis)

	2016	2017		2018		2019	2020
		Prog.	Prov.	Prog.	Proj.	Proj.	Proj.
	(In percent of GDP, unless otherwise indicated)						
Revenue[1]	17.2	18.9	17.5	18.6	17.9	17.9	17.8
Taxes	15.5	16.0	15.3	16.0	15.6	16.0	16.1
Direct taxes	5.4	6.1	6.4	6.2	6.6	6.9	7.0
Indirect taxes	7.4	6.9	6.4	6.9	6.5	6.4	6.4
Trade taxes	2.6	3.0	2.5	2.9	2.6	2.8	2.7
Other tax revenues	0.2	0.1	0.2	0.1	0.2	0.2	0.2
Other revenue	0.9	2.0	1.2	2.0	1.8	1.5	1.4
Grants	0.7	0.7	0.8	0.5	0.2	0.2	0.1
Expenditure	26.1	23.3	22.6	22.4	23.9	22.1	21.9
Expense	21.2	20.1	19.5	19.1	21.2	19.2	19.1
Compensation of employees	8.7	7.9	8.2	7.8	8.0	7.8	7.8
Wages and salaries[2]	7.3	6.9	7.1	6.8	6.9	6.7	6.7
Social Contributions	1.5	1.0	1.2	0.9	1.0	1.1	1.1
Purchases of goods and services	2.1	1.3	1.2	1.2	1.4	1.5	1.6
Interest	6.9	6.5	6.6	5.9	6.5	6.6	6.4
Domestic	5.5	5.2	5.4	4.8	5.2	5.1	5.1
Foreign	1.4	1.3	1.2	1.2	1.3	1.4	1.3
Subsidies	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Social transfers	0.0	0.1	0.0	0.1	0.1	0.1	0.1
Grants to Other Government Units	3.5	4.3	3.4	4.1	3.3	3.2	3.1
Transfers to Statutory Funds	3.2	2.8	2.2	2.7	2.5	2.4	2.4
Transfer to GNPC from oil revenue	0.2	0.6	0.5	0.5	0.4	0.5	0.4
ESLA transfers	0.1	0.9	0.7	0.9	0.3	0.2	0.2
Other expense	0.0	0.0	0.0	0.0	1.9	0.0	0.0
o/w financial sector related costs	0.0		0.0		1.9	0.0	0.0
Net acquisition of nonfinancial assets	4.9	3.2	3.1	3.3	2.7	2.9	2.8
Domestic financed	1.5	1.1	0.5	1.1	1.2	1.2	1.6
Foreign financed	3.4	2.1	2.6	2.2	1.5	1.7	1.2
Net lending / borrowing (overall balance)	-8.9	-4.5	-5.1	-3.7	-6.0	-4.2	-4.2
Overall balance excluding financial sector related costs	-8.9	-4.5	-5.1	-3.7	-4.2	-4.2	-4.2
Discrepancy	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
Net financial transactions	-7.8	-4.5	-5.1	-3.7	-6.0	-4.2	-4.2
Net acquisition of financial assets	2.1	-0.4	3.5	0.2	0.3	0.2	0.1
Currency and deposits	2.0	0.7	1.1	0.1	0.0	0.0	0.0
Bank of Ghana	1.1	0.7	1.5	0.1	0.0	0.0	0.0
Deposit Money Bank	0.9	0.0	-0.5	0.0	0.0	0.0	0.0
Shares and other equity	0.1	-1.1	0.1	0.2	-0.3	0.2	0.1
Loans[4]	…		2.3		0.5	…	…
Net incurrence of liabilities	9.9	4.1	8.6	4.0	6.3	4.3	4.3
Domestic	8.1	4.4	8.4	3.6	5.0	4.2	4.7
Debt securities	8.6	6.2	9.2	3.6	5.4	4.6	5.0
Bank of Ghana	2.6	0.0	0.0	0.0	0.0	0.0	0.0
Deposit Money Bank	2.7	1.2	0.4	1.1	1.6	0.9	1.0
Nonbanks	3.3	5.0	8.8	2.5	3.8	3.7	4.0
Other accounts payable[3]	-0.5	-1.8	-0.9	0.0	-0.4	-0.4	-0.3
Foreign	1.8	-0.3	0.2	0.4	1.3	0.1	-0.4
Loans	4.5	2.4	2.6	2.2	6.6	1.9	1.2
Amortization	-2.8	-2.7	-2.4	-1.8	-5.4	-1.8	-1.6
Memorandum items:							
Oil revenue	0.4	1.2	1.2	1.5	1.3	1.6	1.7
Proceeds from Energy Sector Levies Act (ESLA)	1.0	0.9	0.8	0.9	0.7	0.6	0.6
Revenue excl. oil, grants, and ESLA	15.2	16.1	14.8	15.9	15.6	15.4	15.5
Primary balance (excl. discrepancy)	-2.0	2.0	1.5	2.2	0.5	2.4	2.2
Primary balance excluding financial sector related costs	-2.0		1.5		2.3	2.4	2.2
Government overdraft at Bank of Ghana	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP (millions of GHc)	167,353	202,389	204,610	241,549	241,717	281,457	320,594

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

[1] Revenues in staff's presentation differ to that of the authorities as staff reports revenues net of retentions of the revenue agency.

[2] Includes deferred wage payments.

[3] Reflects net change in stock of arrears and unpaid commitments.

[4] Includes onlending to SoEs using the proceeds from issuance of the 'energy bond'.

Table 2d. Ghana: Central Government Operations, 2016–20
(GFS 2001, Commitment Basis)

	2016	2017		2018		2019	2020
		Prog.	Prov.	Prog.	Proj.	Proj.	Proj.
	(In millions of GHc)						
Revenue[1]	28,865	38,158	35,782	45,004	43,156	50,479	56,915
Taxes	25,929	32,402	31,330	38,659	37,778	45,085	51,660
Direct taxes	9,107	12,329	13,067	14,990	15,937	19,305	22,536
Indirect taxes	12,432	13,997	13,160	16,725	15,615	17,953	20,400
Trade taxes	4,390	6,076	5,103	6,944	6,225	7,826	8,724
Other tax revenues	280	296	440	345	516	599	685
Other revenue	1,515	3,966	2,477	4,909	4,271	4,126	4,387
Grants	1,141	1,493	1,535	1,091	591	670	182
Expenditure	43,679	47,234	46,206	54,061	57,765	62,201	70,333
Expense	35,528	40,733	39,874	46,168	51,219	54,093	61,358
Compensation of employees	14,623	16,006	16,821	18,771	19,295	21,909	24,956
Wages and salaries[2]	12,171	14,047	14,445	16,478	16,762	18,742	21,348
Social contributions	2,452	1,958	2,376	2,293	2,533	3,167	3,608
Purchases of goods and services	3,587	2,651	2,482	2,790	3,348	4,286	5,207
Interest	11,529	13,180	13,572	14,325	15,713	18,477	20,596
Domestic	9,225	10,584	11,039	11,513	12,507	14,468	16,386
Foreign	2,304	2,596	2,533	2,812	3,206	4,009	4,210
Subsidies	0	50	0	58	172	200	229
Social transfers	0	241	23	234	257	323	365
Grants to Other Government Units	5,789	8,605	6,976	9,990	7,934	8,898	10,007
Transfers to Statutory Funds	5,321	5,618	4,596	6,630	6,136	6,872	7,839
Transfer to GNPC from oil revenue	265	1,221	930	1,302	1,002	1,378	1,411
ESLA transfers	203	1,766	1,450	2,058	796	649	757
Other expense	0	0	0	0	4,500	0	0
o/w financial sector related costs	0		0		4,500	0	0
Net acquisition of nonfinancial assets	8,150	6,500	6,331	7,892	6,546	8,108	8,975
Domestic financed	2,521	2,245	1,021	2,546	2,964	3,273	5,258
Foreign financed	5,630	4,255	5,310	5,347	3,583	4,835	3,717
Net lending / borrowing (overall balance)	-14,813	-9,076	-10,423	-9,057	-14,610	-11,722	-13,418
Overall balance excluding financial sector related costs	-14,813	-9,076	-10,423	-9,057	-10,110	-11,722	-13,418
Discrepancy	-1,807	0	-55	0	0	0	0
Net financial transactions	-13,007	-9,076	-10,368	-9,057	-14,610	-11,722	-13,418
Net acquisition of financial assets	3,491	-763	7,137	520	674	443	446
Currency and deposits	3,378	1,493	2,207	125	35	0	0
Shares and other equity	113	-2,256	231	395	-662	443	446
Loans[4]	...		4,699		1,301	...	...
Net incurrence of liabilities	16,498	8,313	17,505	9,577	15,284	12,165	13,864
Domestic	13,538	8,924	17,138	8,587	12,159	11,867	14,995
Debt securities	14,333	12,593	18,896	8,661	13,017	12,867	15,995
Other accounts payable[3]	-795	-3,743	-1,758	-73	-858	-1,000	-1,000
Foreign	2,960	-611	367	990	3,125	298	-1,131
Loans	7,564	4,761	5,280	5,255	16,073	5,392	3,975
Amortization	-4,604	-5,373	-4,913	-4,265	-12,948	-5,094	-5,106
Memorandum items:							
Oil revenue	711	2,359	2,408	3,517	3,208	4,622	5,290
Proceeds from Energy Sector Levies Act (ESLA)	1,646	1,766	1,619	2,058	1,700	1,802	1,910
Revenue excl. oil, grants, and ESLA	25,367	32,539	30,220	38,337	37,657	43,385	49,532
Primary balance (excl. discrepancy)	-3,284	4,104	3,149	5,268	1,104	6,755	7,178
Primary balance excluding financial sector related costs	-3,284		3,149		5,604	6,755	7,178
Nominal GDP (millions of GHc)	167,353	202,389	204,610	241,549	241,717	281,457	320,594

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

[1] Revenues in staff's presentation differ to that of the authorities as staff reports revenues net of retentions of the revenue agency.

[2] Includes deferred wage payments.

[3] Reflects net change in stock of arrears and unpaid commitments.

[4] Includes onlending to SoEs using the proceeds from issuance of the 'energy bond'.

Table 3. Ghana: Monetary Survey, 2016–20

	2016	2017		2018		2019	2020
		Prog.	Prov.	Prog.	Proj.	Proj.	Proj.
	(In millions of GHc, unless otherwise indicated)						
I. Monetary Survey (Central Bank and Commercial Banks)							
Net foreign assets	14,947	24,105	20,679	30,064	24,882	29,027	36,621
Net domestic assets	41,746	45,457	45,493	50,540	54,692	65,478	78,396
Domestic claims	58,392	62,686	57,236	70,438	63,067	76,131	88,264
Net claims on central government	19,111	19,377	12,616	21,975	20,770	23,343	26,542
Claims on other sectors	39,281	43,309	44,620	48,463	42,297	52,787	61,722
Claims on public non-financial corporations	7,263	7,788	8,104	7,788	-223	2,777	2,777
Claims on private sector	31,968	35,471	36,355	40,624	42,360	49,850	58,784
Other	50	50	161	50	161	161	161
Other items (net)	-16,646	-17,230	-9,415	-19,898	-8,375	-10,653	-9,868
Money and quasi-money (M3)	56,692	69,561	66,172	80,604	79,574	94,505	115,017
Broad money (M2)	43,452	53,914	52,066	62,836	63,560	75,681	92,694
Foreign exchange deposits	13,240	15,648	14,106	17,768	16,014	18,824	22,323
II. Central Bank							
Net foreign assets	11,880	18,211	17,241	23,149	21,146	25,035	30,223
Net domestic assets	7,088	5,750	4,217	5,413	4,807	5,981	7,766
Net domestic claims	18,155	11,249	15,186	10,911	15,776	16,950	18,735
Claims on other depository corporations	4,662	68	4,498	-270	5,538	6,712	8,497
Net claims on central government	9,621	7,310	6,057	7,310	5,608	5,608	5,608
Claims on central government (BOG)	13,398		13,385		13,384	13,384	13,384
Liabilities to central government (BOG)	3,776		7,327		7,777	7,777	7,777
Claims on other sectors[1]	3,871	3,871	4,631	3,871	4,631	4,631	4,631
Other items (net)[2]	-11,067	-5,498	-10,969	-5,498	-10,969	-10,969	-10,969
Base money[3]	18,968	23,962	21,457	28,562	25,953	31,017	37,989
Currency in circulation (net of cash in vaults)	10,140	12,722	10,708	15,819	13,185	16,012	19,039
Currency in banks (cash in vault)	1,235	1,442	1,448	1,567	1,660	1,877	2,194
Bank deposits in BOG[3]	5,988	8,193	6,631	9,571	8,438	10,458	12,077
Liabilities to other sectors	1,606	1,606	2,670	1,606	2,670	2,670	2,670
III. Commercial Banks							
Net foreign assets	3,066		3,438		3,735	3,992	6,398
Net domestic assets	45,983		53,752		64,379	76,227	91,306
Net domestic claims	61,436		64,419		70,573	85,873	99,943
Net claims on central bank (net of below two lines)	12,435		13,475		13,349	15,585	17,521
Claims on central bank	16,537		17,871		17,744	19,981	21,917
Liabilities to central bank	4,102		4,396		4,396	4,396	4,396
Net claims on public non-financial corporations	5,426		6,170		-2,157	843	843
Claims on private sector	29,983		33,819		39,824	47,314	56,249
Other items (Net)	-15,454		-10,667		-6,194	-9,646	-8,637
Memorandum items:	(In 12-month percentage change; unless otherwise indicated)						
Base money	29.6	26.3	13.1	19.2	21.0	19.5	22.5
M2	24.6	24.1	19.8	16.6	22.1	19.1	22.5
M2+[4]	22.0	22.7	16.7	15.9	20.3	18.8	21.7
Credit to the private sector (commerical banks)	14.4	11.0	12.8	14.5	17.8	18.8	18.9
M2-to-GDP ratio (in percent)	26.0	26.6	25.4	26.0	26.3	26.9	28.9
M2-to-Non-Oil GDP ratio (in percent)	26.5	27.6	26.7	27.6	27.8	28.6	30.5
Base money multiplier (M2/base money)	2.3	2.3	2.4	2.2	2.4	2.4	2.4
Credit to the private sector (commerical banks, in percent of GDP)	19.1	17.5	16.5	16.8	16.5	16.8	17.5

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

[1] Include public enterprises and local governments.

[2] Including valuation and Open Market Operations (OMO).

[3] Bank of Ghana's definition does not include foreign currency deposits.

[4] Includes foreign currency deposits.

Table 4. Ghana: Balance of Payments, 2016–20

	2016	2017		2018		2019	2020
		Prog.	Prov.	Prog.	Proj.	Proj.	Proj.
	(In millions of U.S. dollars)						
Current account	-2,860	-2,643	-2,131	-2,677	-2,166	-2,352	-2,368
Trade balance	-1,773	-1,449	1,068	-508	225	-210	366
Exports, f.o.b.	11,137	12,045	13,752	13,485	13,889	14,560	15,722
Of which: cocoa	2,572	2,195	2,711	1,774	1,984	2,079	2,183
Of which: gold	4,919	5,277	5,786	5,834	5,443	5,301	5,498
Of which: oil	1,345	2,122	3,019	3,313	3,904	4,137	4,590
Imports, f.o.b	-12,910	-13,494	-12,684	-13,993	-13,664	-14,770	-15,356
Of which: oil	-1,825	-1,823	-2,029	-1,860	-2,065	-2,063	-2,067
Services (net)	-1,293	-1,859	-2,972	-2,439	-2,669	-2,308	-2,595
Income (net)	-1,250	-1,463	-2,651	-2,055	-2,198	-2,356	-2,712
Of which: interest on public debt	-1,046	-1,155	-1,147	-1,447	-1,466	-1,593	-1,863
Transfers	1,457	2,127	2,424	2,325	2,476	2,522	2,573
Official transfers	26	17	0	4	4	0	0
Other transfers	1,431	2,111	2,424	2,322	2,473	2,522	2,573
Capital and financial account	3,160	3,255	2,739	3,036	2,379	2,580	3,053
Capital account	274	318	242	219	122	135	35
Financial account	2,886	2,937	2,497	2,817	2,257	2,445	3,018
Foreign direct investment (net)	3,471	2,955	3,239	2,954	3,097	2,836	2,734
Portfolio investment (net)	1,156	2,209	2,536	1,060	1,236	1,189	1,860
Other investment (net)	-1,741	-2,227	-3,278	-1,196	-2,076	-1,581	-1,575
Medium and long term (net)	-1,532	-1,143	-2,475	-771	-1,651	-1,525	-1,228
Official (net)	-31	-343	-389	29	-440	-137	-343
Government oil investments	-29	0	-53	-81	-107	-89	-99
Amortization	-1,177	-1,042	-1,103	-915	-1,015	-913	-934
Disbursements	1,177	699	767	1,025	682	865	691
Private (net)	-1,501	-800	-2,086	-800	-1,210	-1,388	-885
Short-term (net)	-209	-1,084	-803	-425	-425	-55	-348
Errors and omissions	-66	0	150	0	0	0	0
Overall balance	233	612	758	359	214	228	685
Financing	-233	-612	-758	-359	-214	-228	-685
Changes in net reserves (-, incr.)[1]	-233	-1,044	-1,100	-559	-504	-476	-685
of which: Use of Fund credit (net)	164	-74	-74	77	155	33	-94
Residual gap	0	-432	-342	-200	-290	-247	0
Official donor support	0	432	342	200	290	247	0
Memorandum items:	(Percent of GDP, unless otherwise indicated)						
Current account	-6.7	-5.8	-4.5	-5.4	-4.2	-4.1	-3.9
Trade balance	-4.1	-3.2	2.3	-1.0	0.4	-0.4	0.6
Official transfers	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Capital and financial account	7.4	7.2	5.8	6.2	4.6	4.5	5.0
Foreign direct investment (net)	8.1	6.5	6.9	6.0	6.0	5.0	4.5
Overall balance	0.5	1.3	1.6	0.7	0.4	0.4	1.1
Oil-net exports	-1.1	0.7	2.1	3.0	3.6	3.7	4.2
Non-oil current account	-5.6	-6.5	-6.6	-8.4	-7.8	-7.8	-8.1
Gross foreign assets[2]							
Millions of U.S. dollars	6,149	7,282	7,555	7,899	8,080	8,632	9,321
Months of imports	3.3	3.7	3.9	3.8	4.0	4.1	4.2
Gross international reserves[3]							
Millions of U.S. dollars	4,862	5,783	5,491	6,319	5,909	6,371	6,962
Months of imports	2.6	3.0	2.9	3.1	2.9	3.0	3.1
Net international reserves							
Millions of U.S. dollars	3,431	4,475	4,531	5,035	5,035	5,510	6,195
Months of imports	1.8	2.3	2.4	2.4	2.5	2.6	2.8
Nominal GDP in U.S. dollars	42,788	45,464	47,015	49,226	51,619	56,725	60,752

Sources: Ghanaian authorities; and Fund staff estimates and projections.
[1] The Fund's disbursements to be used for budget support are included after 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	December 2017
Capital Adequacy					
Regulatory capital to risk weighted assets	18.5	17.9	17.7	17.8	15.0
Regulatory Tier I capital to risk-weighted assets	14.7	15.3	14.5	14.4	12.8
Asset Quality					
Nonperforming loans net of loan-loss provision to capital	8.3	11.2	14.9	15.8	16.1
Nonperforming loans to total gross loans	12.0	11.3	14.9	17.3	22.7
Bank provisions to nonperforming loans	78.3	69.5	69.9	72.5	77.0
Profitability and Earnings					
Return on assets	4.5	4.7	3.1	2.5	2.2
Return on equity	31.1	32.3	21.4	18.0	16.7
Liquidity					
Liquid asset to total assets	21.7	26.8	26.5	27.2	26.0
Liquid asset to short-term liabilities	28.2	34.8	34.3	35.1	33.4
Liquid assets/total deposits	33.7	42.5	40.7	42.8	41.5

Source: Ghanaian authorities

Table 6. Ghana: External Financing Requirements and Sources, 2017–20
(millions of U.S. dollars)

	2017	2018	2019	2020
		Proj.	Proj.	Proj.
I. Total financing requirements	-7,176	-5,295	-5,212	-5,221
Current account balance (excl. official transfers)	-2,131	-2,169	-2,352	-2,368
o/w: Exports	13,752	13,889	14,560	15,722
Imports	-12,684	-13,664	-14,770	-15,356
Debt amortization[1]	-1,177	-1,100	-1,027	-1,028
Private financing (net)	-2,086	-1,210	-1,388	-885
Short-term (net)[2]	-1,153	-425	45	-348
Gross reserves accumulation	-629	-389	-490	-591
II. Total available financing	6,731	5,050	4,916	5,221
Project grants	242	122	135	35
Disbursement from external creditors	767	682	865	691
Foreign direct investment (net)	3,239	3,097	2,836	2,734
Portfolio investment (net)	2,536	1,256	1,169	1,861
Oil Funds (net)	-53	-107	-89	-99
III. Financing gap	-445	-245	-296	0
IV. Expected sources of financing	248	4	150	0
Other IFIs (WB, AfDB)	248	0	150	0
Other program support	0	4	0	0
of which: Program grants	0	4	0	0
of which: Bilateral program loans	0	0	0	0
V. Residual gap	-197	-241	-146	0
ECF program	94	241	146	0
Memorandum items:				
Gross international reserves				
Millions of U.S. Dollars	5,491	5,880	6,370	6,961
Months of imports	2.9	2.9	3.0	3.1
Net international reserves				
Millions of US dollars	4,517	4,992	5,495	6,180
Months of imports	2.3	2.5	2.6	2.8
Current account balance (in percent of GDP)	-4.5	-4.2	-4.1	-3.9
Nominal GDP (USD million)	47,015	51,619	56,725	60,752
Oil prices (USD / bbl)	54.4	64.7	60.7	58.0

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: Summary Table of Actual External Borrowing Monitor
(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
Sources of debt financing	**1,360.6**	**100.0**	**1,101.6**	**100.0**	**1,141.2**	**100.0**
Concessional debt, of which	**544.8**	**40.0**	**301.4**	**27.4**	**301.4**	**26.4**
Multilateral debt	300.2	22.1	185.5	16.8	185.5	16.3
Bilateral debt	244.6	18.0	115.9	10.5	115.9	10.2
Other	-	0.0	-	0.0	-	0.0
Non-concessional debt, of which	**815.8**	**60.0**	**800.2**	**72.6**	**839.8**	**73.6**
Semi-concessional	221.2	16.3	205.6	18.7	205.6	18.0
Commercial terms	594.6	43.7	594.6	54.0	634.1	55.6
By Creditor Type	**1,360.6**	**100.0**	**1,101.6**	**100.0**	**1,141.2**	**100.0**
Multilateral	345.9	25.4	217.5	19.7	217.5	19.1
Bilateral - Paris Club	213.5	15.7	168.3	15.3	192.5	16.9
Bilateral - Non-Paris Club	721.2	53.0	635.8	57.7	644.3	56.5
Other	80.0	5.9	80.0	7.3	86.8	7.6
Uses of debt financing	**1,360.6**	**100.0**	**1,101.6**	**100.0**	**1,141.2**	**100.0**
Infrastructure	952.2	70.0	844.3	76.6	883.9	77.5
Social Spending	119.3	8.8	75.3	6.8	75.3	6.6
Budget Financing	-	0.0	-	0.0	-	0.0
Other	289.1	21.2	182.0	16.5	182.0	15.9

Sources: Ghanaian authorities and IMF staff estimates.

[1] GE is grant element. 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 8. Ghana: Summary Table of Projected External Borrowing Program

January 1, 2018 to December 31, 2018

PPG external debt	Volume of new debt in 2018		PV of new debt in 2018 (program purposes)		PV of new debt in 2018[1] (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
By sources of debt financing	**3,500.0**	**100.0**	**3,254.3**	**100.0**	**3,599.5**	**100.0**
Concessional debt, of which	**500.0**	**14.3**	**313.5**	**9.6**	**313.5**	**8.7**
Multilateral debt	469.1	13.4	288.0	8.8	288.0	8.0
Bilateral debt	30.9	0.9	25.5	0.8	25.5	0.7
Other	-	0.0	-	0.0	-	0.0
Non-concessional debt, of which	**3,000.0**	**85.7**	**2,940.8**	**90.4**	**3,286.0**	**91.3**
Semi-concessional	237.7	6.8	178.5	5.5	178.5	5.0
Commercial terms	2,762.3	78.9	2,762.3	84.9	3,107.6	86.3
By Creditor Type	**3,500.0**	**100.0**	**3,254.3**	**100.0**	**3,599.5**	**100.0**
Multilateral	469.1	13.4	288.0	8.8	288.0	8.0
Bilateral - Paris Club	411.8	11.8	376.6	11.6	385.0	10.7
Bilateral - Non-Paris Club	119.1	3.4	89.7	2.8	89.7	2.5
Other	2,500.0	71.4	2,500.0	76.8	2,836.9	78.8
Uses of debt financing	**3,500.0**	**100.0**	**3,254.3**	**100.0**	**3,599.5**	**100.0**
Infrastructure	455.7	13.0	379.8	11.7	386.7	10.7
Social Spending	185.7	5.3	144.0	4.4	145.4	4.0
Budget Financing	150.0	4.3	88.5	2.7	88.5	2.5
Other	2,708.6	77.4	2,641.9	81.2	2,978.8	82.8

Sources: Ghanaian authorities and IMF staff estimates.

[1] GE is grant element. 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: Proposed Schedule of Reviews and Disbursements Under the ECF Arrangement, 2015–19[1]

Amount		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	July 15, 2015	Observance of the performance criteria for April 30, 2015, and completion of the First Review under the arrangement
83.025	11.25	November 15, 2015	Observance of the performance criteria for August 31, 2015, and completion of the Second Review under the arrangement
83.025	11.25	April 15, 2016	Observance of the performance criteria for December 31, 2015, and completion of the Third Review under the 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]	

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

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

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

Table 10. Ghana: Indicators of Capacity to Repay the Fund, 2018–32

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Fund obligations based on existing credit (in millions of SDRs)															
Principal	58.8	77.5	64.1	83.2	90.3	79.7	79.7	71.4	38.2	13.3	0.0	0.0	0.0	0.0	0.0
Charges and interest	1.9	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Fund obligations based on existing and prospective credit (in millions of SDRs)															
Principal	58.8	77.5	64.1	83.2	90.3	93.0	126.2	124.5	91.3	66.4	39.9	6.6	0.0	0.0	0.0
Charges and interest	1.9	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Total obligations based on existing and prospective credit															
In millions of SDRs	60.7	80.0	66.6	85.7	92.7	95.5	128.7	127.0	93.8	68.9	42.3	9.1	2.5	2.5	2.5
In millions of US$	88.2	117.0	97.9	126.5	137.4	142.0	191.3	188.9	139.5	102.4	62.9	13.5	3.7	3.7	3.7
In percent of gross international reserves	1.5	1.8	1.4	1.7	1.6	1.5	1.8	1.6	1.1	0.7	0.4	0.1	0.0	0.0	0.0
In percent of exports of goods and services	0.4	0.5	0.4	0.5	0.5	0.5	0.6	0.6	0.4	0.3	0.2	0.0	0.0	0.0	0.0
In percent of debt service[1]	2.0	4.5	3.3	4.0	4.4	4.2	5.8	5.8	3.8	2.9	1.3	0.3	0.1	0.1	0.1
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	8.2	10.8	9.0	11.6	12.6	12.9	17.4	17.2	12.7	9.3	5.7	1.2	0.3	0.3	0.3
Outstanding Fund credit															
In millions of SDRs	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	0.0
In millions of US$	1162.6	1152.4	1062.7	944.0	813.5	667.6	479.7	294.2	158.2	59.3	9.9	0.0	0.0	0.0	0.0
In percent of gross international reserves	19.8	18.1	15.3	12.4	9.6	7.1	4.5	2.6	1.3	0.4	0.1	0.0	0.0	0.0	0.0
In percent of exports of goods and services	5.4	5.1	4.4	3.7	3.1	2.4	1.6	0.9	0.5	0.2	0.0	0.0	0.0	0.0	0.0
In percent of debt service[1]	26.9	43.9	35.6	29.8	26.2	20.0	14.6	9.0	4.3	1.7	0.2	0.0	0.0	0.0	0.0
In percent of GDP	2.3	2.0	1.7	1.5	1.2	0.9	0.6	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0
In percent of quota	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	0.0
Net use of Fund credit (in millions of SDRs)	107.2	22.1	-64.1	-83.2	-90.3	-93.0	-126.2	-124.5	-91.3	-66.4	-39.9	-6.6	0.0	0.0	0.0
Disbursements	166.1	99.6	0.0	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	58.8	77.5	64.1	83.2	90.3	93.0	126.2	124.5	91.3	66.4	39.9	6.6	0.0	0.0	0.0
Memorandum items:															
Nominal GDP (in millions of US$)	51,619	56,725	60,752	64,704	68,994	74,146	79,484	85,055	90,980	97,226	103,795	110,844	118,397	126,483	135,338
Exports of goods and services (in millions of US$)	21,425	22,437	23,974	25,542	26,616	28,261	29,616	31,149	33,022	34,963	37,117	39,391	41,688	43,999	46,501
Gross international reserves (in millions of US$)	5,880	6,370	6,961	7,596	8,475	9,387	10,590	11,525	12,618	13,775	15,008	16,524	18,120	19,909	21,377
Debt service (in millions of US$)	4,322	2,627	2,982	3,164	3,106	3,343	3,289	3,274	3,646	3,586	4,831	4,921	5,225	4,387	4,669
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.

Appendix I. Letter of Intent

Accra, April 19, 2018

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

Dear Ms. Lagarde,

1. In light of the progress in implementing the program, the Government of Ghana requests the IMF Executive Board to waive nonobservance of the Performance Criteria (PC) on the wage bill and the net change in the stock of arrears for both end-August and end-December 2017 and the PC on the primary balance for end-August (though met for end-December), to modify the continuous PC sub-ceiling on the contracting or guaranteeing of non-concessional debt for projects, to complete the combined fifth and sixth reviews of the Extended Credit Facility (ECF) arrangement, and to disburse the sixth and seventh tranches totaling the equivalent of SDR 132.84 million.

2. The Government assumed office in January 2017 after winning an overwhelming mandate from the people of Ghana in December 2016. The government inherited an economy that was fraught with many challenges including derailed ECF-supported program objectives. As documented in the attached Memorandum of Economic and Financial Policies (MEFP), we catalogue how the government successfully restored macroeconomic stability and achieved high rates of economic growth in 2017. The fiscal deficit outperformed its target, inflation declined, we built up external buffers, and continued to take steps to improve the resilience of the financial sector. The program is broadly on track, and we have taken corrective actions to address the two performance criteria (the wage bill and clearance of arrears) that were missed at end-December. While progress on the structural benchmarks has been slower than anticipated, we are committed to the reforms supported by the ECF arrangement and intend to accelerate the implementation of the missed benchmarks. We are determined to secure the irreversibility of our government policies through the building of strong institutions, which will enable us to successfully conclude the current Fund-supported program and achieve our vision of moving "Ghana Beyond Aid".

3. As a first step towards achieving our vision of moving "Ghana Beyond Aid", we are putting in place mechanisms to secure irreversibility of our government policies and ensure steadfast and sustained implementation of our key social policies. Secondly, we are strengthening domestic revenue mobilization and look forward to international partnerships in technology to advance this course. Lastly, we will empower the private sector to be at the fore of this agenda by creating the enabling environment which has already begun with the restoration of macroeconomic discipline in 2017. The transformation agenda of a "Ghana Beyond Aid" is expected to end with a Ghana as a Regional Hub in all areas and exhibiting a truly diversified and digitized economy. Thus a "Ghana Beyond Aid" is a Wealthy, Inclusive, Sustainable and Harmonious society.

4. The government believes that measures and policies described in the July 2017 MEFP remain appropriate for attaining the objectives of our program. The attached supplement to the MEFP lays out specific government policies for 2018 that will strengthen program implementation, enabling us to meet program objectives. We will continue to be firm with our fiscal policies and implement fiscal measures to contain financing needs, further reduce public debt, and avoid arrears accumulation through the enforcement of the Public Financial Management Law, 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. The Ministry of Finance and the Bank of Ghana have amended and extended the loan and fiscal agency Memorandum of Understanding (MOU) to be enforced through to 2020. Finally, we are continuing with our efforts to strengthen the financial system, with the aim to buttress financial stability and achieve sustainable credit growth.

5. The government believes that the measures and policies set forth in the attached MEFP are appropriate and sufficient to achieve the 2018 objectives. However, we are committed to additional measures, and will work with the IMF in the adoption of such measures if necessary. 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 Government's medium-term debt policy as approved by Cabinet.

6. The government consents to make public the content of the IMF staff report, including this letter, the attached MEFP and Technical Memorandum of Understanding (TMU), and the Debt Sustainability Analysis (DSA) performed by IMF and World Bank staff and, therefore, authorizes the IMF to publish these documents on its website once the IMF Executive Board approves the completion of the fifth and sixth reviews under the ECF program.

Sincerely yours,

/s/	/s/
Ken Ofori-Atta	Ernest Addison
Minister for Finance	Governor: Bank of Ghana

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

Attachment I. Memorandum of Economic and Financial Policies, 2018

This Memorandum of Economic and Financial Policies (MEFP) updates the one outlined for the completion of the fourth review, approved by the IMF Executive Board on August 30, 2017. It describes the government's assessment of recent economic developments, Fund-supported program implementation, the economic outlook and risks, and policies to achieve objectives under the ECF arrangement.

A. INTRODUCTION

1. **The government restored macroeconomic stability and achieved high rate of economic growth in 2017**. The administration faced numerous challenges during its first year in office. It inherited a difficult economic situation, manifested by a high fiscal deficit, challenges with domestic revenue mobilization, lack of expenditure controls during the election year, and high levels of inflation. By adopting the 2017 Budget, which aimed at a significant reduction in the fiscal deficit, the government sent a strong signal that fiscal discipline would be restored and maintained over the medium term, and it achieved this— the fiscal deficit outperformed its target of 6.3 percent of GDP and was reduced by more than three percentage points within one year from 9.3 percent to 6 percent. The government has strengthened control over public funds—it completed the audit of unpaid bills and is in the process of taking measures against those who breached payment rules and processes, along with addressing system weaknesses. Tight monetary policy has helped bring inflation down and the exchange rate remained stable after some volatility in the first quarter of 2017.

2. **In line with the medium-term development objectives of the government, the necessary structures are being laid to build the foundations for a "Ghana Beyond Aid"**. This requires us to develop an optimistic, self-confident and prosperous nation, through the creative exploitation of our human and natural resources, and operating within a democratic, open and fair society, in which mutual trust and economic opportunities exist for all. Realizing this will require economic and social transformation of Ghana, which we aim to achieve in 7 years (by 2024). As a first step towards achieving this goal, we are putting in place mechanisms to secure irreversibility of our government policies through building strong institutions, and ensure steadfast and sustained implementation of our key social policies. Secondly, we are strengthening domestic revenue mobilization and look forward to international partnerships in technology to advance this course. Lastly, our policies will aim at empowering the private sector to be at the fore of this agenda by creating the enabling environment for doing business, which has already begun with the restoration of macroeconomic discipline in 2017. The transformation agenda of a "Ghana Beyond Aid" is expected to end with a Ghana as a Regional Hub in all areas and exhibiting a truly diversified and digitized economy. Thus a "Ghana Beyond Aid" is a Wealthy, Inclusive, Sustainable and Harmonious society.

3. Our ECF arrangement with the Fund expires at the end of 2018 after the program was extended by a year due to the derailment of program objectives at the end of 2016. This engagement has been helpful in restoring macroeconomic stability and decreasing the rate of debt accumulation and achieving a downward trajectory. At the same time, we believe that the progress and achievements secured in 2017, and the continued adjustment and reforms planned for 2018, puts us in a strong position to successfully exit from the Fund-supported program in December 2018 - this will be an important milestone. Key among our program exit strategy is to build institutions and establish instruments which will ensure irreversibility of the policies which contributed to the success story in 2017. We are mindful that our reform agenda, while well in train, is not complete. We look forward to our continued cooperation with the international community and international institutions to a) support us with capacity development, technological capacity and policy dialogue, and b) to cascade investment opportunities that our participation in the G-20 Compact with Africa program will open up for us.

B. RECENT ECONOMIC DEVELOPMENTS

4. Economic activity in 2017 was very strong with a sharp and positive turnaround in growth momentum. Preliminary indicators show a significant rebound in GDP growth which is expected to reach 8.4 percent in 2017 from 3.7 percent in 2016. This growth was boosted by the recovery in oil production, as new oil fields came on-stream, and cocoa production yields improved. However, the expectation for a more ramped-up activity in the manufacturing sector following the much-improved electricity supply situation and payment of energy sector bills, was delayed as businesses and firms reorganize their operations to take advantage of the improved environment. The much-needed support from the banking sector to spur activity has been delayed somewhat as the banks go through a process of restructuring and repairing their balance sheet.

5. Government spending was kept under control in 2017, resulting in a large fiscal adjustment and a primary surplus for the first time since 2003. Following the significant fiscal slippage in 2016, the new administration pursued policies that led to a resumption of the fiscal consolidation agenda in 2017, bringing the fiscal deficit to 6.0 percent of GDP, compared with 9.3 percent of GDP in 2016 thus, surpassing the 6.3 percent target. While revenue measures introduced were yet to yield significant gains, the government pursued expenditure rationalization efforts, first to ensure value-for-money on capital spending while protecting social spending, and second to align expenditures to realized revenue. The government reduced budget expenditure in the Mid-Year Budget Review presented to Parliament in July 2017 and in the 2018 budget, and revised budget appropriations to meet the budget target. The wage bill continued to decline as a share of GDP, despite an overrun compared with the budget (see paragraph 12). Domestic capital spending, one of the main expenditure items subjected to adjustments, was lower than budgeted although foreign financed capital expenditures overshot the target due to better Ministries, Departments and Agencies (MDA) engagement with Development Partners resulting in faster disbursement of donor funds. Earmarked transfers to statutory funds were lower than programed due to lower revenues, primarily due to the fact that 2017 marked a political transition year which necessitated an audit of all outstanding claims on Government from 2016 and culminated in a late presentation of the 2017 budget. Regular payments were made to statutory funds starting from the second quarter, but the usual floats from the previous year were delayed awaiting results of the audit conducted by the Auditor General. Gross public debt declined to below 70 percent of GDP at end-2017, from 73.1 percent of GDP a year ago. This is the first time since 2006 that we have witnessed a decline in the debt-to-GDP ratio (except in 2011 when oil came on stream resulting in a large increase in GDP). The Auditor-General also conducted an audit of outstanding payments and claims amounting to 5.5 percent of GDP (approximately GHS11.3 billion), of which claims in the amount of 3.1 percent of GDP were validated, while the remaining balance was rejected.

6. Financing conditions significantly improved. Financing for the 2017 budget was adequate, and we were able to build up a precautionary liquid cash buffers of about GHS 1.7 billion at the end of 2017 to mitigate the impact of possible future shocks. The government continued to successfully implement its Medium-Term Debt Management Strategy. Some further re-profiling operations have been conducted, including the re-opening of the 7, 10 and 15-year bonds in November 2017. Reprofiling of the domestic debt led to an increase in the average time to maturity for domestic debt from 5.5 years in 2016 to 7.2 years in 2017, while the average time to maturity of the entire debt portfolio increased from 6.3 years to 8.2 years over the same period. Significantly, the proportion of the total debt stock maturing in a year was reduced from 29.8 percent in 2016 to 17.7 percent in 2017. The spreads on external debt have tightened over the year, in line with global developments but faster than emerging market peers mainly on the back of improved confidence in the government's policies.

7. There was a trend decline in inflation in 2017, from 15.4 percent at the end of December 2016 to 11.8 percent at end of December 2017 and 10.6 percent in February 2018. A favorable base effect, diminishing domestic food price pressures and a relatively tight monetary policy stance supported by the strong fiscal adjustment, helped to reduce headline inflation and inflationary expectations. The generally supportive macroeconomic environment and the well-anchored disinflationary process allowed the Monetary Policy Committee (MPC) to cumulatively reduce the monetary policy rate by some 550 basis points in 2017 to close the year at 20 percent (from 25.5 percent in December 2016), and further reduce the policy rate by 200 basis points to 18 percent in March 2018. Headline inflation has further declined to 10.6 percent at the end of February 2018 - the lowest since mid-2013

8. The external position strengthened, resulting in significant accumulation of international reserves. All three major export commodities (gold, cocoa, and oil) performed well, benefiting from both volume and price developments, resulting in a trade surplus of US$1.1 billion (2.4 percent of GDP)—for the first time in decades. The current account also narrowed significantly, to negative 4.5 percent of GDP at the end of 2017 from negative 6.7 percent of GDP at the end of 2016, translating into an overall balance of payments surplus of US$1.1 billion (2.4 percent of GDP). These positive developments resulted in a buildup of additional gross international reserves of US$ 1.1 billion, bringing total gross international reserves to US$7.6 billion (4.3 months of imports cover) at end-December 2017, compared with US$6.2 billion (3.5 months) a year ago – the highest end-year position recorded in recent years.

9. **As a result, the exchange rate was relatively stable in 2017.** The cedi depreciated against the US dollar by 4.9 percent over 12 months to end-December 2017, the lowest rate of annual depreciation since 2011.

10. **Although excess liquidity in the banking system remains high, growth in credit to the private sector has now started to recover.** Broad money grew by 16.7 percent in 2017 compared with 22.0 percent in 2016, primarily because of slower growth of demand deposits, currency with the public and foreign currency deposits. But as an early indication of some recovery, year-on-year growth in private sector credit increased to 13.7 percent in December 2017 from a low of 6.5 percent in August 2017 and lending rates fell across all sectors. At the same time, the excess liquidity in the banking system remains high, reflecting strong FX inflows and Bank of Ghana (BoG) emergency liquidity support to commercial banks.

11. **Financial stability has been maintained, amidst ongoing reforms to enhance the resilience of the financial system.** The successful resolution of the two banks in August 2017 by the BoG helped strengthen the soundness of the banking sector and the credibility of the new legal framework. Banks have made progress in addressing their capital needs, following the 2016 Asset Quality Review (AQR), and reducing their reliance on central bank funding. The BoG remains committed to further strengthening of the financial system via regulatory changes, (Basel II/III, increase of statutory minimum capital), supervisory enhancements (further improvement of risk-based supervision, greater focus on banks' corporate governance and risk management frameworks), and decisive actions to address vulnerabilities in specialized deposit-taking institutions. We intend to take further actions to strengthen AQR, reduce NPL's and strengthen governance as these remain key to enable sustainable credit growth and a resilient banking industry.

C. PROGRAM PERFORMANCE

12. **Performance under the program through end-December 2017 has been satisfactory, with four reviews completed**. For the 5th and 6th reviews, six of the nine performance criteria (PCs) for end-August 2017 and seven of the nine PCs for end-December 2017 were met, including the Monetary Policy Consultation Clause (MPCC) (Table 1). The PC on wage bill and the net change in the stock of arrears were missed for both end-August and end-December, while the primary balance PC was also missed for end-August (though met for end-December).

- The slippages in the wage bill mainly resulted from retroactive payments of a salary adjustment for employees under Article 71 of the Constitution and payment of unanticipated one-off approved allowances. To address the issues of the wage bill overrun, we will increase the frequency of warrants issuance from quarterly to monthly to limit the occurrence of deviation of actual wage bill expenditures from targets. As a second level filter, Internal Audit Units of MDAs are going to validate any salary-related allowances requests before submission to the Ministry of Finance. Lastly, in-year approval of new allowances and conditions of service will take effect in the following fiscal year. This provision was also included in the PFM Act regulations, to avoid in-year overruns and improve budget accuracy. A task force to potentially outsource the payroll of the Ghana Education Service (GES) and the Ghana Health Service (GES) workers (which contribute about 70 percent of the government workforce) is being established.

- The PC on net change in the stock of arrears was missed mainly because the government was re-evaluating the strategy for arrears repayment pending the completion of the audit of unpaid claims by the Auditor-General, which was completed in February 2018.

13. Indicative targets on pro-poor expenditures, contracting or guaranteeing of new external concessional debt and net domestic assets of the BoG were met. On the other hand, the indicative targets on SOE performance were missed despite notable improvements in the net after tax profits of ECG and VRA.

14. Implementation of structural benchmarks (SB) is progressing albeit at a slower rate than anticipated (Table 3). Six structural benchmarks were met, a few of them with delays. Notable progress was achieved in several areas including the establishment of a Treasury Single Account, the rollout of GIFMIS and HRMIS, although these were not fully completed due to technical problems with connectivity and data integrity. However, GIFMIS experienced the best rollout at 87 percent and TSA at 85 percent. It is the government's intention to complete all benchmarks by the end of the program.

D. THE GOVERNMENT'S ECONOMIC PROGRAM IN 2018

15. Our economic program in 2018 is anchored on the President's Coordinated Program (CP), building the foundations for a "Ghana Beyond Aid" and the implementation of the Sustainable Development Goals (SDGs). The government is working on translating the goals outlined in the CP into a detailed medium-term development plan which will guide the government in implementing the SDGs. Ghana aims at domestically financing a significant part of its development needs in order to reduce dependence on aid. Stronger domestic revenue mobilization is thus critical for creating fiscal space for financing development programs and projects, while maintaining macroeconomic stability. The Government would therefore need to balance carefully the objectives of ensuring fiscal discipline with the need to allocate adequate resources to satisfy its development needs.

Economic Growth

16. Economic growth is projected to remain strong at a conservative 6.8 percent in 2018, with non-oil GDP growth at 5.4 percent. Economic growth is expected to be more broad-based this year, as the contribution of the oil sector would taper off, while growth in agriculture, construction, and industry is expected to pick up. Non-oil economic growth would benefit from improved access to finance, as lending rates decline on the back of continued reductions in inflation and balance sheet repairs in the banking system, despite the expected dampening effects of continued fiscal consolidation on growth.

17. The economy is expected to grow at an average conservative rate of about 7 percent per annum in the period 2019-21, 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 the business environment.

Fiscal Policy

18. The 2018 budget aims to bring the overall fiscal deficit to 4.5 percent of GDP, compared with 6 percent of GDP in 2017, with continued improvement in the primary surplus position. Continued fiscal consolidation will be achieved through improvement in domestic revenue mobilization and strict spending discipline. This will be a remarkable achievement of approximately 3 percent of GDP over a 2-year period with an improved average growth rate of approximately 7.5 percent.

19. The government will step up efforts to broaden the tax base through policy changes, improved tax compliance, prosecutions and plugging of revenue leakages. Tax compliance measures will include reforms to the Customs/Bonded Warehousing and Transit Regimes, deployment of Fiscal Electronic devices (received Parliamentary accent in March 2018), excise stamp devices (being deployed now) among others (see section V below). Other revenue policy measures that have been implemented include the African Union levy, Marine Gas levy, Spectrum sale and renewal of Telcos licenses. Given our limited fiscal space (with compensation of employees and interest payments taking up almost all tax revenues), there is a need to institute new revenue measures to ensure that our adjustment effort is sustainable and key social programs, like free Senior High School (SHS) and National Health Insurance Scheme (NHIS), are preserved. To formulate a well-balanced and equitable package of tax measures, we have launched a consultation with relevant stakeholders (including the Trade Union Congress (TUC), Ghana Union of Traders Association (GUTA), Association of Ghana Industries (AGI), and the Ghana Employers Association (GEA)) as inputs into our review of the tax system. We will introduce new tax measures when we submit the mid-year budget review to Parliament in July.

20. Our expenditure management strategy will focus on eliminating waste and inefficiencies by ensuring that MDAs expenditures are aligned to the overall government agenda. This will reduce duplication of projects and associated expenses. The PFM Act and newly drafted regulations will continue to guide our public financial management practices. In addition, a World Bank Public Reform program will complement our efforts. Our priority flagship initiatives such as the Free SHS policy, Infrastructure for Poverty Eradication Program (IPEP), Planting for Food and Jobs, one-million per constituency, Nation Builders Corps among others are all fully funded in the 2018 budget.

21. We remain committed to adjust to meet the fiscal deficit target for 2018. Given that the revenue measures will not come into effect until August 2018 and to ensure that our fiscal deficit target of 4.5 percent of GDP is not compromised, we will use the expenditure allotments process (as we did in 2017) to allow for adjustments in discretionary spending in anticipation of the new tax measures to be introduced in July. We have identified expenditures worth GHS 850 million which can be scaled back if needed, and adjusted Q2 allotments accordingly and also if revenues underperform. We will review allocations again at the time of the mid-year budget review, including by factoring in the new revenue measures that we intend to introduce. We will continue to step up expenditure controls by strengthening commitment controls and enforcing discipline on the part of the financial officers. This will ensure that spending remains within budget allocations in 2018.

22. Our goal is to maintain a primary surplus of about 2 percent of GDP in 2019 and into the medium term, to reinforce debt on a clearly declining path to eliminate the risk of debt distress. Our medium-term strategy will be geared towards mobilizing adequate domestic revenue to ensure that Ghana moves beyond aid and that we can sustainably fund our developmental needs. The one-off measures included in the 2018 budget will be replaced by sustainable revenue measures.

23. We will continue implementing our arrears clearance plan, which also includes the clearance of arrears verified by the Auditor-General. Because of the completion of the audit, the government is adopting a new three-year arrears clearance strategy, starting with the payment of GHS858 million in 2018 and the remaining GHS 3 billion over three years. Claims of the private sector will be prioritized.

Monetary Policy

24. Monetary policy will continue to be guided by the Bank of Ghana's inflation targeting (IT) framework. Inflation is projected to reach the medium-term target of 8 percent in 2018, on the heels of improved macroeconomic fundamentals. The Monetary Policy Committee (MPC) will continue to monitor developments and take necessary actions to ensure the attainment of its inflation target. The BoG recently introduced the 56-day bill which has successfully complemented the 14-day bill to more effectively manage the current large stock of structural excess liquidity which is significantly impacting the BoG's balance sheet.

25. We remain firmly committed to zero central bank financing of government. The elimination of fiscal dominance is key to strengthening the inflation targeting framework. The government has not borrowed from the BoG since 2016 and remains committed to this practice over the medium term. The government and the BoG extended their Memorandum of Understanding (MoU) reaffirming their commitment to zero central bank financing of the government through 2020 and published the MoU on the MoF website.[1]

[1] https://www.mofep.gov.gh/news-and-events/2018-04-04/fiscal-agency-mou-between-the-bog-and-mof

26. The BoG will transfer ownership of the Ghana Incentive-based Risk Sharing Scheme for Agricultural Lending (GIRSAL) to the MOF in the context of the mid-year budget review. The MOF will decide on all future capital and funding costs. The BoG funded the scheme's initial capital (of GHc200 million) out of profits that would otherwise have been transferred to the budget.

27. We will continue working on strengthening the FX market. The BoG will continue to sell or buy FX in the FX interbank market on a bilateral basis to limit excessive exchange rate volatility. To improve the functioning of the FX market and promote market deepening and development, we will develop a new FX management policy that is fully consistent with the IT framework. The new policy will include measures to ensure that all transactions on the interbank market (between BoG and commercial banks and between commercial banks) are conducted at current market rates.

Financial Sector

28. Following the successful resolution of two weak banks, the BoG is pursuing a comprehensive set of actions to buttress resilience of the banking sector. The orderly resolution of two banks in August 2017 has helped ensure soundness and stability of the banking sector. Final settlement of the purchase and assumption transactions has occurred via the issuance of sovereign bonds to the assuming bank. Liquidation of the failed banks is progressing and regular meetings between BoG and the Receiver are held to discuss progress. On March 20, 2018, the BoG took control of Unibank Ghana via the appointment of an official administrator, in view of persistent undercapitalization and liquidity shortfalls, as well as other regulatory breaches. The administrator has been tasked with the identification of measures that are needed to habilitate the bank, and the bank remains open while this work is ongoing. In parallel, we will review the BoG's supervisory oversight of the bank during the preceding period, with the aim to address potential gaps in the supervisory and regulatory framework. Ongoing efforts to strengthen the BoG's licensing framework, with particular focus on the verification of bank capital will help to ensure resilience of new entrants to the banking sector, while the establishment of a resolution office will help improve the BoG's ability to deal with distressed institutions.

29. Efforts to reduce reliance on central bank funding are progressing. Banks have been notified that outstanding facilities will not be rolled over at maturity and hence, that all principal and accrued interest charges will need to be settled on or before maturity of the existing facilities. Governance arrangements of the framework for BoG liquidity support have been strengthened, notably via the establishment of an interdepartmental credit committee that will advise BoG's senior management on new requests and monitor outstanding facilities.

30. Breaches of large exposure limits are being regularized. The energy sector-related large exposures have been programed to be settled with the ESLA arrangement and the Energy bond issuance, while all non-oil related large exposures are being brought in compliance with the provisions of the Bank and Specialized Deposit-Taking Institutions (BSDI) Act. The BoG shall adhere to the current policy on single obligor limits in line with the BSDI Act to deter limit breaches going forward. It is expected that the regulatory new minimum capital of GHS 400 million by December 2018 will help resolve the issue of large exposures.

31. **Banks are developing plans to augment their statutory capital**, in view of the new minimum requirement that is to be fulfilled by end-December 2018. Banks have submitted their capital plans for meeting the new minimum requirement which have been reviewed by the BoG. Consequently, the BoG is strengthening the prudential framework governing bank mergers and expects to provide further guidance on the procedure for processing applications and the factors that will be reviewed. BoG management is considering a draft mergers and acquisition (M&A) guideline to offer guidance to the industry on BoG's requirements for M&A applications. The BoG has initiated action towards building capacity in this regard to efficiently guide the review and appraisal of potential M&A applications.

32. **The BoG is taking steps to help address the elevated level of non-performing loans (NPLs)**. BoG Management is institutionalizing a framework for addressing the NPL overhang (new structural benchmark) by: i) focusing on enhanced recovery actions by banks (including more timely enforcement of collaterals); ii) prudent write-offs of uncollectible loans; and iii) more stringent oversight of banks' credit risk management frameworks and lending policies. In this regard, banks have been instructed to comply with the directive to write off fully provisioned loss categorized as nonperforming loans in their books of accounts.

33. **Initiatives to further improve the regulatory framework are on course.** The BSDI Act was enacted and became operational in February 2017. New directives on corporate governance, 'fit and proper' standards, and risk management are being prepared and will soon be issued to the industry. Furthermore, amendments to the Act are being prepared to strengthen the supervisory framework. The BoG is transiting from the current capital measurement framework to a risk-based capital requirement as per Basel II and III. The BoG is implementing Pillar 1 and aspects of Pillar 3, and intends to introduce the Internal Capital Adequacy Assessment Process (Pillar 2) by end-2018. Finally, the operationalization of the new deposit insurance scheme is continuing, supported by legal amendments of the Deposit Protection Act, 2016 (Act 931), which were successfully passed in Parliament in March 2018. The scheme is expected to enter into force, contingent on the amelioration of financial sector vulnerabilities.

34. **We are taking steps to shore up the specialized deposit-taking institutions (SDI).** Serious weaknesses in the microfinance sector have posed challenges for regulation and supervision. These include undercapitalization, liquidity pressures, unlicensed operations, weak corporate governance and risk management, and deficiencies in regulatory reporting. Efforts to increase minimum capital of microfinance institutions (MFI) are under consideration and the BoG has adopted a comprehensive action plan for cleaning up the sector and strengthening regulatory and supervisory oversight. The issuance of new MFI licenses has been halted since 2016 and the BoG—in collaboration with law enforcement agencies—is clamping down on unlicensed deposit-taking activities. The BoG is also closely monitoring the implementation of capital restoration plans

of undercapitalized savings and loans companies and finance houses and stands ready to take further action as needed, in line with the BSDI Act, 2016.

35. We will decisively address AML/CFT-related deficiencies that were identified in the Mutual Evaluation conducted by GIABA in 2016. An action plan for addressing the Evaluation's key findings is being prepared, and the BoG in collaboration with the Financial Intelligence Centre, has already revised the AML/CFT Guidelines in conformity with the recommendations by GIABA. The revised edition includes requirements of the AML amendment Act, Act 874, the revised Financial Action Task Force Recommendations issued in 2012 and Ghana's National Risk Assessments.

E. STRUCTURAL REFORM AGENDA

Tax Policy and Revenue Administration

36. In 2017, the government decided to use tax policy as a tool to support production. The aim was to rationalize taxes, create an enabling environment for the private sector and to stimulate investments and drive economic growth. Consequently, seventeen 'nuisance' taxes were abolished to promote a sense of economic freedom and entrepreneurship and give relief to the private sector. At the same time, the government has embarked on a strategy to enforce tax compliance. In this regard, the Ghana Revenue Authority (GRA) with the assistance of the MOF and DFID commissioned a series of audits of free zone enterprises and warehouses late in 2017 to improve compliance in those regimes. The first set of reports will be issued end of first quarter of 2018.

37. The government's revenue policies will remain focused on its commitment to reduce the cost of doing business by making tax compliance easier for taxpayers. Furthermore, in order to improve the estimate of the impact of Government interventions in the tax policy area, the MOF will in 2018, complete work on the GhaTax revenue simulation model. The model will allow the Ministry to simulate the impact of tax policies on households and government revenue. Other major measures outlined for implementation in 2018 fiscal year include:

a. **Tax Amnesty:** Records at the GRA show that registered individual taxpayers number less than one million five hundred thousand although the economically active population in the formal sector is estimated at more than six million. In addition, a significant number of taxpayers fail to file returns, with average filing rates falling below fifty percent. The GRA currently does not have the capacity to follow up on these persons as it will require hundreds of man hours to pursue defaulting taxpayers and register unrecorded ones. The government is therefore introducing an amnesty to exempt taxpayers who register and file returns within a targeted period from paying penalties and interests for late or non-submission of returns and late payments. This includes exemption from prosecution. The GRA will, after the amnesty period, wage an intense campaign to prosecute continuing defaulters and offenders. The specific objectives of this amnesty are to broaden the tax base; update the GRA taxpayer database; increase and improve the tax compliance culture; and obtain data for compliance, research and planning purposes.

b. **Voluntary Disclosure Procedures.** The best form of tax compliance is voluntary compliance as it places a lighter administrative burden on the government. After the amnesty, the government will introduce Voluntary Disclosure Procedures (VDP) to waive penalty on voluntary disclosures and payment of unreported and understated taxes by taxpayers. However, taxpayers will be required to arrange to pay such taxes within a period agreed with the Commissioner- General of GRA.

c. **Alternative Dispute Resolution (ADR) in resolving tax disputes**. ADR is widely accepted as the best and more cost-effective approach to resolving tax disputes. In order to instill confidence in investors, the government will introduce an ADR mechanism to resolve tax disputes.

38. As part of efforts to strengthen domestic revenue mobilization and restore fiscal discipline, the government will also implement the following tax administration enhancing measures:

a. **Electronic Point of Sales Device (EPOS)** - An Act to provide for the use of an approved Fiscal Electronic Device by specified taxable persons at each point of sale on the premises of the taxable persons was passed by Parliament in March 2018. The installation and usage of these devices is expected to (a) maximize revenue collection, (b) minimize the incidence of revenue suppression, and (c) obtain an accurate record of the volume of sales of each taxable person by obliging specified taxable persons to use a Fiscal Electronic Device approved by the Ghana Revenue Authority.

b. **Automatic Exchange of Information Bill** - This bill was passed by Parliament in March 2018 to put an obligation on reporting financial institutions to collect financial accounts information of non-residents and report same to the GRA for purposes of automatic exchange of information.

c. **Excise Tax Stamp** - Following the passage of the Excise Tax Stamp Act in 2013, the implementation of the Excise Tax Stamp policy was launched in August 2017. The implementation of the policy begun in January 2018 starting with the ports and subsequently in March 2018 at the point of sale. This will increase the current excise revenues by about 20 percent as well as close the loopholes and leakages and broaden the tax base.

d. **Tax Exemptions** - As part of efforts to curb abuses in the tax exemption regime, a pay-and-get refund policy was implemented for nine months in 2017 to learn some lessons that would improve the administration of the regime. Government is currently undertaking a comprehensive review of its exemptions regime in order to curb revenue leakages. A matrix classifying all tax expenditures in order to determine which ones can be removed, renegotiated or maintained has been prepared. Preliminary work has been carried out to review all import exemptions to identify those that can be removed.

e. **Full deployment of trips^{TM}** – To enhance tax administration through effective data collection and management of tax payer information, the GRA has been charged to fully deploy and improve the usage of trips^{TM} in all tax offices across the country. A special Committee, chaired by the Minister has been established.

f. **Creation of an Anti-Money Laundering and VIP desk within GRA** – The GRA plans to establish an office to address the challenges of illicit financial flows and Anti-Money Laundering by cooperating with the Financial Intelligence Center (FIC), Economic and Organized Crime Office (EOCO) and the Criminal Investigation Department (CID) of Ghana Police Service.

g. **Property tax** – The GRA has commenced a program to assist the local authorities to collect property taxes. A review to determine whether property taxes should be collected by the central government is under consideration.

Public Financial Management

39. We will continue to step up expenditure controls by strengthening commitment controls and enforcing discipline on the part of financial officers. Currently, GIFMIS has been rolled out to 115 Metropolitan, Municipal and District Assemblies (MMDAs), 54 Internally Generated Funds (IGFs) and 3 Statutory Funds (SFs) and 4 Donor Funds. The government plans to complete the roll out of GIFMIS to the remaining MMDAs, Statutory Funds, Donor Funds and IGFs by end-March 2019 and ensure that all government payments are processed through GIFMIS. The Electronic Fund Transfer (EFT) system which is already in place is a means of payment for government transactions. It is currently being implemented for MDAs and will be rolled out to all MMDAs by April 2018. We have developed and started implementing a strategy to address the weaknesses in the payment system identified in the Audit Report of Unpaid Bills as of end-2016.

40. The PFM regulations for the Public Financial Management Act, 2016 (Act 921) were successfully submitted to Parliament in March 2018. This follows drafting suggestions of the PFM regulations that was received from the IMF-Fiscal Affairs Department as well inputs from all the institutions consulted.

41. Some key provisions that are contained in the Regulations are as follows:

a. Provisions to guide the determination of the macro-fiscal framework within the Fiscal Strategy Document;

b. Provisions on the commitment and contract management and also using the Contract Management System to ensure proper recording and control of government contracts;

c. Working with Office of Head of Civil Service to establish Budget offices in all MDAs with responsibility for budget preparation and management;

d. Working to establish institutions which will be responsible for compliance and risk management as well as ensure value for money in MDAs;

e. Strengthening of Internal Audits of the different MDAs to review government projects to ensure value-for-money; and

f. Strengthening Public Investment Management System (PIMS), via inputs into the regulations from the Public Investment Division of the Ministry in cooperation with the Attorney General.

42. We are standardizing the reporting format to enable Statutory Funds to publish their Budgets. The MOF has begun the process of engaging the Statutory Funds to develop a standardized Budget reporting format in line with legislative provisions. These engagements are expected to be completed by May to allow for the maiden publication of the Budget of the Statutory Funds (SF's) in June 2018.

43. Payroll clean-up plan. As part of the process of enhancing the payroll system, the payroll data of the seven public universities will be interfaced with the IPDD2. A MoU between the Universities on the one hand and the MoF and the CAGD on the other hand has been signed. Two universities (University of Education and the University of Development Studies) have already submitted their payroll data for the interfacing while the rest are expected to submit their data by March 2018. It is expected that the payroll data of the universities will be fully interfaced into the IPDD2 by August 2018.

44. The HRMIS has been rolled out to 32 MDAs, covering almost 24 percent of the workforce. The rollout of HRMIS to the Ghana Education Service, which is expected to be completed in the second quarter of 2018, will bring the number of public service employees managed by the HRMIS to almost 70 percent of the workforce. Absent challenges related to connectivity, and with the full cooperation of MDAs in providing data in the required format, the Government intends to continue rolling out HRMIS to an average of 10 MDAs per month until they are all live on the system by March 2019.

45. The law on Earmarked Funds Capping and Realignment has been in operation since April 2017. In spite of the implementation challenges that were observed in the first year, the law has contributed to the significant reduction in budget implementation rigidity. Implementation of the law will continue this year. Any amendment to the law will be effected after the second year of implementation consistent with the Law.

46. We are proceeding with implementation of the Treasury Single Account (TSA). So far, about 85 percent of commercial bank accounts of MDAs have been transferred to the central bank. The remaining bank accounts (134 yet to be migrated) belong to Statutory Funds (such as the GIIF) and some MDAs. The Government intends to transfer all these remaining commercial bank accounts to the BOG by the second quarter of 2018. A policy is being developed to guide the use of balances in the TSA. Administrative procedures are being implemented.

47. To ensure that we improve our cash management processes and link commitments to cash availability, rather than budget allocations a high-level Cash Management Committee has been set up in line with the recommendations of the IMF TA on MOF's functional review. This Committee comprises top management staff from the MOF, BOG, GRA and the CADG with a Deputy Minister and Deputy Governor in the chair.

48. The Minister of Finance has issued a circular to establish the creation of a Fiscal Risk Unit at the Ministry of Finance in March 2018. The unit will be in charge of monitoring risks from SOEs, and will work in close cooperation with the Public Investment Division, which has been in charge of producing the first aggregate report on SOEs.

49. The World Bank will be assisting government with the implementation of the National Public Sector Reform Strategy (NPSRS) which seeks to improve access, quality and accountability of delivery of administrative services provided by MDAs. It is intended to reform the current structures, systems, processes and internal management functions of the selected service delivery agencies. The strategy is centered on three principles which are expanded into six pillars. The principles are: a new direction of Purpose for the public sector; building the capacity of the Personnel (or the People) who deliver the public service; and streamlining the Processes in the public sector. The new NPSRS, 2018-2023, has received both Executive and Cabinet approvals in December 2017.

50. The World Bank provided technical guidance during the review of the NPSRS, 2017-2027, which resulted in the new NPSRS, 2018-2023. The Bank also agreed to partially support the Government of Ghana to implement the NPSRS. In line with that, the Bank, in collaboration with the Office of the Senior Minister of the Office of the President and the relevant agencies, is in the process of developing a 'Public Sector Reform for Results Project (PSRRP)' based on a component of the NPSRS that would strengthen the service culture among public sector employees of selected frontline public sector service delivery organizations. The outcome of the PSRRP is expected to be replicated in other MDAs and MMDAs in line with the NPSRS.

Debt Management

51. Our debt management strategy has focused on bringing down the cost of debt and minimizing refinancing risks. The Debt Management Strategy for 2018 builds on the achievements chalked in 2017 and targets lengthening the maturities of domestic debt. The Strategy envisages an increased issuance of medium-term bonds (especially 5-year bonds) and longer-dated bonds (7-year, 10-year & 15-year bonds) in the domestic bond market over the strategy period. It also assumes the introduction of a new 20 and 30-year domestic bond, informed by current strong investor appetite (particularly from foreign investors) for long-term instruments, thus extending the yield curve. To foster primary market development, we will publish an annual borrowing plan for 2018 in April as per Section 60 (5) of the Public Financial Management Act, 2016 (Act 921). In order to reduce refinancing risks, we intend to maintain adequate cash buffers and will conduct liability management operations to retire debt maturing in the second half of 2018. To further develop the primary and secondary markets in the medium term, we plan to reform the primary dealer framework.

52. For 2018, the non-concessional external debt will continue to be subject to two ceilings: (i) for debt management purpose and (ii) for priority development projects, which cannot be financed on concessional terms. Debt ceiling for debt management will be set at US$1,750 million, to reflect part of a planned Eurobond issue, to buy back existing Eurobonds. The debt limit for key projects would be increased by $1,250 (US$3,500 million on a cumulative basis from the beginning of 2015), including $750 million from the Eurobond, compared with the end-December 2017 target set in the fourth 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 (paragraph 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 2018 Budget. Concurrently, the indicative target on concessional external borrowing would be raised by US$500 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 (IDA 18) as well as AfDB's ADF-14 allocation to Ghana, BADEA, IFAD allocations and other Donor-concerned and tied programs.

Restructuring of Energy Sector State-Owned Enterprises (SOEs)

53. We are strengthening oversight over SOEs. As a first step, we published the 2016 SOE Report last year, covering 18 SOEs; the 2017 Report will be published in 2018, and will cover 50 SOEs. We are also taking steps to create the Single Entity to provide oversight of government investments in the various SOEs and JVCs. A formal plan has also been formulated by a joint standing Committee on Energy tasked with reviewing efficiency mechanisms.

54. The Public Utility Regulatory Commission in March announced a reduction in electricity tariffs. This was based on estimates of lower cost of production due to greater use of gas; more efficient production as more power plants start operating combined cycles; and efficiency-improvement measures aimed at significantly reducing systemic losses in power transmission and distribution. These measures should generate additional demand for electricity, and help put the sector on a firmer commercial footing and enhance its operational viability. The Ministry of Finance, in collaboration with the World Bank and the Ministry of Energy, is also working on a comprehensive financial recovery plan for the energy sector.

55. The old clearing house mechanism is being replaced by the Cash Waterfall Mechanism (CWM), sponsored by the World Bank and endorsed by Cabinet. Active implementation is scheduled for no later than June 2018. The fundamental rationale of the CWM is to ensure that all active players in the power sector value chain benefit proportionately from revenues collected by

ECG. The essence is to promote sector-wide cash flow visibility to ensure confidence amongst operators in the sector and promote certainty. The structure shall be composed of the following:

- Level 1: A system of tracking revenues collected (Inflow into an Escrow Account);
- Level 2: Allocation of revenues collected for power producers; and
- Level 3: Allocation of revenues collected for fuel suppliers and other creditors.

The implementation Guidelines for the CWM have already been developed and currently evaluation of responses to RfP for (i) Paying Bank; (ii) Escrow Bank; and (iii) Trustee/ Administrator is being done.

56. As part of our strategy to restructure the energy sector debt of approximately GHS 10 billion, we have taken steps to settle legacy debts owed by SOEs. A special purpose vehicle (ESLA Plc) was set up in 2017 and has issued bonds worth GHS5.3 billion backed by the Energy Debt Recovery Levy (EDRL). ESLA Plc on-lent the proceeds from the bond issuance to the SOEs at favorable rates, allowing them to settle the more expensive legacy debts thus reducing their interest burden. A second phase of bond issuance of up to GHS 4 billion will be issued once the receivables from the EDRL can cover 1.25 times the issuance.

57. Status of ECG concession. The Electricity Company of Ghana Ltd's.320 Private Sector Participation (PSP) Project Activity ("PSP in ECG") of the Power Compact involves the structuring and implementation of a long-term concession arrangement between the Government of Ghana (GoG) and a strategic private investor. The concession will provide electricity distribution services in ECG's service area. The Project aims to leverage private sector expertise with a view to improve efficiency, strengthen commercial and operational performance, as well as enhance the creditworthiness of the utility. The PSP in ECG is a key element of the US Government's US$498 million Millennium Challenge Compact 2 between the Millennium Challenge Corporation and GoG (represented by the Millennium Development Authority (MiDA)) geared towards promoting economic growth and the elimination of extreme poverty in Ghana. MiDA has confirmed that the Amended and Restated RfP, including the revised Transaction Agreements, the Distribution License, the Retail Sale License, and the PURC Rate Setting Guidelines, were released to the four (4) remaining Shortlisted Applicants in the ECG PSP Transaction on November 30th, 2017. This was a crucial milestone towards meeting the stated date for financial close on September 6, 2018.

58. Status of VRA restructuring. The financial restructuring that began with the Phase 1 Restructuring and subsequently subsumed under the First Tranche of the ESLA Bond program has resulted in substantial portions of the company's costly debts to local banks being taken off its balance sheet. Other reforms geared towards making the company focus on its core activities are on course. Consultants will also be engaged to begin detailed work on the process of divesting some thermal assets on the VRA in the second quarter of 2018 following discussions with VRA.

59. Plan on the treatment of net debt among agencies. We recently prepared a matrix showing inter-utility debt as of June 2017. We are now in the process of updating it with financial information up to December 2017, by end-March 2018. We will continue to update the matrix on a quarterly basis.

F. POLICIES TO SUPPORT GROWTH AND POVERTY REDUCTION

60. We have started implementing programs which would open job opportunities, ease hardship and secure a bright future for our citizens, businesses and industries. We have designed policy initiatives to help improve the business environment, instill fiscal discipline and promote investment in critical infrastructure, especially in rural and deprived communities.

61. The President's CP sets the agenda for our work in support of private sector development as a catalyst for growth and job creation. As mentioned in section 1.4 of the CP, private sector development will be supported by major flagship projects and initiatives such as establishment of the National Identification System, establishment of an Electronic Payments System, implementation of accelerated export development strategy, dedicated energy supply sources for industrial enclaves and zones, expansion of the railway network to open up economic opportunities; implementation of the Planting for Food and Jobs Program to increase food production and raw materials for industrialization and agri-business; and finally implementation of the one-district-one factory initiative, one-village-one dam initiative among others.

Supporting Entrepreneurship and Private Sector Development

62. The National Entrepreneurship and Innovation Plan (NEIP) is a key flagship initiative for providing integrated support for start-ups and small businesses. Government engaged a Private Sector Implementation Partner (PSIP) to manage the $10million NEIP and to raise additional funding from the private sector. The Ministry for Special Development Initiatives advertised and received 5,500 applications from young Ghanaian entrepreneurs. These applications are being vetted and successful entrepreneurs will receive business advisory services. About 500 of these will also receive financial support. Each enterprise is expected to employ a minimum of 12 persons.

63. The National Industrial Revitalization Programme - A Stimulus Package for Industry. A Stimulus Program was designed to support viable existing local companies that are currently distressed or are facing operational challenges but are deemed viable. To date, over 350 applications from business operators have been received, out of which 80 were assessed to be eligible for support in the first phase of the program. The second phase which will commence in 2018, will involve the provision of a stimulus package consisting of technical and financial support to these eligible companies. These beneficiary firms operate in the following sectors: agri-business 48; chemicals and pharmaceuticals 10; electrical and electronics 3; garment and textiles 5; building materials 6; plastics and packaging 6; and services 2.

64. Industrializing Ghana from the Ground Up: "One District, One Factory". The One District, One Factory Programme was launched in August 2017. Technical, financial and commercial viability analysis of 462 proposals, out of which 191 covering 102 Districts were selected for implementation, has been completed. It is envisaged that these 191 District Enterprise Projects will collectively generate about 250,000 direct and indirect jobs. Out of the 191 projects selected for implementation in 2018, 104 of these companies will be operating in the agri-business sector whilst 20 are businesses in the meat and poultry sector. 40 of these companies will be operating in the construction and building materials sub-sector, whilst the remaining 27 are businesses operating in the cosmetics and pharmaceuticals sectors.

65. The "Akufo-Addo Program for Economic Transformation (AAPET)" is one of the key flagship programs tabled for implementation in 2018. The program will, by mobilizing and leveraging public, private, and public-private partnership investments, modernize and transform agriculture, develop linkages that will accelerate the industrialization of our economy, and develop major infrastructure projects that support the agricultural zones of the country and industrialization agenda of Government.

66. Nation Builders Corps (NABCO). The most critical economic problem of our time is youth unemployment, and in particular graduate unemployment. Available data from the Institute of Statistics, Social and Economic Research (ISSER) in March 2017 revealed that only 10 percent of graduates find jobs after their first year of the national service program. It is estimated that it then takes up to 10 years for a large number of graduates to secure decent employment due to varied challenges that range from lack of employable skills including entrepreneurship, unavailability of funding capital for entrepreneurship, poor attitudes of graduates towards job opportunities, as well as the low capacities of industry to absorb the huge numbers of approximately 100,000 undergraduates each year. With this background, government is proposing a new jobs program, the Nation Builders Corps (NABCO), to focus on graduate unemployment. The Nation Builders Corps program will be a major government initiative to address livelihood empowerment and graduate unemployment. The focus of the initiative will be to solve public service delivery in health, education, agriculture, sanitation and to in particular, drive revenue mobilization and collection. The objectives of the program will be to: i) provide employment to unemployed graduates; ii) improve skills and employability; iii) improve public service delivery; and iv) improve government revenue mobilization.

67. Under the Nation Builders Corps Program, graduates will be trained, equipped with the necessary work tools and deployed around the country to be engaged as: a) Graduate Teachers in a **"Teach Ghana"** program focused on Science, Technology, Engineering and Mathematics (STEM) and other relevant subjects in primary and secondary schools across the country; b) Sanitation Inspectors in a **"Clean Ghana"** program focused on enforcing sanitation laws and inspection to ensure clean communities; c) Trained nurses and other healthcare workers in a **"Heal Ghana"** program that will provide healthcare delivery to deprived and rural communities across Ghana; d) Trained Agricultural extension and other allied workers in a **"Feed Ghana"** program that will provide extension support to farmers along the agriculture value chain; and e) Tertiary graduates in a **"Revenue Ghana"** program that will mobilize and enforce tax collection and compliance for the development of Ghana. The Nation Builders Corps Programme will hire 100,000 graduates in 2018 to be posted to various districts across the country. On average NABCO should be able to provide jobs for approximately 400 graduates in each of the 254 Districts across the country.

Supporting the Poor and Vulnerable

68. We will alleviate poverty through regional development and social assistance to the most vulnerable. Government, through the Ghana Social Opportunities Project (GSOP) is working to improve targeting social spending, increase access to conditional cash transfers nationwide and to provide employment and cash earning opportunities for the rural poor during the agricultural off-season towards achieving the goal. The Ministry of Gender, Children and Social Protection, along with the Ministry of Local Government and Rural Development and Development Partners have a number of programs including the Labour Intensive Public Works (LIPW); the Livelihood Empowerment against Poverty (LEAP), and other programs. We plan to expand coverage of the LEAP to an additional 150,000 households impacting approximately 670,000 beneficiaries (from the current 213,000 households, covering about 950,000 beneficiaries); to that effect, the 2018 budget allocation was doubled, to GHS 168 million.

69. The government will continue to demonstrate its commitment to poverty eradication through poverty-related expenditures by MDAs and MMDAs. These expenditures aim at supporting the provision of basic education, primary health care, poverty-focused agriculture, rural water, feeder roads and rural electrification.

70. The government embarked on the implementation of the comprehensive free public Senior High School (SHS) program in the 2017/18 academic year. Government's Free SHS policy will continue in 2018. With the implementation of this policy, enrollment of students from the Junior High School to the Senior High School has improved significantly from an average of about 72 percent in the last four years to an enrollment of about 94 percent in 2017 alone, an increase of 90,000 more senior high school students. This has also improved the female enrollment numbers by about 1 percent. In 2018, government's policy towards this sector will be guided by the Global Education 2030 Agenda/Targets, defined by Sustainable Development Goal 4: "Ensure Inclusive and Equitable Quality Education for all and promote Lifelong Learning". In this vein, full funding of the senior secondary school has been provisioned for in the 2018 Budget.

G. PROGRAM MONITORING

71. 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-June 2018 and end-December 2018, set out in Table 2, with indicative targets for end-April 2018 and end-September 2018. Structural benchmarks set out in Table 4 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 seventh and eighth reviews under the program is expected on or after August 15, 2018, and on or after February 15, 2019 with end-June 2018, and end-December 2018 as test dates, respectively, bringing an end to the Fund supported ECF arrangement.

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

		End-August 2017			End-September 2017			End-December 2017		
		Target	Adjusted target	Actual	Target	Adjusted target	Actual	Target	Adjusted target	Actual
I	**Quantitative Performance Criteria** [2]									
	Primary fiscal balance of the government (floor in millions of cedis)	1,186	1,212	691	1,144	1,203	937	361	693	1,446
	Wage Bill (ceiling; in millions of cedis)	9,345		9,442	10,520		10,697	14,047		14,445
	Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars) [3]	731		830	188		525	805	780	1,229
	Non-accumulation of new domestic arrears (ceiling; millions of cedis)	0		0	0		0	0		0
	Net change in stock of arrears (ceiling, millions of cedis)	-1,000		-624	-1,555		-764	-3,220		-1,758
II	**Continuous Performance Criteria**									
	Gross financing of BoG to the Government and SOEs (ceiling; in millions of cedis) [4]	15,394		15,373	15,394		15,377	15,394		15,384
	Non-accumulation of external arrears (ceiling; millions of U.S. dollars)	0		0	0			0		
	Contracting or guaranteeing of new external non-concessional debt (ceiling; millions of U.S. Dollars) [5]									
	o/w: Debt for a debt management purpose [6]	0		...	0		0	0		0
	Debt for projects (cumulative from the beginning of 2015)	2,250		1,535	2,250		1,535	2,250		1,822
	Debt for project (GNPC)[7]	350		0	350		0	350		100
III	**Monetary Policy Consultation Clause**									
	Twelve-month consumer price inflation (percent)									
	Outer band (upper limit)	14.4			14.0			13.0		
	Inner band (upper limit)	13.4			13.0			12.0		
	Central target rate of inflation	11.4		12.3	11.0		11.6	10.0		11.8
	Inner band (lower limit)	9.4			9.0			8.0		
	Outer band (lower limit)	8.4			8.0			7.0		
IV	**Indicative Targets**									
	Net Domestic Assets of Bank of Ghana (ceiling; millions of cedis) [8]	3,615		1,857	5,910		3,226	5,653		4,278
	Contracting or guaranteeing of new external concessional debt (ceiling; millions U.S. Dollars)	700		193	700		293	700		545
	Net after tax profit of ECG and VRA (floor; millions of cedis)							107		-2,023
	Change in accounts payables of ECG and VRA (ceiling; millions of cedis)							0		951
	Social Protection spending (floor, in million of cedis)	1,627		1,242	1,835		1,620	2,425		2,446

[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-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] Non-concessional debt used to improve the overall public debt profile, including Eurobonds.

[7] Associated with non-concessional 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 TMU. Defined as a level.

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

		End-April 2018	End-June 2018	End-September 2018	End-December 2018
		Target	Target	Target	Target
I	**Quantitative Performance Criteria** [2]				
	Primary fiscal balance of the government (floor in millions of cedis)	769	1,067	2,737	4,745
	Wage Bill (ceiling; in millions of cedis)	5,466	8,245	12,469	16,762
	Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars) [3]	-700	175	310	504
	Non-accumulation of new domestic arrears (ceiling; millions of cedis)	0	0	0	0
	Net change in stock of arrears (ceiling, millions of cedis)	-275	-515	-670	-858
II	**Continuous Performance Criteria**				
	Gross financing of BoG to the Government and SOEs (ceiling; in millions of cedis) [4]	15,384	15,384	15,384	15,384
	Non-accumulation of external arrears (ceiling; millions of U.S. dollars)	0	0	0	0
	Contracting or guaranteeing of new external non-concessional debt (ceiling; millions of U.S. Dollars) [5]				
	o/w: Debt for a debt management purpose [6]	1,750	1,750	1,750	1,750
	Debt for projects (cumulative from the beginning of 2015)	3,500	3,500	3,500	3,500
	Debt for project (GNPC)[7]	350	350	350	350
III	**Monetary Policy Consultation Clause**				
	Twelve-month consumer price inflation (percent)				
	Outer band (upper limit)	13.0	12.0	11.5	11.0
	Inner band (upper limit)	12.0	11.0	10.5	10.0
	Central target rate of inflation	10.0	9.0	8.5	8.0
	Inner band (lower limit)	8.0	7.0	6.5	6.0
	Outer band (lower limit)	7.0	6.0	5.5	5.0
IV	**Indicative Targets**				
	Contracting or guaranteeing of new external concessional debt (ceiling; millions U.S. Dollars)	500	500	500	500
	Net after tax profit of ECG and VRA (floor; millions of cedis)	...	...		-1,012
	Change in accounts payables of ECG and VRA (ceiling; millions of cedis)	...	...		0
	Social Protection spending (floor, in million of cedis)	996	2,065	3,573	5,391

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

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

[3] Program definition excludes foreign currency deposits in BOG. Defined as a change from end-2017.

[4] Defined as a level.

[5] The two subceillings, 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] Non-concessional debt used to improve the overall public debt profile, including Eurobonds.

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

Table 3. Ghana: Progress on Structural Benchmarks for 2017–18

Structural Benchmarks	Indicative Timeframe	Status	Progress
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.	August 2017	Not met, progress made.	• 54 out of 62 IGF agencies have been covered. • Energy, road and education fund also completed. • Completion expected by end 2018.
Integrate the GIFMIS Payroll, financial HRMIS and Hyperion in the Health sector.	August 2017	Met with delay.	
Complete the central government TSA.	August 2017	Not met, progress made.	• 85 percent of the bank accounts have been moved. • Some banks might face liquidity problems if TSA is rushed.
Re-establish the clearing house mechanism to prevent arrears accumulation between the government and SOEs, and between SOEs.	August 2017	Met.	
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.	August 2017	Not met, progress made.	• Repayment of legacy exposures is being accelerated.
Establish a Fiscal Risk Unit at the Ministry of Finance, to start monitoring, among others, risks associated and SOEs.	September 2017	Met with delay.	
Adopt (by Parliament) amendments to the BoG Act.	September 2017	Not met.	• No parliamentary support. However, authorities extended MOU on zero financing and have published it on the MoF website (prior action).
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.	October 2017	Not met.	
Submit to Parliament regulations for the implementation of the new PFM Act.	November 2017	Met with delay.	
Finalize roll out of the HRMIS to remaining MDAs.	December 2017	Not met, progress made.	• 32 out of 50 MDAs completed including Health. Some challenges with data integrity and connectivity has slowed implementation. Completion expected by end-2018.

Table 3. Ghana: Progress on Structural Benchmarks for 2017–18 (concluded)

Structural Benchmarks	Indicative Timeframe	Status	Progress
Interface the payroll of the following agencies: University of Ghana, University of Cape Coast, Kwame Nkrumah University of Science and the Police.	December 2017	Not met.	
Complete roll out of GIFMIS to DVLA and the Free Zone Board, DACF, and NHIS.	December 2017	Not met, progress made.	• Business processes completed for District Assemblies Common Fund (DACF). • Stakeholder engagement completed with National Health Insurance Authority (NHIA).
Integrate the GIFMIS Payroll, financial HRMIS and Hyperion in the Education sector.	December 2017	Not met, progress made.	• Challenges with data integrity and connectivity has slowed implementation. Completion expected by end 2018. Completion expected by end-June 2018.
Publish budgets of statutory funds, including expenditure details.	December 2017	Not met.	
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.	December 2017	Not met.	• Work in progress. Scope of work has been expanded to include legal review. Completion expected by end 2018.
Submit to Parliament legal amendments to the Deposit Protection Act, prepared in consultation with IMF staff, to address important weaknesses in the current legislation.	December 2017	Met with delay.	• Amendments have been submitted to cabinet.
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.	December 2017	Met with delay.	
Submit to Parliament legislation to restructure the tax incentives regime in Ghana, in line with IMF recommendations.	June 2018		

Table 4. Ghana: Proposed Structural Benchmarks

Structural Benchmarks	Indicative Timeframe	Comment
Complete roll-out of GIFMIS to all Internally Generated Funds (IGFs) and statutory funds.	December 2018	Reset from previous review
Complete the central government TSA.	September 2018	Reset from previous review
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.	June 2018	Reset from previous review
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.	August 2018	Reset from previous review
Finalize roll out of the HRMIS to remaining MDAs.	December 2018	Reset from previous review
Integrate the GIFMIS Payroll, financial HRMIS and Hyperion in the Education sector.	August 2018	Reset from previous review
Publish a fiscal risk statement, including estimates of quasi-fiscal activities of SOEs and other extra-budgetary funds.	December 2018	New benchmark
Approval by BoG Management of a strategy for reducing the overhang of nonperforming loans.	June 2018	New benchmark
Implementation of MFI action plan.	December 2018	New benchmark
Adoption by BoG Management of specific measures (MEFP ¶27) to improve FX management and that ensure market-based pricing of transactions.	August 2018	New benchmark

Table 5. Ghana: Prior Actions

Prior Action	Economic Rationale
Public announcement of commitment to adopt revenue measures during the 2018 mid-year budget review in July to increase fiscal space.	Make fiscal adjustment more sustainable.
Publish the Memorandum of Understanding between BoG and MoF on zero financing to the government, extended to end-2020.	Strengthen BoG independence and provide accountability mechanism.

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, GH¢4.40 for 2017, and GH¢ 4.7 for 2018. The exchange rates to other currencies will be calculated as the average of buying and selling exchange rates against the U.S. dollar.

A. QUANTITATIVE PROGRAM INDICATORS

3. For program monitoring purposes, the performance criteria and indicative targets are set for end-June 2018 and end-December 2018. 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);[1]
- 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.

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 and 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

[1] Not set for 2018.

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).[2] The second component, employees compensation arrears (consisting of wages and salaries, pensions, gratuities, and social security arrears), is defined as payments outstanding after the agreed date for payment to staff or the social security fund. The third component, debt service arrears, is defined as payments of domestic and external interest, amortization, promissory notes, that are due and not settled within the grace period specified in the contract. The fourth component, the MDAs expenditure arrears (road and other MDAs expenditure arrears), is defined as approved invoices on the GIFMIS system that remain unpaid three months after the quarter in which the invoices were approved by the MDA. The fifth component, arrears to SOEs,[3] is defined as payments for debt owed to SOEs that are due and not settled within 30 days after the end of the quarter.

12. Budgeted expenditures on social protection programs 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. Teacher and nurse trainee allowances
3. Livelihood Empowerment Against Poverty (LEAP)	4. Other education social safety nets
5. Free senior high school	6. Health spending on essential drugs
7. Planting for food and jobs program	8. School feeding program
9. Zongo Development Fund	

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

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

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

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.

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 purposes[4] as short-term foreign assets of the BoG, minus short-term external liabilities. The definition of NIR

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[4] 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.

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.[5]

- **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.

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

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

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.

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 in the Performance Criteria table for end-June 2018 and end-December 2018 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.

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.

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¢).[6]

26. Nonconcessional external debt is defined as external debt contracted or guaranteed by the government (defined in paragraph 6), the BoG, and specific public enterprises (defined in paragraph 27) on non-concessional terms (defined in paragraph 28)[7]. 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

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

[7] 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.

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.[8] 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 improve the overall public debt profile. The debt management sub-ceiling shall be cumulative from the beginning of each calendar year. For 2018, the exemption for debt management is limited to $1,750 million. Liability management operations are defined as repurchases of existing debt with the proceeds from newly issued debt with the purpose of improving the composition of the public debt portfolio, in a broadly NPV-neutral manner.

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$ 3,500 million on a cumulative basis from the beginning of 2015.

[8] 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).

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)
- Polytechnics, Technical and Vocational training centres
- Obetsebi Lamptey Interchange - phase 2
- Kumasi Road Rehabilitation
- The Modernization of Kumasi Central Market and Execution of Selected Infrastructure in the CBD (phase 2)
- Koforidua Regional Hospital
- Rehabilitation of Mampong, Atibie, Aburi and Kyebi hospitals in the Eastern Region

- Completion of Legon Medical Center
- Aqua Africa water project
- Elimina Fishing Port Rehabilitation and Expansion
- Essiama Enclave Water Supply
- Planting for Food and Jobs
- Free Senior High School
- Infrastructure for Poverty Eradication Programme
- H.E. Nana Akufo-Addo's Plan for Agricultural Roads
- Infrastructure for Zongo communities
- One-district one-factory
- Street lighting and SHEP
- Flood control
- Water systems and toilet facilities
- Critical security equipment
- School feeding
- LEAP
- National ID program
- Support for business incubator

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.

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.

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 2015–18 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.**

37. The primary balance floor for 2018 will be adjusted downwards by 100 percent for financial sector related costs (including for the bond issued to Ghana Commercial Bank related to the purchase and assumption transaction undertaken in 2017, costs associated with the bank that was intervened in 2018 with the appointment of an official administrator, and for costs associated with other special depositary institutions like micro-finance institutions).

Non-concessional External Debt

38. The sub-ceiling on contracting of new non-concessional external debt to be used for debt management purposes for 2018 will be adjusted downwards at end-December 2018 by the full amount of any shortfall in liability management operations implemented relative to $1,750 million.

Net international reserves of the Bank of Ghana

39. 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	1,902
o/w: IMF Program loan for budget support	0	0	406	811
Oil revenues, net of transfers to GNPC	391	800	800	1,138

[1/] Used to compute adjustors for PCs and indicative targets for end-March , end-August, end-September, and end-December.

Budget Financing and oil revenues, 2018 [1/]
(GH¢ millions, cumulative from the start of the calendar year)

	April	June	September	December
Program grants	0	0	18	18
Program loans	0	908	908	1,362
o/w: IMF Program loan for budget support	0	908	908	1,362
Oil revenues, net of transfers to GNPC	958	1,135	1,599	2,206

[1/] Used to compute adjustors for PCs and indicative targets for end-April, end-June, end-September, and end-December.

Provision of data to the Fund

40. 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
Financial statements of ESLA Plc and details on amount and timing of interest payments on ESLA bond.	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)

Item	**Periodicity**
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)

Item	**Periodicity**
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	Bi-weekly, within two days of the completion of the pricing review.
(ii) the indicative maximum price approved in the bi-weekly review of petroleum pricing for each of the individual petroleum products.	See above.

INTERNATIONAL MONETARY FUND

GHANA

April 16, 2018

FIFTH AND SIXTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR WAIVERS FOR NONOBSERVANCE OF PERFORMANCE CRITERIA, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—DEBT SUSTAINABILITY ANALYSIS

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Prepared by the International Monetary Fund and the International Development Association

Based on updated macroeconomic projections, Ghana remains at high risk of external debt distress. The assessment is reinforced by the elevated total public debt-to-GDP ratio, and four of five external debt indicators in breach of the thresholds under the baseline scenario.[1] *Reflecting careful preparation and planning, Ghana successfully retired the Eurobond which fell due in October 2017. Going forward, gross fiscal financing needs are expected to decline significantly, helped by the lengthening of domestic debt maturities. Maintaining fiscal discipline and building buffers, supported by appropriate debt and cash management, will be key to lock in a downward debt path, particularly as Ghana is buffeted by the realization of significant contingent liabilities from the energy and financial sectors.*

[1] 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 2014–16 is 3.48). 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.

A. Background and Macroeconomic Assumptions

1. **The fiscal performance is back on track driven by tight spending controls.** The authorities managed to reduce the 2017 overall deficit to 6 percent of GDP—below the end-2017 deficit target of 6.3 percent of GDP, despite large revenue underperformance. The 2018 budget targets a deficit of 4.5 percent of GDP (excluding one-off costs for the financial sector). While this pace of consolidation is deemed appropriate and consistent with a declining debt path, it hinges on continued expenditure controls until recently announced revenue measures are implemented as part of the mid-year budget review.

2. **Gross financing needs (GFNs) have declined, helped by the lengthening of domestic debt maturities.** While still remaining elevated, the 2018 GFNs are projected to fall to 15 percent of GDP in 2018 from 23 percent of GDP in 2017; they also reflect contingent costs for cleaning up the financial sector, tentatively estimated at 1.9 percent of GDP. They could be met partly by the issuance of a Eurobond in the second quarter of 2018, which is included in the auction calendar.

3. **The authorities have been actively pursuing debt management operations, broadly in line with the Medium-Term Debt Management Strategy (MTDS).**[2] A key objective of the MTDS is to lengthen the average maturity of domestic debt by reducing the issuance of short-term domestic debt. In 2017, this objective was achieved, as robust non-resident demand enabled the authorities to issue longer-term instruments.[3] To continue implementing this strategy, proper cash management supported by appropriate cash buffers will underpin the issuance program for longer maturity debt at reasonable costs. On the external front ,the MTDS aims to manage actively the refinancing risk of maturing Eurobonds. In line with this objective, the authorities plan to issue up to a $2.5 billion Eurobond in 2018, of which $1.75 billion will be used to improve the maturity structure of the existing external debt portfolio. The remaining $0.75 billion will be allocated to the budget to undertake capital and other developmental projects, which together with a planned asset sale carried over from 2017, will help to reduce pressure on the domestic market and create space for banks to increase lending to the private sector.

4. **The authorities remain committed to cautiously contracting external non-concessional loans under the debt limits.** They are within the 2017 debt limits for priority projects and debt management purposes[4] (set at US$2,250 million and zero, respectively, during the fourth review). The 2018 debt limits will include an additional $1.25billion for priority projects that are key to the authorities' developmental objectives and cannot be financed with concessional loans and US$ 1.75 billion for debt management purposes, while paying attention to debt dynamics.

5. **Since the completion of the fourth review, the macroeconomic situation has continued to improve (Box 1).**

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[2] The MTDS finalized in 2017 covers the period 2017-2019. Work on the revised MTDS for 2018-2021 is at an advanced stage.

[3] Nonresident investors are only allowed to invest in domestic notes with 2-years original maturity and longer.

[4] From the second review onwards, non-concessional debt limits have been set separately for debt management purposes (where the non-concessional borrowing, including Eurobonds, is used to improve the overall public debt profile), and for projects integral to national development. The latter limit is set on a cumulative basis from the beginning of 2015.

Box 1. Baseline Macroeconomic Assumptions

Real GDP-growth: Overall real GDP growth is estimated to have increased to 8.4 percent in 2017, 2.5 percentage points above the 4th review projection on the back of increased oil production (87 percent volume growth); and it is projected to reach 6.3 percent in 2018. Non-oil growth is estimated at 4 percent in 2017 reflecting tight fiscal and monetary policy, accompanied by cleaning-up of the banking sector, and gradually increase to its long-run steady-state growth rate of 6 percent from 2019 onwards. Tackling structural impediments including power supply, scaling up infrastructure, and diversifying the non-commodity economy will be key to increasing potential GDP. Oil production is currently expected to peak in 2019, with the possibility of new oil discoveries and gas production implying significant upside potential.

Key Macroeconomic Assumptions

	2016	2017	2018	Medium term (first 6 years)	Long-term (last 15 years)
Real GDP Growth			(annual percentage change)		
Previous DSA	3.5	5.9	8.9	6.1	4.7
Current DSA	3.7	8.4	6.3	5.5	4.6
Inflation (GDP deflator)			(annual percentage change)		
Previous DSA	18.1	14.2	9.6	8.8	6.2
Current DSA	17.8	12.7	11.1	7.9	6.3
Real interest rate (foreign debt)			(percent)		
Previous DSA	6.6	5.5	5.0	4.8	4.4
Current DSA	6.6	5.3	4.2	4.7	4.8
Current account balance			(in percent of GDP)		
Previous DSA	-6.7	-5.8	-5.4	-5.0	-4.0
Current DSA	-6.7	-4.5	-4.2	-4.0	-3.6
Primary fiscal balance			(in percent of GDP)		
Previous DSA	-1.4	0.2	2.2	1.6	0.4
Current DSA	-1.4	0.7	0.1	1.4	0.4

Inflation and exchange rate: With the continuation of a tight monetary policy stance, inflation (CPI) continued to trend down from 15.4 percent (yoy) at end-2016 to 11.8 percent in December 2017. Reflecting fiscal consolidation (including the elimination of central bank lending to government under the program) and continued tight monetary policy, inflation is expected to decline further to within the BOG's medium-term target of 8±2 percent during 2018. The exchange rate has been relatively stable, having depreciated by only 5 percent at end-December 2017 relative to end- December 2016, supported by strong non-resident participation in the domestic bond market and better than expected balance of payments performance.

Government balances: Following significant slippages in 2016, fiscal performance is back on track driven by tight spending controls. Following a significant correction in 2017-18, the primary balance is projected to remain around 1.4 percent of GDP over the medium term, provided additional domestic revenues are mobilized.

Current account balance: The current account deficit has narrowed to an estimated 4.5 percent of GDP in 2017 —1.3 percent of GDP better than previously projected—supported by a sharp increase in gold export volumes and subdued growth of imports. A gradual recovery in oil prices would help Ghana bring the current account to a more sustainable level as oil / gas production exceeds refined oil imports. With tight fiscal and monetary policies, the current account deficit would improve further to 4.1 percent of GDP in 2018, with the long-run current account deficit hovering around 3½ percent of GDP. Gross international reserves would steadily increase and remain above 3-months of imports coverage, with a gradual build-up towards the end of the projection period.

Financing flows: Mainly driven by the hydrocarbons sector, Ghana has enjoyed high FDI inflows over the last years, near 6.9 percent of GDP in 2017. Looking forward, FDI is projected to decline gradually as oil production reaches its peak and eventually stays at around 3 percent of GDP over the long run. Consistent with Ghana's improving income status and more-sustained market access, grant inflows are projected to decline to around 0.1 percent of GDP in the medium to long term. Borrowing is projected to become increasingly non-concessional, as loans are expected to be used for key infrastructure projects to raise the potential growth rate. A series of Eurobond issuances is envisaged to roll over maturing Eurobonds, which are assumed to be repaid on an amortizing basis rather than as bullet payments. The foreign up-take of the energy bond has been limited, with virtually no impact on external debt, though the bond is included in public debt in staff estimates.

6. **In line with standard DSA procedures,[5] the analysis 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 a sinking fund, to reduce rollover risk; and they have accumulated reserve assets in oil funds.

B. External Debt Sustainability Analysis[6]

7. **Debt trajectories broadly resemble those in the previous DSA, with four of five indicators breaching respective thresholds under the baseline.**[7] While the thresholds for the PV of external PPG debt-to-GDP and PV-to- revenue ratios are breached for 4 and 2 years, respectively, the debt service-to-revenue ratio is projected to remain above threshold for the entire projection period. The outlook for this indicator would improve with the adoption of revenue measures and implementation of proactive debt management to further lengthen the debt maturity profile. The one-off breach of debt service-to-exports ratio under the baseline reflects the planned Eurobond buybacks of up to $1.75 billion in 2018. These results point clearly to continued high risk of external debt distress.

8. **The debt outlook remains sensitive to standard shocks under the DSA.** The standard stress tests suggest that Ghana is particularly vulnerable to one-time exchange rate depreciation and a decline in exports, confirming the need to diversify the economy and increase resilience 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. Yet, even with front-loaded fiscal adjustment under the IMF program, total public debt would decline below the benchmark of 56 percent of GDP only by 2026.[8] 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 SOEs and the banking system, also represent a material risk to debt sustainability**. Costs associated with bank resolution and the recent issuance of the energy bond highlight the risk posed by contingent liabilities. High levels of systemic losses and poor fee collection capacity in the utility sector could lead to fresh liabilities building up in the sector. In addition, potential risks from the micro-finance sector should be closely monitored. Ongoing steps to strengthen the oversight over SOEs will be instrumental to stem their financial losses and prevent feedback-loops to

[5] See SM/13/292.

[6] Public external debt covers liabilities contracted or guaranteed by the central government, and major state-owned enterprises (SOEs), and short-term liabilities contracted by the Bank of Ghana (BoG) for reserve management purposes. These BoG liabilities do not include swaps contracted with resident banks and fully collateralized credit lines with foreign institutions. The authorities are continuing efforts to improve debt statistics.

[7] The relatively larger breaches in the near term are due in part to the BoG's short-term liabilities. Debt and debt service reflect nonresidents' holdings of local currency-denominated domestic debt based on the residency criterion.

[8] As the World Bank's CPIA ranks Ghana as a medium performer (see footnote 1), the relevant public debt benchmark for Ghana is 56 percent of GDP.

the budget and the banking system. To enhance oversight, the government has submitted to cabinet a law to introduce a new statutory body (Single Entity) in charge of monitoring SOEs.

D. Conclusions

11. Keeping fiscal performance on track under the Fund supported program is essential for engineering a favorable debt dynamic and maintaining confidence among foreign investors. While Ghana's gross financing needs are declining, they will nonetheless remain high in the near term. Given the increasing presence of nonresidents in the domestic debt market, continued fiscal discipline and a strong macroeconomic environment are needed to preserve investors' confidence. A derailment from the planned fiscal adjustment path could seriously jeopardize debt sustainability. Ghana should continue engaging with development partners to seek concessional financing and expedite disbursements under existing commitments from multilateral agencies.

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

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Estimate	Projections								
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-2022 Average	2027	2037	2023-2037 Average
External debt (nominal) 1/	**45.4**	**53.2**	**52.9**			**51.0**	**49.5**	**47.5**	**46.4**	**45.1**	**43.5**		**40.4**	**36.3**	
of which: public and publicly guaranteed (PPG)	41.1	49.2	48.9			47.0	45.5	43.5	42.4	41.1	39.5		36.4	32.3	
Change in external debt	10.1	7.7	-0.2			-1.9	-1.5	-2.1	-1.1	-1.2	-1.6		-1.1	-0.8	
Identified net debt-creating flows	9.1	1.9	-8.7			-6.2	-4.7	-4.2	-2.9	-2.6	-1.5		-0.8	-0.3	
Non-interest current account deficit	**6.8**	**4.5**	**3.2**	**7.3**	**2.6**	**1.4**	**1.1**	**1.2**	**0.9**	**0.8**	**1.0**		**0.9**	**0.5**	1.0
Deficit in balance of goods and services	10.3	11.6	7.2			4.1	4.7	4.4	3.7	3.5	4.2		4.6	3.4	
Exports	39.4	44.7	40.8			43.3	40.0	38.3	38.2	38.1	37.2		34.7	32.8	
Imports	49.6	56.3	48.0			47.3	44.8	42.7	41.8	41.6	41.4		39.3	36.2	
Net current transfers (negative = inflow)	-5.2	-7.0	-3.4	-6.3	1.7	-5.2	-4.8	-4.4	-4.2	-4.1	-4.1		-3.2	-2.0	-2.8
of which: official	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			2.5	1.2	1.2	1.5	1.4	0.8		-0.5	-1.0	
Net FDI (negative = inflow)	**-8.7**	**-8.1**	**-8.1**	**-7.7**	**2.0**	**-6.9**	**-6.0**	**-5.0**	**-4.5**	**-4.2**	**-4.0**		**-2.7**	**-1.8**	-2.6
Endogenous debt dynamics 2/	**11.0**	**5.5**	**-3.8**			**-0.7**	**0.2**	**-0.4**	**0.6**	**0.8**	**1.6**		**1.0**	**1.0**	
Contribution from nominal interest rate	2.7	3.2	3.5			3.4	3.1	3.0	3.1	3.1	2.9		2.8	2.6	
Contribution from real GDP growth	-1.7	-1.8	-1.7			-4.1	-2.9	-3.4	-2.4	-2.2	-1.3		-1.8	-1.6	
Contribution from price and exchange rate changes	10.0	4.1	-5.6			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**1.0**	**5.8**	**8.4**			**4.3**	**3.2**	**2.1**	**1.9**	**1.4**	**-0.1**		**-0.3**	**-0.5**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	51.7			50.2	50.1	47.1	46.1	44.2	42.7		39.4	34.1	
In percent of exports	...	...	126.6			116.1	125.2	123.0	120.9	116.1	114.9		113.4	104.0	
PV of PPG external debt	**...**	**...**	**47.7**			**46.2**	**46.1**	**43.1**	**42.1**	**40.2**	**38.7**		**35.4**	**30.1**	
In percent of exports	**...**	**...**	**116.8**			**106.8**	**115.2**	**112.6**	**110.4**	**105.6**	**104.2**		**101.9**	**91.8**	
In percent of government revenues	**...**	**...**	**288.0**			**276.3**	**262.0**	**243.6**	**238.1**	**229.3**	**224.0**		**210.9**	**183.5**	
Debt service-to-exports ratio (in percent)	**15.7**	**17.2**	**19.7**			**19.1**	**26.8**	**16.7**	**15.7**	**17.1**	**20.0**		**21.3**	**18.4**	
PPG debt service-to-exports ratio (in percent)	**12.2**	**14.6**	**17.6**			**17.0**	**24.5**	**14.3**	**13.2**	**14.6**	**17.5**		**18.6**	**15.6**	
PPG debt service-to-revenue ratio (in percent)	**27.2**	**37.1**	**43.4**			**44.0**	**55.8**	**31.0**	**28.6**	**31.7**	**37.7**		**38.6**	**31.2**	
Total gross financing need (Millions of U.S. dollars)	1682.7	1504.1	1349.4			1299.0	3009.4	1456.7	1465.4	1978.1	3063.6		5480.7	8889.0	
Non-interest current account deficit that stabilizes debt ratio	-3.3	-3.3	3.5			3.3	2.6	3.2	2.0	2.0	2.6		2.0	1.2	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.0	3.8	3.7	6.8	3.4	8.4	6.3	7.6	5.5	5.1	3.2	6.0	4.6	4.7	4.7
GDP deflator in US dollar terms (change in percent)	-22.0	-8.4	11.8	1.6	13.1	1.3	3.3	2.1	1.5	1.3	3.3	2.2	2.2	2.0	2.1
Effective interest rate (percent) 5/	6.3	6.8	7.7	5.9	1.1	7.0	6.8	6.8	6.9	7.0	6.9	6.9	7.2	7.5	7.3
Growth of exports of G&S (US dollar terms, in percent)	-5.9	8.1	5.9	14.5	17.2	16.5	1.6	5.1	6.7	6.3	4.1	6.7	5.9	6.8	6.0
Growth of imports of G&S (US dollar terms, in percent)	-14.5	7.9	-1.1	10.8	17.7	8.4	3.9	4.9	4.9	5.8	6.3	5.7	5.9	6.0	5.9
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	5.2	-7.1	9.6	2.2	1.2	-1.5	1.6	0.8	-1.7	-0.5
Government revenues (excluding grants, in percent of GDP)	17.7	17.6	16.6			16.7	17.6	17.7	17.7	17.5	17.3		16.8	16.4	16.7
Aid flows (in Millions of US dollars) 7/	278.5	724.3	291.7			352.7	126.2	134.9	34.6	11.0	8.8		2.9	0.3	
of which: Grants	278.5	724.3	291.7			352.7	126.2	134.9	34.6	11.0	8.8		2.9	0.3	
of which: Concessional loans	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/	...	...	...			1.2	-0.5	0.6	0.2	0.1	-0.1		0.0	-0.1	0.0
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			12.5	-4.7	14.4	3.4	1.6	-1.2		0.8	-1.7	-0.4
Memorandum items:															
Nominal GDP (Millions of US dollars)	38774.1	36892.6	42787.6			47015.0	51618.8	56725.0	60751.8	64703.6	68993.7		97225.6	187487.0	
Nominal dollar GDP growth	-18.9	-4.9	16.0			9.9	9.8	9.9	7.1	6.5	6.6	8.3	6.9	6.8	6.9
PV of PPG external debt (in Millions of US dollars)			19008.6			21430.9	23243.5	23673.1	24887.4	25539.1	26202.2		33727.1	55272.6	
(PVt-PVt-1)/GDPt-1 (in percent)						**5.7**	3.9	0.8	2.1	1.1	1.0	2.4	1.3	0.4	1.8
Gross workers' remittances (Millions of US dollars)	1638.4	1966.1	1572.9			2320.0	2366.4	2413.7	2462.0	2511.3	2561.5		2828.1	3427.2	
PV of PPG external debt (in percent of GDP + remittances)	...	...	46.0			44.1	44.1	41.4	40.5	38.7	37.4		34.4	29.5	
PV of PPG external debt (in percent of exports + remittances)	...	...	107.2			95.9	103.4	101.3	99.8	95.9	94.7		94.0	86.9	
Debt service of PPG external debt (in percent of exports + remittance	...	...	16.1			15.3	22.0	12.9	12.0	13.3	15.9		17.2	14.8	

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

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

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

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

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

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

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

Table 2. Ghana: Public Sector Debt Sustainability Framework, Baseline Scenario, 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	73.8			72.3	70.7	67.5	65.4	64.8	63.1		53.4	45.1	
of which: foreign-currency denominated	41.1	49.2	48.9			47.0	45.5	43.5	42.4	41.1	39.5		36.4	32.3	
	0.6	0.7	0.7												
Change in public sector debt	12.4	6.3	0.9			-1.5	-1.7	-3.2	-2.1	-0.6	-1.7		-3.3	-0.9	
Identified debt-creating flows	12.0	1.1	-0.5			-5.4	-1.7	-2.7	-1.4	-0.6	-0.2		-0.7	-0.4	
Primary deficit	3.8	-1.0	0.8	3.2	2.4	-1.3	-0.3	-2.0	-1.8	-1.4	-1.3	-1.3	-0.7	-0.5	-0.6
Revenue and grants	18.4	19.6	17.2			17.5	17.9	17.9	17.8	17.6	17.3		16.8	16.4	
of which: grants	0.7	2.0	0.7			0.8	0.2	0.2	0.1	0.0	0.0		0.0	0.0	
Primary (noninterest) expenditure	22.2	18.6	18.1			16.2	17.6	16.0	15.9	16.2	16.0		16.1	15.8	
Automatic debt dynamics	8.2	2.1	-1.3			-4.2	-0.9	-0.7	0.4	0.8	1.1		0.0	0.2	
Contribution from interest rate/growth differential	-0.1	0.8	1.2			-1.8	-1.1	-1.2	0.4	0.9	1.7		0.2	0.2	
of which: contribution from average real interest rate	2.0	3.2	3.8			4.0	3.2	3.8	3.9	4.1	3.7		2.7	2.3	
of which: contribution from real GDP growth	-2.1	-2.5	-2.6			-5.7	-4.3	-5.0	-3.5	-3.2	-2.0		-2.5	-2.1	
Contribution from real exchange rate depreciation	8.3	1.3	-2.5			-2.4	0.1	0.5	0.0	-0.1	-0.6		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	-0.5	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	-0.5	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	1.4			3.9	0.0	-0.5	-0.7	0.0	-1.5		-2.6	-0.6	
Other Sustainability Indicators															
PV of public sector debt	...	...	72.6			71.6	71.3	67.1	65.1	63.9	62.3		52.4	42.9	
of which: foreign-currency denominated	...	...	47.7			46.2	46.1	43.1	42.1	40.2	38.7		35.4	30.1	
of which: external	...	...	47.7			46.2	46.1	43.1	42.1	40.2	38.7		35.4	30.1	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	22.6	22.5	23.9			21.7	19.7	12.0	11.4	12.0	14.2		11.6	7.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	421.0			409.4	399.2	374.2	366.8	363.9	360.3		312.0	261.5	
PV of public sector debt-to-revenue ratio (in percent)	...	...	438.4			427.7	404.8	379.3	368.0	364.2	360.5		312.1	261.5	
of which: external 3/	...	...	288.0			276.3	262.0	243.6	238.1	229.3	224.0		210.9	183.5	
Debt service-to-revenue and grants ratio (in percent) 4/	70.2	73.7	73.4			82.0	92.4	67.9	66.9	72.0	78.8		66.2	46.4	
Debt service-to-revenue ratio (in percent) 4/	73.1	81.9	76.4			85.7	93.7	68.8	67.1	72.1	78.8		66.2	46.4	
Primary deficit that stabilizes the debt-to-GDP ratio	-8.7	-7.3	-0.1			0.2	1.4	1.2	0.2	-0.8	0.3		2.6	0.4	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.0	3.8	3.7	6.8	3.4	8.4	6.3	7.6	5.5	5.1	3.2	6.0	4.6	4.7	4.7
Average nominal interest rate on forex debt (in percent)	6.4	7.0	7.9	6.1	1.2	7.2	6.9	6.9	7.1	7.2	7.0	7.1	7.4	7.8	7.6
Average real interest rate on domestic debt (in percent)	2.8	3.7	2.9	3.1	1.4	7.1	5.8	8.3	8.3	9.3	7.4	7.7	3.8	3.5	4.0
Real exchange rate depreciation (in percent, + indicates depreciation	26.7	3.2	-4.9	1.9	10.7	-5.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	16.7	16.4	17.8	16.6	1.7	12.7	11.1	8.2	8.0	6.3	7.5	9.0	6.3	6.2	6.3
Growth of real primary spending (deflated by GDP deflator, in percer	4.9	-12.9	0.8	-0.6	4.6	-2.7	15.1	-2.3	5.1	6.9	1.9	4.0	4.4	4.5	4.6
Grant element of new external borrowing (in percent)	...	...	...	...	...	5.2	-7.1	9.6	2.2	1.2	-1.5	1.6	0.8	-1.7	...

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						
	2017	2018	2019	2020	2021	2022	**2027**	2037
PV of debt-to GDP ratio (Threshold = 40 percent)								
Baseline	46	46	43	42	40	39	**35**	30
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	46	51	52	54	54	54	**48**	30
A2. New public sector loans on less favorable terms in 2017-2037 2/	46	46	43	43	41	39	**37**	36
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	46	46	44	44	42	40	**37**	31
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	46	47	48	47	45	43	**36**	29
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	46	53	56	55	53	51	**46**	39
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	46	45	41	40	39	37	**34**	29
B5. Combination of B1-B4 using one-half standard deviation shocks	46	47	45	44	42	40	**39**	35
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	46	63	59	57	55	53	**48**	41
PV of debt-to-exports ratio (Threshold = 150 percent)								
Baseline	107	115	113	110	106	104	**102**	92
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	107	128	137	141	141	144	**140**	93
A2. New public sector loans on less favorable terms in 2017-2037 2/	107	116	113	112	108	106	**106**	109
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	107	112	109	107	103	101	**99**	89
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	107	122	140	138	133	132	**118**	101
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	107	112	109	107	103	101	**99**	89
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	107	114	108	106	102	100	**98**	89
B5. Combination of B1-B4 using one-half standard deviation shocks	107	103	92	90	87	85	**90**	84
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	107	112	109	107	103	101	**99**	89
PV of debt-to-revenue ratio (Threshold = 250 percent)								
Baseline	276	262	244	238	229	224	**211**	184
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	276	292	296	303	306	311	**289**	185
A2. New public sector loans on less favorable terms in 2017-2037 2/	276	264	245	241	234	227	**220**	217
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	276	262	251	246	239	233	**218**	189
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	276	265	270	264	257	251	**217**	178
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	276	298	317	310	301	293	**275**	239
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	276	258	233	228	221	215	**203**	177
B5. Combination of B1-B4 using one-half standard deviation shocks	276	268	253	247	239	232	**235**	213
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	276	360	331	325	315	307	**288**	250

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

(In percent)

		Projections						
	2017	2018	2019	2020	2021	2022	**2027**	2037
Debt service-to-exports ratio (Threshold = 20 percent)								
Baseline	17	25	14	13	15	18	**19**	16
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	17	25	15	14	16	19	**25**	16
A2. New public sector loans on less favorable terms in 2017-2037 2/	17	25	12	10	11	9	**18**	17
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	17	25	14	13	15	17	**18**	15
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	17	26	16	16	17	21	**24**	18
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	17	25	14	13	15	17	**18**	15
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	17	25	14	13	15	17	**18**	15
B5. Combination of B1-B4 using one-half standard deviation shocks	17	24	13	12	13	16	**15**	15
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	17	25	14	13	15	17	**18**	15
Debt service-to-revenue ratio (Threshold = 20 percent)								
Baseline	44	56	31	29	32	38	**39**	31
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	44	56	33	31	34	40	**52**	32
A2. New public sector loans on less favorable terms in 2017-2037 2/	44	56	26	22	24	19	**36**	34
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	44	57	33	30	34	40	**41**	33
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	44	56	31	30	33	39	**45**	31
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	44	65	42	38	43	51	**51**	41
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	44	56	31	28	32	37	**38**	31
B5. Combination of B1-B4 using one-half standard deviation shocks	44	61	37	33	37	44	**40**	37
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	44	79	44	40	45	53	**54**	43
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	-3	-3	-3	-3	-3	-3	**-3**	-3

Sources: Country authorities; and staff estimates and projections.

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

Table 4. Ghana: Sensitivity Analysis for Key Indicators of Public Debt, 2017–37

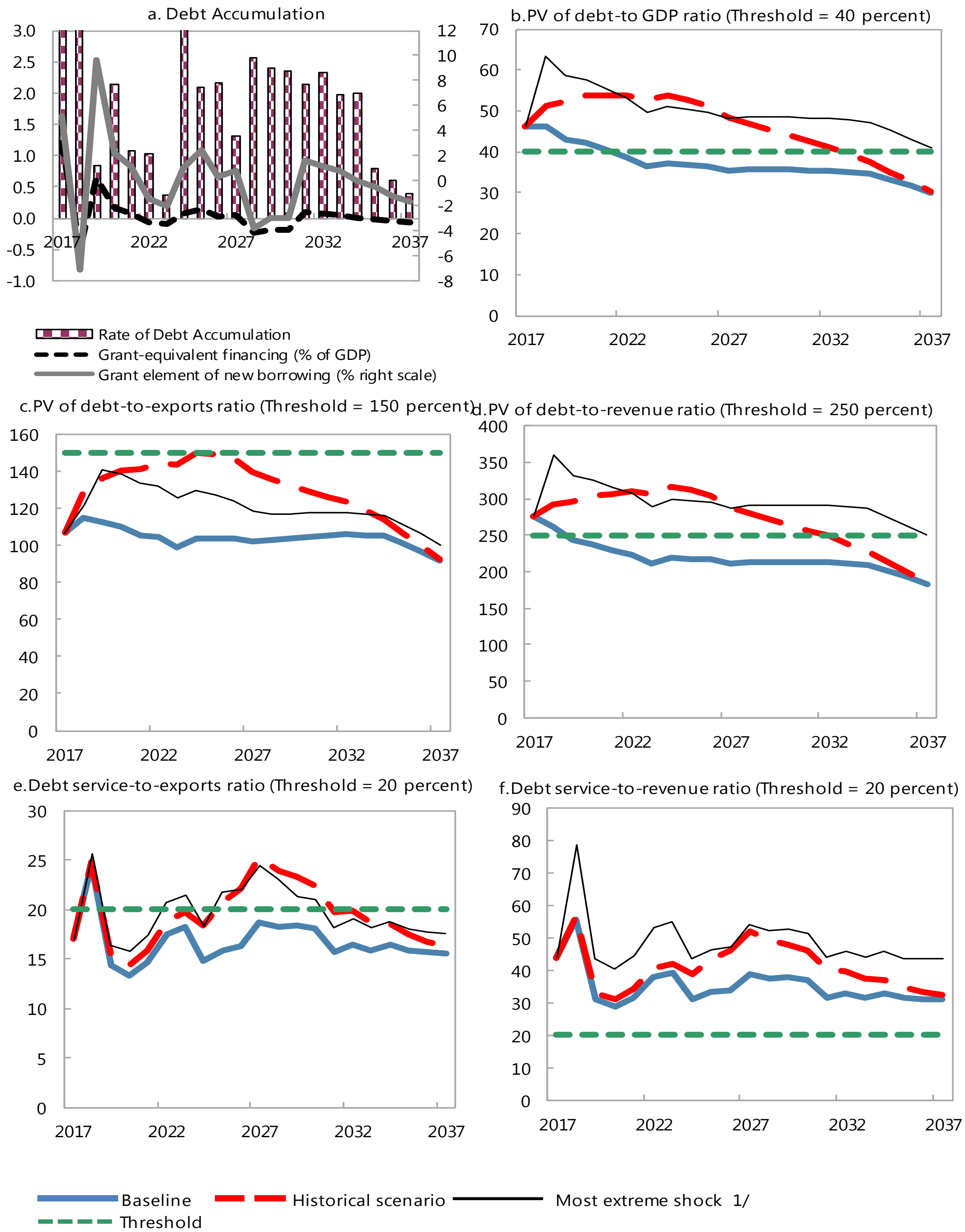
		Projections						
	2017	2018	2019	2020	2021	2022	2027	2037
PV of Debt-to-GDP Ratio								
Baseline	72	71	67	65	64	62	52	43
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	72	74	76	78	80	80	82	88
A2. Primary balance is unchanged from 2017	72	70	67	65	64	63	51	34
A3. Permanently lower GDP growth 1/	72	72	68	67	67	66	63	75
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20	72	74	73	72	72	72	67	66
B2. Primary balance is at historical average minus one standard deviations in 2018-201	72	77	80	78	77	75	65	54
B3. Combination of B1-B2 using one half standard deviation shocks	72	77	81	79	78	77	69	63
B4. One-time 30 percent real depreciation in 2018	72	95	90	88	87	86	81	88
B5. 10 percent of GDP increase in other debt-creating flows in 2018	72	81	77	75	73	72	61	51
PV of Debt-to-Revenue Ratio 2/								
Baseline	409	399	374	367	364	360	312	262
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	409	417	423	438	454	463	486	539
A2. Primary balance is unchanged from 2017	409	394	373	369	367	364	304	207
A3. Permanently lower GDP growth 1/	409	403	381	379	381	384	375	458
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20	409	413	409	408	412	415	397	405
B2. Primary balance is at historical average minus one standard deviations in 2018-201	409	432	449	441	438	435	385	329
B3. Combination of B1-B2 using one half standard deviation shocks	409	430	449	445	445	446	411	386
B4. One-time 30 percent real depreciation in 2018	409	532	502	497	496	499	485	537
B5. 10 percent of GDP increase in other debt-creating flows in 2018	409	456	429	421	418	415	365	311
Debt Service-to-Revenue Ratio 2/								
Baseline	82	92	68	67	72	79	66	46
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	82	92	70	75	84	94	92	97
A2. Primary balance is unchanged from 2017	82	92	67	66	73	80	65	37
A3. Permanently lower GDP growth 1/	82	93	69	69	75	83	77	80
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20	82	95	73	73	80	89	81	73
B2. Primary balance is at historical average minus one standard deviations in 2018-201	82	92	71	81	91	93	81	60
B3. Combination of B1-B2 using one half standard deviation shocks	82	93	73	81	91	95	85	70
B4. One-time 30 percent real depreciation in 2018	82	105	84	86	95	108	111	119
B5. 10 percent of GDP increase in other debt-creating flows in 2018	82	92	73	84	82	89	78	57

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.

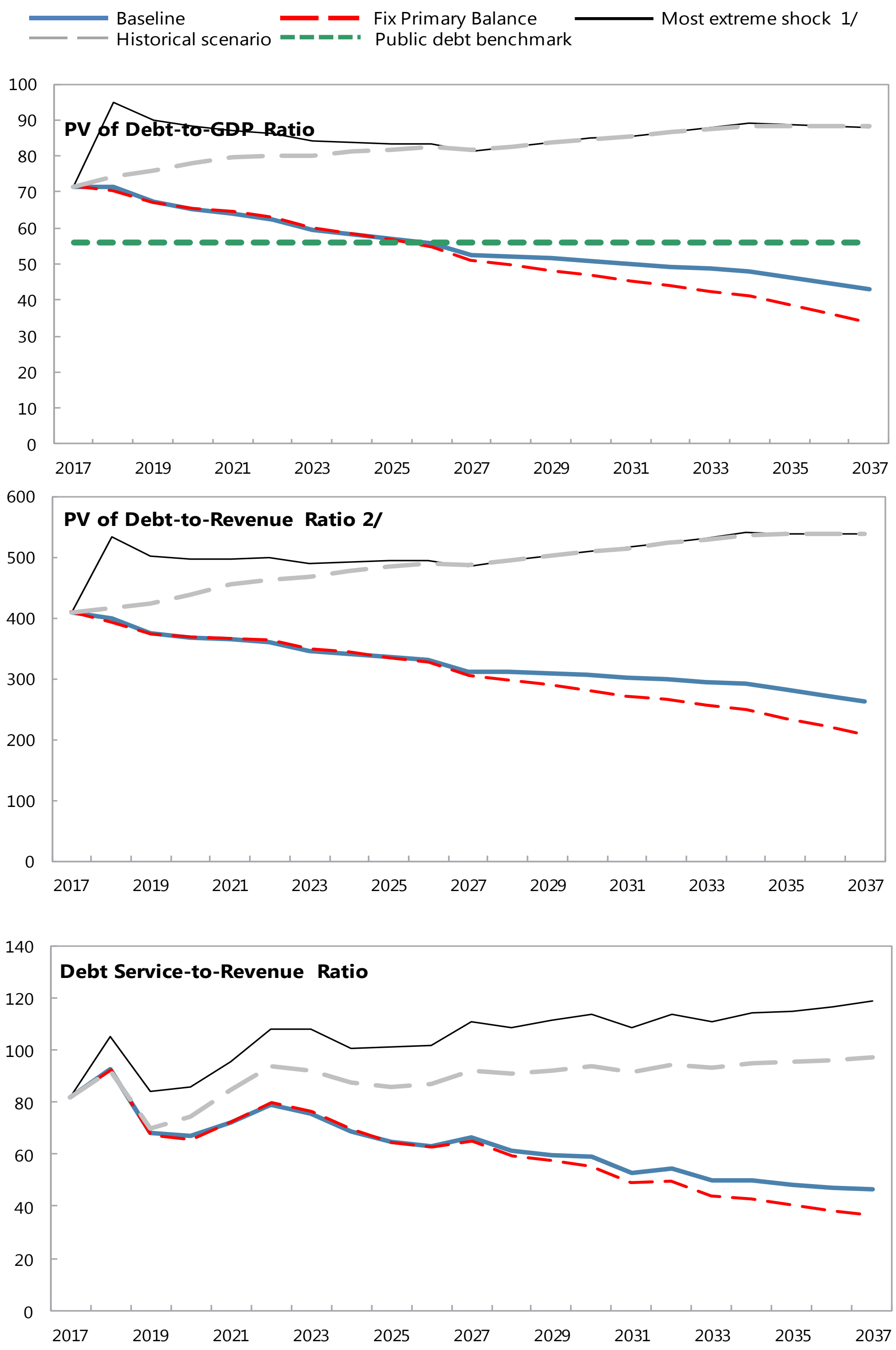
Figure 1. Ghana: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2017–37 1/



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

April 27, 2018

FIFTH AND SIXTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR WAIVERS FOR NONOBSERVANCE OF PERFORMANCE CRITERIA, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA —SUPPLEMENTARY INFORMATION AND SUPPLEMENTARY LETTER OF INTENT

Prepared by African Department

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

1. **Staff received yesterday additional information on minor external arrears that were temporarily accumulated to one official creditor.** Since the fourth review was approved on August 30, 2017, two small payments, amounting to USD 1.5 million, were due to Exim Bank India on March 31, 2018 and not paid on time. The non-payment was a result of human error and reflected substantial staff turnover in the Debt Management Division that took place in February 2018 in the context of a functional reorganization of the Ministry of Finance. The creditor notified the authorities of the overdue payments on April 26, 2018, and the payment of dues was initiated on April 27, 2018, less than 30 days after the due date. However, since a related grace period was not specified in the loan agreements, staff clarified that any delay in payment made beyond the due date gives rise to arrears and constitutes a non-observance of the continuous PC as defined in the TMU.[1]

2. **Staff supports the authorities' request for a waiver for the non-observance of the continuous PC on the basis of the minor and temporary nature of the breach and corrective measures put in place by the authorities.** Given that the amount of arrears was

[1] The TMU (paragraph 23) defines external arrears as follows: "…. external payment arrears will accrue when undisputed payments such as interest or amortization on debts of the government (as defined in paragraph 6) to non-residents are not made within the terms of the contract…"

very small and that payments were made within a reasonable time period of less than a month after the due date, staff believes that this issue does not alter the overall assessment conducted in the staff report, including the authorities' continued commitment to the program. Further, to prevent recurrence of this issue in the future, the authorities have instructed the following measures to be implemented: (i) upgrade of the payment software to provide prior notifications of amounts falling due; and (ii) introduction of a tracking dashboard to trace payment progress across all the stages of the payment process. Both these measures will ensure that the operational risk of human error is removed.

3. The PC table attached to the supplemental LOI will replace "Table 1. Ghana Quantitative Program Targets" attached to the original LOI and MEFP.

Supplementary Letter of Intent

Accra, April 27, 2018

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

Dear Ms. Lagarde,

1. In addition to our Letter of Intent dated April 19, 2018, we wish to provide additional information on minor external arrears that were temporarily accumulated to one of our official creditors. Payment on all dues has been initiated and we wish to assure you we have implemented corrective actions to prevent such arrears from taking place in the future, and we request a waiver for the non-observance of this continuous Performance Criteria.

2. Small payments, not exceeding USD 1.5 million, due to Exim Bank India since the approval of the Fourth Review on August 30, 2017, were paid with some delay. On April 26, the creditor notified us of the overdue amounts, and we initiated the payment process on April 27. Although the payments were made less than 30 days after the due date, a related grace period was not specified in the loan agreements. As a result, the delay in payment made beyond the due date gave rise to arrears and constitutes a non-observance of the continuous PC as defined in the TMU.

3. To prevent such occurrence in the future, the government has instructed the following measures to be implemented: (i) upgrade of the payment software to provide prior notifications of amounts falling due; (ii) introduction of a tracking dashboard to trace payment progress across all the stages of the payment process. Both these measures will ensure that the operational risk of human error is removed.

4. We believe that the corrective measures adopted in response to the non-observance of the continuous performance criterion under the ECF on non-accumulation of external arrears will prevent accumulation of external arrears in the future. On this basis, we would like to request a waiver for non-observance of this PC.

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

Sincerely yours,

/s/	/s/
Ken Ofori-Atta	Ernest Addison
Minister for Finance	Governor of Bank of Ghana

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

		End-April 2018	End-June 2018	End-September 2018	End-December 2018
		Target	Target	Target	Target
I	**Quantitative Performance Criteria** [2]				
	Primary fiscal balance of the government (floor in millions of cedis)	769	1,067	2,737	4,745
	Wage Bill (ceiling; in millions of cedis)	5,466	8,245	12,469	16,762
	Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars) [3]	-700	175	310	504
	Non-accumulation of new domestic arrears (ceiling; millions of cedis)	0	0	0	0
	Net change in stock of arrears (ceiling, millions of cedis)	-275	-515	-670	-858
II	**Continuous Performance Criteria**				
	Gross financing of BoG to the Government and SOEs (ceiling; in millions of cedis) [4]	15,384	15,384	15,384	15,384
	Non-accumulation of external arrears (ceiling; millions of U.S. dollars)[8]	1.5	0	0	0
	Contracting or guaranteeing of new external non-concessional debt (ceiling; millions of U.S. Dollars) [5]				
	o/w: Debt for a debt management purpose [6]	1,750	1,750	1,750	1,750
	Debt for projects (cumulative from the beginning of 2015)	3,500	3,500	3,500	3,500
	Debt for project (GNPC)[7]	350	350	350	350
III	**Monetary Policy Consultation Clause**				
	Twelve-month consumer price inflation (percent)				
	Outer band (upper limit)	13.0	12.0	11.5	11.0
	Inner band (upper limit)	12.0	11.0	10.5	10.0
	Central target rate of inflation	10.0	9.0	8.5	8.0
	Inner band (lower limit)	8.0	7.0	6.5	6.0
	Outer band (lower limit)	7.0	6.0	5.5	5.0
IV	**Indicative Targets**				
	Contracting or guaranteeing of new external concessional debt (ceiling; millions U.S. Dollars)	500	500	500	500
	Net after tax profit of ECG and VRA (floor; millions of cedis)	…	…		-1,012
	Change in accounts payables of ECG and VRA (ceiling; millions of cedis)	…	…		0
	Social Protection spending (floor, in million of cedis)	996	2,065	3,573	5,391

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

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

[3] Program definition excludes foreign currency deposits in BOG. Defined as a change from end-2017.

[4] Defined as a level.

[5] The two subceillings, 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] Non-concessional debt used to improve the overall public debt profile, including Eurobonds.

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

[8] The authorities temporarily ran small arrears to an official creditor for technical reasons. These arrears have been cleared, and going forward the PC will be cumulative from end-April.

Statement by Mr. Mojarrad, Executive Director for Ghana, and Mr. Abradu-Otoo, Advisor to the Executive Director
April 30, 2018

Our Ghanaian authorities thank staff for the high-quality engagement and the balanced report on the fifth and sixth reviews of the Extended Credit Facility-supported program. Macroeconomic imbalances that emerged in 2016 prompted the authorities to act expeditiously and begin implementing a strong macroeconomic and structural adjustment program aimed at stabilizing the economy and placing it on a long-term growth path. Growth rebounded sharply in 2017 on the back of higher oil production; a strong fiscal effort led to a primary budget surplus—for the first time in 15 years—and a decline in the debt-to-GDP ratio; inflation dropped significantly; and the external position improved at a faster pace than programmed, contributing to exchange rate stability and resulting in a larger accumulation of foreign reserves. Despite these achievements, the authorities recognize that greater effort is required to lock in the initial gains and firmly anchor macroeconomic stability. Under the “Ghana Beyond Aid” agenda, the authorities are fully committed to pursuing an irreversible path of sound macroeconomic and structural policies and building strong institutions as the foundation of a vibrant economy.

Program Performance

Program performance has improved significantly since the last review, and good progress has been made at addressing all issues that had led to lapses in program implementation. As regards the three PCs missed at end-August, and two at end-December 2017, the authorities took corrective action and brought the program back on track. Controls over the wage bill have been strengthened, and a credible arrears clearance plan has been put in place following an audit of unpaid claims which came to light by the end of 2016. In addition, although most structural benchmarks were missed, regulations underpinning effective implementation of the Public Financial Management (PFM) Act 2016 were submitted to parliament, and the expectation is that they would be given high priority in the upcoming session that starts in May. The setting up of the Single Treasury Account has proceeded smoothly and so far about 85 percent of Ministries, Departments and Agencies (MDA) accounts with commercial banks have already been moved to the Bank of Ghana (BoG). While a few remaining issues associated with the transfer of certain MDA accounts still have to be addressed, full migration is expected by end-September 2018. Going forward, the authorities remain fully committed to follow through with the implementation of reforms in support of program objectives, and to take immediate corrective action, as soon as needed, in case of shortfall.

Fiscal Policy

Fiscal policy outcome surpassed expectations in 2017. The overall budget deficit declined to

6 percent of GDP in 2017, from 9.3 percent of GDP in 2016 and below the program target of 6.3 percent of GDP. The strong adjustment led to a primary surplus equivalent to 0.7 percent of GDP which helped lower the debt-to-GDP ratio. As revenue outcome was below budgeted levels, the favorable fiscal outcome primarily reflected cuts in current expenditures. The authorities are committed to further fiscal consolidation, and through improved revenue administration and expenditure restraint, the 2018 budget targets a primary surplus of 2 percent of GDP and an overall deficit of 4.5 percent of GDP, thus keeping the debt ratio on a firm downward path. Greater efforts will be made on revenue mobilization, going forward, to increase fiscal space to accommodate higher infrastructure and social spending. To that end, the authorities have committed to introduce additional revenue measures in the context of the mid-year budget review in July 2018 to augment measures already announced with the 2018 budget. Additional revenue measures will be introduced in the 2019 budget to further increase the fiscal space and replace the one-off measures included in the 2018 budget by more sustainable measures.

The authorities are actively engaging key stakeholders to establish a firm common base to engineer a rebalancing of adjustment away from spending cuts which could have detrimental effects on growth and public support for the program. Until the proposed new tax measures come into effect in August 2018 and to safeguard the 2018 deficit target, the authorities intend to scale back cash releases in the second half of the year and undertake further spending cuts as needed. In all, the authorities have identified expenditures equivalent to about 0.35 percent of GDP that could be scaled back in the event of revenue underperformance during the year.

Over the medium term, the fiscal strategy aims to maintain a primary budget surplus of 2 percent of GDP to keep the debt ratio on a clearly downward path and eliminate the risk of debt distress. With SOE contingent liabilities posing a risk to fiscal performance, the government, following the debt restructuring of energy sector SOEs in 2017, will continue to strengthen SOE oversight to help stem their financial losses and prevent negative feedback-loops to the budget and the banking system.

Financing and Debt Management Strategy

With an elevated public debt burden, and along with planned fiscal consolidation, the authorities are pursuing an active debt management strategy to bring down the cost of debt and minimize refinancing risks. The Debt Management Strategy for 2018 builds on the achievements in 2017 and targets lengthening the maturity of domestic debt. The strategy envisages an increase in issuance of domestic medium-term and longer-dated bonds. To foster primary market development, the authorities have published their borrowing plan for 2018 this month, in line with the PFM Act. To reduce refinancing risks, they intend to maintain adequate cash buffers and will conduct liability management operations to retire maturing debt. In the second half of 2018, they are planning a Eurobond issue of up to $2.5 billion, and to borrow a further $500 million in commercial loans. From the Eurobond proceeds, $1.75 billion will be allocated for debt management purposes, in particular, to smooth out spikes in maturing debt for 2023. The remaining $750 million from the Eurobond and the $500 million in commercial borrowing will be allocated to projects critical to Ghana's development plans in the areas of infrastructure, health, sanitation, agriculture, and education for which funds have already been allocated in the budget. The authorities will provide an update of these operations in the mid-year budget review.

Monetary and Exchange Rate Policies

Reduced fiscal dominance and a stable exchange rate have allowed inflation to trend downwards towards the 8 percent target and the monetary policy stance to ease in response. Headline inflation declined from 15.4 percent at end-2016 to 11.8 percent in December 2017, and further to 10.4 percent by March 2018. Correspondingly, the key policy rate has been reduced by 750 basis points to 18 percent per cent since end-December 2016, but remains well in the positive territory in real terms. Although further decline in the rate of inflation is expected, the authorities will closely monitor upside risks to inflation and take action, where necessary, to defend the inflation objective. As a demonstration of their commitment to central bank independence and to the elimination of fiscal dominance, the BoG and the Ministry of Finance have extended to end- 2020 the memorandum of understanding on zero central bank financing of the budget that was signed at the onset of the program and which was made publicly available for transparency.
Active engagement with the legislature will continue to explore possible means by which the BoG Act could be amended, in a bipartisan manner, to safeguard the BoG's independence.

As regards the foreign exchange market, work has begun on developing a new foreign exchange management policy that is fully consistent with the Inflation Targeting Framework. The new policy will include measures to ensure all transactions on the interbank market (between BoG and commercial banks and between commercial banks) are conducted at current market rates.

Financial Stability

Several important steps have been taken since the 2016 Asset Quality Review to clean up banks' balance sheets and strengthen bank lending in support of private sector activity. In addition to the two banks that were resolved in the last quarter of 2017, the BoG recently moved another bank under an official administrator (OA) because of persistent undercapitalization and liquidity shortfalls and other regulatory breaches. The OA will conduct a thorough review of the bank's practices and will submit a rehabilitation plan within 90 days. Other issues high on the authorities' agenda include: reducing commercial banks' reliance on central bank funding; regularizing breaches of large exposure limits by adhering to current policy on single obligor limits; developing plans to augment existing statutory capital requirement by the end of 2018; tackling elevated NPLs; strengthening the BoG's licensing framework; improving the regulatory frameworks via transitioning to Basel II and III; and operationalizing the new deposit insurance scheme. Progress is already being made in a number of these areas. As regards the NPLs, steps are being taken to institutionalize a framework for addressing the overhang by focusing on enhanced recovery by banks, including timely enforcement of collaterals; prudent write-offs of uncollectible loans; and more stringent oversight of banks' credit risk management frameworks and lending policies. Banks' have been instructed to write off fully-provisioned loss-categorized NPLs.

Microfinance institutions (MFI) play a key role in supporting economic activity. There are however a number of important regulatory and supervisory issues concerning MFIs that need to be dealt with, including level of capitalization; liquidity pressures; unlicensed operations; weak corporate governance and risk management; and deficiencies in regulatory reporting. The authorities are fully aware that without decisive action to address these challenges the entire financial system would be exposed to risks. Further, since 2016, the BoG has suspended the issuance of new MFI licenses, is clamping down on their unlicensed deposit taking activities in collaboration with law enforcement agencies, and is considering an increase in their minimum capital requirements. A comprehensive action plan for cleaning up the MFI sector and strengthening their supervisory and regulatory oversight has been adopted and is being implemented.

Structural Reforms

The Ghanaian authorities are convinced that entrenched macroeconomic stability and structural reforms are the surest way to lift the economy to a higher growth path. On assuming office, the government initially gave priority to correct inherited macroeconomic imbalances to gain consumer and investor confidence. With that on track, the focus is turning to structural reforms. The initial slow progress on structural reforms in some instances also reflected significant capacity implementation constraints, especially in the areas of reform of human resources and financial management systems—that are being overcome. The authorities also moved to implement critical reforms outside the remit of the program's structural conditionality, including the establishment of the Office of the Special Prosecutor, a critical milestone in fighting corruption, and the roll out of additional tax administration measures (MEFP ¶ 37, 38). Moving forward, improving the operational efficiency and the financial performance of SOEs is another key policy imperative. To that end, a draft law has been submitted for cabinet consideration which seeks to cede oversight and regulation of all SOEs to a single statutory body, the Single Entity. The reform of energy sector SOEs will be particularly in focus, given their macro criticality in the context of the economy. Attention will also be given to job creating and job training programs to provide gainful employment for the citizenry and skilled labor for businesses. Policy initiatives have also been taken to help improve the business environment and promote investment in critical infrastructure, especially in rural and deprived communities (MEFP ¶62-67).

Conclusions

After a strong performance in restoring macroeconomic balances, our Ghanaian authorities are set on further strengthening program implementation, including in the core areas of fiscal management, reinforcing institutions, and creating an enabling environment for private sector businesses to flourish. They are determined to take all necessary measures to achieve the program objectives and pursue critical reforms to put Ghana on an irreversible path towards macroeconomic stability, higher inclusive growth and job creation. Our authorities believe that strong institutions, backed by supportive legislation, are key to laying the foundations of "Ghana Beyond Aid". They look forward to continued close cooperation and policy dialogue with staff and are grateful to the Executive Board and Management for their continued guidance and support.