



GHANA

October 2016

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

In the context of the Third Review under the Extended Credit Facility Arrangement and Request for Waiver for Nonobservance of Performance Criteria and Modifications of Performance Criteria, 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 September 28, 2016, following discussions that ended on September 2, 2016, 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 September 16, 2016.
- 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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IMF Executive Board Completes Third ECF Review for Ghana, and Approves US\$116.2 Million Disbursement

On September 28, 2016 the Executive Board of the International Monetary Fund (IMF) completed the third review of Ghana's economic performance under the program supported by an Extended Credit Facility (ECF) arrangement.¹ Completion of the review enables the disbursement of SDR 83.025 million (about US\$116.2 million), bringing total disbursements under the arrangement to SDR 332.1 million (about US\$464.6 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 minor deviations in a few program targets.

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

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

"Implementation of the ECF-supported program by the Ghanaian authorities continues to be broadly satisfactory, but the economic outlook remains challenging. There has been progress in stabilizing the macroeconomic situation and reducing financial imbalances, but fiscal risks remain elevated.

"The authorities are continuing their fiscal consolidation program and aim to strengthen policy and reform implementation. Further efforts are needed to address revenue shortfalls, while expenditure control measures should be fully enforced to contain the wage bill and other current spending. The government is projected to run a primary surplus this year,

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

which, along with the stability of the cedi, should contribute to a marked decline in the debt-to-GDP ratio. Ongoing fiscal consolidation and implementation of the medium-term debt management strategy will be key to further reducing domestic refinancing risks in 2017. The authorities will need to remain cautious in accessing external market financing with due consideration to costs and debt sustainability.

“To ensure that the gains from fiscal consolidation are sustained over the medium term, the government needs to continue its efforts to effectively implement a wide range of ambitious reforms. These include measures to broaden the tax base and enhance tax compliance, strengthen control of the wage bill, and enhance public financial management (PFM). In this regard, the recently adopted PFM legislation is an improvement over previous laws. Steps taken to address SOEs financial problems are welcome, but more work is needed to reduce risks to the economy, the financial sector, and the government budget from their underperformance.

“The Bank of Ghana (BoG) should maintain a tight monetary policy stance to bring inflation back to target. Recent amendments to the BoG Act have introduced some improvements to central bank governance, but continued scope for central bank financing of the government and government influence on central bank operations remain significant shortcomings. The authorities’ commitment to maintaining zero BoG financing of the government under the program and to introducing additional amendments to the BoG Act in 2017 are welcome.

“Full and timely implementation of the BoG’s roadmap for the banking system is essential to address financial sector risks. Although the adoption of the two new banking sector laws strengthens the authorities’ toolkit, the new legislation warrants further improvements to enable the authorities to effectively safeguard financial stability.”



GHANA

September 16, 2016

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR WAIVER FOR NONOBSERVANCE OF PERFORMANCE CRITERIA, AND MODIFICATIONS OF PERFORMANCE CRITERIA

KEY ISSUES

Program implementation remains broadly satisfactory, but the economic outlook remains difficult and fiscal challenges are mounting. The growth outlook for 2016 and 2017 has weakened, mainly due to disruptions in oil production, while non-oil economic activity is expected to remain subdued due to continued fiscal consolidation and tight monetary policy. There was broad agreement with the authorities on the need to sustain a tight monetary stance given the still high inflation and to strengthen the fiscal adjustment under the program to cover key state-owned enterprises. Discussions addressed the following issues, in particular:

- **Addressing fiscal challenges.** The ambitious fiscal consolidation for 2016 remains broadly on track, but revenues are underperforming and the deteriorated financial situation of some SOEs in the energy sector is posing fiscal risks. The authorities will cut spending to offset revenue shortfalls and have taken steps to address the financial situation of SOEs, including with new levies on petroleum products.
- **Containing financing risks.** Financing constraints have eased but domestic refinancing risks remain challenging in 2017. Ongoing fiscal consolidation and implementation of the medium-term debt management strategy, including liability management operations, will be key to continue to restore market confidence.
- **Monetary policy framework.** A tight monetary policy stance is needed to help bring inflation back to target. The amended Bank of Ghana Act introduces some additional safeguards and additional changes to the Act will be made in 2017 to strengthen further central bank governance and eliminate central bank financing for government.
- **Financial sector stability.** The BoG has developed a roadmap to address weaknesses in banking sector provisioning and capitalization and parliament adopted new banking laws to further strengthen BoG's ability to safeguard financial stability. Some amendments to the laws will be introduced in early 2017 to clear up remaining ambiguities.

Structural reform effort. Several important laws were adopted by Parliament to strengthen public finance management and the regulatory framework for the financial

sector. The authorities are committed to strengthen overall structural reform efforts, including to enhance domestic revenue.

Staff recommends completion of the third review in view of most of the end-December 2015 performance criteria having been met and corrective actions for those unmet, as well as the authorities maintaining the course on fiscal consolidation and their commitment to strengthen the structural reform effort.

Approved By
Abebe Aemro Selassie
(AFR) and
Mark Flanagan (SPR)

Discussions on the third review under the ECF arrangement took place in Accra during April 25 to May 11 and August 29 to September 2, 2016. The IMF staff team included Joël Toujas-Bernaté (head), Wendell Daal, John Hooley, Siddharth Kothari, Tobias Rasmussen (all AFR), Keiichi Nakatani (SPR), Salvatore Dell’Erba (FAD), Eriko Togo (MCM), and Natalia Koliadina (Resident Representative). Mr. Mojarrad (Executive Director) and Mr. Abradu-Otoo (OED) participated in the discussions. The IMF team met with President Mahama; Finance Minister Seth Terkper; Bank of Ghana Governor Abdul-Nashiru Issahaku; other senior officials; and representatives of the donor community.

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RECENT DEVELOPMENTS, PROGRAM PERFORMANCE, AND OUTLOOK

A. Background

1. **The third program review took place against the backdrop of fairly good progress on macroeconomic stabilization, but still difficult economic conditions and a tight financing environment.** The ambitious fiscal consolidation is broadly on track at the central government level, with the overall deficit set to improve from 10.1 percent in 2014 to 5.2 percent of GDP this year. Importantly, the central government primary balance has swung into a surplus position (a projected 1.1 percent of GDP this year), which should contribute to reducing the public debt ratio starting this year. However, reflecting this fiscal tightening as well as adverse developments in the oil and banking sectors, economic conditions remain difficult. A decisive break in inflationary pressures, which has stubbornly remained in the 15 to 19 percent range over the last 2 years, is also far from evident. While the external current account improved and the exchange rate stabilized, building international reserves remains a challenge.
2. **Discussions with the authorities focused on addressing emerging fiscal pressures and implementation of the important structural reforms planned under the program.** Slower economic activity, the difficult domestic and external financing conditions, and central government expenditure compression have put pressure on the accounts of state-owned enterprises, particularly in the energy sector. This in turn threatened to impair the balance sheets of some banks. Understandings on these financial pressures on key SOEs have now been reached. Several important structural reforms also needed advancing, including some of which required parliamentary approval. By and large there has been progress on this front, but with delays and weakening from original objectives. Some key amendments to the Bank of Ghana Act, including one that would reduce central bank financing of government to zero, did not muster sufficient parliamentary support—an unfortunate development in view of the limited credibility that the inflation targeting framework has had to date. The authorities are committed to correct these shortcomings in 2017. Payroll control reforms have also been delayed in view of some domestic resistance, but the authorities are now implementing a revised strategy to achieve the desired level of payroll control for all agencies.
3. **Risks to the program remain elevated.** Successful implementation of the program requires continued strong policies and reform implementation in the coming months—particularly through the upcoming election period, when financing conditions might get tighter still. In the context of the now much higher public debt level, a replay of the past spending splurges in election years would greatly heighten the risk of a full-blown economic and financial crisis and undermine Ghana's development progress. Even absent such a policy slippage, heightened risk aversion and investor uncertainty as the December 2016 election approaches could yet pose a challenge. It will be very important for the government to sustain fiscal transparency and be ready to tighten policies aggressively as the situation warrants.

B. Recent Developments

4. **Growth in 2015 remained subdued, though the outcome was slightly better than expected.** Overall GDP growth of 3.9 percent was supported by resilient non-oil activity, which edged up slightly to 4.1 percent compared to 4.0 percent in 2014. The services sector grew robustly at 5.7 percent, supported by the strong performance of trade and information and communication sectors. While industrial growth in 2015 was marginally higher than in 2014 (1.2 percent compared to 0.8 percent), adverse weather conditions led to a slowdown in agricultural growth, especially cocoa production. Preliminary estimates for the first quarter of 2016 show year-on-year GDP growth of 4.9 percent, with the non-oil economy growing at 6.6 percent.

5. **Overall fiscal adjustment in 2015 was somewhat stronger than expected.** The overall (cash) deficit declined from 10.1 percent of GDP in 2014 to 6.9 percent of GDP (against a target of 7.5 percent of GDP).¹ While overall revenue collection remained broadly in line with projections and domestic arrears repayments were larger than programmed, the government contained expenditures well below targets by cutting domestically-financed capital expenditure and mandatory transfers to statutory funds. Lower-than-budgeted domestic interest payment also contributed to lower outlays. However, higher public servant allowances in the last quarter of the year led to an overrun in the nominal wage bill (0.2 percentage point of GDP), despite the decline in salaries in real terms. On the revenue side, weaker-than-expected personal income taxes and import duties were offset by an unbudgeted dividend transfer from Bank of Ghana (BoG) and slightly better-than-projected VAT collection and grants. As a result of the fiscal consolidation efforts, the government debt ratio increased only slightly from 70.2 percent of GDP in 2014 to 71.8 percent in 2015, marking a slowdown in debt accumulation from previous years.

6. **Further fiscal consolidation so far in 2016 has been challenging.**¹ Domestic revenues are underperforming—reflecting lower-than-projected oil prices, weak economic activity with lower business profits and personal incomes, as well as lower-than-expected revenue impact from several measures implemented so far. In particular, the ECOWAS Common External Tariff (CET) was expected to deliver about ½ percentage point of GDP in additional revenues, but so far the revenue impact has been marginal, while the administrative measures' impact on direct tax collection has also been negligible. Nominal wage compensation was again slightly higher than budgeted—stemming from newly validated back payments of salaries and allowances dating back from 2013–14. Against this,

Ghana: Summary of Central Government Budgetary Operations, 2016		
	January-June	
	Prog.	Act.
Total revenue and grants	9.4	8.3
Revenue	8.9	7.8
Grants	0.5	0.5
Total expenditure, of which	12.0	10.2
Wages and salaries	3.5	3.5
Interest costs	3.0	2.7
Net acquisition of nonfinancial assets	1.9	1.3
Overall balance	-2.6	-1.9
Discrepancy	0.0	1.2
Total financing	2.6	3.1
Foreign (net)	2.0	-0.3
Domestic (net)	0.6	3.4
Memorandum items:		
Primary balance (cash basis)	0.4	0.9
Overall balance (commitment basis)	-2.0	-1.7
Sources: Ghanaian authorities; and IMF staff estimates.		

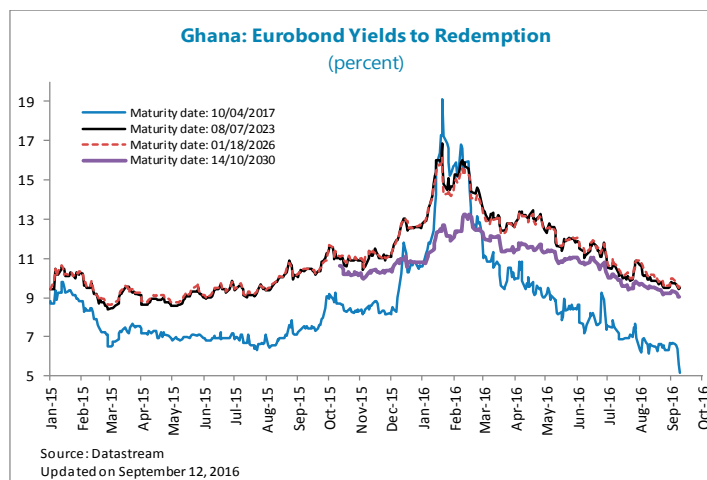
¹ The estimates described here for 2015 and 2016 are based on central government operations reporting (above the line), which is different from the PC monitored under the program from the financing side.

to achieve the cash deficit target, the authorities contained transfers to other government units and domestically financed capital spending. They also delayed domestic arrears repayments, as the audit of petroleum products importers' claims could not be finalized yet. Overall, the fiscal cash deficit reached 1.9 percent of GDP during January-June, compared with a target of 2.6 percent of GDP.

7. **Timing issues have been affecting fiscal monitoring.** Discrepancies in fiscal reporting at end-2015 and the first half of 2016 largely reflect timing issues and are not indicative of a worsening in the financial position of the government. The broader fiscal PC, which also covers accounts of statutory funds and government agencies, indicated under-financing in 2015 and over financing in the first quarter of 2016. The main statutory funds – the district Assembly Common (DAC) fund and the Ghana Education Trust (GET) fund – received large transfers in late December 2015, stemming from arrears clearance and current mandatory transfers, but executed their spending only in the first quarter of 2016.² A technical assistance mission will further investigate the causes underlying these discrepancies and provide recommendations to harmonize fiscal reporting.

8. **Financing conditions remained tight, but have begun to ease somewhat.** External

financing conditions deteriorated markedly during the second half of 2015 as Ghana's risk spread climbed sharply in the run up to the Eurobond issuance in October 2015. The larger-than-expected fiscal savings and higher-than-planned domestic debt issuances helped to finance the remaining gap and to build a cash buffer using part of the 2015 Eurobond proceeds at year-end. The cash buffer helped the authorities to manage short-term cash flow needs in early-



2016 without recourse to central bank financing. Net domestic market financing during the first half of 2016 exceeded the original target, with strong participation by non-residents. On September 8, 2016, a new US\$ 750 million Eurobond with an average maturity of 5 years was issued at 9.25 percent. The proceeds will be used to refinance part of the Eurobond maturing in 2017 and for capital expenditures to be implemented in 2017.

9. **Inflation remained elevated during the first half of 2016 but declined in July.** Headline inflation reached 18.4 percent in June, up from 17.7 percent in December 2015, but fell to 16.7 percent in July 2016, while high frequency measures suggest an even stronger decline. Lower inflation in July was driven by a moderation in imported goods inflation, as well as energy inflation due to favorable base effects. Core inflation (excluding energy and food) has also declined from 26.0 percent in November 2015 to 23.8 percent in July 2016. In view of the persistence in headline

² Other factors that contribute to the discrepancy could be valuation adjustment and floats.

inflation, and upside risks to inflation expectations, the Monetary Policy Committee (MPC) maintained the policy rate at 26 percent in July, unchanged since November 2016.

10. **Growth in monetary and credit aggregates has slowed, while BoG increased its liquidity absorption operations.** Reserve money growth remained strong in the first half of 2016 at 30 percent, boosted by inflows of foreign capital. However, this did not feed into growth in broad money (including foreign currency deposits), as banks instead substantially increased their purchases of BoG bills, leading to an increase in the net sterilization stock. Growth in credit to the private sector also declined sharply in the first half of 2016, from 33 percent a year earlier to 9 percent, and banks' average lending rate increased from 28 percent to 33 percent, signaling a tightening in credit conditions.

11. **The exchange rate has been relatively stable.** The exchange rate has fluctuated around GHc 3.8-3.9 against the USD between September 2015 and August 2016. The BoG has also successfully implemented the first stage of a plan to strengthen and deepen the foreign exchange market (MEFP ¶28), which involved the elimination of the surrender requirement for gold and cocoa export proceeds and the strengthening of rules on repatriation of export proceeds.

12. **International reserves accumulation has been broadly in line with levels envisaged.** The current account deficit narrowed by some 2 percentage points of GDP in 2015, despite historically low levels of gold and cocoa production. However, gross reserves increased by only about US\$ 50 million in 2015, partly due to termination of swap agreements. The end-2015 NIR target was achieved despite the lower amount of the Eurobond issuance (US\$ 1 billion instead of US\$ 1.5 billion assumed under the program). Reserves declined in the first half of 2016 in line with the seasonal pattern but at a much slower pace than in recent years. Buoyant nonresidents' participation in the domestic bond market partly offset the delay in the Eurobond issuance that was originally programmed during the first half of 2016, and reserves fell short of the end-June PC level by only around US\$ 350 million.

13. **Banking system asset quality continued to deteriorate.** The non-performing loan ratio increased to 18.8 percent in June 2016 from 11.2 percent a year earlier, reflecting the lagged impact of exchange rate depreciation and disruptions to energy supply, but also loan reclassification by some banks following an Asset Quality Review. Banks increased provisions in response, from 5.1 to 7.9 percent of gross loans. The ratio of regulatory capital to risk-weighted assets was similar to a year earlier at 16.2 percent, although system profitability declined, with return on equity falling to 23 percent in June from 29 percent a year earlier.

14. **State-owned enterprises (SOEs) in the energy sector have added to financial pressures (see Annex II).** Three SOEs in the power sector (ECG, VRA, GRIDCo) and the Tema Oil Refinery recorded a combined loss of 1.8 percent GDP in 2015, with gross liabilities rising to 13.7 percent of GDP from 12.4 percent in 2014. The increase in liabilities was mainly the result of mounting payables to suppliers and rising short-term bank debt in a context of a more expensive power generation mix with less hydro and more thermal. Higher electricity tariffs introduced in late 2015 have improved

the income position of the power sector, while new earmarked energy sector levies have supported debt restructuring with banks.

C. Program Performance

15. **Progress on the program quantitative targets has been broadly satisfactory.** End-December 2015 performance criteria (PCs) and end-March 2016 indicative targets (ITs) were met, with a few exceptions (MEFP ¶14, Table 1-2). The PCs on NDA and the wage bill were not met, as well as the end-March 2016 ITs on the primary deficit and on arrears. The end-December 2015 indicative targets on inflation and social protection spending were met. No new external arrears have been reported after technical arrears had been cleared before the second review and a waiver was provided for non-observance of the continuous PC on non-accumulation of external arrears.

16. **Implementation of the structural reform agenda has been uneven, with recent adoption of several important laws but further delays in other areas.** The two new banking Bills and the amended Bank of Ghana Act were adopted by Parliament in July and August, respectively (MEFP ¶29 and ¶31), albeit with some shortcomings. The BoG Act allows central bank financing of government of up to 5 percent of government revenue (contrary to zero proposed in the draft submitted to Parliament and the agreed aim in the ECF program), while some technical flaws in the banking bills could hinder BoG's ability to resolve banks effectively while preserving financial stability. A new PFM Act was adopted in August. The government also made progress in implementing reforms to deepen the FX market: the surrender requirements for gold and cocoa export receipts were removed in July. A draft of the public sector reform strategy was completed and submitted to Cabinet in December 2015, but is still under review by the Governance Sub-Committee. Measures to further enhance payroll controls are delayed.

D. Outlook and Risks

17. **The growth outlook for 2016 and 2017 has been revised down, mainly due to disruptions in oil production.**

- Technical problems with the production vessel at the Jubilee oil field will negatively affect oil production in 2016. In 2017, although production at the Jubilee field will be constrained by the expected downtime of at least one month to carry out necessary repairs, the recent coming online of a second field (TEN) will boost oil output and overall GDP growth.
- Non-oil GDP growth is expected to remain subdued in 2016 due to continued fiscal contraction, tight monetary policy, spillovers from lower oil production, and slowdown in private sector credit growth as banks repair balance sheets. The medium term outlook is unchanged, with non-oil growth expected to rebound to about 6 percent by 2020.
- Average inflation for 2016 was revised upward in view of recent high outturns and the large increases in utility tariffs and fuel levies implemented in December and January respectively.

Inflation is projected to remain above the upper band of the BoG target until the second half of 2017, compared to end-2016 previously.

18. **The outlook remains difficult and the balance of risks is tilted to the downside (see Annex I).** Uncertainty regarding repair operations at the Jubilee oil field pose a significant risk. The recent reemergence of power shortages due to disruption in gas supply is adding to downside risks. Inflation risks lie to the upside given the possibility of further second round effects from the increases in utility and fuel prices, and inertia in (currently still elevated) inflation expectations.

19. **Ghana's debt sustainability remains fragile but significant fiscal consolidation is starting to bear fruits.** Ghana's risk of debt distress remains high under the updated debt sustainability analysis (DSA) with two relevant debt indicators breaching the thresholds under the baseline. However, end-2015 debt-to-GDP ratio turned out to be smaller than envisaged in the previous DSA due to larger fiscal consolidation, higher nominal GDP, and exchange rate stabilization. With continued fiscal efforts, prudent debt management, and careful selection of projects to be financed by non-concessional loans, the debt trajectory is now projected to show a more favorable path than before.

POLICY DISCUSSIONS

A. Fiscal Policies

20. **Fiscal policy remains anchored on the government's medium-term fiscal consolidation objective.** It aims to progressively reduce the overall fiscal deficit to around 3 percent of GDP by 2018. Achieving this target will require enhanced revenue collection and continued strict expenditure control, in particular of the wage bill, while containing discretionary spending. To complement the expenditure and revenue measures that have been implemented since the beginning of the program, the government intends (i) to strengthen tax compliance and collection by accelerating the ongoing tax administration reforms, (ii) improve public financial management and expenditure rationalization further to enhance the efficiency of public spending, and (iii) continue implementing its debt management strategies.

21. **Strong vigilance and efforts will be needed to achieve the revised 2016 budget objectives.** The projected primary surplus of 1.1 percent of GDP—corresponding to an overall fiscal deficit of 5.2 percent of GDP—would significantly reduce the government debt ratio by about 5 percentage points of GDP. However, the budgeted package of revenue measures, including the new income Tax Act, sale of communication spectrum, and introduction of the Common External Tariff (CET) (MEFP ¶19), is not generating the expected revenue performance, which has led to non-oil revenue underperformance on top of oil revenue shortfalls. The authorities were hoping that the tax administration measures being implemented to enhance tax compliance and collection would bear fruit quickly and contribute to reduce these shortfalls. Staff advised to plan budget execution for the remainder of the year on the basis of a more cautious revenue projection. Accordingly, the shortfall in oil revenues will be offset by reducing some discretionary spending in line with the Petroleum

Revenue Management Act (PRMA), while the shortfall in non-oil revenue will be mainly offset by a reduction in transfers to the investment fund.³ Furthermore, to keep the wage bill (excluding backpayments) within the budget envelope, the government intends to strictly enforce the freeze on net hiring and controls on allowances. The government will also continue strict control of discretionary spending, including those related to elections.⁴ At the same time, the authorities will implement the arrears clearance plan, mainly clearing arrears to SOEs, statutory funds and oil importing companies, following finalization of the audit of the claims by oil importers related to subsidies and exchange rate losses in 2014 and early 2015. With these policies, the central government remains on track to achieve the targeted substantial improvement in the overall fiscal balance on a commitment basis by over 7 percentage points of GDP from 2014 to 2016.

22. **Financial positions of statutory funds are being kept under control.** Their spending allocations are approved separately by Parliament and supervised by the respective line ministries. To execute their budgets, statutory funds rely mostly on transfers from central government, with no or limited borrowing, incurred under the supervision of the Ministry of Finance, and usually close to zero cash balances. To strengthen fiscal transparency and monitoring, the integrated financial management system is being extended to statutory funds (to be completed by end-2017), which will allow broader coverage of fiscal reporting. The government is also taking steps to contain fiscal risks stemming from SOEs (¶35 and Annex 2).

23. **Maintaining fiscal prudence in 2017 will be key for achieving the government's consolidation objective.**⁵ The magnitude of measures needed to achieve the primary balance objective in 2017 remains as envisaged under the program, at about ½ percentage point of GDP. Based on recent trends and in the absence of revenue-enhancing measures, staff would foresee a need to contain expenditures further to achieve the fiscal consolidation objective, including the wage bill, goods and services, and domestically financed investment. Clearing the remaining arrears will also be crucial for achieving fiscal stability and supporting finances of other public entities. However, a better aim, as envisaged by the authorities, will be to bolster efforts to expand the tax base and create more space for priority and development spending. In this context, IMF Technical assistance scheduled for the last quarter of 2016 will help the authorities develop a plan to reduce tax exemptions.

B. Program Financing and Debt Management Strategy

24. **Lower gross financing needs in 2016 will be largely covered through domestic market financing and use of cash buffers.** Gross financing requirements in 2016 (excluding buyback of the

³ While a cut in government transfers to the infrastructure investment fund would reduce its future spending, it still has large cash balances to cover its potential needs in the very short term.

⁴ The electoral commission has asked for more resources, above the budgeted US\$220 million, but these requests were rejected.

⁵ The government has started the preparation of a transitory budget covering the first three months of 2017, while the budget for the whole year will be prepared by the new government after the elections.

2017 Eurobond) are one third lower than the level in 2015, as a result of fiscal consolidation and lower debt redemptions—maturities of medium-term domestic debt amount to 2.3 percent of GDP in 2016, compared to 5.0 percent of GDP in 2015. The government aims to raise net financing through medium-term securities, which should reduce the rollover risk in 2017. To manage domestic debt refinancing risk, the authorities plan to conduct liability management operations to exchange bonds maturing in 2017 for new 3- and 5-year bonds. The authorities bought back part of the Eurobond maturing in 2017 using the proceeds raised through the new Eurobond issuance in September 2016. This will also reduce the roll-over risk on external debt for 2017.⁶ The authorities plan to maintain adequate cash buffers into 2017 to manage short-term cash flow needs.

Ghana: Budget Financing Needs ¹ (Percent of GDP)				
	2015	2016	2017	
		Prog.	Rev. Proj.	Rev. Proj.
Gross financing needs	11.5	7.8	8.4	8.0
Domestic primary balance (–=surplus)	-1.9	-3.4	-3.0	-3.9
Interest payment	6.4	6.6	6.4	5.7
External	1.3	1.4	1.3	1.2
Domestic	5.2	5.3	5.1	4.6
Amortization	7.0	4.5	5.1	6.2
External 2/	2.0	2.0	2.8	2.3
Domestic (1-year and over)	5.0	2.5	2.3	3.9
Financing	11.5	7.8	8.4	8.0
Program	1.3	0.5	0.5	0.3
Eurobond (commercial borrowing)	2.6	1.9	1.8	1.1
Domestic Debt	7.8	5.4	6.0	6.3
Net Issuance of short-term debt	3.2	0.7	-0.4	1.1
1-year and over	4.3	3.7	6.4	5.2
Non-Marketable	0.3	1.1	0.0	0.0
Use of cash balances (+=withdrawal)	-0.4	0.0	0.1	0.4
Net transfers from Oil Fund	0.3	0.0	0.0	0.0
Financing gap (–=shortfall)	0.0	0.0	0.0	0.0
Memorandum item:				
Stock of T-bills (proceeds basis)	11.3	9.6	9.1	8.7
GDP (millions of GHc)	139,936	158,454	166,768	197,136

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

2/ 2016 external amortization under revised projection includes US\$331.5 million in buyback of the Eurobond maturing in 2017.

25. **Efforts to deepen the domestic debt market are ongoing.** The government will continue to reduce the number of outstanding securities in the 1- and 2-year maturity segments to establish a benchmark yield curve, thereby enhancing the tradability and liquidity of the government debt.⁷ The increased refinancing risk associated with benchmark securities will be managed simultaneously with active liability management operations. Enhancing communications and frequent consultations with the market and the provisioning of timely information will be a priority to facilitate investment decisions. The framework for primary dealers (PDs) is being strengthened and PDs will be evaluated based on their performance to underwrite auctions and make markets in the secondary market in exchange for privileges.

C. Monetary Policy and Exchange Rate Issues

26. **The BoG reaffirmed its commitment to bring inflation back to target by maintaining a tight monetary policy stance.** Inflation in June exceeded the inner band of the Monetary Policy Consultation Clause, leading to a consultation between BoG and Fund Staff. The BoG attributed higher-than-projected inflation so far during 2016 to the impact of the unanticipated increases in utility and fuel prices and increases in local food inflation due to weather shocks. But according to the BoG's forecasts, the current tight stance of monetary policy, together with ongoing fiscal

⁶ The authorities bought back US\$30 million in the secondary market, and US\$100 million and US\$202 million through tender offers made in August and September 2016. The remaining outstanding amount of the 2017 Eurobond is US\$199 million.

⁷ Currently, only the 3- and 5-year securities are considered benchmark securities.

consolidation, a more stable exchange rate and benign foreign inflationary factors, is still consistent with a gradual decline in inflation to the medium-term target by the middle of 2017. The decline recorded in July was in line with the forecast. Nevertheless, should inflationary pressures not continue to recede as expected, BoG indicated that it will stand ready to tighten monetary policy further. At the same time, BoG aims to build reserves to 3.5 months of imports from the current below 3-month level over the medium term, while standing ready to smooth possible large exchange rate fluctuations in the short-term.

27. The amended BoG Act introduced some improvements to central bank governance and financial autonomy but several important proposed amendments were not adopted.

While the amendments improve procedures for appointment and dismissal of Board members, a key amendment that proposed to reduce central bank financing of government to zero did not muster sufficient parliamentary support. Instead BoG financing of government of up to 5 percent of the previous year's revenues is still possible under the amended Act, which weakens the credibility of the inflation targeting framework. This would make Ghana an outlier among inflation targeting countries, undermining its monetary policy framework. Other weaknesses concern: i) the BoG's continuing legal basis for the provision of guarantees covering foreign borrowing by the Government and Government agencies, ii) the lack of a provision requiring the Government to recapitalize the BoG, iii) no distinction between the Board's executive and non-executive roles, iv) the continuing membership of a representative of the Ministry of Finance in the Board with a right to vote, v) unclear eligibility criteria for the appointment of the Board members, respectively the MPC's external members (thereby allowing for the appointment of civil servants), and vi) the continuing ownership by BoG of shares in non-core financial institutions. The authorities are committed to introducing further amendments to the Act next year to address these weaknesses (structural benchmark by September 2017). They remain, in particular, committed to the zero financing principle under the program: this will remain part of program conditionality and the BoG and MOF have also extended their existing Memorandum of Understanding to maintain zero financing until the end of 2017. Further, they will undertake more work in key areas recommended by the safeguards assessment but not covered by the Act, including the implementation of collateral requirements for all forms of lending, development of an Emergency Liquidity Assistance (ELA) framework, improving controls over the data compilation process, implementing a process for systematically recording guarantees, and conducting a risk assessment of the BoG's holdings and involvement with the Ghana International Bank (GIB).

D. Financial Sector Stability

28. The BoG has developed a roadmap to address serious weaknesses in capital and liquidity among some banks. An Asset Quality Review (AQR) finalized in December 2015 revealed significant underprovisioning among some banks, particularly regarding loans to state-owned enterprises and the petroleum sector (since assumptions in the initial AQR were very conservative). The BoG is taking immediate action to address these weaknesses and ensure resilience of the banking system through design of a formal, timebound roadmap, agreed with IMF staff (see MEFP ¶134). The BoG will conduct an updated AQR—to include an impact assessment of the government's

plans to address SoE debt on banks' capital—and a recapitalization plan shall be requested from the banks with a capital shortfall. Recent agreements on SOEs debt restructuring and plans to settle gradually oil importing companies' claims on government should improve banks' balance sheets. By end-February 2017, upon review of these plans by the Board, the BoG shall communicate its decision to banks. Banks that fail to timely regularize their capital situation or repay their emergency liquidity support shall face supervisory action in accordance with the Banking Act. Other steps to be taken by the BoG include introduction of a temporary special liquidity monitoring scheme, the adoption of a new ELA framework, in line with international best practice, and issuance of a new directive to banks clarifying some grey areas of the IFRS standard.

29. **The Banks and Specialized Deposit-Taking Institutions Bill and the Deposit Protection Bills were adopted by Parliament in June (MEFP ¶133).** The two Bills strengthen BoG's ability to safeguard financial stability, through enhanced powers to resolve banks that are deemed to be unviable and a new deposit insurance scheme that will provide protection to small depositors in the event of resolution. However, some weaknesses in the laws warrant further amendments to fully enable the authorities to minimize financial stability risks in case of a bank failure. The authorities have committed to seek Parliamentary adoption of appropriate amendments to the laws, in consultation with IMF staff, by the end of the first quarter of 2017.

E. Structural Reform Agenda

30. **The authorities have taken steps to accelerate the implementation of their structural reform agenda but delays persist in some areas.** They finalized several important laws that were recently adopted by Parliament. The authorities noted that delays encountered in advancing many of the structural reforms were largely due to capacity constraints. Staff indicated that Ghana has benefitted from extensive technical assistance, including from the Fund, which, when used effectively, helped overcome these capacity constraints. Going forward, the government's structural reform efforts will focus in particular on tax policy and tax administration, payroll reforms, the treasury single account, and importantly on addressing SOEs financial situation.

31. **The new PFM act adopted by Parliament in August is an improvement over existing PFM laws.** It: expands coverage of the law; enhances fiscal reporting and transparency requirements; improves provisions on the budget preparation process, commitment controls, and the role of audit committees; and introduces explicit debt and cash management provisions. However, it contains a number of weaknesses. While the new law introduces fiscal responsibility principles, the lack of a parliamentary approval of the fiscal strategy document and the fiscal rules and the lack of publication requirement represent a significant shortcoming in terms of enhancing accountability. The authorities indicated that they will address these weaknesses in 2017, if needed through amendments to the Act.

32. **Tax Policy and Tax Administration reforms should enhance domestic revenue mobilization.** The government is finalizing the regulations and approval of operational guidelines

for the recently enacted tax and revenue administration laws (MEFP ¶138-49). Furthermore, GRA will continue implementing measures to mitigate compliance risks.

33. **Progress in payroll reforms has slowed down** (MEFP ¶155-62). The improvement of the security of the mechanized payroll continues, but further delays are expected. The migration of all subvented agencies to the mechanized payroll could not be implemented due to the resistance of some of these agencies in foregoing their fiscal autonomy. The alternative strategy for enhancing the control over these agencies is to (i) implement an interface with the GRA's payroll (completed) and (ii) expand this solution progressively to the universities and the security agencies (structural benchmark December 2016).

34. **Treasury Single Account (TSA)** (MEFP ¶163-65). The reclassification of government accounts at BoG is ongoing, supported by technical assistance. The plan to rationalize existing bank accounts and link them to the Chart of Accounts on GIFMIS is expected to be completed by November 2016. The TSA project plan currently prepared envisions the monitoring of central budgetary government cash position through the TSA by end-year (new SB) and of the central government by next year (new end-August 2017 SB).

35. **The authorities have taken significant steps to address the financial problems of SOEs operating in the energy sector (see Annex II).** The 59 percent increase in electricity tariffs enacted in December 2015 has resulted in a marked improvement in the net income position of VRA (power generation company) and ECG (power distribution company). Moreover, the bulk of domestic bank debts of VRA and TOR (a refinery) have been restructured and will going forward be serviced by the new fuel levies enacted at end-2015. The authorities have also established a plan for clearing Government arrears to ECG. A next phase of restructuring will cover remaining bank debts as well as inter-SOE arrears and other payables, with the process to be informed by an independent audit and financial viability analysis of energy SOEs to be completed by end-2016. Moreover, a reform plan for ECG has recently been launched with support from the Millennium Challenge Corporation. Improving operations of ECG in the context of this plan, in particular regarding bills collection and commercial losses, will be critical given the significant spillovers on the rest of the electricity sector.

F. Policies to Support Growth and Poverty Reduction

36. **The government is committed to expeditiously resolving the disruption in production at the Jubilee oil field.** In addition to the direct costs of reduced oil production, the breakdown of the Jubilee field also raises the risk of electricity shortages reappearing due to disruptions in gas supply. Therefore, it is essential to find the best solution to the technical problems of the production vessel and the government is working closely with GNPC and its private sector partner to do so.

37. **The government has also reiterated its commitment to implement measures to support agricultural and industrial growth and to reduce poverty levels.** In agriculture, policies will focus on modernization, including improved irrigation infrastructure and continued fertilizer and seed subsidy programs. To promote economic diversification, the government has set up an Export and Import (EXIM) bank, which will provide financial support and insurance products to exporters.

The government continues to protect pro-poor spending (despite large fiscal cutbacks) and met the 2015 indicative target on social protection expenditure. Spending initiatives include free school materials, expanded healthcare and immunization programs, and continued rural electrification programs.

PROGRAM MODALITIES AND FINANCING ASSURANCES

38. **Program modalities (MEFP ¶83-86, Tables 1-3).** Most of the quantitative performance criteria (PCs) and structural benchmarks (SBs) for the remainder of the year will remain unchanged under the program while new SBs and indicative targets have been set for March and June 2017. The authorities have requested and staff is proposing the following revisions:

- The IT / PC on NIR will be revised downwards for September and December to accommodate partly lower net access to international capital markets than originally programmed. End-program targets remain broadly unchanged measured by standard adequacy metrics.
- The inflation target underpinning the Monetary Policy Consultation clause (MPCC) will be revised upwards for December to 13.5 percent, to account for the impact of the unanticipated increases in utility tariffs and fuel levies implemented in January. The revisions are consistent with BoG's revised inflation forecasts for 2016. End-program targets remain broadly unchanged.
- The debt limits for debt management purpose will be revised up by US\$ 25 million to US\$ 1,175 million to accommodate a possible increase in the World Bank's budget support with a grant element slightly lower than 35 percent. Further, in view of the delays in the oil company (GNPC) securing a US\$ 350 million loan that was programmed in 2015 and included in the 2015 debt limit, the debt limit for 2016 will be revised to accommodate this priority loan this year.

39. **Improving fiscal reporting and monitoring will be an important focus going forward.** As noted above, relatively large discrepancies in fiscal reports were recorded at end-2015 and in early 2016. So far, the basis for assessing the PC on the fiscal primary balance has been defined from the financing side. While the PC on the fiscal primary balance for all past test dates (including 2015 and up to June 2016) will continue be assessed based on the current TMU definition (that is the full set of government accounts), going forward in collaboration with Fund TA scheduled in September 2016, changes will be made to reporting of fiscal budgetary operations and financing with an aim to ensure full consistency of fiscal accounts for program monitoring purposes for 2017.

40. **Financing needs for the remainder of the year and for 2017 are expected to be fully covered.** Since multilateral donors remain committed to provide budget support and investors' demand for Ghanaian debt has been robust, as evidenced by the recently-issued Eurobond and continued net inflows in the domestic debt market from nonresidents investors, external financing needs are fully covered. Some development partners have already started disbursing, while others have confirmed their envisaged disbursement for the remainder of the year. The Eurobond maturing

in 2017 has been partly refinanced with the recently-issued Eurobond, reducing the roll-over needs in 2017.

41. **Non-concessional external borrowing for improving the public debt profile continues to be guided by a comprehensive cost-risk analysis through timely consultation with the Fund.** To reassure that the planned financing mix including non-concessional borrowing strengthens confidence in the program and does not jeopardize still-fragile debt sustainability, timely and early consultation with the Fund in terms of a comprehensive cost-risk analysis on alternative options based on then-prevailing market conditions and the updated MTDS continues to be integral to the program. Staff clarified that such consultation should also cover SOEs' borrowing.⁸ The authorities remain committed to ensure that new non-concessional loans would be fully consistent with debt sustainability, including by tightening control over the non-concessional borrowing by the SOEs subject to the debt limits.

Ghana: Summary Table of Actual External Borrowing Monitor

January 1, 2015 to December 31, 2015

PPG external debt	Volume of new debt in 2015		PV of new debt in 2015 (program purposes)		PV of new debt in 2015 (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
Sources of debt financing	1947.9	100	1681.6	100	2325.0	100
Concessional debt, of which	440.0	23	237.9	14	237.9	10
Multilateral debt	372.0	19	209.3	12	209.3	9
Bilateral debt	68.0	3	28.7	2	28.7	1
Other	0.0	0	0.0	0	0.0	0
Non-concessional debt, of which	1507.9	77	1443.6	86	2087.1	90
Semi-concessional	320.6	16	256.3	15	256.3	11
Commercial terms	1187.3	61	1187.3	71	1830.8	79
Uses of debt financing	1947.9	100	1681.6	100	2325.0	100
Infrastructure	472.3	24	389.7	23	416.4	18
Social Spending	128.7	7	79.8	5	79.8	3
Budget Financing	1224.4	63	1147.7	68	1764.5	76
Other	122.5	6.3	64.3	3.8	64.3	2.8

⁸ The authorities were not aware of the need to consult on the US\$ 75 million non-concessional loan that VRA contracted with the African Export-Import Bank to repay expensive domestic debt owed to local banks. This loan is counted against the limit for debt management purpose.

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

PPG external debt	Volume of new debt in 2016		PV of new debt in 2016 (program purposes)		PV of new debt in 2016 (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
By sources of debt financing	2290.2	100	2000.0	100	2195.6	100
Concessional debt, of which	399.9	17	204.7	10	204.7	9
Multilateral debt	50.0	2	32.0	2	32.0	1
Bilateral debt	349.9	15	172.6	9	172.6	8
Other	0.0	0	0.0	0	0.0	0
Non-concessional debt, of which	1890.3	83	1795.3	90	1990.9	91
Semi-concessional	830.0	36	735.0	37	735.0	33
Commercial terms	1060.3	46	1060.3	53	1255.9	57
Uses of debt financing	2290.2	100	2000.0	100	2195.6	100
Infrastructure	1063.9	46	872.2	44	901.5	41
Social Spending	178.7	8	156.9	8	157.0	7
Budget Financing	950.0	41	886.3	44	1048.1	48
Other	97.6	4.3	84.5	4.2	88.9	4.0
(Note) Some nonconcessional loans included in the 2015 priority list will be contracted in 2016. These loans will be counted against cumulative limits since the beginning of 2015.						

STAFF APPRAISAL

42. **Staff commends the authorities' efforts to stabilize the macroeconomic situation and reduce financial imbalances but the economic outlook remains challenging.** The fiscal adjustment in 2015 was substantial, despite the small wage overrun. External pressures subsided, contributing to stabilization of the exchange rate. Resolving the oil production problems and avoiding new electricity outages will be critical for overall economic activity. In light of ongoing fiscal consolidation and tight monetary policy, boosting private sector demand through implementation of structural reforms will be crucial. Inflation has remained more elevated than expected and there is a risk that continued persistence in headline inflation could generate some inertia in expectations.

43. **Staff urges the authorities to stay the course on fiscal consolidation for the remainder of 2016 and forcefully address contingent fiscal risks.** Revenue performance has been disappointing and shortfalls related to lower oil prices and subdued economic activity are regrettably to be expected this year. More effective efforts are needed in this area to provide an enhanced domestic revenue base for development spending in the future. In the meantime, given the financing constraints, expenditure control measures are needed and should be fully enforced to offset the revenue loss. In particular, the continued freeze on net hiring and payroll controls are critical for containing the wage bill within the budget limits. Continuous adjustment of the utility tariffs is also key for containing the need for subsidy payments and the risk of expenditure overruns.

Moreover, the continued implementation of the arrears clearance plan is crucial for supporting productive sectors, in particular the payment of arrears to the utility sector and oil importers. At the same time, it will be important to adhere strictly to the targets on social protection spending to mitigate the potential impact of fiscal consolidation on the poor. Gradually broadening the coverage of fiscal reporting will also be important for supporting continued fiscal discipline.

44. **Staff continues to support the authorities' medium-term debt management strategy to lengthen domestic maturities while taking a cautious approach to external commercial borrowing.** The shift in the net domestic financing mix towards medium-term securities will reduce the near-term gross borrowing requirement and debt vulnerabilities. Efforts to deepen the domestic debt market should be sustained and domestic liability management operations should be implemented to further reduce the refinancing risk in 2017. External market conditions should be monitored closely and further market access in 2017 should be considered only if there is a substantial reduction in Ghana's credit risk premium. Maintaining adequate cash buffers will be important for smooth cash management going forward.

45. **Initial steps taken to address SOEs financial problems are welcome, but more work is needed to further minimize their financial imbalances and reduce risks to the economy, the financial sector and the government budget from their underperformance.** The substantial increase in electricity tariffs and new levies on petroleum products implemented at end-2015 were courageous steps and have helped improve the financial position of SOEs in the energy sector. The agreement reached with domestic banks to refinance the debt of the power generation company and the refinery will help relieve some pressure. The comprehensive external audit and financial analysis of these SOEs will be another critical element to clarify and remedy the underlying factors of SOEs financial distress in a comprehensive and sustainable manner.

46. **A continued tight monetary policy stance, supported by a clear communication strategy, will be needed to achieve BoG's medium-term inflation target.** The current policy rate is consistent with inflation declining to the upper target band by mid-2017. However, the MPC should stand ready to tighten policy more aggressively if inflationary pressures do not recede as expected. Rapid implementation of the BoG's new communication strategy will also be important to help bring down expectations towards the inflation target, while continued commitment to the program and reserves accumulation will be critical to maintaining investor confidence and reducing the risk of extreme exchange rate volatility.

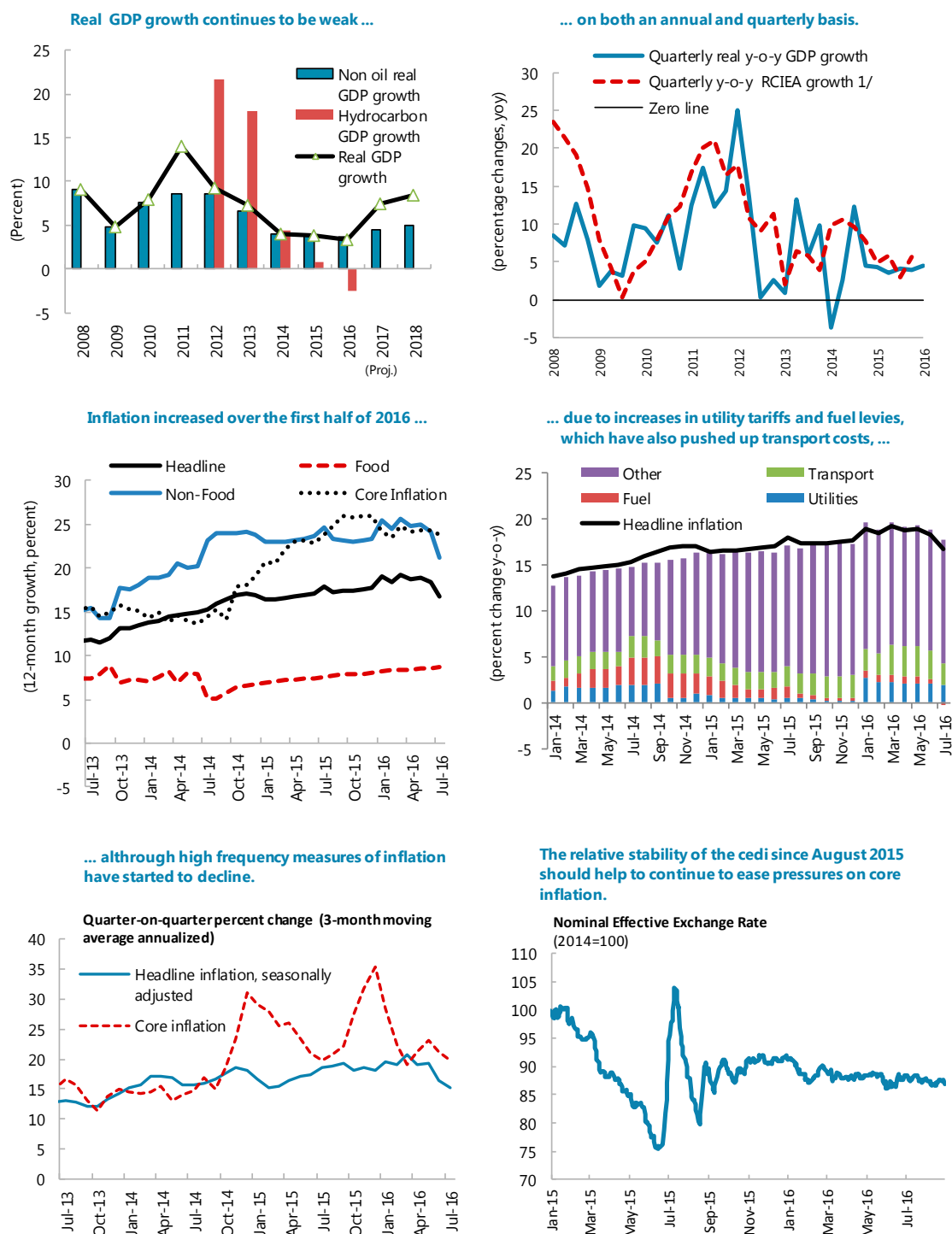
47. **Staff welcomes the adoption of important laws but urges the authorities to strengthen and broaden their efforts in structural reforms.** The new PFM act represents an improvement over existing laws in Ghana and should help consolidate the gains achieved through fiscal consolidation. Staff regrets the absence of certain provisions that would have further strengthened government fiscal accountability. Efforts to speed up the implementation of the TSA are welcome but more work to improve cash management is needed to further reduce borrowing costs going forward. Importantly, in view of regrettable delays, the further strengthening of payroll controls should receive new impetus, in particular with regard to the management of the subvented agencies' payroll and the biometric validation system. These will be important conditions for the

next program review. Possible capacity constraints should be addressed through more effective use of technical assistance.

48. **While the adoption of the amended Bank of Ghana Act introduces some improvements to safeguards, continued scope for central bank financing of the government as well as government influence of the central bank represent significant shortcomings of the new legislation.** The provision allowing central bank financing of up to 5 percent of previous years' revenue, as well as continued government influence on the Board—and the MPC—undermine the credibility of the inflation targeting framework. Staff supports the authorities' commitment to seek after the elections further amendments to the BoG Act through additional consultations with the new Parliament to remove these provisions and—as an interim measure—the recent extension to the Memorandum of Understanding between BoG and MOF, which upholds the zero financing principle until the end of 2017.

49. **Maintaining financial stability will require full and timely implementation of the BoG's roadmap for the banking system as well as legal amendments to the two recently passed banking laws.** Although the new banking sector legislation strengthens the authorities' toolkit, the legislation warrants further improvement to enable the authorities to effectively safeguard financial stability. Because a sound financial sector safety net is an essential underpinning of the BoG's roadmap to address the weaknesses in the banking system, these laws will require appropriate amendments to be adopted as soon as possible after the elections, in line with staff recommendations. Full and timely implementation of the roadmap will then be essential to strengthen financial stability and enhance the credibility of the BoG as banking supervisor.

50. **On balance, staff recommends completion of the third review under the ECF program.** Staff also recommends a waiver for the non-observance of the PCs at end-2015 on the wage bill and net domestic assets of Bank of Ghana based on the minor nature of the non-observance and the corrective actions taken. Staff recommends the approval of the authorities' request to modify the PCs on NIR, and the MPCC on inflation, as well as for setting indicative targets and structural benchmarks for March and June 2017.

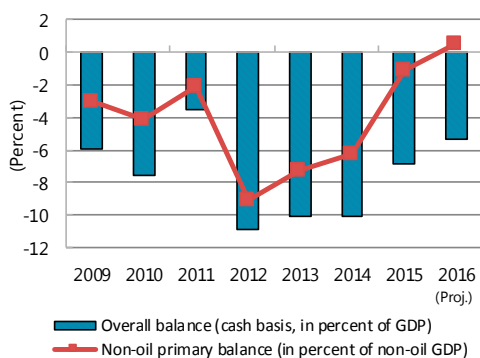
Figure 1. Ghana: Real Sector Indicators

Source: Ghanaian authorities and IMF staff estimates and projections.

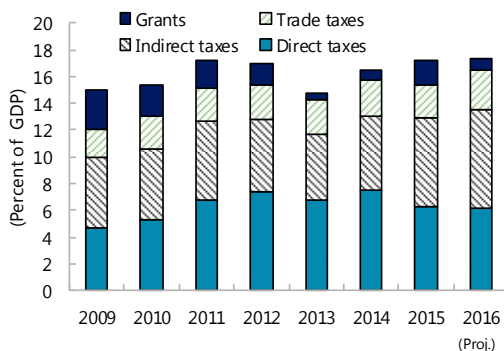
1/ The RCIEA is the Bank of Ghana's composite index of real economic activity.

Figure 2. Ghana: Fiscal Indicators

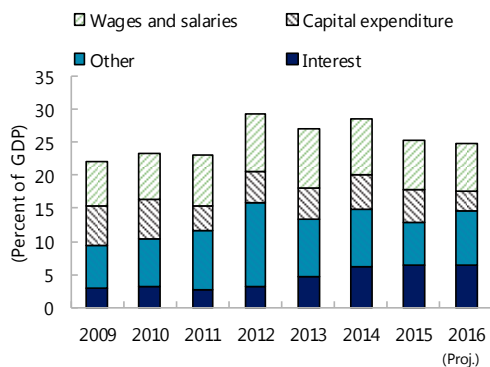
Fiscal performance in 2015-16 shows significant consolidation ...



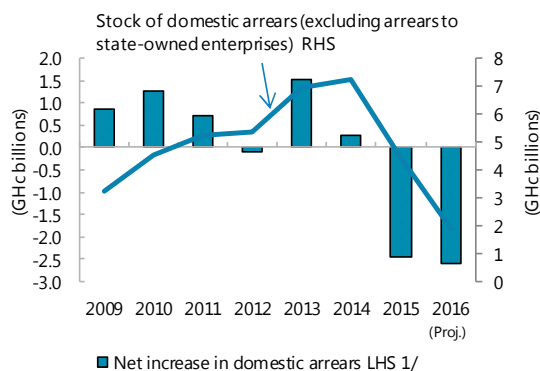
... reflecting both higher indirect and trade taxes ...



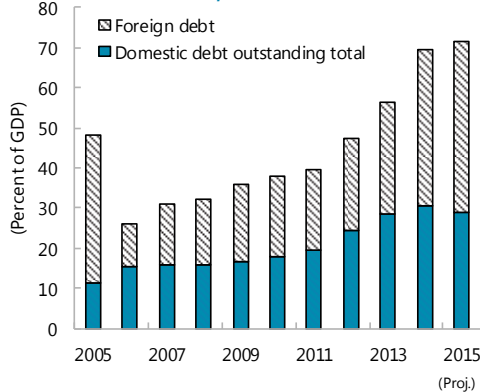
... and lower spending despite increasing interest payments, ...



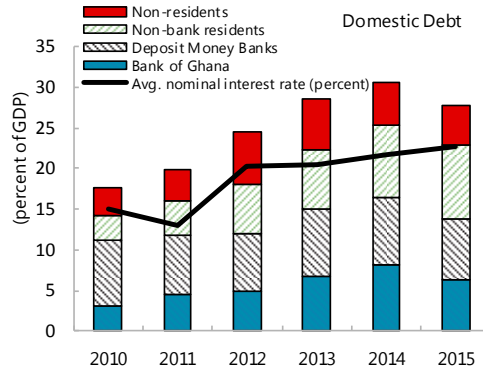
... as well as a significant reduction in the stock of arrears.



Government debt continued to increase up to 2015 albeit at a slower rate,...



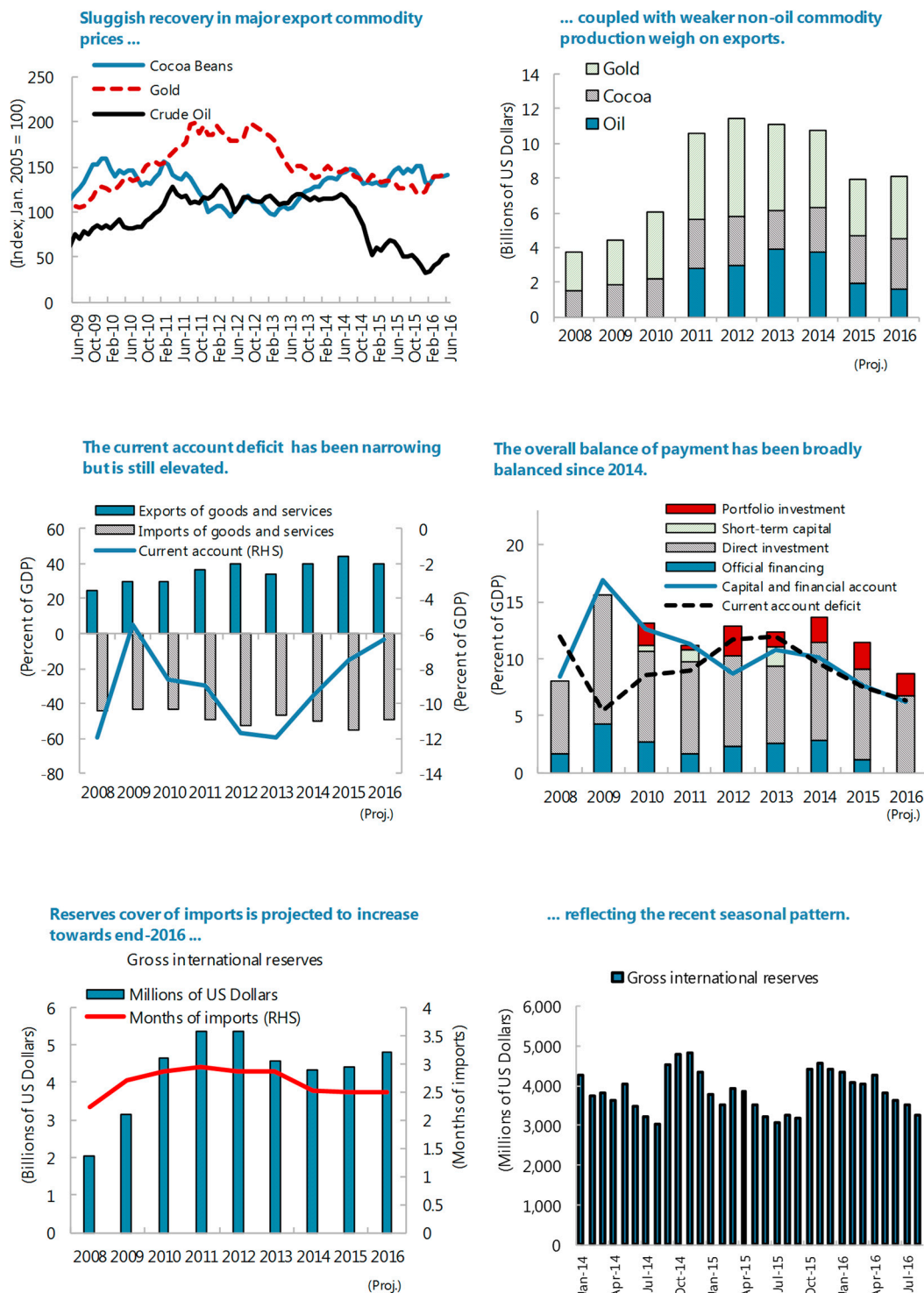
... with non-banks and non-residents holding a sizeable share in domestic debt, while interest rates increased.



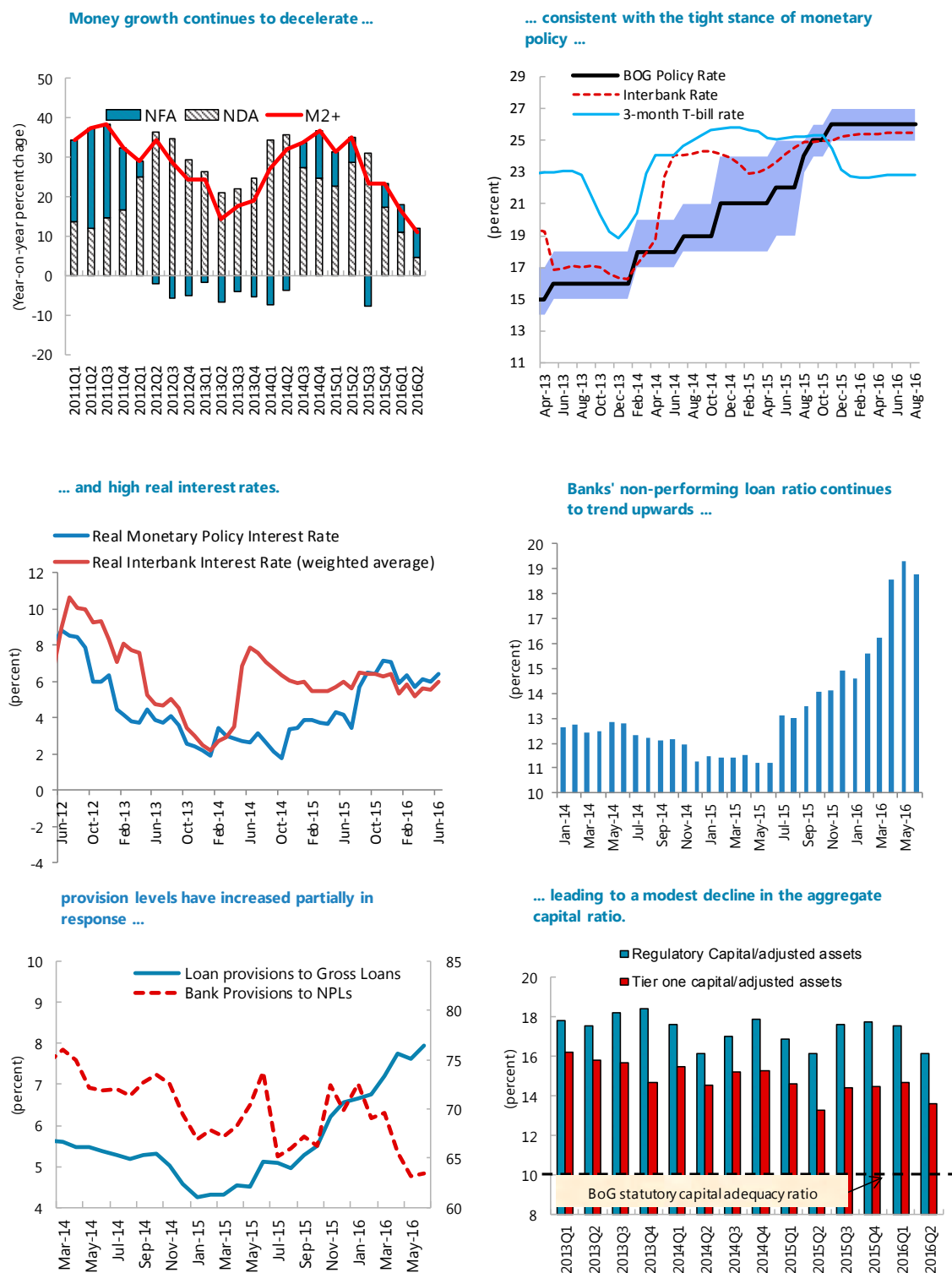
Source: Ghanaian authorities and IMF staff estimates.

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

Figure 3. Ghana: External Indicators



Source: Ghanaian authorities and IMF staff estimates.

Figure 4. Ghana: Monetary and Financial Indicators

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

Table 1. Ghana: Selected Economic and Financial Indicators, 2014–18

	2014	2015	2016	2017	2018
		Est.	Proj.	Proj.	Proj.
(Annual percentage change; unless otherwise indicated)					
National accounts and prices					
GDP at constant prices	4.0	3.9	3.3	7.4	8.4
Real GDP (nonoil)	4.0	4.1	3.7	4.5	5.0
Real GDP per capita	1.4	1.3	0.8	4.7	5.7
GDP deflator	16.7	18.8	15.3	10.1	5.7
Consumer price index (annual average)	15.5	17.2	17.1	10.0	7.0
Consumer price index (end of period)	17.0	17.7	13.5	8.0	6.0
Consumer price index (excl. food, end of period)	23.9	23.3	17.8	10.5	6.0
Terms of trade	-5.8	7.3	8.0	-4.2	-1.5
Money and credit					
Credit to the private sector	42.0	24.7	7.4	14.2	14.7
Broad money (M2+)	36.8	23.3	14.4	15.1	14.1
Velocity (non-oil GDP/M2+, end of period)	2.9	2.9	3.1	3.1	3.1
Base money	30.2	24.2	14.7	15.7	15.8
Banks' lending rate (weighted average, percent)	29.0	27.5	...	...	...
Policy rate (in percent, end of period)	21.0	26.0	...	...	...
(Percent of GDP)					
Gross capital formation	26.6	24.6	22.5	23.2	24.0
Government	5.7	5.1	3.1	2.9	2.8
Private	20.0	18.7	18.7	19.7	20.7
National savings	17.0	17.1	16.1	17.1	19.0
Government	-5.2	0.4	-0.7	0.9	0.5
Private ¹	22.2	16.7	16.8	16.2	18.5
Foreign savings	-9.6	-7.5	-6.4	-6.1	-5.0
External sector					
Current account balance	-9.6	-7.5	-6.4	-6.1	-5.0
NPV of external debt outstanding ²		43.8	43.1	42.3	39.7
percent of exports of goods and services		100.0	108.2	102.0	95.6
Gross international reserves (millions of US\$)	4,349	4,403	5,140	5,976	6,657
months of prospective imports of goods and services	2.5	2.5	2.7	2.9	3.1
Total donor support (millions of US\$)	1,092	1,411	844	637	466
percent of GDP	2.8	3.7	2.0	1.4	0.9
Central government budget					
Revenue	18.4	19.2	19.4	19.2	18.7
Expenditure	28.5	25.4	24.6	22.7	21.7
Overall balance ³	-10.1	-6.9	-5.2	-3.5	-3.0
Net domestic financing	7.8	1.7	3.7	2.3	2.4
Central government debt (gross)	70.2	71.8	67.7	63.6	60.0
Domestic debt	31.0	29.0	27.9	26.0	25.1
External debt	39.1	42.8	39.8	37.7	35.0
Memorandum items:					
Nominal GDP (millions of GHc)	113,343	139,936	166,768	197,136	225,779
GDP per capita (US\$)	1,473	1,402	1,551	1,648	1,769

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

¹ Including public enterprises and errors and omissions.² Including domestic debt held by non-residents, external debt incurred by main state-owned enterprises, and debt incurred by Bank of Ghana for reserve management purposes.³ Excludes discrepancy.

Table 2a. Ghana: Summary of Budgetary Central Government Operations, 2014–18
(GFS 2001, Cash Basis)

	2014	2015		2016		2017	2018
		Prog.	Est.	Prog.	Proj.	Proj.	Proj.
(In percent of GDP)							
Revenue	18.4	19.2	19.2	21.4	19.4	19.2	18.7
Taxes	15.8	16.4	15.3	17.8	16.4	16.6	16.2
Direct taxes	7.5	6.9	6.2	7.6	6.1	6.3	6.1
Indirect taxes	5.5	6.6	6.6	6.8	7.4	7.6	7.3
Trade taxes	2.7	2.9	2.5	3.5	2.9	2.7	2.7
Other tax revenues	0.2	0.1	0.2	0.2	0.2	0.1	0.2
Other revenue	1.8	1.3	1.7	2.3	1.8	1.9	1.9
Grants	0.7	1.4	1.9	1.0	1.0	0.6	0.4
Expenditure	28.5	26.7	25.4	26.7	24.6	22.7	21.7
Expense	23.1	22.1	20.9	22.5	21.5	19.8	18.9
Compensation of employees	9.7	9.5	9.2	8.9	8.4	8.2	8.0
Wages and salaries	8.3	7.7	7.5	7.4	7.0	7.0	6.8
Deferred wage payments	0.5	0.3	0.6	0.0	0.2	0.0	0.0
Social contributions	0.9	1.5	1.1	1.5	1.2	1.2	1.2
Purchases of goods and services	1.6	1.1	1.0	1.8	1.2	0.9	1.1
Interest	6.2	7.2	6.5	6.6	6.4	5.7	5.3
Domestic	5.4	6.0	5.2	5.2	5.1	4.6	4.2
Foreign	0.9	1.2	1.3	1.4	1.3	1.2	1.1
Subsidies	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Social transfers	0.0	0.1	0.0	0.1	0.1	0.1	0.1
Grants to Other Government Units	2.1	3.2	3.0	3.5	3.9	4.0	4.4
Other expense ¹	3.1	0.9	1.1	1.5	1.4	1.0	0.0
Net acquisition of nonfinancial assets	5.4	4.6	5.1	4.2	3.1	2.9	2.8
Domestic financing ²	1.1	1.3	0.9	1.1	0.2	0.6	0.8
Foreign financing	4.3	3.3	4.2	3.1	2.9	2.2	2.1
Overall balance (excluding discrepancy)	-10.1	-7.5	-6.9	-5.3	-5.2	-3.5	-3.0
Discrepancy	0.0	0.0	-0.6	0.0	0.0	0.0	0.0
Net lending / borrowing (overall balance)	-10.1	-7.5	-6.3	-5.3	-5.2	-3.5	-3.0
Net financial transactions	-10.1	-7.5	-6.3	-5.3	-5.2	-3.5	-3.0
Net acquisition of financial assets ³	2.9	-0.4	-0.3	0.0	-0.1	-0.4	0.2
Net incurrence of liabilities	13.0	7.1	5.9	5.3	5.1	3.1	3.2
Domestic	7.8	4.8	1.7	2.9	3.7	2.3	2.4
Debt securities	7.8	4.8	1.7	2.9	3.7	2.3	2.4
Bank of Ghana	3.8	0.9	-1.3	0.0	0.0	0.0	0.0
Deposit Money Bank	1.2	1.5	0.5	0.4	0.5	0.5	0.6
Nonbanks	2.8	2.4	2.5	2.4	3.2	1.9	1.8
Foreign	5.2	2.3	4.2	2.4	1.4	0.7	0.8
Loans	6.4	4.4	6.2	4.5	4.2	3.0	2.6
Amortization	-1.2	-2.1	-2.0	-2.0	-2.8	-2.3	-1.8
Memorandum items:							
Oil revenue	2.5	0.9	1.0	1.1	0.8	1.3	1.8
Non-oil revenue	16.4	17.9	17.1	20.4	18.2	18.2	17.7
Primary balance ⁴	-3.9	-0.3	-0.4	1.3	1.1	2.2	2.3
Non-oil primary balance (percent non-oil GDP) ⁵	-6.8	-1.3	-1.5	0.2	0.4	0.9	1.9
Nominal GDP (millions of GHc)	113,343	133,344	139,936	158,454	166,768	197,136	225,779

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

¹ Includes payments of cash arrears and promissory notes to statutory funds.

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

³ Depository institutions deposits, net transfers to oil fund, and divestiture receipts (net).

⁴ Excludes discrepancy

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

Table 2b. Ghana: Summary of Budgetary Central Government Operations, 2014–18
(GFS 2001, Cash Basis)

	2014	2015		2016		2017	2018
		Prog.	Est.	Prog.	Proj.	Proj.	Proj.
(Millions of GHc, unless otherwise specified)							
Revenue	20,874	25,608	26,824	33,881	32,359	37,940	42,151
Taxes	17,855	21,822	21,455	28,244	27,374	32,740	36,475
Direct taxes	8,487	9,136	8,707	12,072	10,200	12,452	13,744
Indirect taxes	6,278	8,796	9,300	10,696	12,407	14,917	16,572
Trade taxes	3,091	3,889	3,449	5,476	4,767	5,371	6,159
Other tax revenues	218	183	289	352	353	293	375
Other revenue	1,986	1,671	2,391	3,678	3,043	3,688	4,325
Grants	814	1,932	2,689	1,608	1,589	1,219	976
Expenditure	32,277	35,607	35,571	42,288	41,051	44,828	49,014
Expense	26,232	29,519	29,277	35,611	35,875	39,130	42,672
Compensation of employees	11,034	12,684	12,917	14,024	14,059	16,072	18,059
Wages and salaries	9,449	10,286	10,556	11,723	11,723	13,721	15,418
Deferred wages	568	371	806	0	280	0	0
Social Contributions	1,018	2,026	1,555	2,301	2,056	2,350	2,641
Purchases of goods and services	1,777	1,519	1,388	2,908	2,078	1,775	2,448
Interest	7,081	9,577	9,075	10,490	10,600	11,297	11,982
Domestic	6,111	8,034	7,313	8,317	8,427	8,991	9,435
Foreign	970	1,543	1,762	2,173	2,173	2,305	2,547
Subsidies	474	50	25	50	50	50	50
Social transfers	0	167	0	202	209	241	272
Grants to Other Government Units	2,354	4,331	4,267	5,624	6,566	7,793	9,862
Other expense ¹	3,513	1,190	1,604	2,313	2,313	1,903	0
Net acquisition of nonfinancial assets	6,096	6,088	7,134	6,677	5,177	5,698	6,342
Domestic financing ²	1,265	1,689	1,215	1,783	413	1,279	1,708
Foreign financing	4,830	4,399	5,919	4,894	4,763	4,419	4,635
Overall balance (excluding discrepancy)	-11,454	-10,000	-9,586	-8,407	-8,693	-6,888	-6,864
Discrepancy	-51	0	-839	0	0	0	0
Net lending / borrowing (overall balance)	-11,403	-10,000	-8,747	-8,407	-8,693	-6,888	-6,864
Net financial transactions	-11,403	-10,000	-8,747	-8,407	-8,693	-6,888	-6,864
Net acquisition of financial assets ³	3,299	-487	-445	0	-145	-847	395
Net incurrence of liabilities	14,702	9,512	8,302	8,407	8,547	6,041	7,259
Domestic	8,828	6,440	2,424	4,544	6,150	4,585	5,455
Debt securities	8,828	6,440	2,424	4,544	6,150	4,585	5,455
Bank of Ghana	4,299	1,261	-1,821	0	0	0	0
Deposit Money Bank	1,404	1,978	692	686	763	917	1,364
Nonbanks	3,125	3,201	3,553	3,858	5,388	3,668	4,091
Foreign	5,874	3,073	5,878	3,863	2,397	1,456	1,804
Loans	7,205	5,872	8,612	7,063	7,005	5,964	5,860
Amortization	-1,331	-2,799	-2,734	-3,200	-4,608	-4,508	-4,056
Memorandum items:							
Oil revenue	2,785	1,204	1,423	1,730	1,333	2,653	4,134
Non-oil revenue	17,274	22,472	22,712	30,543	29,438	34,068	37,041
Primary balance ⁴	-4,373	-423	-511	2,083	1,908	4,408	5,118
Non-oil primary balance ⁵	-7,158	-1,626	-1,934	353	575	1,755	3,878
Nominal GDP (millions of GHc)	113,343	133,344	139,936	158,454	166,768	197,136	225,779

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

¹ Includes payments of cash arrears and promisory notes to statutory funds.

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

³ Depository institutions deposits, net transfers to oil fund, and divestiture receipts (net).

⁴ Divestiture receipts (net).

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

Table 2b. Ghana: Summary of Budgetary Central Government Operations, 2014–18
(GFS 2001, Commitment Basis)

	2014	2015		2016	2017	2018
		Prog.	Proj.	Proj.	Proj.	Proj.
	(In percent of GDP)					
Revenue	18.4	19.2	19.2	19.4	19.2	18.7
Taxes	15.8	16.4	15.3	16.4	16.6	16.2
Direct taxes	7.5	6.9	6.2	6.1	6.3	6.1
Indirect taxes	5.5	6.6	6.6	7.4	7.6	7.3
Trade taxes	2.7	2.9	2.5	2.9	2.7	2.7
Other tax revenues	0.2	0.1	0.2	0.2	0.1	0.2
Other revenue	1.8	1.3	1.7	1.8	1.9	1.9
Grants	0.7	1.4	1.9	1.0	0.6	0.4
Expenditure	29.3	25.5	23.7	23.1	21.3	21.0
Expense	23.7	21.0	19.2	20.0	18.4	18.2
Compensation of employees	10.9	9.2	8.7	8.3	8.2	8.0
Wages and salaries ¹	9.0	7.7	7.5	7.0	7.0	6.8
Social Contributions	1.8	1.5	1.1	1.2	1.2	1.2
Purchases of goods and services	1.6	1.1	1.0	1.2	0.9	1.1
Interest	6.2	7.2	6.5	6.4	5.7	5.3
Domestic ²	5.4	6.0	5.2	5.1	4.6	4.2
Foreign	0.9	1.2	1.3	1.3	1.2	1.1
Subsidies	1.8	0.0	0.0	0.0	0.0	0.0
Social transfers	0.0	0.1	0.0	0.1	0.1	0.1
Grants to Other Government Units ²	3.2	3.2	3.0	3.9	3.5	3.6
Other expense ³	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets	5.7	4.6	5.1	3.1	2.9	2.8
Domestic financing ⁴	1.4	1.3	0.9	0.2	0.6	0.8
Foreign financing	4.3	3.3	4.2	2.9	2.2	2.1
Overall balance (excluding discrepancy)	-10.9	-6.3	-5.1	-3.7	-2.0	-2.3
Discrepancy	0.0	0.0	-0.6	0.0	0.0	0.0
Net lending / borrowing (overall balance)	-10.9	-6.3	-4.5	-3.7	-2.0	-2.3
Net financial transactions	-10.9	-6.3	-4.5	-3.7	-2.0	-2.3
Net acquisition of financial assets ⁵	2.9	-0.4	-0.3	-0.1	-0.4	0.2
Net incurrence of liabilities	13.8	6.0	4.2	3.6	1.6	2.5
Domestic ⁶	8.6	3.7	0.0	2.1	0.9	1.7
Debt securities	7.8	4.8	1.7	3.7	2.3	2.4
Bank of Ghana	3.8	0.9	-1.3	0.0	0.0	0.0
Deposit Money Bank	1.2	1.5	0.5	0.5	0.5	0.6
Nonbanks	2.8	2.4	2.5	3.2	1.9	1.8
Other accounts payable ⁶	0.2	-1.2	-1.7	-1.4	-1.0	0.0
Foreign	5.2	2.3	4.2	1.4	0.7	0.8
Loans	6.4	4.4	6.2	4.2	3.0	2.6
Amortization	-1.2	-2.1	-2.0	-2.8	-2.3	-1.8
Memorandum items:						
Oil revenue	2.5	0.9	1.0	0.8	1.3	1.8
Non-oil revenue	16.4	21.0	17.1	18.2	18.2	17.7
Primary balance ⁸	-4.7	0.9	1.4	2.7	3.7	3.0
Non-oil primary balance (commitment, percent non-oil GC	-7.7	-0.1	0.4	2.0	2.5	2.6
Nominal GDP (millions of GHc)	113,343	133,344	139,936	166,768	197,136	225,779

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

¹ Includes deferred wage payments.

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

³ Includes promissory notes to statutory funds.

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

⁵ Depository Institutions Deposits, Net transfers to Oil Fund, and divestiture receipts (net).

⁶ Divestiture receipts (net).

⁶ Reflects net change in arrears stock.

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

⁸ Excludes discrepancy

Table 2d. Ghana: Summary of Budgetary Central Government Operations, 2014–18 (GFS 2001, Commitment Basis)

	2014	2015		2016	2017	2018
		Prog.	Est.	Proj.	Proj.	Proj.
(Millions of GHc, unless otherwise specified)						
Revenue	20,874	25,608	26,824	32,359	37,940	42,151
Taxes	17,855	21,822	21,455	27,374	32,740	36,475
Direct taxes	8,487	9,136	8,707	10,200	12,452	13,744
Indirect taxes	6,278	8,796	9,300	12,407	14,917	16,572
Trade taxes	3,091	3,889	3,449	4,767	5,371	6,159
Other tax revenues	218	183	289	353	293	375
Other revenue	1,986	1,671	2,391	3,043	3,688	4,325
Grants	814	1,932	2,689	1,589	1,219	976
Expenditure	33,219	34,046	33,162	38,458	41,957	47,359
Expense	26,852	27,957	26,867	33,282	36,259	41,016
Compensation of employees	12,318	12,313	12,111	13,779	16,072	18,059
Wages and salaries ¹	10,254	10,286	10,556	11,723	13,721	15,418
Social contributions	2,064	2,026	1,555	2,056	2,350	2,641
Purchases of goods and services	1,777	1,519	1,388	2,078	1,775	2,448
Interest	7,081	9,577	9,075	10,600	11,297	11,982
Domestic ²	6,111	8,034	7,313	8,427	8,991	9,435
Foreign	970	1,543	1,762	2,173	2,305	2,547
Subsidies ²	2,079	50	25	50	50	50
Social transfers	0	167	0	209	241	272
Grants to Other Government Units ²	3,598	4,331	4,267	6,566	6,825	8,206
Other expense ³	0	0	0	0	0	0
Net acquisition of nonfinancial assets	6,418	6,088	7,134	5,177	5,698	6,342
Domestic financing ⁴	1,588	1,689	1,215	413	1,279	1,708
Foreign financing	4,830	4,399	5,919	4,763	4,419	4,635
Overall balance (excluding discrepancy)	-12,396	-8,438	-7,177	-6,099	-4,017	-5,208
Discrepancy	-51	0	-839	0	0	0
Net lending / borrowing (overall balance)	-12,345	-8,438	-6,338	-6,099	-4,017	-5,208
Net financial transactions	-12,345	-8,438	-6,338	-6,099	-4,017	-5,208
Net acquisition of financial assets ⁵	3,299	-487	-445	-145	-847	395
Net incurrence of liabilities	15,644	7,951	5,892	5,954	3,170	5,603
Domestic ⁶	9,770	4,878	14	3,557	1,713	3,800
Debt securities	8,828	6,440	2,424	6,150	4,585	5,455
Bank of Ghana	4,299	1,261	-1,821	0	0	0
Deposit Money Bank	1,404	1,978	692	763	917	1,364
Nonbanks	3,125	3,201	3,553	5,388	3,668	4,091
Other accounts payable ⁶	282	-1,561	-2,409	-2,313	-1,904	0
Foreign	5,874	3,073	5,878	2,397	1,456	1,804
Loans	7,205	5,872	8,612	7,005	5,964	5,860
Amortization	-1,331	-2,799	-2,734	-4,608	-4,508	-4,056
Memorandum items:						
Oil revenue	2,785	1,204	1,423	1,333	2,653	4,134
Non-oil revenue	17,274	22,472	22,712	29,438	34,068	37,041
Primary balance ⁸	-5316	1139	1899	4501	7280	6774
Non-oil primary balance ⁷	-8,101	-65	476	3,168	4,627	5,533
Nominal GDP (millions of GHc)	113,343	133,344	139,936	166,768	197,136	225,779

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

¹ Includes deferred wage payments.

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

³ Includes promissory notes to statutory funds.

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

⁵ Depository Institutions Deposits, Net transfers to Oil Fund, and divestiture receipts (net).

⁶ Reflects net change in arrears stock.

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

⁸ Excludes discrepancy

Table 3. Ghana: Monetary Survey, 2014–18¹

	2014	2015		2016		2017	2018
		Prog.	Est.	Prog.	Proj.	Proj.	Proj.
(In millions of GHc, unless otherwise indicated)							
I. Monetary Survey							
Net foreign assets	8,991	11,135	11,188	18,664	16,925	21,759	28,305
Net domestic assets	27,852	33,933	34,244	31,976	35,038	38,053	39,956
Domestic claims	41,504	50,392	46,427	56,058	50,245	56,583	62,943
Net claims on central government	13,906	17,583	12,832	16,480	13,814	15,577	16,941
Claims on other sectors	27,597	32,809	33,595	39,578	36,431	41,005	46,002
Claims on public non-financial corporations	5,257	3,348	3,530	3,965	4,302	4,642	4,642
Claims on private sector	22,281	27,176	27,781	33,328	29,845	34,079	39,075
Other	59	2,284	2,284	2,284	2,284	2,284	2,284
Other items (net)	-13,652	-16,460	-12,182	-24,082	-15,207	-18,530	-22,987
Money and quasi-money (M3)	36,843	45,068	45,432	50,640	51,962	59,812	68,261
Broad money (M2)	27,530	32,706	33,871	35,150	39,269	45,427	52,616
Foreign exchange deposits	9,313	12,362	11,562	15,490	12,693	14,385	15,644
II. Central Bank							
Net foreign assets	8,678	9,382	9,954	15,978	12,981	16,725	22,234
Net domestic assets	3,107	4,595	4,682	-696	3,801	2,688	252
Net domestic claims	4,876	7,050	8,860	5,299	9,870	10,993	9,333
Claims on other depository corporations	-5,507	-4,594	-1,054	-5,884	-263	13	-1,647
Net claims on central government	6,888	8,149	6,419	7,688	6,638	7,485	7,485
Claims on other sectors ²	3,496	3,496	3,496	3,496	3,496	3,496	3,496
Other items (net) ³	-1,769	-2,455	-4,178	-5,995	-6,069	-8,305	-9,081
Base money ⁴	11,785	13,977	14,636	15,283	16,782	19,413	22,486
Currency in circulation (net of cash in vaults)	6,896	8,106	8,510	9,720	10,312	12,654	15,125
Currency in banks (cash in vault)	846	942	1,026	993	1,104	1,191	1,278
Bank deposits in BOG ⁴	3,274	4,228	4,024	3,870	4,290	4,492	5,006
Liabilities to other sectors	769	700	1,076	700	1,076	1,076	1,076
Memorandum items:							
(In 12-month percentage change; unless otherwise indicated)							
Base money	30.2	18.6	24.2	16.3	14.7	15.7	15.8
M2	33.0	18.8	23.0	16.3	15.9	15.7	15.8
M2+ ⁵	36.8	22.3	23.3	16.0	14.4	15.1	14.1
Credit to the private sector	42.0	22.0	24.7	18.4	7.4	14.2	14.7
M2-to-GDP ratio (in percent)	24.3	24.5	24.2	22.2	23.5	23.0	23.3
M2-to-Non-Oil GDP ratio (in percent)	26.1	26.1	25.6	23.5	24.3	24.3	25.2
Base money multiplier (M2/base money)	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Credit to the private sector (in percent of GDP)	19.7	20.4	19.9	21.0	17.9	17.3	17.3

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

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

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

² Excludes foreign encumbered assets and oil funds.

³ Revised definition does not include swaps with resident banks as short-term foreign liabilities.

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

Table 5. Ghana: External Financing Requirements and Sources, 2015–17
(Millions of U.S. dollars)

	2015	2016	2017
		proj.	
I. Total financing requirements	-6,201	-5,936	-5,356
Current account balance (excl. official transfers)	-3,031	-2,780	-2,841
o/w: Exports	10,357	10,634	12,528
Imports	-13,465	-13,774	-15,237
Debt amortization ¹	-790	-915	-1,020
Private financing (net)	-1,455	-1,065	-800
Short-term (net) ²	-870	-440	141
Gross reserves accumulation ³	-54	-737	-837
II. Total available financing	5,547	5,473	4,853
Project grants	474	375	284
Disbursement from external creditors	1,165	846	800
Foreign direct investment (net)	2,971	2,886	3,030
Portfolio investment (net)	900	1,384	739
Oil Funds (net)	38	-19	0
III. Financing gap	-653	-464	-503
IV. Expected sources of Financing	421	232	154
Other IFIs (WB, AfDB)	207	200	150
Other program support	214	32	4
of which: Program grants	195	32	4
of which: Bilateral program loans	19	0	0
V. Residual gap	-232	-232	-349
ECF program	232	232	349
Memorandum items:			
Gross international reserves ³			
Millions of U.S. Dollars	4,403	5,140	5,976
Months of imports	2.5	2.7	2.9
Net international reserves ⁴			
Millions of US dollars	3,094	3,726	4,339
Months of imports	1.8	1.9	2.1
Exchange rate (GHS/USD); pa	3.7	3.9	4.2
Current account balance (in % of GDP)	-7.5	-6.4	-6.1
Nominal GDP (USD million)	37,687	42,761	46,610
Oil prices (USD / bbl)	52.4	44.5	52.6
Change in BoG's external liabilities (+ = increase)	-50.0	-62.5	-50.0

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.

3 Reserves accumulation is set at the same level as for the 2nd review.

4 Net international reserves do not include augmentation.

Table 6. Ghana: Indicators of Capacity to Repay the Fund, 2016–2030

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Fund obligations based on existing credit (in millions of SDRs)															
Principal	46.3	53.7	77.5	77.5	64.1	83.2	73.6	49.8	49.8	41.5	8.3	0.0	0.0	0.0	0.0
Charges and interest	0.1	0.1	0.1	1.1	1.0	0.8	0.6	0.4	0.3	0.2	0.1	0.1	0.1	0.1	0.1
Fund obligations based on existing and prospective credit (in millions of SDRs)															
Principal	46.3	53.7	77.5	77.5	64.1	83.2	106.9	124.5	132.8	124.5	91.3	49.8	8.3	0.0	0.0
Charges and interest	0.1	0.1	0.1	2.2	2.0	1.8	1.6	1.3	1.0	0.6	0.4	0.2	0.1	0.1	0.1
Total obligations based on existing and prospective credit															
In millions of SDRs	46.4	53.8	77.6	79.7	66.1	85.0	108.4	125.8	133.8	125.2	91.7	50.0	8.4	0.1	0.1
In millions of US\$	64.9	75.5	109.2	112.5	93.7	120.3	153.4	178.1	189.3	177.1	129.8	70.8	11.9	0.2	0.2
In percent of gross international reserves	1.3	1.3	1.6	1.5	1.2	1.3	1.4	1.5	1.5	1.2	0.8	0.4	0.1	0.0	0.0
In percent of exports of goods and services	0.4	0.4	0.5	0.5	0.4	0.5	0.6	0.6	0.6	0.6	0.4	0.2	0.0	0.0	0.0
In percent of debt service ¹	2.9	3.0	4.6	5.0	3.9	4.8	6.1	5.2	6.9	6.0	4.0	2.2	0.3	0.0	0.0
In percent of GDP	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0
In percent of quota	6.3	7.3	10.5	10.8	9.0	11.5	14.7	17.1	18.1	17.0	12.4	6.8	1.1	0.0	0.0
Outstanding Fund credit															
In millions of SDRs	662.1	857.5	863.0	785.5	721.4	638.2	531.4	406.8	274.0	149.5	58.1	8.3	0.0	0.0	0.0
In millions of US\$	926.8	1204.5	1216.2	1111.4	1021.6	902.6	751.5	575.4	387.5	211.4	82.2	11.7	0.0	0.0	0.0
In percent of gross international reserves	18.0	20.2	18.3	14.9	13.1	9.7	6.9	4.8	3.0	1.5	0.5	0.1	0.0	0.0	0.0
In percent of exports of goods and services	5.3	6.0	5.5	4.6	4.0	3.4	2.8	2.1	1.3	0.7	0.3	0.0	0.0	0.0	0.0
In percent of debt service ¹	40.8	48.1	51.7	49.8	42.3	36.3	30.1	16.8	14.1	7.2	2.5	0.4	0.0	0.0	0.0
In percent of GDP	2.2	2.6	2.4	2.0	1.7	1.4	1.1	0.8	0.5	0.2	0.1	0.0	0.0	0.0	0.0
In percent of quota	89.7	116.2	116.9	106.4	97.8	86.5	72.0	55.1	37.1	20.3	7.9	1.1	0.0	0.0	0.0
Net use of Fund credit (in millions of SDRs)															
Disbursements	166.1	249.1	83.0	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	46.3	53.7	77.5	77.5	64.1	83.2	106.9	124.5	132.8	124.5	91.3	49.8	8.3	0.0	0.0
Memorandum items:															
Nominal GDP (in millions of US\$)	42,761	46,610	51,293	55,807	60,171	64,534	68,890	73,876	79,428	85,446	92,052	99,303	107,143	115,651	124,851
Exports of goods and services (in millions of US\$)	17,426	20,163	22,239	23,991	25,305	26,308	26,905	27,911	29,201	30,578	32,180	34,032	35,888	37,760	39,815
Gross international reserves (in millions of US\$)	5,140	5,976	6,657	7,444	7,820	9,318	10,879	11,972	13,014	14,367	15,677	17,322	18,983	19,956	20,997
Debt service (in millions of US\$)	2,272	2,507	2,351	2,232	2,413	2,485	2,498	3,418	2,756	2,934	3,271	3,276	3,924	4,314	4,600
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.

Table 7. Ghana: Proposed Schedule of Reviews and Disbursements Under the ECF Agreement, 2015–17¹

Amount of Purchase		Availability Date	Conditions
Millions of SDR	Percent of Quota ²		
83.025	11.25	April 3, 2015	Executive Board approval of the three-year ECF arrangement
83.025	11.25	August 31, 2015	The Executive Board completed the First Review under the three-year ECF Arrangement
83.025	11.25	January 13, 2016	The Executive Board completed the Second Review under the three-year ECF Arrangement
83.025	11.25	September 28, 2016	The Executive Board completed the Third Review under the three-year ECF Arrangement
83.025	11.25	November 15, 2016	Observance of the performance criteria for June 30, 2016, and completion of the fourth review under the arrangement
83.025	11.25	April 15, 2017	Observance of the performance criteria for December 31, 2016, and completion of the fifth review under the arrangement
83.025	11.25	October 15, 2017	Observance of the performance criteria for June 30, 2017, and completion of the sixth review under the arrangement
83.025	11.25	March 15, 2018	Observance of the performance criteria for December 31, 2017, and completion of the seventh 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 738 SDR millions. Effective January 26, 2016, Ghana's quota doubled, from 369 SDR millions previously.

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

Annex I. Risk Assessment Matrix

Nature/Source of Main Threats	Likelihood of Severe Realization of Threats in the Next 1–3 Years (high, medium or low)	Impact if Realized (high, medium or low)
<p>1. Tight domestic and external financing conditions and more volatile global financial conditions triggered by fear of significant slowdown in China and other large advanced and emerging economies, rise in risk premia with flight to quality, persistently low oil prices, and/or deterioration of market confidence.</p>	<p>High</p> <ul style="list-style-type: none"> Government will have a series of medium-sized rollover of domestic bonds. The government will rely on foreign financing of the deficit, including the domestic bond holding of non-residents. Net financing from Eurobonds is likely to be below initial projections. 	<p>High</p> <ul style="list-style-type: none"> Failure to roll over debt would generate a financing gap. Reduced external financing and capital outflows would worsen the already low foreign reserve cover. Combined with a large current account deficit, this could put pressure on the exchange rate. A recurrence of currency depreciation could further increase inflationary pressures, increase domestic interest rates, and raise the cost of debt service. Economic growth and imports could have to decline to bring about the required adjustment in the current account deficit.
<p>2. Persistently lower energy prices triggered by supply factors reversing only gradually.</p> <p>Further decline in other commodity prices.</p>	<p>High</p> <ul style="list-style-type: none"> Commodity exports account for 85 percent of total merchandise exports. Further fall in commodity prices, in particular oil, gold or cocoa, could result in a sharp contraction of exports and a further widening of the current account deficit—though part of this would be offset by lower profit and dividend payments. 	<p>High</p> <ul style="list-style-type: none"> A further increase in the current account deficit would reduce an already low reserve buffer, triggering increased exchange rate pressures. Significant currency depreciation could raise inflationary pressures and the cost of foreign debt service. Economic growth and imports would decline.
<p>3. Delayed fiscal adjustment in 2016 election year</p>	<p>Medium</p> <ul style="list-style-type: none"> A revenue shortfall or spending overrun (e.g., from higher-than-budgeted election costs and/or wage bill) could compromise the 2016 fiscal target, with little room for discretionary tightening. Government finances can come under further pressure due to the worsening financial condition of SOEs. The government's strategy with respect to handling SOE finances is not clear, though recent utility tariff increases have helped. 	<p>High</p> <ul style="list-style-type: none"> Failure to achieve the budget targets would prolong a situation of high real interest rates, depreciation pressures, and double-digit inflation. Debt dynamics, which have already become more precarious due to lower projected oil prices, could worsen further. This would reduce capacity to handle shocks and crowd out space for infrastructure and social priority spending.

4. Continued elevated inflationary pressures	<p>Medium</p> <ul style="list-style-type: none"> While inflation remains elevated, there are encouraging signs that underlying inflationary pressures have started to decline. However, downside risk persists including possibility of fiscal slippages, volatility in the exchange rate, and second round effects from utility price increases. 	<p>Medium</p> <ul style="list-style-type: none"> Persistent inflationary pressures would require a further monetary policy tightening, raising funding costs for the government. A generalized increase in inflation would disproportionately affect lower income groups.
<p>5. Longer than expected disruption in oil production at the Jubilee field.</p> <p>Reemergence of the power crisis due to disruptions in gas supply from the Jubilee field and Nigeria.</p>	<p>Medium</p> <ul style="list-style-type: none"> After temporary repairs, production at the Jubilee field has recommenced. A further downtime of about two weeks in 2016 and one month in 2017 is expected. However, there is risk of longer disruptions if a different repair strategy needs to be adopted or if repairs do not go according to plan. The addition of new power plants to the grid means that there is enough generation capacity now to meet demand. However, there is a risk of the electricity crisis reemerging if the needed gas required to run the power plants is not available due to disruption in supply (Nigeria and the Jubilee field). 	<p>High</p> <ul style="list-style-type: none"> Large disruptions in oil production would lead to an increase in the current account deficit and lower government revenues, which would require further fiscal consolidation and cuts in capital expenditure. This would result in lower growth and put pressure on the exchange rate. A reemergence of the power crisis would lead to a deceleration in growth, particularly the industrial sector.
<p>6. Banking sector problems arising from increases in non-performing loans.</p>	<p>Medium</p> <ul style="list-style-type: none"> Although the banking system as a whole appears to be well capitalized, a recent Asset Quality Review found weakness in loan classification and provisioning practices among some banks. 	<p>Medium</p> <ul style="list-style-type: none"> Stress in the banking sector could curtail lending to the private sector, reducing investments and growth.

Annex II. Financial Situation of SOEs in the Energy Sector

State-owned enterprises (SOEs) in Ghana are involved in a wide range of activities. There are currently 36 SOEs, which operate in almost all sectors of the economy (Figure 1 and Table 1). They contribute significantly in terms of capital spending, but are subject to weak monitoring, reporting, and oversight. While some SOEs are profitable, some operate at a loss. Past studies have observed that SOEs in Ghana engage in various types of quasi-fiscal activities.¹ The extent of these quasi-fiscal activities, combined with structural inefficiencies, have contributed to a rapid deterioration of the financial position of the SOEs, particularly of those operating in the energy sector. This includes Electricity Company of Ghana (ECG); Volta River Authority (VRA), Ghana Grid Company Limited (GRIDCo), and Tema Oil Refinery (TOR). The government has taken initiatives to improve the performance of these companies.

A. The Electricity Sector

Overview

Ghana's electricity sector has separate utilities for generation, transmission, and distribution.

VRA is the main power producer in Ghana.² VRA was originally mandated to operate as a power generation, transmission, and distribution utility. However, in 2005, an amendment of the VRA Act restricted its role to generation. This has allowed the entrance of Independent Power Producers (IPPs) in the electricity market, which now account for about 33 percent of installed capacity. GRIDCo took over VRA's electricity transmission functions. The ECG is the main distributor of electricity, serving the southern one-third of the country, while Northern Electricity Distribution Company (NEDCo, a subsidiary of VRA) is responsible for distribution in the northern two-thirds of the country. ECG purchases electricity from Volta River Authority (VRA) and other power producers, and sells electricity at the tariff rates established by the Public Utilities Regulatory Commission (PURC), which is the body responsible for setting the electricity tariffs in the regulated electricity market.³

Lack of reliable electricity supply has become a major threat to Ghana's growth potential. The electricity sector in Ghana has performed relatively well in the past, as shown by the high share of the population with access to electricity.⁴ However, over the past decade, the sector has been unable to adequately meet electricity demand, growing roughly by 10% per year, resulting in several power

¹ Chivakul and York, (2006) show that while the extent of quasi-fiscal activities in Ghana has declined, it remained significant, estimated to be close to 2.75 percent of GDP as of 2004.

² VRA produces electricity from hydro, thermal and renewables sources, for a total installed generation capacity of 2342 MW.

³ The unregulated market consists of transactions between power producers and bulk customers at freely negotiated tariffs.

⁴ The share of population with access to electricity is 62%, compared to an average for Sub-Saharan Africa of 35%.

(continued)

crises. Ghana has complemented its hydropower capacity with increased supply of thermal power.⁵ However, thermal power generation has faced significant challenges in meeting its gas and other fuel supply requirements. Since the inception of the West African Gas Pipeline (WAGP), Ghana has not been able to receive its contracted volume of imported gas from Nigeria. Domestic gas from Jubilee has also been insufficient to meet the power sector's gas demand. The lack of reliable gas supply has increased the operational costs of the power producers, namely VRA and the IPPs, which had to increase their purchase of liquid fuel to fulfill the electricity demand. Moreover, in 2015, government resorted to purchase of electricity from power barges. While the cost of power generation increased, tariffs were not timely adjusted.⁶

The weak performance of ECG represents a major obstacle to increased investment in the sector. Previous studies (World Bank, 2013) have identified serious shortcomings in ECG's management as the main reason for lack of adequate infrastructure investment in the sector. The company's system losses (both technical and commercial) have been high over the last decade, averaging 25 percent of power purchases.⁷ Its inadequate financial performance is a major barrier for investment in the electricity sector, since ECG is not considered a credible off-taker.

Financial Performance

ECG. As shown in Table 2, the company recorded significant losses in recent years, with a short-lived improvement in 2014 following a tariff increase in late 2013. The deterioration in profitability up to 2015 can be attributed to commercial and technical losses, depreciation of the cedi, increasing costs of power purchases, and inadequate increases in electricity tariffs.⁸ Moreover, as a result of weaknesses in collection from its customers, growth in revenues has been accompanied by an increase in trade and other receivables to GHc 2.6 billion at end-2015 (Table 3). Expressed in terms of days of revenue, receivables increased from 149 days in 2012 to 285 days in 2015. Offsetting the persistent deterioration in liquidity, ECG has also accumulated payables to its suppliers (VRA, GRIDCo, IPPs) amounting to a total of GHc 4.6 billion at end-2015, up from GHc 860 million at end-2012. In terms of days of revenue, total payables more than doubled from 219 days in 2012 to 501 days in 2015.

VRA. The financial performance of the company has been affected by below-cost recovery pricing and payment arrears. The deficit was in part covered by government subsidies (GHc 361 million in 2012, GHc 664 million in 2013, and GHc 303 million in 2015). A substantial gap remained, however, and cash flow problems were further exacerbated by payment delays from ECG and other

⁵ As of 2015, out of 3.6 Gigawatt (GW) of installed generation capacity, 43% consists of hydro, 56% of thermal and 0.6% is solar power. Since the country's potential for hydro power generation has been largely exploited, thermal is expected to play a dominant role in the medium term to fulfill the future demand for electricity. Erratic supply from hydropower also forced greater reliance on thermal power generation.

⁶ In 2011, the PURC introduced a formula for automatic quarterly adjustment of tariffs, which among others, incorporates fluctuations in exchange rates, oil and gas prices, and the hydrothermal generation mix. Since its adoption, the formula has not been automatically applied.

⁷ Energy Commission of Ghana, [National Energy Statistics 2006-2015](#).

⁸ While ECG's revenues are regulated by the PURC in local currency, ECG has to pay IPPs the dollar equivalent of power purchased using prevailing exchange rate as stated in the PPAs.

customers. Altogether, VRA's receivables increased from GHc 1.2 billion in 2012 to GHc 4.8 billion in 2015. To sustain its operations, VRA substantially increased its indebtedness vis-à-vis the banking sector, with the mainly short-term dollar-denominated debt exposing the company to significant rollover and exchange rate risk. The company also accumulated GHc 2.9 billion in payables to suppliers, including Ghana Gas National Company and WAGP. Altogether, VRA's liabilities rose from GHc 1.4 billion in 2012 to GHc 7.7 billion in 2015 (Table 4).

GRIDCO. The company has been one of the better performers and managed to achieve a positive net income result in 2015 (Table 2). Still, its operations have been affected by the accumulation of receivables, including some GHc 340 million vis-à-vis ECG at end-2015, and its payables have also increased somewhat. Overall, however, GRIDCO's level of debt and other liabilities compares favorably to the other utilities.

B. Petroleum Sector

Tema Oil Refinery (TOR) refines oil for the domestic market. The company processes crude oil from international suppliers and has historically sold its refined products at fixed prices. While TOR's sales prices were supposed to be determined by an automatically applied formula, defined to ensure full cost recovery, this never worked as intended. Until the deregulation of the downstream petroleum sector, the government was heavily involved in the pricing of petroleum products. Price adjustments were infrequent and did not fully cover pass-through of international prices. TOR therefore borrowed heavily to finance its operation, leading to significant exposure to the financial sector. The company also has longstanding and sizeable payables due to trade creditors.

Financial Performance

The operations of the refinery were stalled for some time. TOR was not able to purchase crude oil to run its operations, generating persistent net income losses. The company resumed its operations at end-2014, but had to interrupt them again in 2015 because of maintenance problems and lack of reliable power supply. The company had at end-2015 accumulated substantial short-term liabilities: GHc 380 million of short-term debt, GHc 935 million of bank overdraft, and GHc 1.2 billion of short-term payables. Its total liabilities reached GHc 2.7 billion at end-2015, up from GHc 1.5 billion in 2012.

C. Initiatives to address SOEs financial problems

The authorities have taken important initiatives to reduce quasi-fiscal losses and improve the financial position of energy sector SOEs. The PURC, in its independent role, was urged to enforce the quarterly automatic tariff adjustment formula, so that tariffs are set at full cost recovery. Retail electricity tariffs were increased in December 2015 by 59 percent. Moreover, a turnaround plan to address the root causes of the country's power challenges has been launched, involving, among others, a planned concession agreement under which a private sector operator would assume responsibility for power sales to end-users. This plan is supported by the Millennium Challenge Corporation under a compact that entered into force on September 6, 2016. In addition, the price liberalization in the downstream petroleum sector allows Oil Marketing Companies (OMCs) to set

their own prices, subject to National Petroleum Authority (NPA) supervision, which should eliminate contingent liabilities for Government. Finally, new management of TOR is implementing a restructuring plan involving organizational changes and enhancement of processing equipment aimed at boosting the company's profitability.

The government has also taken steps to resolve the debt overhang of the energy sector SOEs.

The Energy Sector Levies Act (ESLA), introduced new levies to, among others, address the legacy debt of TOR and support the payment of power utility debts. These levies, in particular the off-budget Energy Debt Recovery Levy (EDRL) of GHc 0.41 per liter on petrol and diesel, serve as collateral and funding for debt restructuring with banks. So far agreements with domestic banks have been reached for the restructuring of what amounts to roughly half of all VRA and TOR debts (Box 1). The restructured debts will be removed from the two companies' balance sheets and be serviced from a debt recovery account at the Bank of Ghana funded primarily by proceeds from the EDRL. Subsequent phases of the restructuring plan will address other debts as well as inter-SOE arrears and other payables. The audit and financial viability analysis of energy SOEs to be completed by end-2016 will help inform the process. Moreover, steps have been taken to limit SOEs ability to incur new debt without express government approval.

Box 1. Restructuring of Energy SOE Debts

Recent agreements with banks on restructuring of VRA debts of GHc 2.2 billion and TOR debts of GHc 0.9 billion involve the replacement of legacy debts for new loan facilities with the following features:

- VRA
 - Reduction of the interest rate on the cedi-denominated component (GHc 777 million) from an average of 30 percent to 22 percent.
 - Reduction of the interest rate on the foreign currency component (USD 358 million) from an average of 11 percent to 8.5 percent.
 - Repayment of principal (over 3-5 years) and interest funded in first instance by the EDRL.
 - Upfront payment of GHc 250 million funded by the Price Stabilization Levy.
- TOR
 - 10-year cedi denominated loan of GHc 917 million at interest rate of 20 percent.
 - Interest payments funded in first instance by the EDRL.
 - Bullet repayment of principal funded by initial TOR investment of GHc 148 million.

In addition to these agreements with banks, Government has prepared an action plan for the payment to ECG of some GHc 700 million in quarterly installments over the next five years to clear arrears.

The steps taken to improve SOE finances have already started to bear fruit but important challenges remain. Financial results for the first half of 2016 indicate that, bolstered by the increase in electricity tariffs, the net income position of VRA and ECG has swung close to balance. The lifting off of their balance sheets of the restructured VRA and TOR debts will provide further relief to those two companies. At the same time, however, as a result of timing lags as well as more fundamental problems in collection, ECG receivables have continued to accumulate. The stock of ECG receivables increased by almost GHc 1 billion in the first half of 2016, mainly on account of private sector customers. This increase in ECG receivables was matched by an almost equal rise in the company's payables, which effectively cascaded down the supply chain to end up as VRA payables to suppliers. If not checked, these mounting liabilities could lead to renewed disruption to fuel supplies and electricity generation. While revenues from the new energy sector levies are significant (the EDRL raised GHc 0.6 billion in the first half of 2016) and sufficient to cover the VRA and TOR debt restructurings, the new fuel levies will not be able to also cover continued accumulation of receivables by ECG at the recent pace. Closing the gap between ECG's billing and collection is therefore critical.

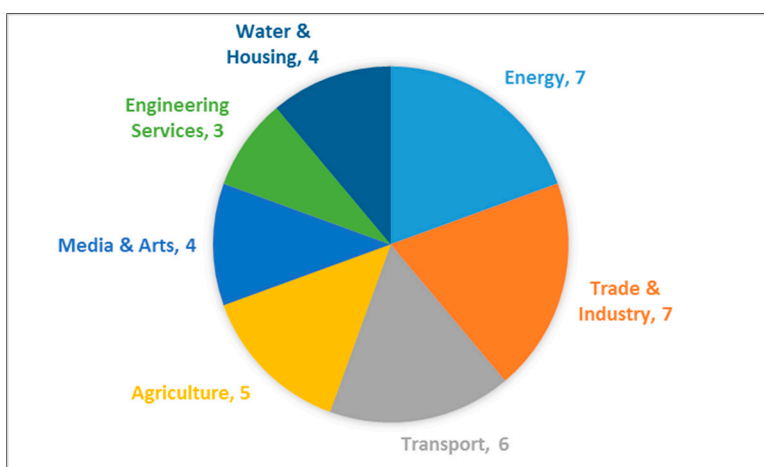
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Figure 1: Sectoral Distribution of Public Enterprises



Source: SEC.

Table 1: List of SOEs

Energy Sector	Trade & Industry	Water & Housing	Media & Arts	Engineering Services	Agriculture	Transport
ECG	GCMC	TDC	GBC	AESL	GLDA	VLTC
TOR	GNPA	CWSA	GNA	GHA	ICOUR	GRCL
VRA	PMMC	GWC	New Times	GMA	COCOBOD	GACL
BOST	Ghana Post	SHC	GCG		Food Buffer Stock	GCAA
GNPC	GIHOC Distilleries				GIDA	GPHA
GRIDCo	GSC					Aviation Social Centre
Ghana Gas	GTFC					

Source: SEC

Table 2: Net Profit After Tax

	2012	2013	2014	2015	2012	2013	2014	2015	2012	2013	2014	2015
	Millions of GHc				Percent of Revenue				Percent of GDP			
ECG	-136	-246	-38	-288	-9.5	-12.6	-1.2	-8.6	-0.2	-0.3	0.0	-0.2
VRA	-451	-603	-800	-1,612	-32.5	-38.9	-35.7	-71.9	-0.6	-0.6	-0.7	-1.2
GRIDCo	7	17	-42	45	2.6	5.5	-10.5	9.5	0.0	0.0	0.0	0.0
TOR	-425	-456	-1,053	-681	-59.9	-65.6	-348.1	-368.0	-0.6	-0.5	-0.9	-0.5
Sum total	-1,006	-1,288	-1,932	-2,537	-26.4	-28.6	-32.1	-40.7	-1.3	-1.4	-1.7	-1.8

Source: Companies' financial statements.

Note: VRA excludes Government assistance of 361m in 2012, 664m in 2013, and 303m in 2015.

Table 3: Payables and Receivables (in millions of GHc)

	2012	2013	2014	2015	2012	2013	2014	2015	2012	2013	2014	2015
	Payables				Receivables				Net Payables			
ECG	860	1,878	2,886	4,575	586	1,064	1,551	2,640	273	814	1,335	1,935
VRA	448	761	999	2,859	1,222	2,153	3,962	4,771	-773	-1,392	-2,964	-1,912
GRIDCo	25	70	176	234	159	249	365	467	-134	-179	-190	-233
TOR	1,041	1,017	1,367	1,186	112	202	-33	56	929	815	1,399	1,130
Sum total	2,374	3,725	5,427	8,853	2,079	3,668	5,846	7,934	294	57	-419	919

Source: Companies' financial statements.

Table 4: Total Liabilities (in millions of GHc)

	2012	2013	2014	2015	2012	2013	2014	2015	2012	2013	2014	2015
	Short Term				Long Term				Total			
ECG	946	2,028	3,165	4,935	1,209	1,460	1,964	2,230	2,155	3,489	5,129	7,165
VRA	822	1,407	3,442	5,705	566	754	1,739	1,990	1,388	2,161	5,182	7,694
GRIDCo	67	138	287	496	367	566	1,008	1,155	434	703	1,295	1,651
TOR	1,461	1,879	2,301	2,502	57	65	96	194	1,518	1,944	2,397	2,696
Sum total	3,296	5,453	9,196	13,638	2,199	2,845	4,807	5,567	5,495	8,298	14,003	19,206

Source: Companies' financial statements.

Appendix I. Letter of Intent

Accra, September 16, 2016

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

Dear Ms. Lagarde,

1. The government requests that the IMF Executive Board completes the third review of Ghana's Extended Credit Facility (ECF) arrangement and approves the disbursement of the fourth tranche of the loan based on the satisfactory implementation of performance criteria (PC).
2. The program remains broadly on track and the Government is committed to the reforms supported by the ECF. Fiscal consolidation is on track, as indicated by a lower than programmed primary fiscal deficit in 2015. We are taking corrective steps to address the slippages for end-2015 PCs on net domestic assets and the wage bill, which were missed by a small margin. We also stepped up structural reforms.
3. Economic conditions have been difficult, owing to slow economic growth and tight financing conditions. Weak commodity prices, a shortfall in cocoa production and unreliable electricity supply contributed to the 2015 economic slowdown. Inflation, still high, has started to subside. An ambitious fiscal adjustment and a modified program financing strategy will help contain financing needs, stabilize public debt and avoid accumulation of arrears. We will implement additional fiscal measures, as detailed in the attached MEFP, to achieve a primary fiscal surplus in 2016. The BoG remains committed to bringing inflation down to its medium target by maintaining tight monetary policy, as indicated by the monetary policy rate remaining at 26 percent.
4. We have tightened debt service procedures and did not incur any delayed payments on external debt service to official creditors. To avoid any future delays in the debt service, we have been implementing the recommendations of technical assistance provided by the Commonwealth Secretariat and the IMF on improving debt management processes. We have no overdue external debt payments.
5. The MEFP describes government policies for the remainder of 2016 which would support achieving program objectives under the ECF. We request the IMF Executive Board to approve a waiver for the non-observance of performance criteria on net domestic assets (now an indicative target), and the wage bill, with the test dates at end-December 2015.
6. The government believes that the measures and policies set forth in the attached MEFP are appropriate and sufficient to achieve the objectives of the program, and it stands ready to take any additional measures that may be necessary to that end. We will consult with the IMF on the

adoption of such measures in advance of any revision of the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. The authorities will hold timely consultations with the IMF staff on 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 related performance criteria.

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

Sincerely yours,

/s/

Seth Emmanuel Terkper
Minister for Finance

/s/

Abdul-Nashiru Issahaku
Governor of Bank of Ghana

Attachments:

Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I.

Memorandum of Economic and Financial Policies, 2015–17

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

I. RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

Growth and Inflation

2. Preliminary estimates indicate total real GDP growth of 3.9 percent in 2015, slightly above previous projections. Non-oil real GDP growth edged up slightly to 4.1 percent in 2015 from 4.0 percent in 2014. Growth in the agricultural sector was lower compared to 2014, mainly due to the impact of adverse weather conditions, which led to a slowdown in crop production, especially cocoa. Industrial growth in 2015 was marginally higher than in 2014 (1.2 percent compared to 0.8 percent), driven by a pickup in growth in Q4. The services sector grew robustly at 5.7 percent, supported by the strong performance of trade and information and communication sectors. With higher inflation and increases in indirect taxes, total nominal GDP at market prices is now estimated to have grown by 23.5 percent, about 5.5 percentage points higher than previously projected. Preliminary estimates show that overall real GDP grew at 4.9 percent in the first quarter of 2016 (year-on-year) despite a decline in oil production. Non-oil real GDP grew at 6.6 percent in the same period.

3. Inflation pressures have remained high. Inflation was 18.4 percent in June 2016, up from 17.7 percent in December 2015, but fell to 16.7 percent in July 2016. The decline in inflation in July was driven by the continued tight monetary policy stance, a moderation in imported goods inflation, due to the stability of the cedi, as well as a decline in utility and fuel inflation. Underlying inflationary pressures also started to decline: inflation excluding energy fell from 18.6 percent in December 2015 to 16.5 percent in July 2016.

Fiscal Performance

4. Fiscal performance in 2015 was satisfactory. The overall fiscal deficit on a cash basis was substantially lower than budgeted, declining from 10.1 percent of GDP in 2014 to 6.9 percent in 2015, and the small primary deficit of 0.4 percent of GDP was better than programmed. While tax collection fell short of expectation, non-tax revenue was stronger than expected, supported by an unbudgeted dividend transfer from BoG. A breakdown by tax type shows that corporate tax collection was in line with projection, reflecting efforts to strengthen compliance. Lower than expected economy-wide wages have led to a shortfall in personal income tax. At the same time

trade taxes also remained subdued. In contrast, tax policy and administration measures and the depreciation of the cedi boosted indirect tax revenues, including the VAT and petroleum products tax. To adjust to lower-than-budgeted revenue, the government contained expenditures, in particular outlays on goods and services and domestically-financed capital spending. Despite higher-than-budget allowances payments that led to an overrun in the nominal wage bill, the wage bill ratios to GDP and tax revenue improved, declining from 8.3 percent and 52.9 percent in 2014 to 7.5 percent and 49.2 percent in 2015, respectively. The over-run in allowances largely occurred in the last quarter of 2015 when payments of GHc 232 million were made against a projection of about GHc 30 million for Categories 2, 3 & 4 allowances, reflecting overtime allowances, transfer grants, trainee allowances, rent allowances, car maintenance allowances, fuel allowances, disability allowances, overnight allowances, out of station allowances, and travel & transport allowances. Implementation of a prudent debt management strategy contributed to lower domestic interest payments. The government used the available space to clear more arrears than budgeted.

5. Fiscal consolidation efforts have continued but faced challenges during the first half of 2016. The fiscal balances were better than programmed, with a much smaller overall cash deficit and a larger primary surplus (0.9 percent of GDP against a programmed 0.4 percent of GDP). This was achieved despite weak revenue performance: personal income tax was weak due to low growth in employees' income; corporate income taxes underperformed due to eroded profit margins because of high operating costs; and oil revenues were lower due to lower international oil prices and a shortfall in oil production. Indirect taxes and trade taxes were also below budget projections. To compensate for the overall weak revenue performance, the government compressed domestically-financed capital spending, while earmarked mandatory transfers were reduced according to the revenue sharing formula. Repayments of domestic arrears were also delayed because of delays in finalizing the audit of the oil importing companies' claims. On the other hand, wage payments were slightly higher than budgeted because of back-payments for promotions and salaries of new hires granted in 2013-14, which were validated by the auditor general only during the first half of 2016. The wage bill (excluding deferred wage payments) has remained within the program ceiling.

Financing and Public Debt

6. Central government financing for 2015 was met through net external financing of 4.2 percent of GDP and net domestic financing of 2.1 percent of GDP. External financing included program and project loans and a new Eurobond. The net marketable domestic financing was entirely covered by T-bill issuance, resulting in a further shortening of the average time to maturity of domestic marketable securities to 10.2 months at end-December 2015, compared to 14.6 month at end-December 2014. Domestic market conditions improved significantly during the course of 2016 with robust participation of non-resident investors, enabling a shift in the financing mix towards greater reliance on medium-term securities and firmly reversing the average time to maturity close to the end-December 2014 level.

7. The issuance of a new Eurobond in October 2015 despite difficult international market conditions helped with the rollover and partial redemption of a domestic 3-year bond maturing in

October and mostly held by non-resident investors. In November, the government also issued a fresh domestic 5-year bond with large participation of non-residents, which helped offset the partial redemption by non-residents in October. T-bill issuance increased towards the end of the year, as domestic banking system liquidity conditions improved. The fiscal over-performance and larger than expected domestic market financing enabled the government to save about US\$ 500 million of the Eurobond proceeds, which were deposited into an escrow account and are being used solely to refinance existing debt.

8. The government maintained a net cash position of GHc 1.8 billion at end-2015, or 1.2 percent of GDP, in anticipation of zero financing from the Bank of Ghana in 2016. This helped in managing cash flow, including domestic debt redemption during the first half of 2016. The issuance of a US\$ 750 million Eurobond in September 2016 has further reduced financing pressures for the remainder of 2016 and first half of 2017, while the buyback of part of the 2017 Eurobond has reduced external refinancing risk for that year.

9. As a result of the large fiscal adjustment achieved in 2015, debt accumulation subsided markedly. The central government debt ratio increased only slightly from 70.2 percent of GDP at end-2014 to 71.8 percent of GDP at end-2015, with domestic and external debt of 29.0 percent of GDP and 42.8 percent of GDP, respectively. The share of debt to official creditors in total central government debt declined somewhat, while that of commercial debt increased by 5 percentage points. The share of short-term domestic debt has slightly increased while the share of non-resident holdings in total domestic debt stood at 17 percent.

Monetary and Financial Sector Developments

10. In view of still elevated inflationary pressures, the Monetary Policy Committee (MPC) has held its benchmark policy rate at 26 percent since November, following an increase of 500bp during 2015. The interbank rate has remained between 25 and 26 percent over this period, within the policy rate corridor (+/- 1 percent). The nominal exchange rate has been relatively stable depreciating by 3.3 percent against the US dollar during the first half of 2016. The cedi has been supported by increases in domestic interest rates and inflows of foreign exchange from a cocoa loan, renewed non-resident participation in the domestic market, and FX intervention by the BoG. Strong foreign exchange inflows also enabled the BoG to increase its net foreign exchange reserves (from US\$ 1.3 billion at end September 2015 to US\$ 2.7 billion at end March 2016) and contributed to excess liquidity in the domestic banking system. The BoG hence withdrew liquidity on a net basis in its open market operations during the fourth quarter of 2015 and the first quarter of 2016, through its overnight repo facility and issuance of 14-day BoG bills.

11. There was a further deceleration of growth in broad money and credit to the private sector. Although growth in reserve money was robust on a year-on-year basis, at 29.9 percent in June 2016, growth in broad money (including foreign currency deposits) declined from 34.9 percent in June 2015 to 12.0 percent in June 2016. Growth in credit to the private sector slowed even more sharply than broad money, from 36.3 percent to 9.0 percent over the same period. Banks' average lending

rates have also tightened significantly, to 32.7 percent in June 2016 from 27.5 percent at end 2015, while deposit rates remained broadly stable.

12. The banking system remains profitable in aggregate, although asset quality has deteriorated over the past year. The non-performing loan ratio increased from 11.2 percent in June 2015, to 18.8 percent in June 2016, reflecting the impact of exchange rate volatility and disruptions to energy supply but also the reclassification of some banks' portfolios following the Asset Quality Review. Banks' provisions have increased over this period from 5.1 to 7.9 percent of gross loans and the ratio of regulatory capital to risk-weighted assets has remained around 16 percent. As a result, profitability has declined, although it remains strong: return on equity was 23 percent in February (from 29 percent in June 2015).

External Sector

13. The external current account strengthened in 2015, with a deficit estimated at 7.5 percent of GDP, compared with 9.6 percent of GDP in 2014. External adjustment was somewhat weaker than originally programmed, as export growth was affected by poorer cocoa harvest in the previous crop season and declining gold production due to the energy crisis. Weak oil prices led to a significant decline in oil imports, while non-oil imports rebounded from a large decline seen in 2014 despite further exchange rate depreciation. FDI and nonresidents' holdings of domestic debt remained broadly stable in 2015. Overall, gross international reserves increased to \$4.4 billion in 2015 from \$4.3 billion in 2014, despite a lower than expected Eurobond issuance and significant reductions in BoG's short-term swaps and external borrowing for reserves management purposes. Reserves have declined in the first half of 2016, but by less than during the same period in previous years due to robust nonresidents' investment into domestic debt. At the same time, the exchange rate has remained very stable, supported by the tight monetary policy and diminishing concerns over external sustainability.

Quantitative performance criteria and structural benchmarks

14. End-December performance criteria (PC) were met, with few exceptions. The PC on the primary fiscal balance was comfortably met, along with those on net international reserves, gross credit to government and net stock of arrears. The wage bill, however, exceeded the program ceiling by a small margin, due to overruns in late 2015. The PC on net domestic assets (NDA) (now an indicative target) was also missed by a small margin. The indicative targets on inflation and social protection spending were met.

15. Status of structural benchmarks:

- a. The end-December 2015 SB on migrating employees of subvented agencies into the mechanized payroll was not met. The authorities had to suspend the migration of selected subvented agencies such as the public universities, Ghana Revenue Authority, and the security agencies, in part due to (i) security concerns and (ii) specific needs of subvented agencies. The

authorities now plan to interface the payroll of these agencies with the central government mechanized payroll (see ¶61 below).

- b. The end-December SB on the submission to Parliament of the PFM bill was not met. The consultative process with stakeholders and development partners took longer than expected. The bill was adopted and passed into Law by Parliament in July 2016.
- c. The end-December SB on the adoption by Cabinet of a comprehensive public reform strategy was not met. The strategy was submitted to Cabinet in March 2016 and approved in June.
- d. The end-December SB on the submission to Parliament of the amendments to the Bank of Ghana Act of 2002 (Act 612) was not met. However, the amendment was submitted to Parliament in July 2016 and was passed and assented to in August 2016.

II. THE GOVERNMENT'S ECONOMIC PROGRAM

Macroeconomic Framework for 2016 and the Medium-Term

16. **Outlook for 2016.** GDP growth is expected to slow down to between 3 to 4 percent in 2016, mainly due to a slowdown in oil and gas production resulting from technical problems with the FPSO at the Jubilee Oil Field (production was shut down for almost 2 months and is expected to be at 90 percent of capacity for the rest of the year). Inflation (end of period) is expected to moderate to between 13 and 14 percent, helped by tight monetary policy, a more stable exchange rate and the ongoing fiscal consolidation.

17. **Medium term Outlook.** Medium-term projections remain broadly unchanged. Non-oil growth is projected to rebound to reach an average of about 6 percent over the medium term. The Jubilee field is expected to shut down for another month in 2017 for necessary repairs, with a risk of longer downtimes depending on how the repairs progress. However, with the TEN and Sankofa fields coming online over the next two years, the oil and gas sector is expected to grow strongly in the medium term, with production peaking in 2020. Inflation is expected to reach the target band of 8% +/- 2% during 2017 and stabilize thereafter. Current account deficits would further narrow, on the heels of fiscal consolidation and expected increases in oil and gas production over 2016-20. Gross international reserves would stay comfortably above 3 months of imports.

Fiscal Policy for 2016 and the Medium Term

18. Fiscal policy continues to aim to progressively reduce the fiscal deficit to 3.5 and around 3 percent of GDP in 2017 and 2018, respectively. This reduction in the fiscal deficit will be driven mainly by pursuing the revenue and expenditure measures that have been implemented since 2013, strengthening the ongoing revenue administration reforms, improving public financial management

and expenditure rationalization to enhance the efficiency of public spending, as well as the implementation of new debt management strategies.

19. To achieve the medium-term fiscal target, the government remains committed to achieving the 2016 budget deficit objective of the program. The overall fiscal deficit is projected at about 5¼ percent of GDP, with a primary surplus of about 1 percent of GDP, the first surplus in a decade. This would lead to a relatively large decline in the government debt ratio to GDP of about 5 percentage points of GDP. The government intends to reinforce its strict expenditure control, ensuring that the wage bill remains within the approved budget limits, by strictly enforcing compliance with the policy of net freeze on recruitment, using ESPV system to effectively reduce the incidence of “ghost workers”, strictly enforcing of the Financial Clearance system for payment of new recruitment and granting of allowances, while using the mechanism of budget allocation to contain discretionary spending in line with the budget envelope, including the election costs. Despite the revenue measures introduced by the government, tax collection has not increased as much as expected. An increase in the exemption threshold contributed to lower-than-expected personal income taxes, as many households in the low income group became exempted and many households were moved from the marginal rate of 25% to 17.5%. The impact of the new Income Tax Act, which introduced a 15% withholding tax on Petroleum Sub-contractors and a 3% withholding tax on unprocessed minerals by small scale miners, was below expectation. Most of the contractors and subcontractors had a stabilization agreement keeping their withholding tax at 5%, while lower gold world market price reduced profits in the gold sector. At the same time, the introduction of the ECOWAS Common External Tariff (CET) appears to have been close to neutral on import duties instead of the anticipated positive revenue impact. The revenue shortfall will be offset mainly by reducing the domestically financed capital spending through delaying transfers to the Ghana Infrastructure Fund (GIF) and smaller cuts in goods and services. Should the revenue performance improve during the second half of the year as a result of the tax administration measures, these categories of spending would be brought back closer to their budgeted amounts.

Arrears Clearance Strategy

20. The government remains committed to its medium-term arrears clearance plan. It plans to clear the remaining stock of arrears in the amounts of GHc 2.3 billion in 2016 and GHc 2.0 billion in 2017. These include mainly arrears to utility companies, other SOEs, statutory funds, the pension fund and deferred wages. In addition, the government has provisioned GHc 800 million for the repayment of arrears that are being identified through the ongoing audit of the additional claims by oil importers related to losses due to underpricing and foreign exchanges losses in 2014 and early 2015. This audit is near final, and a first repayment to oil importers is planned by end-October.

Program Financing and Debt Management Strategy

21. The Medium-Term Debt Management Strategy (MTDS) for 2016–2018 envisaged a financing mix for 2016 that included the issuance of a new Eurobond in the amount of \$750 million to (i) finance priority capital expenditure for 2016; (ii) support international reserves; and (iii) extend domestic public debt maturities. After market conditions improved, the government was able to

issue a \$750 million Eurobond with an average maturity of 5 years, to be repaid in three equal installments in 2020, 2021 and 2022, and with a coupon of 9.25 percent. Proceeds of this Eurobond will be used to buy back the outstanding amount of the Eurobond maturing in 2017 and to finance capital spending. The cash resources of \$500 million in unused 2015 Eurobond proceeds available at the beginning of 2016 have provided another option for managing refinancing of maturing debt. Net domestic financing, which was strong during January-June, could exceed the original program objective. The government intends to aggressively pursue the strategy of lengthening domestic debt maturities and reducing future annual gross borrowing requirements. The government will also seek additional donor financing. Over the medium-term, the financing mix will shift to greater reliance on domestic debt, with reduced net external borrowing in 2017 and 2018, when foreign exchange inflows to the balance of payments will be boosted by oil and gas production. The cash buffer accumulated in the Sinking Fund has been used to retire US\$ 131 million of the previously outstanding US\$ 531 million Eurobond maturing in October 2017.

22. The Government continues to implement reforms to deepen the domestic debt market. Reopening of securities at auction has been introduced in order to build benchmark securities and to improve the liquidity of the secondary market and facilitate price discovery. The goal is to have a handful of benchmark securities outstanding. The auction frequency of the 1-year and 2-year notes has been reduced since September 2015, and the number of securities outstanding has already been reduced. The government intends to consolidate the remaining non-fungible securities currently outstanding through switches/exchange offers, buyback operations and reverse auctions, in order to accelerate the process of building up benchmark securities. These operations will also help to manage large redemptions of benchmark securities ahead of maturity dates. The review of the primary dealer system has been finalized, and privileges will be awarded to those primary dealers (PDs) who strictly satisfy the agreed obligations. Over time, strict enforcement of the conditions and criteria could lead to a further reduction in the number of PDs. Greater price transparency and an increase in trading activities in the secondary market has been observed since the introduction of the new electronic trading platform. The SEC and the CSD are working together to enable same day settlement of securities. The Securities Lending and Short Selling Act has been submitted to Parliament. These reforms will further enhance secondary market trading and liquidity. The MOF has requested IMF technical assistance to support the implementation of these reforms.

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

- **On-lending and Escrow Arrangements.** The government has made significant progress in ensuring that loans signed for SOEs and MDAs for commercial projects are matched with on-lending agreements that ensure recovery and reduce the burden on the taxpayers.
- **Sinking Fund.** To manage the orderly redemption of sovereign bonds and other foreign and domestic debt instruments, the Sinking Fund Account is receiving funds (forex) from excess over the cap of the Stabilization Fund. Transfers to the Sinking Fund will not take place through additional borrowing for the budget financing need. The Fund will form the basis

for spreading repayment of both principal and interest over time. The goal is to minimize the rollover risk associated with Treasury securities and Eurobonds.

Monetary Policy and Exchange Rate Issues

24. Monetary policy is guided by the BoG's inflation targeting framework, which aims to maintain headline inflation at the midpoint of the target range (8 ± 2 percent) in the medium term, in the context of a floating exchange rate regime. To bring inflation back to the target band in the medium term, the BoG increased its policy interest rate cumulatively by 500bp between May and November 2015. The increase in the policy rate has helped to stabilize the exchange rate and contain inflation expectations. The BoG stands ready to further tighten monetary conditions, if necessary, to ensure that inflation and inflation expectations move gradually towards the target. In recognition of the strengthening of the BoG's inflation targeting framework, the inflation objectives under the program are now monitored through a monetary policy consultation clause (MPCC).

25. The BoG implemented several important reforms to its monetary operations during 2015 and is taking further steps to enhance liquidity forecasting, its monetary operations and the framework for repo transactions. The BoG will adopt disaggregated liquidity forecasting techniques, and set up a financial market analysis unit to ensure synergy between the monitoring and forecasting of liquidity and monetary operations, with AFRITAC WEST 2 technical assistance. To enhance monetary operations, the BoG will: (i) develop guidelines for the use of fine-tuning operations (quick tenders) based on liquidity forecasting and market monitoring; (ii) increase the reserve maintenance period to two weeks once monetary conditions start to normalize.

26. The BoG is also taking important steps to enhance market development. To improve the functioning of the repo market, the Central Securities Deposit (CSD) platform became fully functional and the BoG has also been promoting a classic interbank repo transaction. To this end, the BoG will request, by November 2016 a qualified legal opinion on the enforceability of agreements of interbank repo transactions carried out on the CSD repo platform, and review by December 2016 the terms at which the BoG conducts repos with its own counterparties, to ensure the guidelines on collateral adequately protect the BoG from credit risk. The BoG has launched a formal consultation with commercial banks in order to revise the calculation of the base rate which is expected to be finalized by November 2016. Finally, the BoG has reviewed the list of monetary counterparties and non-banks have been excluded since June 2016, in order to encourage more flows to be intermediated by the market.

27. The BoG has also continued to strengthen its monetary policy formulation process and communication, consistent with best IT practices and the recommendations of IMF technical assistance. The BoG has introduced a pre-MPC meeting to enhance the quality of policy deliberations, boosted the capacity of the core forecasting team and redesigned the MPC press release. The restructuring of the Research Department into a new Economics Department, which houses forecasting activities, and a separate new Statistics Department, which focuses on ensuring the integrity and quality of data, is completed. A further important reform underway is the adoption of a new external communications strategy which would involve an enhanced public communication

outreach program to promote economic literacy and the stabilizing role of the BoG in the economy and the financial system. The Bank of Ghana has also, beginning from June 2016, started publication of a Monetary Policy Report and revamped its Financial Stability Report.

28. In order to deepen the foreign exchange (FX) market and promote its smooth functioning, the BoG has implemented the first stage of a phased plan for the elimination of FX surrender requirements. In the first stage, the regulatory and monitoring framework for the repatriation requirement and its enforcement have been strengthened and the new regulations published on the BoG website. To ensure that all eligible export proceeds reach the Ghanaian economy, any new concessional retention agreement will incorporate the following elements: i) standardized sector-wide retention clause, ii) retention, if any, in Ghana only and, iii) the introduction of a sunset clause for the retention of export earnings. The strategy for the elimination of surrender requirements and its rationale was communicated to banks and the wider public in May 2016 and the surrender requirement for gold and residual cocoa export proceeds was redirected to commercial banks effective July 1, 2016. In the second stage, the BoG will develop a settlement mechanism to address the stock of matured letters of credit (LCs) to oil importers which was outstanding as at May 2015, following an audit to determine which LCs are eligible for such resolution. The completion of this audit was delayed but is expected to be completed by September 2016. In the final phase, the pre-payment lump-sum cocoa export proceeds will be surrendered to commercial banks, following an interim period (to commence in October 2016) during which BoG will continue to receive the lump-sum pre-payment export proceeds from cocoa for but will sell them to commercial banks through a rule-based and market-determined system.

29. The draft BoG Amendment Bill was submitted to Parliament in July 2016 and was passed and received presidential assent in August 2016. The proposed amendments were drafted by a committee within the BoG, in consultation with the MOF and other stakeholders, and incorporated recommendations from IMF staff. The amended Act makes some improvements to the governance of the central bank, although some of the proposed amendments did not receive parliamentary support. The key changes include the following:

- *Reduced scope of Government influence over the BoG.* The Act enhances the institutional autonomy of the central bank by i) removing ministerial influence over the power of appointment for external MPC members, and iii) introducing an explicit prohibition for third parties to influence the BoG in the exercise of its statutory duties.
- *Clarification of the BoG's mandate.* The Amendment maintains the hierarchy between the primary objective (price stability) and its other objectives and introduces a financial stability objective.
- *Improvements to Governance,* through i) improvements to the appointment procedure, the number and tenure for non-executive Directors, ii) improvements to the eligibility and disqualification criteria for Board membership, including a requirement to be found guilty by a

court of law, iii) strengthened independence of the Chief Internal Auditor, and iv) introduction of a requirement to prepare accounts in accordance with international standards.

- *Introduces powers for Emergency Liquidity Assistance (ELA).* New provisions allowing extension of Emergency Liquidity Assistance (ELA) and specifying that such assistance may be extended to solvent financial institutions with temporary liquidity challenges are introduced.

30. The previous Act stipulated a net domestic financing limit for government of 10 percent of current year's projected revenue. Despite the GoGs recommendation to eliminate central bank financing, Parliament included a provision in the Amended BoG Act to still allow government borrowing from the central bank. The limit on central bank financing is set at 5 percent of previous year's revenues. The government, however, remains committed to the zero financing principle under the program and views this provision as providing financing only in the case of emergencies. Moreover, GoG will seek to eliminate this provision through a further Amendment of the BoG Act in the course of 2017 (proposed structural benchmark, September 2017) and has meanwhile extended the existing Memorandum of Understanding between the MOF and BoG to ensure zero financing over 2016 and 2017.

31. Other key amendments that were submitted to Parliament by the GoG but did not receive sufficient support include the following: i) limiting the role of the MOF representative on the Board to a non-voting member; ii) introducing an explicit disqualification of Government representatives (except for the MOF Board representative), MPs, public servants other than those working in tertiary education, and managers and employees of SOEs or government agencies from appointment to the Board and MPC; iii) a prohibition on providing guarantees for loans granted by foreign institutions to the Government and/or state owned entities; iv) introduction of a new requirement for the Government to recapitalize the BoG, if it suffers losses; v) prevention of the BoG to own shares in financial institutions that are not clearly related to its core functions for the future, while existing holdings will be grandfathered for a transitional period; vi) elimination of the possibility for the Board to authorize exemptions from the list of prohibited activities; vii) specification of the roles and responsibilities of both the executive (day-to-day management), and nonexecutives (strategy-setting, oversight, incl. budget and audit related matters) Board members. The GoG will also seek Parliamentary support for these provisions following the elections, in the course of 2017 (proposed structural benchmark, September 2017) and, as an interim measure, the BoG and MOF have signed an updated Memorandum of Understanding, extending the zero financing principle until the end of 2017.

32. With the strengthening of the institutional framework contained in the new central bank Act and in the further amendments expected next year, together with the improvements to monetary operations, the functioning of money and FX markets, and the policy formulation process, the inflation targeting framework will become more effective.

Financial Sector Issues

33. The legal framework for the supervision and regulation of the financial sector has been further strengthened, through the passing by Parliament in July 2016 of two new banking sector Acts. The Banks and Specialized Deposit-Taking Institutions Act provides the BoG with enhanced powers to resolve banks that are deemed to be unviable. The Ghana Deposit Protection Act provides protection to small depositors in the event of resolution, through the establishment of a new deposit insurance scheme. Further reviews of the Acts by IMF staff identified a number of weaknesses that warrant further amendments to fully enable the authorities to minimize risks to financial stability in the case of bank failure. The authorities will seek the adoption by Parliament of appropriate amendments, in accordance with staff recommendations, to address these residual weaknesses by March 2017 at the latest (proposed structural benchmark, March 2017). Submission of amendments to that effect will be subject to Parliament reconvening and the Speaker's admittance of those submissions. The authorities will also ensure that the DPA will not be implemented before all conditions are met for its well-functioning (including its funding) and until it can apply to all banks.

34. The BoG Board adopted a roadmap to strengthen the resilience of the banking system in response to the results of the Asset Quality Review (AQR), finalized at the end of 2015 (structural benchmark, end-September 2015). Although in aggregate, the banking system is profitable and has adequate levels of capital and liquidity, the AQR revealed weaknesses in loan classification and provisioning practices at some banks, particularly regarding loans to SoEs and the petroleum sector. In a first stage, the BoG will conduct an updated AQR by end-November 2016 (proposed structural benchmark), based on terms of reference that have been agreed with IMF staff. Similar to the 2015 AQR, the AQR update will review banks' observance of the BoG's (prudential) provisioning requirements, together with the adequacy of current impairment allowances for credit losses, calculated in accordance with International Financial Reporting Standards. The exercise will take GoG's comprehensive strategy for the financial rehabilitation of SoEs and resolution of their legacy debt (MEFP 172-75) into account, as well as the GoG's clearance of arrears to the petroleum sector. The BoG will review banks' recapitalization/restructuring plans, prepared as needed, by end-February 2017 (proposed structural benchmark) and stands ready to initiate resolution procedures for banks found to be unviable, in accordance with the provisions of the Banks and SDI Act. In addition, the BoG is strengthening its regime for providing liquidity support to solvent but temporarily illiquid banks through the adoption of a new Emergency Liquidity Assistance framework in line with international best practice, and is reducing risks to its balance sheet by requesting banks to collateralize existing facilities. A new regime for continuous monitoring of banks' liquidity position will be introduced in September 2016 and the supervisory review of large exposures will be stepped-up, including by requiring bank-specific plans for addressing regulatory breaches. A new directive that aims at clarifying some grey areas of the IFRS will be issued by end-December 2016.

35. The BoG is conducting a review of its institutional capacity in the area of bank resolution, with assistance from the International Financial Institutions. A concept paper, outlining the

envisaged organizational model for its resolution function, as well as milestones that will guide the necessary reforms, shall be prepared by end-December 2016.

36. The BoG is strengthening its supervision of the microfinance sector. Measures to be taken include i) a temporary freeze on new licenses (there were 555 institutions at end March 2016), ii) an enhanced supervisory capacity through the hiring and training of staff, and iii) a review of the liquidity and solvency of existing institutions and an intensified monitoring of those with challenges.

37. The BoG has been building capacity for the implementation of Basel II/III with the assistance of a long-term advisor from the Fund and the BoG intends to complete Pillar I by mid-2017. The BoG has also requested Fund staff to conduct a Financial Sector Assessment Program in FY 2018.

III. STRUCTURAL REFORM AGENDA

Tax Policy and Tax Administration

38. **Tax Policy.** The new Income Tax Act 2015 (Act 896) came into effect in January 2016 repealing the former Internal Revenue Act 2000 (Act 592). The new Act has introduced several new measures to simplify the existing tax regime, improve tax compliance and reduce the cost of tax compliance. It expanded the residents' income taxation from modified worldwide to a full worldwide basis. The new Act also abolished the capital gains tax, meaning that gains from disposal of assets will be included in the business or investment income and taxed at the applicable rate. Similarly, gifts received will not be subject to the Gift tax, but will be included in the calculations of gains and profits from employment, business and investment. Finally, the Act also introduced a new tax regime for small taxpayers. While the threshold for VAT registration was increased to 200,000 GHc, the Act also introduced the principle of modified taxation for taxpayers below this threshold. These taxpayers will be subject to a 6 percent tax on their turnover, although this provision is not going to be implemented until 2017 to provide time for sensitizing the stakeholders. The government prepared regulations for the new Tax Act, which have been submitted to and adopted by parliament in July 2016.

39. Some new revenue generating measures were amended in early January, due to taxpayers' concerns. The withholding tax rate on services was reduced from 15 to 7.5 percent. Similarly, the 10 percent withholding tax rate on the sale of minerals by small-scale miners was reduced to 3 percent. The 1 percent withholding tax on interest income of individuals was also scrapped. The GoG believes that these measures could help reduce tax non-compliance. The government intends to compensate part of the estimated revenue losses from these amendments with additional compliance measures.

40. **Controls of Exemptions.** The government will strengthen its policies to rein in exemptions in 2016. In 2015, the total amount of exemptions granted stood at GHc 2,103.31 million, compared to GHc 1,216.01 million in 2014.

41. The Ministry of Finance is also exploring the use of a Treasury Credit Note as a measure to facilitate MDAs clearance and introduce more transparency in the system. This system will allow

cashless transactions by MDAs within a ceiling and help check excessive requests by these government agencies. The GoG has also eliminated the VAT Relief Purchase Order (VRPO) to minimize abuses in the system and enhance compliance, and replaced it with a General Refund scheme where investors and beneficiaries who are granted exemptions on domestic taxes, particularly VAT, will pay VAT to their suppliers and apply for refund. The GoG will continue to assess the prospects for renegotiating the tax incentives in the mining and oil sectors with investors who are willing to do so, without negatively affecting Ghana's attractiveness as a foreign direct investment destination.

42. On the basis of the various studies conducted on tax expenditures, the GoG has requested technical assistance (TA) to review the existing exemption regime with a view to rationalize the number of exemptions and develop sector specific policies. The GoG will also aim to develop a Tax Expenditures Policy, that will lay down principles and policies for introduction or continuation of a tax incentive.

43. **Tax Administration.** The implementation Plan for GRA Reform Strategy has been prepared. GRA has set up key performance indicators for 2016 for the Large, Medium and Small Taxpayers office. A Monitoring and Evaluation (M&E) Unit has been established, and a Monitoring Plan has also been developed. Remaining activities include acquiring a (M&E) software system and a baseline survey on Customer and Employee satisfaction.

44. **Revenue Administration Act.** The government enacted a new Revenue Administration Act in July 2016. This new Act harmonizes the various tax administration laws that currently exist in Ghana. The aim of the new law is thus to improve coordination among the various revenue agencies, while making easier for taxpayers to comply with tax laws. The new Act will effectively complete the integration of the various revenues agencies which occurred when the GRA was established in 2009. For this law and other tax laws adopted over the last two years, the GoG has already initiated the preparation of regulations and operational guidelines, which have been completed, with the help of technical assistance, in July 2016.

45. **TRIPS roll-out** The system has been roll-out to thirteen offices so far, and will be rolled-out to twenty-six offices by end-2016. It will be further rolled-out to the remaining twenty-eight offices in 2017. Since the TRIPS has been fully rolled out to the LTO and some MTOs, 85 percent of domestic tax revenue is processed with the TRIPS. The business modeling workflow for the refund process is being finalized, to include linkages to the General Refund Account, leveraging on case management to avoid the current manual intervention in processing refunds. This will become operational by end-December 2016. The independent review of TRIPS implementation is being performed by DFID, and its results will be available in the third quarter of 2016.

46. **VAT refund system** GRA will continue improving the functioning of the VAT refund system. To ensure timely refunds, the General Refund Account, instituted in June 2015, has been receiving 6 percent of total revenues since March 2016. However, as of February 2016, the stock of delayed VAT credits amounted to 275m GHc. The beneficiaries of these credits were in particular LTOs (mainly from the mining sector) – GHc 244.1 million and MTOs (mainly from the non-traditional export

sector) – GHc 30.91 million. The GRA intends to reduce the amount of VAT refund arrears by half by end of the year. The GRA has started a “fast track” VAT refund system. Under this new scheme, the refunds are processed for the first two months of each quarter without prior verification, or audit. The refund claims for the last month of the quarter are verified and settled along with the claims for the two previous months. While it is too early to assess the benefits of the system, GRA will continue improving its functioning by enhancing its risk-based approach for processing refunds, improving automation and prioritizing the refund claims in terms of amount and overdue time.

47. **Tax compliance risks.** The GRA has recently established a Risk Management Unit (RMU) to identify and alleviate compliance risks. The risk-based approach to audit case selection represents one of the pillars of GRA’s compliance improvement strategy. Over the last year, GRA has continued expanding the use of third-party data available across various government agencies for the goals of enhancing compliance and widening the tax net. The results for 2015, show that through third party data, GRA could effectively increase the number of registered taxpayers by 15 percent. The tax recovery related to risk-based audits was 2 percent of total tax revenues but as a ratio of risk based audit assessment it was about 64 percent. For 2016, the GRA has set objectives in its operational plans to increase the number of registered taxpayers. A report on the results of the risk-based audit program was produced. It will be used to draw lessons for improvement with the aim to develop a risk-based audit plan.

48. **Taxpayer identification number.** As stated in the 2016 Budget, GRA will continue to expand the use of Taxpayers Identification Number (TIN) to facilitate the identification of eligible taxpayers and to ensure that registered taxpayers comply with filing and payment requirements. To date, GRA required all importers to obtain a TIN. All the taxpayers at the LTOs and three MTOs offices have been re-registered, and will continue the implementation during 2016. GRA will educate and sensitize these new tax payers to ensure compliance with record keeping requirements, filing tax returns and payment of taxes.

49. **Administration of taxes and duties on imports.** Since September 2015 the GRA is in charge of the pre-arrival classification and valuation process for imports. The Pre-Arrival Assessment Reporting System has helped reducing time for import classification and compliant transactions from 2 weeks to 48 hours. The Ghana National Single Window (GNSW) Project was officially launched in December 2015, with actual commencement in September 2015. The GNSW Feasibility study is underway and the resulting GNSW strategy will present a range of recommendations for the rollout of the GNSW. Compliance Management Committee (CMC) of Customs Administration has started monthly meetings to review the Compliance Management Program Development and address any inherent challenges. As a priority, the CMC will select the compliance priority areas, and identify best practices to follow in terms of compliance management systems.

Reforms to Improve Public Financial Management

50. **Public financial management (PFM) reform.** The government made progress in implementing the PFM Reform Project, with the first progress report submitted to the Steering Committee in December 2015. To better guide the implementation of the PFM reform strategy and

strengthen engagement with development partners (DPs), the GoG intends to strengthen the capacity of the PFM Coordinating Office to enhance Monitoring, Evaluation and Communication. The Office will engage Monitoring and Evaluation and Change Management specialists to develop and institute the reforms, and provide training of staff as well as strengthen the coordination and implementation of an action plan for the PFM reform strategy and the project.

51. **The PFM Act.** The government stepped up efforts and completed the drafting of the PFM Bill, which incorporates the contributions of various stakeholders, including members of parliament, and civil society organizations. The Bill was approved by Cabinet and was adopted by Parliament in July 2016. The new Act is a significant improvement over the existing PFM legal framework, specifically: 1) it codifies in the law the medium-term orientation to fiscal policy making, as reflected in the Medium-Term Fiscal and Expenditure Framework; 2) it establishes principles of fiscal responsibility and accountability; 3) it introduces a more consultative budget calendar; 4) it enhances fiscal transparency by expanding reporting to parliament; 5) it enhances commitment and expenditure controls; 6) it expands the provisions for debt management; 7) finally, it enhances the role of external and internal audit. The government will begin working on the drafting of the related regulations, to be adopted at the beginning of the new legislation (proposed structural benchmark, September 2017).

52. **Strengthening budget transparency and credibility.** In line with GoG's program commitments and best international practice, elements of the fiscal strategy were included into the budget guidelines which were published on the MOF website in July 2016. The document reflected some of the provisions of the new PFM Act by including (i) the government's deficit target for 2017; (ii) recent fiscal developments; (iii) medium-term fiscal forecasts; (iv) the medium-term fiscal framework.

53. **Budget Execution Reports.** The GoG will continue publishing budget performance reports on the website of the Ministry of Finance. To further enhance fiscal transparency, beginning from the third quarter of 2016, the GoG will start publishing quarterly budget execution reports, which will provide an overview of recent macroeconomic trends, information on the performance of budgetary revenue and expenditure, and an explanation of their deviations from budget estimates. The first quarterly budget execution report will be published in September 2016.

54. **Extending GIFMIS coverage.** The Financial Accounting Modules have been rolled-out to all MDAs on the consolidated fund since 2012 plus 250 national Spending Units (SUs), 350 Regional SUs and 7 MMDAs out of 216. The GIFMIS has been rolled out to 46 IGF-generating Institutions out of 59 as at July 2016. The Fixed Assets module is rolled out at 5 headquarters MDAs, while the Budget Modules was rolled-out to all MDAs since 2014. GIFMIS will be rolled out to the remaining 37 IGF institutions by end-December 2016. The Road Fund, Energy Fund and GET Fund will go-live by the end of 2016 and the additional Statutory Funds will be completed in 2017. In 2017 and 2018 the remaining donor Funds will also be brought onboard the GIFMIS and there will be complete rollout to additional 83 MMDAs. In 2016, system usage at the seven pilot MMDAs will be strengthened and site preparation for additional 53 MMDAs will start

Payroll Management and Controls

55. **Payroll data clean-up.** GoG has made further progress in implementing the payroll cleaning plan, with assistance from the World Bank. A consulting firm, which was hired in June, will be tasked with eliminating specific shortfalls identified in the payroll system between March and September 2015. To this end, the firm would help GoG to develop a system validation approval process for continuous data input and ensure that the system contains employees' names, their date of birth, their start date, the current grade, their bank account and social security numbers. In addition, the electronic salary payment voucher (ESPV) validation process will be integrated with the payroll system. The payroll cleaning plan is expected to be fully implemented by the end of March, 2017. Another consultant has been procured to fix the gaps that were identified. Remaining security gaps will be eliminated by end-March 2017. Capacity of staff will be developed through training on the new payroll and documentation.

56. **Biometric Validation.** The SSNIT is currently registering all employees paid through the CAGD mechanized payroll. Subsequently an interface with SSNIT biometric system for the continuous verification of employees will be achieved. As of end-August 2016, two-thirds of the staff on CAGD payroll have been re-enrolled by SSNIT with their biometric data. The remaining staff across the country were given a notification to register under the biometric system by the end of September 2016. The proposed payroll interface with the SSNIT biometric data for continuous verification has been ceded to PSC as part of the implementation of HRMIS. With the progress made in the biometric registration, PSC has begun technical discussions with SSNIT to interface the biometric system of SSNIT with the HRMIS. The interface will be completed by March 2017 and continuous verification of employees' records will start in the second quarter of 2017.

57. **Human Resource Management.** The Public Services Commission (PSC), in collaboration with the MOF and the CAGD, has been conducting Human Resource Audit (HR Audit). It would strengthen controls around entrance and exit, progressions, and positions across the various public service organizations, optimize utilization of human resources, ensure elimination of "ghost employee" names on the payroll and ultimately promote efficient financial management of the public service. An HR technical team, consisting of the PSC, the Office of the Head of Civil Service (OHCS), Local Government Service (LGS), MOF, CAGD, Internal Audit Agency (IAA) and the Fair Wages and Salaries Commission (FWSC) has so far completed the field work in all the regions. The draft reports are being reviewed by the Project Quality Assurance Team (QAT). Three reports have been already produced. As of December 2015, the salaries of 2,700 staff on the payroll in Ashanti region who were absent during the HR audit were suspended. To date only 37 names have been reinstated on the payroll after appropriate verification.

58. A monitoring exercise to evaluate the implementation of the HRMIS was conducted at the head offices of 7 pilot MDAs: the PSC, OHCS, GHS, GSS, Prisons, MoFA and LGSS. The exercise aimed to ascertain the readiness of their respective sites for the take-off of the HRMIS. The preliminary results were positive and revealed significant improvement related to the recruitment process. The test revealed that, the use of HRMIS would help reduce the overall recruitment process to less than two months. The PSC will ensure that, before any organization actively uses HRMIS, an independent

verification will be conducted to ensure the full matching of the Established Posts and the active payroll. The rollout of HRMIS to remaining MDAs will be finalized by end-year.

59. **Payroll processes.** Since January 2016, the Electronic Salary Payment Voucher (E-SPV) system validation has been carried out in all regions. For the month of February 2016, the validation process identified anomalies related to 14,845 employees, whose salaries were terminated. These anomalies, consisting of either discontinued, unverified or invalidated staff are currently being investigated. The roll out of E-zwich, which will allow biometric validation of employees at the point of payment, which was expected to be done on a regional basis, starting with Greater Accra in May 2016, has been temporarily put on hold because of protest by Labour Union about transaction fees. The GoG has reduced the average time lag between the completion of the recruitment process and the payroll enrollment from 18 months to two months. The CAGD has created a special desk to monitor the payroll of subvented agencies prior to the release of funds. The E-form, when completed, would bring the risk of payroll errors down and further reduce the time period required for updating it. The implementation of the E-forms is expected to be completed by March, 2017.

60. **Payroll of Ghana Education Service.** The migration of the Ghana Education Service (GES) payroll from IPPD3 onto IPPD2 system, as a part of HRMIS implementation program, is ongoing. As of February 2016, the data on both IPDD2 and IPDD3 were reconciled in both systems. A parallel running of payroll on both systems started in March 2016. The migration of the GES payroll onto the mechanized IPPD2 system is on course and expected to be fully completed by end-September 2016. By the same date, the IPPD3 payroll system will cease to process GES payroll. The payroll has been integrated with GIFMIS Financials. The GoG is confident that by June 2017, the integration of the HRMIS and Hyperion with the GIFMIS financial in the Health and Education sectors will be completed. This will allow greater control over the payroll cost.

61. **Migration of Subvented Agencies to the mechanized payroll.** The CAGD is continuing the process of migrating subvented agencies to the mechanized payroll to enhance controls. The Veterans' Association of Ghana, Africa Biofuel and Centre for Distance and Open Learning were migrated at end-February 2016—a first batch out of the remaining subvented agencies which would be migrated to a mechanized payroll. An interface appears feasible for those institutions which have a good payroll management software, fully integrated with a financial and human resource system (the biggest universities and GRA), and whose payroll will be eventually weaned-off from the government subvention (the largest universities). For these agencies, the interface approach will be a solution to enhance central oversight and control of their payrolls. The GoG is planning to implement the following alternative actions to replace the migration of the payroll of these subvented agencies:

- the interfacing of the GRA payroll was completed in August 2016; the interface will be used once the Ghana Audit Service has completed the audit of the sufficiency of the checks conducted by CAGD (by September 2016);
- Produce a detailed project plan for design and testing of the universities and Police payroll interfaces (by end-September 2016); complete the tender process by November 2016;

- Go-live with the interfaces of three universities (University of Ghana, Kwame Nkrumah University of Science and Technology, University of Cape Coast) and the police (by end-December 2016); this will include full access by the Controller and Accountant General Office to the nominal roll of these agencies;
- Go-live with the interface of the remaining universities by August 2017;
- Enhance the checks that the Ghana Audit Service does for the Army's payroll (by end-November 2016);
- Perform, through the Ghana Audit Service, an audit of the payroll interfaces and manual control checks for the three largest universities and the Police by end-February 2017;

62. **Publication of a report on status of implementation of the payroll clean-up plan.** The CAGD has been publishing quarterly reports on the status of implementation of measures to clean-up the payroll. The first quarterly report was published on the CAGD website in September 2015. The report for December 2015 was posted in April 2016. The latest report for the first half of the year was posted in September 2016.

Improve Treasury and Cash Management

63. **Bank Accounts Classification.** A committee composed of members of the CAGD, the MOF and BoG has begun in April the review and reclassification of the GoG's bank accounts, for the purpose of determining the central government cash position and thus fully harmonize the fiscal reporting framework of the BoG and the MOF. While the Statement of Accounts (SOA) of the BoG uses a wider definition of government, which include special and statutory funds, the MOF reports fiscal operations only in relation to the central government. The committee finalized a first review of the 3818 GoG's bank accounts at BoG in June, but was not able to finalize the reconciliation. The Committee has then requested technical assistance to both the Statistics and Fiscal Affairs Department of the IMF to review the work done with BoG accounts, expand the coverage of the exercise to commercial bank accounts, and provide advice on how to harmonize the fiscal reporting of the MOF and that of BoG. The TA mission is planned around end-September 2016. The next step is to rationalize the bank accounts by closing dormant and unnecessary accounts and limit the number of MDAs/MMDA accounts to no more than four. Balances in the accounts, which are to be closed, will be transferred into rationalization accounts. The final part of the exercise is to code all bank accounts and link them to the Chart of Accounts on GIFMIS. While the bank account classification will help harmonize fiscal reporting framework of the MOF with that of BoG, the coding and linking of bank accounts to the Chart of Accounts will improve the reconciliation of accounts, strengthening cash forecasting and management. The accounts classification, coding and rationalization exercise is expected to be completed by end-November, 2016.

64. The GoG has initiated an analysis of the impact of government banks' asset transfers on commercial banks' liquidity. A preliminary examination suggests that the MDAs cash balances are evenly spread across the banking system. Therefore, the BoG should easily manage the withdrawal

of the liquidity through open market operations. The CAGD will work with BoG to prepare a bank-by-bank analysis by November 2016. The results will be reviewed in light of the CAGD's plans for liquidity transfer, and solutions for the affected banks will be discussed accordingly with BoG.

65. The GoG remains committed to implement the TSA through the following actions. The GoG is extending GIFMIS coverage to all Internally Generated Funds (IGFs) and Statutory Funds (SFs) by (para. 54), while the extension to Donor Funds (DFs) will be done in consultations with DPs. As these new entities are brought onto GIFMIS, they will retain sub-accounts at the BoG, to give them time to familiarize themselves with new arrangements and trust them. Progressively, the control through bank accounts will be replaced by the control through GIFMIS. The TSA will be implemented in two steps. First, BoG will link the sub-accounts of all central budgetary government entities that are identified with the bank accounts reclassification exercise. In a second step, BoG will link the sub-accounts of the central government entities (including SFs), as entities are brought onto GIFMIS. This will allow the government to properly monitor the zero-financing requirement from the BoG, changing the base from T-Main to a central budgetary government TSA by December 2016 (proposed structural benchmark) and then a central government TSA by August 2017 (proposed structural benchmark). The CAGD will prepare a project plan by end-September 2016 to ensure that all the technical teams work on the same schedule. In the meantime, the CAGD will sensitize all MDAs of these proposed changes. Given the important implications that the TSA has for improvement of fiscal management in Ghana, its implementation has already received high-level support from the President.

66. **Cash Management.** The GoG intends to ensure that cash management functions improve, alongside the implementation of the TSA. An AFRITAC West 2 mission has reviewed the current cash management activities in Ghana. Currently, the cash flow forecasting process involves monthly forecast for the year. The framework focuses on the balance between cash inflows and outflows on a weekly basis for the ensuing month. These forecasts are matched against actual cash flows and appropriate adjustments are made to the outer months as necessary. The PEMU and CAGD intend, starting September 2016, to progressively extend the forecasts from the existing one-month horizon to three-months and then six months ahead. The latter horizon will allow coordination with the financing program prepared by the DMD.

67. The CAGD plans to invest idle cash balances with commercial banks. The CAGD has issued a request to a number of banks in terms of the instruments and possible interest rates that would be available for short-term investments. A panel of five banks (plus the B-tracking platform provider) has been chosen for an initial contract term of two years. The term of the deposits is likely to be initially overnight, and extended progressively as the cash management functions continue to improve. These short-term investments will be made out of the cash swept into the bank accounts which will form the TSA. The CAGD intends to use collateralized investment, to avoid credit exposure. Furthermore, it will develop these investment policies in close cooperation with the DMD.

68. **Debt service management.** To avoid delays in debt service, the government has been implementing the recommendations of the technical assistance provided by the Commonwealth Secretariat aiming at strengthening the system. The government has also been working with the IMF

on improving debt management processes and procedures. The GoG has simplified payment procedures among the ministries and the BoG; strengthened the coordination between the MOF and the BoG for a weekly monitoring of payments; established a monitoring database alerting the forthcoming payments based on original loan agreements well in advance of due dates; and requested creditors to send payments notices prior to due dates.

69. **Public Sector Reform.** The National Public Sector Reform Strategy (NPSRS) was submitted to Cabinet in December 2015. Its implementation spans over a 10-year horizon, along three phases: phase 1 (2017-2022) will focus on strengthening the public sector; phase 2 (2022-2027) and phase 3 (2025-2027) will focus, respectively on modernization and on attaining world-class public service delivery. The technical committee of the NPSRS Task Force will review the comments from cabinet and incorporate them in the NPSRS. Then, the technical committee will hold workshops on the NPSRS for all relevant stakeholders. This is to build consensus and seek their validation of the Strategy. The NPSRS envisions the creation of dedicated institutions which will ensure its implementation. The reform will be coordinated by the Public Sector Reform Inter-Ministerial Committee. The NPSRS also envisions the creation of a new Ministry of Public Sector Reform and the formation of the Public Sector Reform Implementation Committee within the implementing MDAs and MMDAs, and of the Public Sector Reform Working Group. The Cabinet will maintain the overall supervisory responsibility of the NPSRS. The Public Sector Reform Inter-Ministerial Committee will produce by end-December 2016 a Results Matrix with quantifiable and achievable targets for the monitoring and evaluation of the progress of the various programs. Measures will be taken to seek funding for various programs in the strategy from both Development Partners and through GoG budget.

70. **Reform of Subvented Agencies.** A committee has been constituted to assess the performance of 12 subvented agencies with the view of recommending their weaning off government subvention. The twelve identified subvented agencies were: University of Ghana, University of Cape Coast, Kwame Nkrumah University of Science and Technology, Accra Polytechnic, Securities and Exchange Commission, Forestry Commission, Ghana Standards Authority, Environmental Protection Agency, Driver and Vehicle Licensing Authority, Food and Drugs Authority, Korle-bu Teaching Hospital, Komfo Anokye Teaching Hospital. In 2016, six agencies were weaned-off: The Environmental Protection Agency (EPA), the Energy Commission, the Driver and Vehicle Licensing Authority, The Gaming Commission, the Data Protection Commission, the Securities and Exchange Commission. The GoG will evaluate the activities and financials for another set of subvented agencies; two more have been identified in June 2016. Requests for assessment have been received from the National Pensions Regulatory Authority (NPRA) and West African Examination Council (WAEC). The Tertiary Educational Institutions, Food and Drugs Authority and the Ghana Standards Authority could also be included in the assessment.

71. **Statutory Funds.** The government continues to realign financing of the statutory funds with government's expenditure needs. In effect, part of transfers to statutory funds will be used to cover programs that have been executed by the central government. This is the first step towards aligning statutory fund expenditures with government priorities. The GoG intends to use the budget process

and the budget implementation instructions to ensure smooth implementation of this high-level expenditure management decision.

State Owned Enterprises (SOEs)

72. The GoG has taken a number of initiatives to improve the performance of energy sector SOEs. Although the PURC acts independently, the GoG is recommending the authority to promptly enforce the quarterly automatic tariff adjustment formula, so that tariffs are set at full cost recovery. Furthermore, with the introduction of price liberalization in the downstream petroleum sector, the GoG will ensure that Oil Marketing Companies (OMCs) set their own prices, subject to National Petroleum Authority (NPA) supervision.

73. The GoG has agreed with domestic banks on a plan to restructure the debt of VRA and TOR, which will make the energy sector SOE and the banking sector more stable. The plan will rely on the proceeds from the recently introduced Energy Sector Levies Act (ESLA), which will provide cash for power generation and infrastructure spending of the utility SOEs (ECG, VRA, GRIDCO), but also will help the restructuring of the debt of TOR, the Bulk Distribution Companies and VRA, for the repayment of the restructured loans and as collateral. The plan involves the restructuring and repayment of an amount of about GHc 2.2 billion of VRA debt over 3-to-5 years, with an upfront payment of GHc 250 million from the Price Stabilization Levy. Other features of the deal include the following:

- reduction of interest rate on the domestic component of the VRA debt from an average of 30 percent to 22 percent (below the current Policy Rate and Treasury Bill rate);
- reduction of the interest rate on the foreign component from an average of 11 percent to 8.5 percent;
- ring-fencing the legacy debt and repayment flows from two (2) Escrow Accounts—Energy Sector Levy Act 2015 (Act 899); and Debt Service Reserve (DSR)—into a Debt Service (DS) account;
- flows of all or part of VRA’s receivables (currently used to service the restructured debt) into the DS account to boost the repayment of principal and interest;
- placing a limit on the contracting of new loans and credits by VRA, without the express permission of the Ministries of Power and Finance; and
- conversion of the proceeds of the levies used to liquidate the existing debt into on-lent or Equity funds on VRA’s Balance Sheet.

The agreement for TOR follows a model similar to that for VRA. Under this plan, GHc 0.9 billion of TOR debt to banks are restructured by way of a 10-year cedi-denominated loan with a 20 percent annual interest rate.

74. It is envisaged that the model will be used to restructure the remaining VRA debt, wholly or partially, as well as those of other energy-sector SOEs. This may involve loans contracted by VRA on its Balance Sheet from foreign sources. Also, savings of about GHc 350 million are anticipated from the improved repayment terms over the maturity period of the new facility. Furthermore, the deal is expected to re-open the credit lines to enable VRA begin the establishment of Letters of Credit (L/Cs) to support its imports of light crude oil and other materials or equipment—in particular, for its Thermal and other plants.

75. In order to develop a more detailed strategy for addressing the financial situation of SOEs in the energy sector, GoG is requesting reputable audit firm to perform a comprehensive audit and financial viability analysis of these SOEs, including the following tasks:

- Analysis of financial performance in 2015,
- Validate SOEs' debt and review status of payables, including cross arrears,
- Assess SOEs' financial needs as of end-June 2016,
- Viability analysis: 3-year Business Plan review to assess future recurring earning capacity; in case losses would be expected, determination of the break-even price/tariffs and/or needs for government support
- Setting up of a Financial reporting template for future reports to Ministry of Finance and Economy to allow proper regular monitoring

The work will start by end-September 2016 and be completed by end-2016, with an interim report prepared after 1½ month.

IV. POLICIES TO SUPPORT GROWTH AND POVERTY REDUCTION

Supporting growth

76. Economic growth is expected to be supported by less erratic electricity supply. The electricity crisis eased towards the end of 2015 as the expansion of power generating capacity by 800 MW helped balance rapidly growing demand with supply. Although electricity generation capacity is now adequate, there is a risk of shortages reappearing due to disruptions in gas supply (both from the Jubilee field as well as from Nigeria) which can adversely impact electricity generation. The government has been working on a quick resolution of a breakdown of the Jubilee field FPSO to eliminate the risk of power cuts in the immediate future.

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

78. **The Ghana Export-Import (EXIM) Bank** was established to “support and develop directly or indirectly trade between Ghana and other countries and build Ghana’s capacity and competitiveness in the international market place”. EXIM will offer credit, guarantees, insurance and development finance to support Ghanaian exporters. EXIM will be financed from a levy of 0.675% on the dutiable value of imports of non-petroleum products which was hitherto payable to the Export Development and Agricultural Investment Fund now replaced by Ghana EXIM. EXIM is set up to be independent in the performance of its duties but is accountable to the Minister of Finance on the achievement of its object and compliance with its enabling Act. A Board of Directors with representatives from the private sector, Ministry of Finance, Bank of Ghana, Ministry of Trade and Industries and the Ghana Export Promotion Authority is responsible for oversight of the Bank.

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

Reducing poverty

80. Ghana’s poverty reduction strategy is anchored in the medium-term development plan — the Ghana Shared Growth and Development agenda for 2014-17 (GSGDA II). Social interventions, which amounted to GHc 5.3 billion, or 4 percent of GDP in 2015 supported (i) targeted cash transfer programs—the Livelihood Empowerment Against Poverty (LEAP) and Social Inclusion Transfers (SITs); (ii) health measures, including exemptions of low-income households from health insurance payments; and (iii) education measures, including Ghana School Feeding Program. Some 89 thousand households benefited from the LEAP program in 2015 through by-monthly cash grants, with total allocation of GHc 6.7 million. In 2016, the LEAP program is expected to be expanded to cover over 250,000 beneficiaries, at a cost of GHc50 million. SITs (implemented by the Social Investment Fund), aiming at social inclusion at the local level, provide support to poor urban communities under the Urban Poverty Reduction Project (“UPRP”). Some 3,356 households and 10 thousand individuals benefited from quarterly cash transfers at a total cost of GHc0.7 million. We are rolling out an electronic payment system to improve controls over benefit payment and also have been working on further strengthening benefit targeting. Given the high level of unemployment, the GoG has been developing conditions for small business development, including through public infrastructure and training.

V. STATISTICAL ISSUES

81. The Ghana Statistical Service (GSS) and the BoG will implement improvements to economic and monetary statistics, in order to improve the quality of data used for policy making. The National Accounts will be rebased to 2014 (to be published in 2018) and a new annual benchmarking methodology will be introduced, as well as new sectoral surveys including an Integrated Business Establishment Survey (IBES) and an Agricultural Census. In the interim, the GSS will continue to analyze the expenditure estimates to determine the cause of the significant statistical discrepancy,

with the assistance of the AFRITAC WEST 2 regional advisor for statistics. All forecasting activities will be housed in the MOF, allowing the GSS to focus its resources on measurement. The BoG will request technical support to assist with the creation of a new statistics department and improvement of the collection, compilation and warehousing of monetary statistics. The MOF will ensure timely publication of fiscal data on its website.

VI. RISKS AND CONTINGENCIES

82. Key downside risks to the program include tight government financing; fiscal revenue and expenditure risks; global financial market volatility leading to lower or reversal of private capital inflows; commodity price volatility (gold, cocoa and oil); economic slowdown in main trading partners; slowdown in credit growth, as banks rebuild balance sheets, following recent increases in non-performing loans; and unhinging of inflation expectations. On the revenue side risks are likely to arise from the shortfall of oil revenue, if oil prices further decline and/or the oil production from Jubilee, not restored. Expenditure overruns, particularly on wages and salaries, and election costs, could affect the budget. If (some of) these risks materialize, the government stands ready to adjust its policies, in close consultation with IMF staff, to ensure the achievement of a sustainable external position by the end of the program period.

VII. PROGRAM DESIGN AND MONITORING

83. The GoG has completed the following measures to ensure that the program, including the implementation of structural benchmarks, remains on track:

- a) Interface of the payroll of GRA, and implementation of the first steps for the interface of universities and the police.
- b) Passing by Parliament in July 2016 of the PFM Act.
- c) Passing of the amendments to the BoG Act by Parliament in August 2016, albeit not in line with the recommendations provided by Fund Staff.
- d) Passing of the Banks and Specialized Deposit-Taking Institutions Act and the Deposit Insurance Act by Parliament in July 2016.
- e) Agreed with IMF staff on steps to address the financial situation and legacy debt of energy sector SOEs.
- f) Finalized a plan, agreed with IMF staff, to strengthen the resilience of the banking system in response to the results of the Asset Quality Review. The plan will be approved by BoG's Board in September 2016.

84. The non-concessional debt limits (PC) were set at US\$ 2.5 billion for 2015 in the context of the first review to accommodate Eurobond issuance of up to US\$ 1.5 billion, some projects integral to the development program for which concessional financing was not available (US\$ 500 million), a GNPC loan (US\$ 350 million), and a World Bank loan (US\$ 150 million). In addition, an indicative ceiling (IT) of US\$ 100 million on concessional loans was created to comprehensively address the vulnerabilities associated with external debt. With financing conditions facing frontier markets tightening, Ghana limited its Eurobond issuance in October 2015 to US\$ 1 billion, compared with the planned \$1.5 billion. Up to end-December, total contracting of non-concessional external loans for projects and concessional external loans reached US\$ 359 million and US\$ 461 million, respectively. GNPC's loan equivalent to US\$ 350 million, which was included in the non-concessional debt limit for 2015, was not contracted in time by end-2015 due to an unforeseen delay in negotiations. Non-concessional loans used for a debt management purpose amounted to US\$ 1,150 million, including the US\$ 1 billion Eurobond.

85. From 2016 onwards the non-concessional debt limit was separately established for debt management purpose and for projects critical for national development, for which concessional financing is not available. At the time of the third review, a non-concessional debt ceiling for debt management purposes will be slightly modified upward to US\$ 1,175 million for 2016, to cover a possible increase in a World Bank Development Policy loan to US\$ 175 million. In February 2016, VRA has contracted a non-concessional loan of US\$ 75 million to repay more expensive domestic debt owed to domestic commercial banks; this loan will be counted against the debt limits for debt management purpose. We request to create an additional separate limit on GNPC's non-concessional borrowing to accommodate the delayed GNPC loan of US\$ 350 million in the context of the third review. The debt ceiling for priority infrastructure projects was set at US\$ 1,000 million on a cumulative basis from the beginning of 2015. A list of priority projects (¶ 31 of the TMU) is based on the priorities of the GSGDAII, the Budget, Cabinet Decisions, and the need for continuation of priority growth-enhancing existing projects which have to be completed. Concurrently, an indicative target of US\$ 400 million was established for concessional external borrowing. Going forward, the Ministry of Finance will hold timely consultations with the IMF staff on the possible terms of a Eurobond and other commercial external borrowing to ensure that such borrowing strengthens confidence in the program, does not jeopardize debt sustainability and is in line with the Fund's debt limit policy. The cumulative non-concessional debt limits for critical projects by end-2017 would be set at US\$ 1,500 million from the beginning of 2015, while those for debt management purpose is set at US\$ 1,150 million, including a Eurobond or other form of external market borrowing.

86. The program will continue to be monitored based on periodic quantitative program targets for end-June, end-September and end-December 2016 set out in Tables 2 and 3, and for end-March and end-June 2017 set out in Table 3. Structural benchmarks set out in Table 6 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 letter, which also defines the scope and frequency of data to be reported for program monitoring purposes. During the program period, the government will not introduce or intensify

restrictions on payments and transfers for current international transactions or introduce or modify any multiple currency practice without the IMF's prior approval, conclude bilateral payments agreements that are incompatible with Article VIII of the IMF's Articles of Agreement, or introduce or intensify import restrictions for balance of payments reasons. Completion of the fourth, fifth and sixth reviews under the program is expected on or after October 15, 2016, on or after April 15, 2017, and on or after October 2017, with end-June 2016, end-December 2016 and end-June 2017 as test dates, respectively.

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

	2014		Apr 2015			Aug 2015				Dec 2015				Met/Not met
	Act	Revised	Target	Adjusted target	Actual	Target	Revised	Adjusted target	Actual	Target	Revised	Adjusted target	Actual	
I Quantitative Performance Criteria														
Primary fiscal balance of the government (floor in millions of cedis)	-4,322	...	-544	-536	46	-380	...	-282	237	-422	...	-580	328	Met
Wage Bill (ceiling; in millions of cedis)	9,449	...	3,413		3,341	6,857	...		6,815	10,359	...		10,556	Not Met
Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars) ²	1,415	...	1,042		1,186	331	147		566	1,962	2,278	2,237	2,238	Met
Net Domestic Assets of Bank of Ghana (ceiling; millions of cedis) ³	3,107	...	5,755		5,561	8,772	...		7,846	4,914	3,410		4,682	Not Met
Net change in stock of arrears (ceiling, millions of cedis)	428	...	-424		-565	-1,001	...		-1,525	-1,561	...		-2,699	Met
II Continuous Performance Criteria														
Gross financing of BoG to the Government and SOEs (ceiling; in millions of cedis) ⁴	13,603	19,723	14,614		14,873	14,614	15,814		15,017	14,614	15,814		15,612	Met
Non-accumulation of external arrears (ceiling; millions of U.S. dollars) ⁵	...	...	0		1.7	0	...		0	0	...		0	Met
Non-accumulation of domestic arrears (ceiling; millions of cedis)	...	...	0		0	0	...		0	0	...		0	Met
Contracting or guaranteeing of new external nonconcessional debt (ceiling; millions U.S. Dollars)	...	...	0		0	1,000	...		152	1,000	2,500		1,510	Met
III Indicative Target														
Program central target rate of inflation (12 month percentage change)	17.0	...	15.4		16.8	13.8	15.0		17.3	12.0	19.6		17.7	Met
Contracting or guaranteeing of new external concessional debt (ceiling; millions U.S. Dollars)	...	...	...		...	...	...			100	...		461	Not Met
Social Protection (floor, in million of cedis) ⁶	947	...	388		316	806	...		954	1,294	...		1,368	Met
Memorandum item:														
Primary fiscal balance of the government (excluding discrepancy)			-544	-536	-196	-380		-282	419	-422		-580	-511	

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

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

³ Net domestic assets for 2015 is computed using the program's exchange rate of GHc 3.40 per U.S.\$1 as defined in the attached Technical Memorandum of Understanding (TMU). Defined as a level.

⁴ Defined as a level.

⁵ The authorities have temporarily run small arrears to an official creditor for a technical reason.

⁶ The April 2015 data has been revised upwards.

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

	2015	Mar 2016		Actual	Jun 2016			Sep 2016		Dec 2016	
	Actual	Target	Adjusted target		Target	Adjusted target	Prel.	Target	Revised	Target	Revised
I Quantitative Performance Criteria ²											
Primary fiscal balance of the government (floor in millions of cedis)	328	13	-76	-1,016	723	939	-586	1,227	...	2,083	...
Wage Bill (ceiling; in millions of cedis)	10,556	2,928		2,845	5,853		5,791	8,783	...	11,723	...
Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars) ³	2,238	-555		-473	-357	-432	-798	-928	-1,161	832	600
Net change in stock of arrears (ceiling, millions of cedis)	-2,699	-630		-136	-1,476		-352	-2,313	...	-2,313	...
II Continuous Performance Criteria											
Gross financing of BoG to the Government and SOEs (ceiling; in millions of cedis) ⁴	15,612	15,814		15,606	15,814		15,301	15,814	...	15,814	...
Non-accumulation of external arrears (ceiling; millions of U.S. dollars)	0	0		0	0		0	0	...	0	...
Non-accumulation of domestic arrears (ceiling; millions of cedis)	0	0		0	0		0	0	...	0	...
Contracting or guaranteeing of new external nonconcessional debt (ceiling; millions U.S. Dollars) ⁵											
o/w: Debt for a debt management purpose ⁶	1,150	1,000		75	1,150		75	1,150	1,175	1,150	1,175
Debt for projects (cumulative from the beginning of 2015) ⁷	359	1,000		359	1,000		578	1,000	...	1,000	...
Debt for project (GNPC) ⁸	0	...		...	...		...	...	350	...	350
III Monetary Policy Consultation Clause											
Twelve-month consumer price inflation (percent)											
Outer band (upper limit)	20.7	20.5			19.0			16.9	19.0	13.0	16.5
Inner band (upper limit)	19.7	19.5			18.0			15.9	18.0	12.0	15.5
Central target rate of inflation	17.7	17.5		19.2	16.0		18.4	13.9	16.0	10.0	13.5
Inner band (lower limit)	15.7	15.5			14.0			11.9	14.0	8.0	11.5
Outer band (lower limit)	14.7	14.5			13.0			10.9	13.0	7.0	10.5
IV Indicative Target											
Net Domestic Assets of Bank of Ghana (ceiling; millions of cedis) ⁹	4,682	4,031		5,782	3,818		10,748	6,447	12,101	265	6,667
Contracting or guaranteeing of new external concessional debt (ceiling; millions U.S. Dollars)	461	400		4	400		94	400	...	400	...
Social Protection (floor, in million of cedis)	2,489	522		471	1,050		723	2,573	...	3,022	...
Memorandum item:											
Primary fiscal balance of the government (excluding discrepancy)	-511	13		841	723	939	1,424	1,227	...	2,083	...

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

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

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

⁴ Defined as a level.

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

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

⁷ Debt for projects does not include GNPC's loan equivalent to US\$ 350 million.

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

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

Table 3. Ghana: Proposed Quantitative Program Targets 1/
(Cumulative from the beginning of the calendar year, unless otherwise indicated)

	Dec 2016 Target	Mar 2017 Target	Jun 2017 Target
I Quantitative Indicative Targets ²			
Primary fiscal balance of the government (floor in millions of cedis)	2,083	652	1,393
Wage Bill (ceiling; in millions of cedis)	11,723	3,424	6,850
Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars) ³	600	-420	-832
Net change in stock of arrears (ceiling, millions of cedis)	-2,313	-518	-696
II Continuous Indicative Targets			
Gross financing of BoG to the Government and SOEs (ceiling; in millions of cedis) ⁴	15,814	15,814	15,814
Non-accumulation of external arrears (ceiling; millions of U.S. dollars)	0	0	0
Non-accumulation of domestic arrears (ceiling; millions of cedis)	0	0	0
Contracting or guaranteeing of new external nonconcessional debt (ceiling; millions U.S. Dollars) ⁵			
o/w: Debt for a debt management purpose ⁶	1,150	1,150	1,150
Debt for projects (cumulative from the beginning of 2015)	1,000	1,500	1,500
III Monetary Policy Consultation Clause Indicative Targets			
Twelve-month consumer price inflation (percent)			
'Outer band (upper limit)	16.5	14.5	13.0
'Inner band (upper limit)	15.5	13.5	12.0
Central target rate of inflation	13.5	11.5	10.0
'Inner band (lower limit)	11.5	9.5	8.0
'Outer band (lower limit)	10.5	8.5	7.0
IV Other Indicative Target			
Net Domestic Assets of Bank of Ghana (ceiling; millions of cedis) ⁷	6,667	7,694	9,408
Contracting or guaranteeing of new external concessional debt (ceiling; millions U.S. Dollars)	400	400	400
Social Protection (floor, in million of cedis)	3,022	...	...

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

² Indicative targets for end-March and end-June 2017.

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

⁴ Defined as a level.

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

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

⁷ Net domestic assets is computed using the program's exchange rate of GHc 4.0 per U.S.\$1 for 2016 and GHc 4.4 per U.S.\$1 for 2017 and as defined in the attached Technical Memorandum of Understanding (TMU). Defined as a level.

Table 4. Ghana: Prior Actions for the Third Review

Category		Status
Payroll Management	Interface of GRA payroll with controller and Accountant General department.	Completed
SOE	Implementation of first steps of a strategy to comprehensively address financial vulnerabilities of energy sector SOEs, including agreement with domestic banks on restructuring plans of VRA and TOR debt and signing of contract with external auditors for an audit of energy sector SOEs debt and analysis of their financial viability.	Not yet completed
Asset Quality Review	Adoption by BoG Board of a formal, timebound roadmap by the BoG Board to comprehensively address weaknesses in the banking sector revealed by the Asset Quality Review. The strategy will be agreed with Fund Staff and formally communicated to banks.	Not yet completed

Table 5. Ghana: Past Structural Reform Benchmarks

Category	Proposed structural benchmarks	Economic rationale	Indicative timeframe	Status
Revenue administration	- Publish the first quarterly report on the results of the risk-based audit of taxpayers program	To enhance compliance in tax payments	June 2016	Met (MEFP ¶46)
Human Resource Management	- Integration of the GIFMIS Payroll, financial HRMIS and Hyperion in the Health and Education sectors.	To strengthen control on net hiring and the wage bill.	June 2016	Not Met. Proposed to be reset to June 2017 (MEFP ¶56-59)
Payroll Management	- Migrating employees of subvented agencies into the mechanized payroll	To strengthen control on net hiring and the wage bill	May 2016	Not met. (MEFP ¶ 60) Prior Action and New SB on interfacing of payrolls
Subvented Agencies	-Wean-off the remaining eight subvented agencies from government payroll that were identified as commercially viable.	To strengthen control on the wage bill	June 2016	Not Met. Partially implemented.1/ (MEFP ¶69)
Budget Preparation	- Publication of a pre-budget statement, including explicit debt and deficit target for the 2017 Budget.	To improve budget credibility	June 2016	Met. /2 (MEFP ¶51)
Legal Framework	- Submit to Parliament the draft PFM bill to amend existing PFM legal framework with the aim to: clarify the scope of application of the legislation and the institutional arrangements; strengthen budget formulation and execution, treasury management, accounting and reporting; introduce provisions on fiscal responsibility and on debt management 1/	To strengthen the PFM system	March 2016	Not Met. Implemented with delay. (MEFP ¶50)
Public Sector Reform	- Adoption by Cabinet of a comprehensive public sector reform strategy designed with the assistance of development partners.	To rationalize the size and increase the efficiency of public sector	December 2015	Not Met. Implemented with delay (MEFP ¶68)
Bank of Ghana Act	- Submit to Parliament a revised Law that: strengthens the functional autonomy of BoG; sets a zero limit on monetary financing to the government and public institutions; establishes appointment durations for	Strengthen autonomy and governance of the	December 2015	Not met. Partially implemented

Elimination of foreign exchange surrender requirements	Governor and Board members; sets rules for emergency lending to banks in distress; and ensures compliance with IFRS.	BoG; eliminate central bank financing of government.		with delay (MEFP ¶29).
	- Fully implement the first two stages of the set of measures to deepen the foreign exchange market. This includes: redirect the surrender requirement for gold and residual cocoa export proceeds from the BoG to commercial banks; design of a rule-based competitive system to intermediate FX flows to market, and; establish a settlement mechanism agreed with all stakeholders for the resolution of the outstanding stock of matured LCs to oil importers, following an audit to determine eligibility.	Deepen the foreign exchange market to reduce volatility.	June 2016	Not met. Partially implemented (MEFP ¶28).

1/ The weaning off for two subvented agencies identified in June will begin in January 2017.

2/ The document followed the format agreed with staff, except for the indication of an explicit debt target.

Table 6. Ghana: Proposed Structural Reform Benchmarks for 2016-2017

Category	Proposed structural benchmarks	Economic rationale	Indicative timeframe	Paragraph
Non-Tax Revenue	-Adopt and implement legal and regulatory changes to improve management of Internally Generated Funds and channel a larger share of revenues through the central government budget.	To enhance mobilization of non-tax revenues	December 2016	69 of December 2015 MEFP
	-Integration of the GIFMIS Payroll, financial HRMIS and Hyperion in the Health and Education sectors.	To strengthen control on net hiring and the wage bill.	June 2017	57-60
Human Resource Management	- Finalize roll out the HRMIS to remaining MDAs	To strengthen control on net hiring and the wage bill.	December 2016	57-60
	-Roll-out GIFMIS to 25 central government MDAs generating IGFs, including the 20 highest generating IGF, and close all related bank accounts in commercial banks.	To reduce borrowing costs	December 2016	54
	- Complete the central budgetary government TSA	To reduce borrowing costs	December 2016	63-67
TSA	- Complete the central government TSA	To reduce borrowing costs	August 2017	63-67
Payroll of Subvented Agencies	-Interface the payroll of the following agencies: University of Ghana, University of Cape Coast, Kwame Nkrumah University of Science and the Police.	To strengthen control on the wage bill	December 2016	61
Legal Framework	- Adopt regulations for the implementation of the new PFM act.	To strengthen the PFM system	March 2017	51
Monetary Policy	- Adoption by Parliament of amendments to the BoG Act, which would include i) elimination of central bank financing of Government, ii) removal of the voting rights of the MOF member of the Board, iii) disqualification of government members, members of Parliament and civil servants from the Board and MPC, iv) removal of the provision allowing BoG to provide guarantees for loans granted by foreign institutions to	To strengthen the inflation targeting framework	September 2017	30-31

	government and government agencies; v) a requirement for the government to recapitalize the BoG in the event that the BoG suffers losses, and vi) prohibition of the BoG from owning shares in financial institutions not related to supporting the Bank's core functions (including disposing of existing shares after a transitional period).			
Financial Stability	- Completion of an updated Asset Quality Review of the banking system by BoG, in accordance with Terms of Reference that have been agreed with IMF Staff, and supervisory follow-up measures communicated to the participating institutions.	Strengthen resilience and stability of the banking system	November 2016	34
	- Banks' recapitalization/restructuring plans and liquidity support exit plans reviewed by BoG Board and decision communicated to banks.	Strengthen resilience and stability of the banking system	February 2017	34
	- Submit to Parliament Amendments to the Banks and SDI Act, in consultation with IMF staff, to address important weaknesses in the current legislation.	Strengthen resilience and stability of the banking system	March 2017	33
	- Submit to Parliament Amendments to the Deposit Protection Act, in consultation with IMF staff, to address important weaknesses in the current legislation.	Strengthen resilience and stability of the banking system	March 2017	33

Attachment II.

Technical Memorandum of Understanding

1. This technical memorandum of understanding (TMU) defines the variables subject to quantitative targets (performance criteria and indicative targets), as specified in the authorities' Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) of March 20, 2015. It also describes the methods to be used to assess the program performance and the information requirements to ensure adequate monitoring of the targets. The authorities will consult with the Fund before modifying measures contained in this letter, or adopting new measures that would deviate from the goals of the program, and provide the Fund with the necessary information for program monitoring.
2. **Program exchange rate:** The exchange rates for the purpose of the program of the Ghanaian cedi (Ghc) to the U.S. dollar will be Ghc 3.40 per US\$ 1 for 2015 and Ghc 4.00 per US\$ 1 for 2016, which is calculated as the average of buying and selling exchange rates reported by banks to the Bank of Ghana (BoG). The exchange rates to other currencies will be calculated as the average of buying and selling exchange rates against the U.S. dollar.

I. QUANTITATIVE PROGRAM INDICATORS

3. For program monitoring purposes, the performance criteria and indicative targets are set for end-June 2016, end-December 2016, and end-June 2017. Performance criteria, indicative targets, and adjusters are calculated as cumulative flows from the beginning of the calendar year, unless indicated otherwise.
4. The **performance criteria** under the arrangement are:
 - a floor on the primary cash fiscal balance of the government, measured in terms of financing;
 - a continuous ceiling on gross credit to government by the Bank of Ghana (level);
 - a floor on the net international reserves of the Bank of Ghana (level);
 - a ceiling on wages and salaries;
 - a ceiling on the net change in the stock of domestic arrears;
 - a continuous non-accumulation of domestic arrears;
 - a continuous non-accumulation of new external arrears;

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

A. 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 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 as the sum of net financial transactions of the government (as defined in paragraph 6 above)—comprising the sum of net foreign borrowing (as defined in paragraph 14 below), net domestic financing (defined in paragraph 13 below), receipts from net divestitures and net drawing out of oil funds—and domestic and external interest payments.

11. **Domestic payments arrears** are payments not made "when due". These will be measured as the sum of five components. The first component, arrears to the government's statutory funds,

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

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

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

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

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

13. **Net domestic financing of government** is defined as the change in net credit to government by the banking system (i.e., the Bank of Ghana plus deposit money banks) plus the net change in holdings of treasury bills and other government securities by the nonbank sector, excluding divestiture receipts.
14. **Net foreign financing of government** is defined as the sum of project and program loans by official creditors and commercial external borrowing, minus amortization due.
15. **Outstanding net credit to the government by the Bank of Ghana** comprises the sum of claims on government including overdrafts of the government with the BoG, and that claims on the government resulting from accrued interest on government securities less government deposits as defined in the monetary template.
16. **Outstanding net credit by deposit money banks** comprises deposit money bank (DMB) holdings of government securities at cost of purchase value, as reported by the BoG Treasury Department's Debt Registry, direct loans less government deposits as reported by DMBs in the revised BSD2 report forms (and defined in the Monetary Template), plus deferred accrued interest on their holdings of inflation-indexed bonds.
17. **Nonbank financing** is the difference between total net cash receipts to the treasury main cash account (issues/redemptions account when it becomes operational) from the sale/repurchase of government securities, less the corresponding net cash value received from the BoG and DMBs as indicated on the Debt Registry by holder at discount value, plus deferred accrued interest on their holdings of inflation-indexed bonds.

B. Bank of Ghana

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

19. **Net international reserves** of the BoG are defined for program monitoring purposes³ as short-term foreign assets of the BoG, minus short-term external liabilities. To the extent that short-term foreign assets are not fully convertible external assets readily available to and controlled by the BoG (that is, they are pledged or otherwise encumbered external assets, including assets encumbered by BoG guarantees issued to third parties), they will be excluded from the definition of net international reserves. All values not in U.S. dollars are to be converted to U.S. dollars at the 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 dep., Disposal Balances with Correspondent Banks, Fixed Deposits (excludes encumbered pledged assets), any other short term foreign assets).
- Minus foreign short term liabilities (composed of: Deposits of International Institutions, Liabilities to Int. Commercial Banks, Swap Deal Payable foreign with non-resident banks). Short term liabilities should exclude liabilities with an asset counterpart that is encumbered (which are excluded as well from the asset side),
- Minus all liabilities to the IMF, SAF/ESAF/PRGF,
- Minus all positive foreign currency deposits at the BoG held by resident deposit money banks (which includes the stock of swaps deal payable foreign with resident banks), public institutions, nonfinancial public enterprises, other financial institutions, and the private sector.⁴
- Minus all Bank of Ghana deposits with Ghana International Bank London (GIB).

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

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

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

of gross credit to government by Bank of Ghana includes all called guarantees given by Bank of Ghana for all operations between the central government or state owned enterprises and a third party. For purposes of this technical memorandum of understanding stock of gross credit to government does not include: BoG holdings of government T-bills as collateral from commercial banks and BoG reversible market transactions involving government securities that don't result in a change of security ownership.

C. Monetary Policy Consultation Clause

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

D. Non-accumulation of New External Arrears

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

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

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

8 (a) For the purpose of these guidelines, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of financial and nonfinancial assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets

(including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

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

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

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

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

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

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

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

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

concessionality will be reported by the Debt Management Division of the Ministry of Finance and Economic Planning, and will be measured in U.S. dollars at current exchange rates.

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

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

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

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

31. The sub-ceiling on any contracting or guaranteeing of non-concessional external debt for projects integral to the development program for which concessional financing is not available refers to debt for those projects specified in the list below. Any contracting or guaranteeing of non-

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

concessional external debt for projects other than those listed below results in the nonobservance of the PC. The total amount of contracting of non-concessional external debt for projects on this list will be strictly limited to US\$ 1,000 million on a cumulative basis from the beginning of 2015. Amounts applied toward this limit do not count toward the sub-ceiling on non-concessional borrowing for debt management purposes.

- Takoradi Port Expansion 2
- Supply Agricultural equipment under Foodfor 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

32. Further an additional sub-ceiling of US\$ 350 million for a project is established for 2016 in the context of third review to accommodate GNPC's non-concessional borrowing, which was counted against debt limits for 2015 but did not materialize due to unforeseen delays in its loan negotiation with the creditor.

F. Adjustors to the Program Targets

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

Primary fiscal deficit of the government

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

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

Net international reserves of the Bank of Ghana

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

Budget Financing and oil revenues, 2015 ^{1/} (GHc millions, cumulative from the start of the calendar year)							
	April 2015		August 2015		December 2015		
	Prog.	Act.	Prog.	Act.	Prog.	Act.	
Program grants	0	0	750	733	915	945	
Program loans	0	0	748	612	789	822	
Oil revenues, net of transfers to GNPC	371	160	603	894	998	955	
^{1/} Used to compute adjustors for performance criteria for end-April, end-August, and end-December.							

Budget Financing and oil revenues, 2016 ^{1/} (GHc millions, cumulative from the start of the calendar year)						
	March		June		September	December
	Prog.	Act.	Prog.	Act.	Prog.	Prog.
Program grants	0	15	0	29	112	133
Program loans	0	0	600	0	844	844
Oil revenues, net of transfers to GNPC	325	118	460	234	785	1,164
^{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/} (GHc millions, cumulative from the start of the calendar year)		
	March	June
Program grants	0	7
Program loans	0	193
Oil revenues, net of transfers to GNPC	391	619
^{1/} Used to compute adjustors for performance criteria for end-March and end-June.		

G. Provision of Data to the Fund

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

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

Item	Periodicity
Fiscal data (to be provided by the MOF)	
Central budget operations for revenues, expenditures and financing, including clearance of arrears.	Monthly, within six weeks of the end of each month.
Divestiture receipts received by the budget (in cedis and foreign exchange, net of divestiture transactions costs).	Monthly, within six weeks of the end of each month.
The stock of domestic payments arrears by sub-category (as defined in para. 11 of the TMU)	Quarterly, within six weeks of the end of each quarter
Updated list of (prioritized) projects to be financed by non-concessional loans and concessional loans.	Monthly, within six weeks of the end of each month.
Cash flow of the central government and cash flow projections.	Monthly, within six weeks of the end of each month
Income, cash flow, and debt service projections for the state-owned energy utilities.	Monthly, within six weeks of the end of each month
Itemized data on the proceeds from the energy sector levies.	Monthly, within six weeks of the end of each month
Expenditures committed but not paid and within the legal period before they become arrears (float).	Monthly, within six weeks of the end of each month.
Wage bill monthly reports including breakdown of developments per MDAs.	Monthly, within six weeks of the end of each month.
Monetary data (to be provided by the BoG)	
Net domestic assets and net international reserves of the BoG.	Monthly, within two weeks of the end of each month.
Detailed balance sheet of the monetary authorities.	Monthly, within four weeks of the end of each month.
Monetary survey detailing the consolidated balance sheet of commercial banks.	Monthly, within six weeks of the end of each month.
Weekly balance sheet of the central bank, including gross international reserves, net international reserves.	Weekly, within a week of the end of each week

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

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

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

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



GHANA

September 16, 2016

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

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This DSA updates the previous one conducted in January, 2016. Ghana continues to face a high risk of external debt distress based on updated borrowing assumptions and macroeconomic projections. The assessment of high risk is reinforced by vulnerabilities arising from refinancing risk of domestic debt. Fiscal consolidation remains on track under the Extended Credit Facility (ECF), and debt trajectory and relevant indicators broadly remain the same, with two indicators breaching thresholds under the baseline scenario.² The authorities reduced the Eurobond issuance by USD 500 million in 2015 from the originally-planned USD 1.5 billion amid increasing uncertainties in the global economy and subsequently raised USD 750 million in September 2016 reflecting gradual recovery of investors' demand for frontier market assets. While nonresidents' demand for Ghanaian debt has been robust, the potential unwinding of capital inflows to emerging / frontier markets, not necessarily for Ghana-specific reasons, may further complicate Ghana's debt sustainability. Achieving the ambitious fiscal targets envisaged under the Fund-supported program in this election year and an appropriate financing mix will remain key to maintaining debt sustainability.

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

² The World Bank's Country Policy and Institutions Assessment (CPIA) ranks Ghana as a medium performer in terms of the quality of policy and institutions (the average CPIA in 2012–14 is 3.61). Thus, the external debt burden thresholds for Ghana are (i) PV of debt-to-GDP ratio: 40 percent; (ii) PV of debt-to-exports ratio: 150 percent; (iii) PV of debt-to-revenue ratio: 250 percent; (iv) debt service-to-exports ratio: 20 percent; and (v) debt service-to-revenue ratio: 20 percent. The 2014 CPIA has been released in July 2015 by the World Bank, and Ghana's score has deteriorated to 3.37, which contributed to the downgrading of Ghana to a medium performer from a high performer.

A. Background and Macroeconomic Assumptions

1. **Ghana met the fiscal performance criterion for the third time under the third review of the Fund-supported program, while budget financing is on track to be fully financed for 2016.** Ghana has over-performed under the Fund-supported program on the fiscal front and generated a small primary surplus in 2015, while the performance criterion on the wage bill was missed. The 2016 budget, prepared in the run-up to the presidential and parliament elections scheduled for December 2016, included additional fiscal measures to achieve an overall deficit of 5.0 percent of GDP. The authorities plan to further cut expenditures in response to lower-than-budgeted oil revenues. Aggressive domestic financing towards the end of 2015 enabled the authorities to fill out the shortfall in the 2015 Eurobond and even save around US\$ 500 million out of its proceeds. Building on the cash buffer, budget financing through medium-term securities has exceeded target and are on track to be fully financed in 2016.

2. **Nonresidents' demand for Ghana's debt remain strong.** Despite global headwinds which started in mid-2015, the share of nonresidents' holdings³ of domestic marketable debt has increased. In September, 2016, a Eurobond of USD 750 million with a coupon of 9.25 percent and final maturity of 6 years was issued. As part of its medium-term debt management strategy, in August 2016, the authorities executed a tender offer to buy back up to US\$100 million of the Eurobond maturing October 2017. The buyback was financed through the use of cash buffer accumulated in the Sinking Fund. In addition, US\$30.4 million was bought back in the secondary market, using the proceeds from the 2015 Eurobond. A part of the proceeds from the latest Eurobond issued will be used to further buy-back the remaining balance of the 2017 Eurobond.

3. **Gross financing needs (GFN) peaked in 2015 at 23.6 percent of GDP and are projected to come down gradually.** In 2015, about half of the GFN (including domestic short-term debt coming due) was financed through short-term domestic debt, and the remaining half roughly equally through medium-term securities and external financing. A key objective of the medium-term debt management strategy (MTDS)⁴ is to reduce the pressures on the domestic debt market and to lengthen the average maturity of domestic debt by reducing the issuance of short-term domestic debt. In the first half of 2016, the aggressive implementation of this strategy appears to have produced results, as T-Bills rates began

Key Macroeconomic Assumptions					
	2015	2016	2017	2015-20	2021-35
Real GDP Growth	(annual percentage change)				
Previous DSA	3.0	5.4	8.6	5.8	5.8
Current DSA	3.9	3.3	7.4	5.9	5.2
Inflation (GDP deflator)	(annual percentage change)				
Previous DSA	14.2	12.7	8.6	9.6	7.1
Current DSA	18.8	15.3	10.1	10.3	6.3
Real interest rate (foreign deb (percent)					
Previous DSA	4.5	3.5	2.8	2.7	2.7
Current DSA	5.3	5.2	4.1	3.8	3.0
Current account balance	(in percent of GDP)				
Previous DSA	-8.2	-7.4	-6.0	-6.4	-4.5
Current DSA	-7.5	-6.4	-6.1	-5.7	-4.1
Primary fiscal balance	(in percent of GDP)				
Previous DSA	-0.2	1.3	1.9	1.8	0.8
Current DSA	0.2	1.1	2.3	1.6	0.5

³ As in the previous DSA, this DSA uses the residency criterion for defining external debt to reflect properly the vulnerabilities associated with nonresidents' holdings of domestic debt. Nonresidents can purchase domestic bonds with a maturity of 2 years and longer.

⁴ In April /May 2015, the IMF and World Bank provided technical assistance to develop the Medium-term Debt Management Strategy.

to decline and non-resident participation has increased substantially, contributing to the reduction of near-term GFN. However, given the continued volatility in the external financing environment, sustained efforts to implement, with support from the World Bank, the MTDS objectives will be key to help reduce debt vulnerabilities, while deepening the domestic debt market will help to secure a more stable source of funding at lower cost and risk.

4. **The long-term macroeconomic projections remain broadly unchanged with some revisions in near-term projections (see Table below).** Economic growth in 2015 turned out to be 0.9 percentage points higher than previously projected. The exchange rate has stabilized since the fall of 2015. Despite the slump in commodity prices and non-oil commodities, the current account deficit was lower than envisaged at 7.5 percent of GDP. Fiscal projections in 2016 reflect additional measures of 1 percent points of GDP. The medium- and long-term projections reflect the latest estimates and changes in fiscal policy but key macro variables remain broadly unchanged (see Box below).

5. **The new contracting of nonconcessional external debt has been lower than envisaged under the program.** The total amount of contracting and guaranteeing of nonconcessional external debt in 2015 was US\$ 1,510 million against the limits of US\$ 2,500 million, due to the smaller Eurobond issuance by US\$ 500 million and some delays in loan negotiations for project financing (including a US\$350 million loan for GNPC). The debt limits for debt management purpose⁵ was set at US\$1,150 million for 2016 at the second review (and would be raised by USD 25 million to accommodate a possible increase in a World Bank's program loan). The debt limit for projects was set at US\$ 1,000 million, and a separate limit of US\$350 million will be created to accommodate the delayed GNPC's loan. The forthcoming external nonconcesional borrowing for a debt management purpose should be anchored in a DSA, the revised MTDS, and a comprehensive analysis of cost-risk tradeoffs of alternative debt management strategies, taking account of the risks associated with exchange rate fluctuations and an expected reduction of risk premia.

Box 1. Baseline Macroeconomic Assumptions

Real GDP-growth: Real growth turned out to be 3.9 percent in 2015, which is better than previously envisaged despite fiscal consolidation under the program, power shortages owing to shortfalls in power generation, and the decline in non-oil commodity production. Non-oil growth is expected to remain subdued in 2016 (3.7 percent) due to tight monetary and fiscal policy, but pick up from 2017 onwards with a long-run steady-state growth rate of 6 percent. On the other hand, the recent disorder of an offshore oil-pumping facility at Jubilee would deviate oil production significantly downwards from the original program, resulting in overall GDP growth of only 3.3 percent in 2016. Real total GDP growth in the long run will depend on oil production (currently expected to peak in 2020), with the possibility of new oil discoveries and gas production implying significant upside potential.

Inflation: Inflation (CPI) was about 18 percent in 2015, slightly higher than in 2014. Volatile exchange rate, though significantly stabilized, power shortages, and the recent substantial hikes in utility rates have weighed on BoG's efforts to reduce inflation. However, as fiscal dominance of monetary policy subsides under the fiscal

⁵ From the second review onwards, non-concessional debt limits have been set separately for a debt management purpose where the non-concessional borrowing, including a Eurobond, is used to improve the overall public debt profile, and for projects integral to national development. The latter is set on a cumulative basis from the beginning of 2015.

Box 1. Baseline Macroeconomic Assumptions (concluded)

consolidation program, including the elimination of central bank financing to the government from 2016 onwards, and BoG restores the effectiveness of its inflation targeting monetary policy framework, inflation should move back close to BOG's medium-term target of 8² percent. Inflation rates are projected to converge to around 7 percent over the projection period.

Government balances: The overall cash fiscal deficit was significantly reduced to 6.3 percent of GDP in 2015 from 10.1 percent in 2014, with slightly higher interest bills amounting to some 6.5 percent of GDP in 2015. The program envisages further fiscal consolidation in 2016, to bring the overall cash deficit to around 5.0 percent of GDP. The expected longer-term increase in hydrocarbon revenues will contribute to maintaining the overall deficits at a sustainable level. The primary surplus is projected to stay in the positive territory in the long-run.

Current account balance: Over the past years the current account deficit has been unsustainably high at around 10 percent of GDP. The net impact on the current account of recent declines in oil prices would be relatively small in the near-term given that Ghana still imports significant amount of refined oil. The price of oil is assumed to recover to around US\$60 per barrel by 2020 from around US\$ 52 in 2015, and subsequently stabilize in real terms afterwards. With the tightening of fiscal and monetary policies, the current account deficit would improve to below 5 percent of GDP in 2018 from around 7.5 percent in 2015. In the long-run, with increased oil/gas production accompanied by an improvement in oil prices, the deficit is projected to decline gradually to below 4 percent of GDP. Gross international reserves would steadily increase and maintain above 3-month of imports with a further gradual build-up towards the end of the projection period (the recent broadening of the coverage of services account (BoP) has worsened its months-of-imports reserves coverage).

Financing flows: Ghana has enjoyed high FDI inflows over the past years, even under increasing uncertainties surrounding the Ghanaian economy, reaching about 8 percent of GDP in 2015, mainly driven by the hydrocarbon sector. Thanks to ongoing development of the existing fields, FDI is projected to remain at around 7 percent of GDP over the medium term, and then gradually decline to around 3 percent of GDP in the long run. Consistent with Ghana's improving income status and wealth, inflows from grants are projected to decline to less than 1 percent of GDP in the medium to long term. Borrowing is projected to become increasingly non-concessional and these loans are expected to be used for key infrastructure projects to raise the potential growth rate. A series of issuances of Eurobonds are envisaged to rollover maturing Eurobonds, which are assumed to be repaid in amortization payments rather than a bullet payment.

B. External Debt Sustainability Analysis⁶

6. **The debt trajectories remain the same as in the previous DSA with two indicators breaching the thresholds under the baseline.** ⁷ The PV of debt-to-GDP ratio would breach the threshold in 2016 though the ratio is trending down with a peak in 2015. On the other hand, debt service-to-revenue ratio is projected to hover above the threshold over the projection period with some spikes associated with Eurobond redemptions. Recently-issued Eurobonds have an amortization nature, with a somewhat smooth

⁶ Hereafter, public external debt covers those contracted or guaranteed by the central government, and major state-owned enterprises (SOEs), and short-term liabilities contracted by the central bank for a reserve management purpose. These BoG liabilities do not include swaps contracted with resident banks and fully collateralized credit lines with foreign institutions.

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

redemption schedule. Revenue enhancement measures supported by proactive debt management to further smooth and lengthen the maturity profile would improve this indicator.

7. **The debt outlook remains sensitive to standard shocks to key macro variables.** Under the standard stress tests, the relevant debt indicators are worst and the most extreme over the first 10-year projection period to the exchange rate and exports shocks, leading to breaches of other indicators against the thresholds in addition to the debt service-to-revenue ratio.

C. Public Debt Sustainability Analysis

8. **Strong fiscal adjustments and an adequate financing package should lower Ghana's total public debt (Table 4, Figure 3).** Though PV of debt-to-GDP ratio would breach the public debt benchmark in the first few years, it is expected to decline to around 40 percent of GDP by the end of the projection period with fiscal reforms on track. The other debt indicators are also expected to improve and stabilize. Though all indicators show sustainable paths under the baseline scenario, they could be on an explosive path under the historical and the most extreme shock scenario (with abrupt real exchange rate depreciation).

9. **Contingent liabilities emanating from state-owned enterprises (SOEs) and NPLs of the banking sector associated with these entities are concerns.** There had been legacy issues in SOEs, including inefficient management, limited revenue generating capacity partly due to low levels of administered tariff setting, and cross arrears with the government and other SoEs. The authorities have recently raised tariffs and levies on petroleum products to address SOEs imbalances and plan on comprehensively clearing their arrears and restructuring their unsustainable debt. They also plan to improve the SOE governance and the government oversight with support of the World Bank. Although in aggregate, the banking system is profitable and has adequate levels of capital and liquidity, a recently-conducted Asset Quality Review revealed weaknesses in loan classification and provisioning practices among some banks. The BoG has designed with IMF staff, a roadmap for enhancing the resilience of the banking sector and will require banks to re-classify loans to SOEs and book additional provisions if necessary. The comprehensive reform program for SOEs should also help to enhance the soundness of the banking sector. The staff will continue to monitor these vulnerabilities and contingent liabilities to avoid them jeopardizing debt sustainability.

D. Conclusion

10. **Sustained fiscal adjustment and an appropriate choice of financing options are crucially important.** The staff has been having dialogue with the authorities on how best the budget can be financed in this difficult election year to avoid excessive reliance on short-term debt. Robust nonresidents' demand for domestic debt and the issuance of a Eurobond has dissipated the rollover risk associated with the 2017 Eurobond and enabled the build-up of cash buffers to avoid taking on debt at excessively high costs. Ghana should continue to engage with development partners to seek as much concessional loans as possible to strengthen debt sustainability. Against these backdrops, the possible waning of appetite for Ghanaian debt from nonresident investors continues to be one of the most significant risks. Restoring

confidence on the external front with an appropriate macroeconomic policy package under the Fund program is also warranted.

11. **The authorities broadly concurred with the staff's views on debt sustainability** and reaffirmed their commitments to fiscal consolidation even during the election year, to strengthen debt sustainability. They still see a lots of merits in seeking non-concessional borrowing from the global capital markets, taking account of best financing mix depending on market conditions.

Table 1. Ghana: External Debt Sustainability Framework, Baseline Scenario, 2013–36 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections										2016-2021		2022-2036	
	2013	2014	2015			2016	2017	2018	2019	2020	2021	Average	2026	2036	Average				
External debt (nominal) 1/	36.4	47.8	52.7			52.7	52.0	49.3	47.2	44.1	43.5		38.7	32.0					
of which: public and publicly guaranteed (PPG)	31.9	42.8	48.7			48.7	48.0	45.3	43.2	40.1	39.5		34.7	28.0					
Change in external debt	4.4	11.4	4.9			0.0	-0.7	-2.7	-2.2	-3.0	-0.6		-1.1	-0.5					
Identified net debt-creating flows	1.3	9.5	0.8			-1.8	-3.9	-5.4	-4.3	-3.4	-2.7		-2.4	-1.4					
Non-interest current account deficit	9.8	6.8	4.5	7.7	2.2	3.5	3.2	2.5	2.4	2.3	2.4		2.2	2.1		2.2			
Deficit in balance of goods and services	13.2	10.3	11.3			9.6	8.2	6.6	5.7	5.5	5.6		5.6	4.5					
Exports	33.9	39.5	43.8			39.8	41.5	41.6	41.2	40.2	39.0		33.4	26.9					
Imports	47.1	49.8	55.1			49.4	49.7	48.1	46.9	45.8	44.6		39.0	31.4					
Net current transfers (negative = inflow)	-4.1	-5.2	-6.8	-6.8	1.5	-5.9	-5.6	-5.2	-4.9	-4.6	-4.4		-3.3	-1.8		-2.8			
of which: official	-0.2	0.0	-0.5			-0.1	0.0	0.0	0.0	0.0	0.0		0.0	0.0					
Other current account flows (negative = net inflow)	0.7	1.7	0.0			-0.2	0.6	1.2	1.5	1.4	1.2		-0.2	-0.6					
Net FDI (negative = inflow)	-6.7	-8.7	-7.9	-7.1	2.4	-6.7	-6.5	-6.5	-5.8	-5.5	-5.3		-4.5	-3.5		-4.2			
Endogenous debt dynamics 2/	-1.8	11.4	4.2			1.4	-0.6	-1.4	-0.9	-0.2	0.1		-0.1	0.1					
Contribution from nominal interest rate	2.1	2.7	3.0			3.0	2.9	2.5	2.2	2.1	1.9		1.9	1.6					
Contribution from real GDP growth	-2.0	-1.8	-1.9			-1.5	-3.6	-4.0	-3.1	-2.3	-1.8		-1.9	-1.6					
Contribution from price and exchange rate changes	-1.9	10.4	3.1			...	...	...	...	...	...		...	...
Residual (3-4) 3/	3.2	1.9	4.1			1.9	3.2	2.8	2.1	0.4	2.1		1.3	0.9					
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/	...	...	47.8			47.5	46.3	43.7	41.4	38.3	37.9		34.3	28.8			
In percent of exports	...	...	109.1			119.3	111.7	105.2	100.6	95.2	97.2		102.9	107.1			
PV of PPG external debt	...	...	43.8			43.5	42.3	39.7	37.4	34.3	33.9		30.3	24.8			
In percent of exports	...	...	100.0			109.3	102.0	95.6	90.8	85.3	86.9		90.9	92.3			
In percent of government revenues	...	...	253.8			235.9	227.1	217.9	196.2	183.1	177.7		163.6	138.9			
Debt service-to-exports ratio (in percent)	9.9	12.8	16.6			19.3	18.3	17.0	14.8	15.7	17.4		18.3	19.9					
PPG debt service-to-exports ratio (in percent)	7.7	9.4	13.7			17.1	16.1	14.8	12.6	13.4	15.0		15.5	16.5					
PPG debt service-to-revenue ratio (in percent)	16.0	20.9	34.8			36.8	35.9	33.7	27.1	28.9	30.7		27.9	24.8					
Total gross financing need (Millions of U.S. dollars)	3074.6	1780.1	2080.4			2111.5	2161.4	1667.1	1513.4	1910.2	2576.1		3462.1	7771.1					
Non-interest current account deficit that stabilizes debt ratio	5.4	-4.6	-0.4			3.5	3.9	5.2	4.5	5.4	3.1		3.3	2.6					
Key macroeconomic assumptions																			
Real GDP growth (in percent)	7.3	4.0	3.9	7.1	3.2	3.3	7.4	8.4	6.9	5.3	4.5	6.0	5.2	5.3	5.3				
GDP deflator in US dollar terms (change in percent)	6.2	-22.3	-6.1	1.7	12.9	9.8	1.5	1.5	1.8	2.4	2.7	3.3	2.4	2.4	2.4				
Effective interest rate (percent) 5/	7.5	6.1	6.1	5.3	1.3	6.4	6.1	5.4	4.9	4.8	4.7	5.4	5.0	5.5	5.2				
Growth of exports of G&S (US dollar terms, in percent)	-3.6	-5.9	8.1	16.6	17.3	3.2	13.5	10.3	7.8	5.4	3.9	7.3	5.2	5.7	5.2				
Growth of imports of G&S (US dollar terms, in percent)	2.3	-14.5	7.9	13.4	17.7	1.7	9.6	6.6	6.0	5.2	4.5	5.6	5.7	5.3	5.3				
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	2.9	2.4	-0.7	8.2	7.7	1.2	3.6	-2.8	-1.2	-2.1	
Government revenues (excluding grants, in percent of GDP)	16.3	17.7	17.2			18.5	18.6	18.2	19.1	18.8	19.1		18.5	17.9	18.3				
Aid flows (in Millions of US dollars) 7/	224.0	277.4	724.1			407.3	288.3	221.6	174.9	140.0	112.0		36.7	3.9					
of which: Grants	224.0	277.4	724.1			407.3	288.3	221.6	174.9	140.0	112.0		36.7	3.9					
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	0.8	0.4	0.7	0.5	0.2		-0.1	-0.1	-0.1	
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			11.9	10.3	6.6	14.0	13.2	3.9		-1.9	-1.2	-1.4	
Memorandum items:																			
Nominal GDP (Millions of US dollars)	47806.3	38616.1	37687.1			42761.1	46610.3	51293.2	55806.7	60170.7	64533.6		92051.5	198382.3					
Nominal dollar GDP growth	14.0	-19.2	-2.4			13.5	9.0	10.0	8.8	7.8	7.3	9.4	7.7	7.8	7.8	7.8			
PV of PPG external debt (in Millions of US dollars)	...	...	16138.5			18208.9	19290.2	19942.9	20424.3	20208.8	21381.2		27310.0	48176.0			
(PVt-PVt-1)/GDPt-1 (in percent)	...	...	...			5.5	2.5	1.4	0.9	-0.4	1.9	2.0	1.4	1.4	1.4	1.6
Gross workers' remittances (Millions of US dollars)	1523.9	1638.4	1966.1			2064.4	2167.6	2211.0	2255.2	2300.3	2346.3		2590.5	3142.4					
PV of PPG external debt (in percent of GDP + remittances)	...	...	41.6			41.5	40.4	38.1	36.0	33.1	32.7		29.5	24.4			
PV of PPG external debt (in percent of exports + remittances)	...	...	89.3			97.5	91.7	86.6	82.7	77.9	79.5		83.9	87.1			
Debt service of PPG external debt (in percent of exports + remittances)	...	...	12.2			15.2	14.5	13.4	11.4	12.3	13.8		14.3	15.6			

Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

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

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

Table 2. Ghana: Public Sector Debt Sustainability Framework, Baseline Scenario, 2013–36
(In percent of GDP, unless otherwise indicated)

	Actual			Average	s/	Standard Deviation	s/	Estimate					Projections					2022-36 Average
	2013	2014	2015					2016	2017	2018	2019	2020	2021	2016-21 Average	2026	2036		
Public sector debt 1/ of which: foreign-currency denominated	58.1 31.9	70.7 42.8	73.8 48.7					70.4 48.7	67.0 48.0	62.7 45.3	59.7 43.2	56.2 40.1	54.9 39.5		46.8 34.7	38.1 28.0		
Change in public sector debt	8.4	12.6	3.1					-3.4	-3.4	-4.3	-3.0	-3.5	-1.4		-1.8	-2.0		
Identified debt-creating flows	5.4	12.3	-0.2					-3.9	-3.3	-3.6	-3.1	-2.9	-1.3		-1.8	-0.4		
Primary deficit	5.6	3.8	-0.2	3.8		2.2		-1.1	-2.2	-2.3	-1.8	-2.0	-0.6	-1.7	-0.8	0.0	-0.4	
Revenue and grants	16.7	18.4	19.2					19.4	19.2	18.7	19.4	19.0	19.2		18.6	17.9		
of which: grants	0.5	0.7	1.9					1.0	0.6	0.4	0.3	0.2	0.2		0.0	0.0		
Primary (noninterest) expenditure	22.3	22.2	18.9					18.3	17.0	16.4	17.5	17.0	18.7		17.8	17.9		
Automatic debt dynamics	-0.2	8.5	0.1					-2.7	-1.1	-1.4	-1.2	-0.9	-0.7		-1.0	-0.4		
Contribution from interest rate/growth differential	-1.0	-0.1	-0.4					1.1	-1.4	-1.7	-1.4	-0.8	-0.5		-0.9	-0.3		
of which: contribution from average real interest rate	2.4	2.1	2.3					3.5	3.5	3.4	2.6	2.2	1.9		1.5	1.7		
of which: contribution from real GDP growth	-3.4	-2.2	-2.6					-2.4	-4.8	-5.2	-4.0	-3.0	-2.4		-2.4	-2.0		
Contribution from real exchange rate depreciation	0.8	8.6	0.4					-3.8	0.3	0.4	0.2	-0.1	-0.2		...	...
Other identified debt-creating flows	0.0	0.0	0.0					0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0		
Privatization receipts (negative)	0.0	0.0	0.0					0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0		
Recognition of implicit or contingent liabilities	0.0	0.0	0.0					0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0					0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0		
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0					0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0		
Residual, including asset changes	3.0	0.3	3.2					0.5	0.0	-0.7	0.0	-0.6	-0.1		0.0	-1.6		
Other Sustainability Indicators																		
PV of public sector debt	...	...	68.9					65.2	61.3	57.2	53.9	50.5	49.3		42.5	34.9	
of which: foreign-currency denominated	...	...	43.8					43.5	42.3	39.7	37.4	34.3	33.9		30.3	24.8	
of which: external	...	...	43.8					43.5	42.3	39.7	37.4	34.3	33.9		30.3	24.8	
PV of contingent liabilities (not included in public sector debt)	...	...	...					...	...	...	...	...	...		...	...
Gross financing need 2/	19.6	23.4	23.6					21.4	18.4	16.6	14.7	13.4	15.4		11.7	10.1		
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	359.3					336.1	318.7	306.1	278.3	265.8	256.0		228.7	195.1	
PV of public sector debt-to-revenue ratio (in percent)	...	...	399.3					353.4	329.3	313.4	282.9	269.1	258.4		229.2	195.1	
of which: external 3/	...	...	253.8					235.9	227.1	217.9	196.2	183.1	177.7		163.6	138.9	
Debt service-to-revenue and grants ratio (in percent) 4/	58.6	69.6	73.0					63.0	64.2	56.2	45.2	43.2	48.5		44.2	46.5		
Debt service-to-revenue ratio (in percent) 4/	60.3	72.5	81.1					66.3	66.4	57.6	46.0	43.8	48.9		44.3	46.5		
Primary deficit that stabilizes the debt-to-GDP ratio	-2.8	-8.8	-3.3					2.2	1.1	2.0	1.2	1.5	0.8		1.0	2.0		
Key macroeconomic and fiscal assumptions																		
Real GDP growth (in percent)	7.3	4.0	3.9	7.1		3.2		3.3	7.4	8.4	6.9	5.3	4.5	6.0	5.2	5.3	5.3	
Average nominal interest rate on forex debt (in percent)	7.8	6.5	6.5	5.4		1.6		6.6	6.2	5.4	4.9	4.7	4.7	5.4	5.0	5.5	5.2	
Average real interest rate on domestic debt (in percent)	3.8	2.8	0.3	6.9		6.3		4.2	8.2	12.1	9.2	7.6	6.0	7.9	4.3	7.3	6.4	
Real exchange rate depreciation (in percent, + indicates depreciation)	2.9	26.7	1.0	1.6		10.8		-7.7	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	15.6	16.7	18.8	16.2		2.5		15.3	10.1	5.7	5.5	6.3	6.6	8.2	6.3	6.2	6.2	
Growth of real primary spending (deflated by GDP deflator, in percent)	5.2	4.8	-12.1	-0.1		4.7		-0.6	0.7	7.1	16.2	2.4	14.5	6.7	4.4	4.6	4.9	
Grant element of new external borrowing (in percent)	...	...	...	...		...		2.9	2.4	-0.7	8.2	7.7	1.2	3.6	-2.8	-1.2	...

Sources: Country authorities; and staff estimates and projections.

1/ The domestic debt covers the debt stock of the central government. The external debt covers the central government, SoEs, and the central bank's liabilities contracted for a reserve management purpose. 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 (including BoG's liabilities for a reserve management purpose) 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, 2016–36
(In percent)

	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
PV of debt-to GDP ratio								
Baseline	44	42	40	37	34	34	30	25
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	44	46	49	51	51	52	51	37
A2. New public sector loans on less favorable terms in 2016-2036 2	44	43	41	39	37	37	36	36
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	44	43	42	39	36	35	32	26
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	44	47	53	51	47	46	33	24
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	44	47	51	48	44	43	38	31
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	44	44	43	40	37	36	30	24
B5. Combination of B1-B4 using one-half standard deviation shocks	44	48	55	52	49	47	37	29
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	44	59	55	52	47	47	42	34
PV of debt-to-exports ratio								
Baseline	109	102	96	91	85	87	91	92
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	109	112	118	123	126	134	152	139
A2. New public sector loans on less favorable terms in 2016-2036 2	109	103	98	95	91	94	108	132
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	109	100	93	88	83	84	88	89
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	109	129	163	156	149	150	126	114
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	109	100	93	88	83	84	88	89
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	109	105	102	97	92	93	91	89
B5. Combination of B1-B4 using one-half standard deviation shocks	109	113	121	115	109	110	101	96
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	109	100	93	88	83	84	88	89
PV of debt-to-revenue ratio								
Baseline	236	227	218	196	183	178	164	139
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	236	249	269	265	270	274	273	209
A2. New public sector loans on less favorable terms in 2016-2036 2	236	229	224	206	195	193	194	199
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	236	229	229	206	192	186	171	145
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	236	251	293	266	252	241	179	136
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	236	254	278	250	233	226	207	176
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	236	234	234	211	197	190	163	135
B5. Combination of B1-B4 using one-half standard deviation shocks	236	260	304	275	259	248	201	161
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	236	315	302	271	253	245	225	191

Table 3. Ghana: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016–36 (concluded)

(In percent)

Debt service-to-exports ratio

Baseline	17	16	15	13	13	15	16	16
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	17	16	15	14	15	18	25	25
A2. New public sector loans on less favorable terms in 2016-2036 2	17	16	12	8	8	9	14	23
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	17	16	15	13	13	15	15	16
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	17	18	20	18	19	24	27	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	17	16	15	13	13	15	15	16
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	17	16	15	13	14	16	17	16
B5. Combination of B1-B4 using one-half standard deviation shocks	17	17	16	15	16	18	20	18
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	17	16	15	13	13	15	15	16

Debt service-to-revenue ratio

Baseline	37	36	34	27	29	31	28	25
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	37	36	35	30	32	37	46	37
A2. New public sector loans on less favorable terms in 2016-2036 2	37	36	28	17	17	19	26	35
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	37	37	36	29	31	33	30	26
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	37	36	35	31	33	38	38	25
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	37	41	44	35	38	40	36	32
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	37	36	34	28	30	33	30	25
B5. Combination of B1-B4 using one-half standard deviation shocks	37	39	41	35	37	41	40	29
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	37	51	48	38	41	44	39	35

Memorandum item:

Grant element assumed on residual financing (i.e., financing required above baseline) 6/	-6	-6	-6	-6	-6	-6	-6	-6
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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, 2016–36

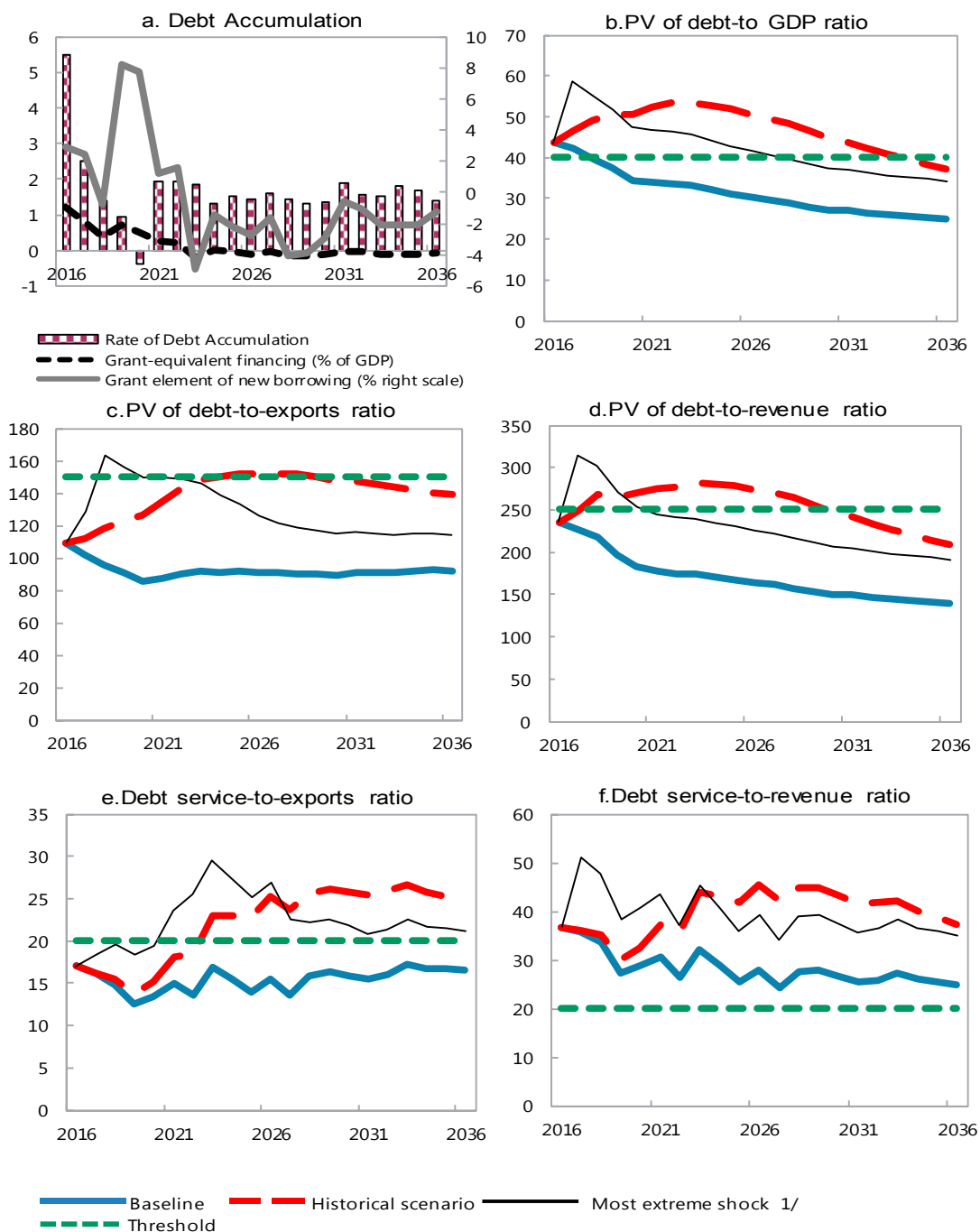
	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
PV of Debt-to-GDP Ratio								
Baseline	65	61	57	54	50	49	42	35
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	65	68	71	73	74	76	83	96
A2. Primary balance is unchanged from 2016	65	63	60	57	54	53	44	26
A3. Permanently lower GDP growth 1/	65	62	58	56	53	53	52	65
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	65	64	64	62	60	60	60	62
B2. Primary balance is at historical average minus one standard deviations in 2017-201	65	70	74	71	67	66	58	47
B3. Combination of B1-B2 using one half standard deviation shocks	65	70	75	72	69	69	65	61
B4. One-time 30 percent real depreciation in 2017	65	83	78	74	71	70	67	70
B5. 10 percent of GDP increase in other debt-creating flows in 2017	65	72	67	64	60	59	52	42
PV of Debt-to-Revenue Ratio 2/								
Baseline	336	319	306	278	266	256	229	195
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	336	353	378	376	391	393	444	535
A2. Primary balance is unchanged from 2016	336	325	319	294	287	274	236	145
A3. Permanently lower GDP growth 1/	336	322	313	289	281	276	283	362
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	336	333	342	319	314	311	320	347
B2. Primary balance is at historical average minus one standard deviations in 2017-201	336	364	397	365	353	342	311	263
B3. Combination of B1-B2 using one half standard deviation shocks	336	363	401	372	365	358	350	341
B4. One-time 30 percent real depreciation in 2017	336	429	416	383	372	363	362	394
B5. 10 percent of GDP increase in other debt-creating flows in 2017	336	373	361	330	318	307	278	233
Debt Service-to-Revenue Ratio 2/								
Baseline	63	64	56	45	43	48	44	46
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	63	65	60	58	60	67	78	105
A2. Primary balance is unchanged from 2016	63	64	58	48	47	52	46	38
A3. Permanently lower GDP growth 1/	63	65	58	47	46	51	52	75
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	63	67	62	51	51	57	59	73
B2. Primary balance is at historical average minus one standard deviations in 2017-201	63	64	60	62	63	60	62	59
B3. Combination of B1-B2 using one half standard deviation shocks	63	66	63	62	63	63	67	74
B4. One-time 30 percent real depreciation in 2017	63	72	74	63	65	72	80	102
B5. 10 percent of GDP increase in other debt-creating flows in 2017	63	64	61	62	50	56	55	53

Sources: Country authorities; and staff estimates and projections.

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

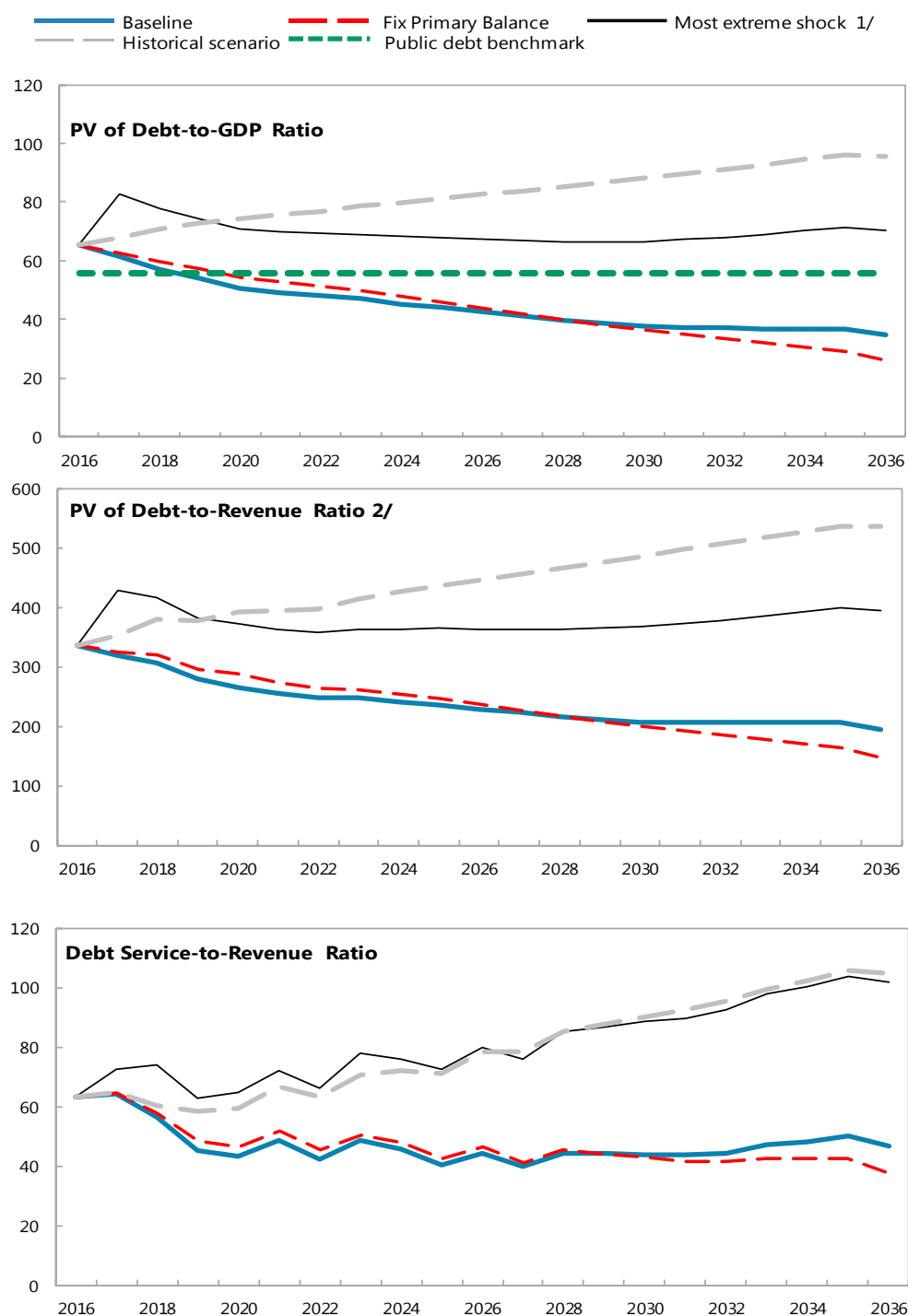
2/ Revenues are defined inclusive of grants.

Figure 1. Ghana: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2016–36 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 2026. 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, 2016–36 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 2026.

2/ Revenues are defined inclusive of grants.



GHANA

September 23, 2016

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR WAIVER FOR NONOBSERVANCE OF PERFORMANCE CRITERIA, AND MODIFICATIONS OF PERFORMANCE CRITERIA—REQUEST FOR WAIVER FOR NONOBSERVANCE OF PERFORMANCE CRITERION, AND MODIFICATION OF PERFORMANCE CRITERION—SUPPLEMENTARY INFORMATION, AND SUPPLEMENTAL LETTER OF INTENT

Approved By

Michael Atingi-Ego and Mark Flanagan

This note updates staff's assessment of Ghana's external borrowing, taking into account additional information that has been discussed with the authorities since the Staff Report (EBS/16/94) was circulated to the Executive Board. Staff supports the authorities' request to modify the performance criterion on non-concessional borrowing to increase the debt limits to accommodate World Bank's project loans which turned out to carry non-concessional terms. It does not alter the thrust of the staff appraisal.

A. Update on Ghana's external borrowing

1. **Based on further discussions with the authorities and the World Bank, staff concluded that six project loans provided by the World Bank in 2015 were non-concessional.** For loans to so-called gap countries, the World Bank (IDA) applies an annual service fee of 0.75 percent in addition to an interest rate.¹ When taking account of the service fee, the grant element of World Bank loans is around 33 percent, making these loans non-concessional under the program definitions.² While staff and the authorities were aware that such a service fee applied to World Bank budget support loans, the authorities understood that this fee had been waived for other IDA project loans and therefore considered these project loans to be concessional. Recent discussions with the authorities and the World Bank revealed that the fee does in fact apply to World Bank project loans, in particular to the six project loans amounting to US\$230 million which were contracted in 2015, and consensus has been reached that the loans should thus be treated as non-concessional.

2. **Staff proposes to accommodate World Bank's non-concessional project loans under the debt limits for 2016 and 2017.** The six project loans were already included in the fiscal and Debt Sustainability Analysis (DSA) projections, but with slightly different terms (excluding the service fee). When applying the correct terms to the loans, the deviation between the previously assumed and the actual grant element of these loans is only 2.2 percentage points, resulting in a very small increase in the NPV of these loans of only 0.05 percent of GDP. Moreover, the projects are considered integral to the authorities' national development agenda. On this basis, staff supports the authorities' request to raise debt limits set for 2016 and 2017 commensurably by US\$230 million (as the performance criterion on contracting or guaranteeing of new external nonconcessional debt for projects is assessed cumulatively from the beginning of 2015). The list of priority projects financed with non-concessional loans will also be updated reflecting the World Bank's project loans in the pipeline.

B. Status of prior actions

3. **All pending prior actions were implemented.** The new Bank of Ghana (BoG) Board adopted on September 19, 2016 a formal, time-bound roadmap, agreed with staff, to comprehensively address weaknesses in the banking sector revealed by the Asset Quality Review. Moreover, the Finance minister signed on September 22, 2016 the engagement letter with external auditors for an audit of energy sector SOEs debt and analysis of their financial viability.

This information updates the discussions and tables included in paragraph 38 and 41 of the Staff Report, respectively. It also revises discussions in paragraph 5 of the Debt Sustainability Analysis.

¹ World Bank blend terms apply to IDA countries with GNI per capita above the operational cutoff for more than two consecutive years, known as "gap" countries.

² The TMU stipulates that a debt is concessional if it includes a grant element of at least 35 percent.

Ghana: Summary Table of Actual External Borrowing Monitor
January 1, 2015 to December 31, 2015

PPG external debt	Volume of new debt in 2015		PV of new debt in 2015 (program purposes)		PV of new debt in 2015 (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
Sources of debt financing	1947.9	100	1697.9	100	2341.4	100
Concessional debt, of which	222.9	11	103.3	6	103.3	4
Multilateral debt	154.9	8	74.6	4	74.6	3
Bilateral debt	68.0	3	28.7	2	28.7	1
Other	0.0	0	0.0	0	0.0	0
Non-concessional debt, of which	1725.0	89	1594.6	94	2238.1	96
Semi-concessional	537.7	28	407.3	24	407.3	17
Commercial terms	1187.3	61	1187.3	70	1830.8	78
Uses of debt financing	1947.9	100	1697.9	100	2341.4	100
Infrastructure	472.3	24	391.5	23	418.2	18
Social Spending	128.7	7	89.5	5	89.5	4
Budget Financing	1224.4	63	1147.7	68	1764.5	75
Other	122.5	6.3	69.1	4.1	69.1	3.0

Appendix. Supplemental Letter of Intent

Accra, September 23, 2016

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 September 16, 2016, we wish to provide additional information on six World Bank project loans, totaling US\$ 230 million, that were contracted in 2015. These loans had erroneously been classified as concessional when they should in fact have been classified as non-concessional. We accordingly request that the program's non-concessional debt limits set for 2016 and 2017 are commensurably raised by US\$ 230 million to accommodate these six loans. We wish to assure you we are taking all necessary actions to ensure that information on our external borrowing is provided accurately and on a timely basis so that such incidents are avoided.

2. Recent discussions and clarifications with the IMF and the World Bank revealed that a service fee applicable to six World Bank project loans contracted in 2015 had not been included in the calculation of the grant element used to classify loans as concessional or non-concessional. With this fee properly included, the grant element of these loans falls slightly short of the concessional threshold of 35 percent. Given that the change in the grant element is small (only 2.2 percentage points) and that the NPV of debt increases by less than 0.05 percent of GDP, the correction should not materially affect our economic circumstances.

3. To accommodate the World Bank loans in question, we request that the program limits on non-concessional external loans for projects be raised. Currently, non-concessional debt limits for projects are set at US\$1,000 million and US\$1,500 million for 2016 and 2017, respectively. The six World Bank loans were not counted against these limits on the premise that they were concessional. If the debt limits were left unchanged, inclusion of the World Bank loans would crowd out other external loans that are at an advanced stage of planning and of critical importance for economic

development. We therefore request that the program sub-ceiling for non-concessional debt for projects be raised by \$230 million (see revised Tables 1-3 attached). Further, given that they are now classified as non-concessional, we request to add the following World Bank projects on the project list for non-concessional loans in paragraph 31 of our technical memorandum of understanding:

- Ghana Economic Management Strengthening and Technical Assistance; and
- Transport Sector Improvement Project.

4. We strongly believe that these changes do not alter the basic assumptions for the completion of the third review and the overall assessment of our macroeconomic outlook.

5. We recognize that an improvement in debt management is predicated on timely and accurate collection and processing of relevant data. The government will implement additional measures necessary to improve debt-related data management, including regular data updates, multi-layered checking system on data entry, and careful confirmation of loan terms through consultation with creditors if needs arise. We will also strengthen the internal mechanism for determining the concessionality of loan facility in the Ministry through the provision of training. Part of the World Bank facility for Economic Management Strengthening would be used to provide capacity building and improved systems for debt management.

6. This letter updates and supersedes paragraphs 84 and 85 and Table 1-3 of the Memorandum of Economic and Financial Policies, and updates paragraph 31 of the Technical Memorandum of Understanding, attached to our previous Letter of Intent mentioned above.

Sincerely yours,

/s/

Seth Emmanuel Terkper
Minister for Finance

/s/

Abdul-Nashiru Issahaku
Governor of Bank of Ghana

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

	2014		Apr 2015			Aug 2015				Dec 2015				Met/Not met
	Act.	Revised	Target	Adjusted target	Actual	Target	Revised	Adjusted target	Actual	Target	Revised	Adjusted target	Actual	
I Quantitative Performance Criteria														
Primary fiscal balance of the government (floor in millions of cedis)	-4,322	...	-544	-536	46	-380	...	-282	237	-422	...	-580	328	Met
Wage Bill (ceiling; in millions of cedis)	9,449	...	3,413		3,341	6,857	...		6,815	10,359	...		10,556	Not Met
Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars) ²	1,415	...	1,042		1,186	331	147		566	1,962	2,278	2,237	2,238	Met
Net Domestic Assets of Bank of Ghana (ceiling; millions of cedis) ³	3,107	...	5,755		5,561	8,772	...		7,846	4,914	3,410		4,682	Not Met
Net change in stock of arrears (ceiling; millions of cedis)	428	...	-424		-565	-1,001	...		-1,525	-1,561	...		-2,699	Met
II Continuous Performance Criteria														
Gross financing of BoG to the Government and SOEs (ceiling; in millions of cedis) ⁴	13,603	19,723	14,614		14,873	14,614	15,814		15,017	14,614	15,814		15,612	Met
Non-accumulation of external arrears (ceiling; millions of U.S. dollars) ⁵	...	...	0		1.7	0	...		0	0	...		0	Met
Non-accumulation of domestic arrears (ceiling; millions of cedis)	...	...	0		0	0	...		0	0	...		0	Met
Contracting or guaranteeing of new external nonconcessional debt (ceiling; millions U.S. Dollars)	...	...	0		68	1,000	...		357	1,000	2,500		1,740	Met
III Indicative Target														
Program central target rate of inflation (12 month percentage change)	17.0	...	15.4		16.8	13.8	15.0		17.3	12.0	19.6		17.7	Met
Contracting or guaranteeing of new external concessional debt (ceiling; millions U.S. Dollars)	...	...	...		...	...	...			100	...		231	Not Met
Social Protection (floor, in million of cedis) ⁶	947	...	388		316	806	...		954	1,294	...		1,368	Met
Memorandum item:														
Primary fiscal balance of the government (excluding discrepancy)			-544	-536	-196	-380		-282	419	-422		-580	-511	

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

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

³ Net domestic assets for 2015 is computed using the program's exchange rate of GHc 3.40 per U.S.\$1 as defined in the attached Technical Memorandum of Understanding (TMU). Defined as a level.

⁴ Defined as a level.

⁵ The authorities have temporarily run small arrears to an official creditor for a technical reason.

⁶ The April 2015 data has been revised upwards.

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

(Cumulative from the beginning of the calendar year, unless otherwise indicated)												
		2015	Mar 2016		Jun 2016			Sep 2016		Dec 2016		
		Actual	Target	Adjusted target	Actual	Target	Adjusted target	Prel.	Target	Revised	Target	Revised
I	Quantitative Performance Criteria ²											
	Primary fiscal balance of the government (floor in millions of cedis)	328	13	-76	-1,016	723	939	-586	1,227	...	2,083	...
	Wage Bill (ceiling; in millions of cedis)	10,556	2,928		2,845	5,853		5,791	8,783	...	11,723	...
	Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars) ³	2,238	-555		-473	-357	-432	-798	-928	-1,161	832	600
	Net change in stock of arrears (ceiling, millions of cedis)	-2,699	-630		-136	-1,476		-352	-2,313	...	-2,313	...
II	Continuous Performance Criteria											
	Gross financing of BoG to the Government and SOEs (ceiling; in millions of cedis) ⁴	15,612	15,814		15,606	15,814		15,301	15,814	...	15,814	...
	Non-accumulation of external arrears (ceiling; millions of U.S. dollars)	0	0		0	0		0	0	...	0	...
	Non-accumulation of domestic arrears (ceiling; millions of cedis)	0	0		0	0		0	0	...	0	...
	Contracting or guaranteeing of new external nonconcessional debt (ceiling; millions U.S. Dollars) ⁵											
	o/w: Debt for a debt management purpose ⁶	1,152	1,000		75	1,150		75	1,150	1,175	1,150	1,175
	Debt for projects (cumulative from the beginning of 2015) ⁷	589	1,000		589	1,000		808	1,000	1,230	1,000	1,230
	Debt for project (GNPC) ⁸	0	...		...	...		...	...	350	...	350
III	Monetary Policy Consultation Clause											
	Twelve-month consumer price inflation (percent)											
	Outer band (upper limit)	20.7	20.5			19.0			16.9	19.0	13.0	16.5
	Inner band (upper limit)	19.7	19.5			18.0			15.9	18.0	12.0	15.5
	Central target rate of inflation	17.7	17.5		19.2	16.0		18.4	13.9	16.0	10.0	13.5
	Inner band (lower limit)	15.7	15.5			14.0			11.9	14.0	8.0	11.5
	Outer band (lower limit)	14.7	14.5			13.0			10.9	13.0	7.0	10.5
IV	Indicative Target											
	Net Domestic Assets of Bank of Ghana (ceiling; millions of cedis) ⁹	4,682	4,031		5,782	3,818		10,748	6,447	12,101	265	6,667
	Contracting or guaranteeing of new external concessional debt (ceiling; millions U.S. Dollars)	231	400		4	400		94	400	...	400	...
	Social Protection (floor, in million of cedis)	2,489	522		471	1,050		723	2,573	...	3,022	...
Memorandum item:												
	Primary fiscal balance of the government (excluding discrepancy)	-511	13		841	723	939	1,424	1,227	...	2,083	...

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

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

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

⁴ Defined as a level.

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

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

⁷ Debt for projects does not include GNPC's loan equivalent to US\$ 350 million.

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

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

Table 3. Ghana: Proposed Quantitative Program Targets¹
(Cumulative from the beginning of the calendar year, unless otherwise indicated)

	Dec 2016 Target	Mar 2017 Target	Jun 2017 Target
I Quantitative Indicative Targets²			
Primary fiscal balance of the government (floor in millions of cedis)	2,083	652	1,393
Wage Bill (ceiling; in millions of cedis)	11,723	3,424	6,850
Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars) ³	600	-420	-832
Net change in stock of arrears (ceiling, millions of cedis)	-2,313	-518	-696
II Continuous Indicative Targets			
Gross financing of BoG to the Government and SOEs (ceiling; in millions of cedis) ⁴	15,814	15,814	15,814
Non-accumulation of external arrears (ceiling; millions of U.S. dollars)	0	0	0
Non-accumulation of domestic arrears (ceiling; millions of cedis)	0	0	0
Contracting or guaranteeing of new external nonconcessional debt (ceiling; millions U.S. Dollars) ⁵			
o/w: Debt for a debt management purpose ⁶	1,150	1,150	1,150
Debt for projects (cumulative from the beginning of 2015)	1,230	1,730	1,730
III Monetary Policy Consultation Clause Indicative Targets			
Twelve-month consumer price inflation (percent)			
'Outer band (upper limit)	16.5	14.5	13.0
'Inner band (upper limit)	15.5	13.5	12.0
Central target rate of inflation	13.5	11.5	10.0
'Inner band (lower limit)	11.5	9.5	8.0
'Outer band (lower limit)	10.5	8.5	7.0
IV Other Indicative Target			
Net Domestic Assets of Bank of Ghana (ceiling; millions of cedis) ⁷	6,667	7,694	9,408
Contracting or guaranteeing of new external concessional debt (ceiling; millions U.S. Dollars)	400	400	400
Social Protection (floor, in million of cedis)	3,022	...	...

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

² Indicative targets for end-March and end-June 2017.

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

⁴ Defined as a level.

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

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

⁷ Net domestic assets is computed using the program's exchange rate of GHc 4.0 per U.S.\$1 for 2016 and GHc 4.4 per U.S.\$1 for 2017 and as defined in the attached Technical Memorandum of Understanding (TMU). Defined as a level.

**Statement by Mr. Mojarrad, Executive Director for Ghana, Mr. Jbili, Senior
Advisor to the Executive Director, and Mr. Abradu-Otoo,
Advisor to the Executive Director
September 28, 2016**

Our Ghanaian authorities thank staff for their efforts in bringing the third review of the ECF-supported program to the Executive Board. They broadly concur with staff assessment and policy advice, and express their appreciation for the high quality technical assistance that has been extended to Ghana in recent years. They also thank the Executive Board and management for their continued support.

Program Performance

Program performance continues to be satisfactory and advances have been made in many areas despite difficult circumstances. All performance criteria (PCs) at end-December 2015 were met with the exception of two PCs on the wage bill and on net domestic assets (NDA) of Bank of Ghana, which were missed by small margins. The slight overrun in the wage bill which occurred mostly in the last quarter of 2015 was due to settlement of allowances, and represents a one-off event. The indicative targets on inflation and social protection spending were met. The authorities request waivers for non-observance of the end-December PCs on the wage bill and NDA (now an indicative target) based on the small margin of deviation and the corrective actions taken. Additionally, the authorities request modification of the PCs on NIR, and the inflation central target rate for end-December 2016 under the Monetary Policy Consultation Clause (MPCC).

On structural reforms, important legislation designed to strengthen Public Financial Management (PFM) and provide the central bank with the appropriate tools to enhance its framework for monetary policy and regulatory surveillance, was approved by parliament. The bills on PFM, Specialized Deposit-Taking Institutions, Ghana Deposit Protection, and the amended Bank of Ghana Act were passed following a lengthy consultative process involving key economic stakeholders. While the draft amendment to the Bank of Ghana Act submitted to Parliament incorporated recommendations from IMF staff, some of them did not receive parliamentary support, and the authorities intend to further submit amendments to parliament in 2017 after the presidential and parliamentary elections set for early December 2016. In the meantime, they have extended the existing Memorandum of Understanding between the Ministry of Finance and the BoG to ensure zero financing of the central government over 2016 and 2017 (MEFP ¶30). Good progress was also made in implementing reforms to deepen the foreign exchange market, including the removal of the surrender requirement for gold and residual cocoa export receipts. A draft document of the public sector reform strategy has been completed and submitted to the cabinet in December 2015. However, the structural benchmark related to the migration of employees of key subvented agencies—the largest public universities, Ghana Revenue Authority, and the security agencies—onto the central government mechanized payroll was not met, and was suspended due to security and software incompatibility issues. A process to address these concerns is already underway to ensure full integration of the main agencies by end-2016 (MEFP ¶61).

Recent Economic Developments

Growth decelerated in 2015 relative to the outturn in 2014, although the outcome was slightly better than projected. Despite the weather-related slowdown in agriculture, especially cocoa production, and the tighter fiscal stance, non-oil real GDP growth edged up slightly to 4.1 percent in 2015 from 4.0 percent in 2014, supported by robust growth in the services sector and a slight pick-up in industrial growth. Inflation remained elevated, stemming from increases in utility and fuel prices that were announced at the beginning of the year. Fiscal adjustment for 2015 surpassed expectations with the overall deficit declining from 10.1 percent in 2014 to 6.9 percent of GDP, against a target of 7.5 percent. The performance largely reflected significant scaling back of capital expenditures and limitations on mandatory transfers to statutory funds. However, further fiscal consolidation efforts for the period January-June 2016 have been hindered by relatively weak growth, resulting in lower-than-expected revenues. The current account deficit narrowed in 2015 and gross international reserves strengthened marginally in 2015, before declining in the first half of 2016 in line with seasonal trends. The exchange rate has remained largely stable.

Macroeconomic Outlook and Risks

Growth in 2016 is expected to decelerate further to 3.3 percent, reflecting mainly production shortfalls in oil and gas at the Jubilee Oil Fields. Inflation is expected to ease to around 13-14 percent on the back of tight monetary policy, exchange rate stability, and ongoing fiscal consolidation. The medium-term outlook remains favorable, with non-oil growth projected to rebound to an average of about 6 percent. Moreover, the coming on stream of two major oil fields—the TEN and SANKOFA—is expected to boost overall oil and gas production and support growth. Inflation is expected to continue its downward trend to reach the target band of (8 ± 2) percent by the third quarter of 2017. The current account deficit is projected to narrow further, and gross international reserves will comfortably remain above 3 months of import cover.

Fiscal Policy, Financing, and Debt Management

The authorities' commitment to their fiscal consolidation agenda remains strong. With the remarkable performance in 2015 and further efforts this year, fiscal policy is on course to attain the overall deficit target of $5 \frac{1}{4}$ percent of GDP in 2016, with a primary surplus of about 1 percent of GDP, the first such a surplus in a decade. Domestic revenue mobilization during the second half of the year will be challenging, however, reflecting weak economic activity, lower-than-expected oil prices, and lower-than-expected revenue yield from recent measures (MEFP ¶19). To offset the impact of low revenues, the authorities have reduced domestically-financed capital spending by delaying transfers to the Ghana Infrastructure Fund and moderately curtailing spending on goods and services. They also intend to maintain strict control on spending on wages and salaries by enforcing compliance with the policy on net freeze on recruitment. Looking ahead, steps are also being taken to expand the tax-base, and IMF technical assistance has been requested to help develop a plan to reduce tax exemptions. At the same time, the authorities remain committed to their plan to clear all the remaining stock of arrears, including to oil importing companies and SOEs.

The authorities' medium-term Debt Management Strategy, envisages a financing mix for 2016 that includes the issuance of a new Eurobond to finance priority capital expenditure, support

international reserves, and extend domestic public debt maturity profile. After observing an improvement in market conditions, the government issued a US\$ 750 million Eurobond in early September, with an average maturity of 5 years, to be repaid in three equal installments in 2020, 2021, and 2022, and with a coupon of 9.25 percent. Proceeds of this Eurobond will be used to buy back part of the outstanding amount of an earlier Eurobond, maturing in 2017, and to finance capital spending. The cash resources of US\$ 500 million in unused 2015 Eurobond proceeds available at the beginning of 2016 have provided an avenue for managing the refinancing of maturing debt. Over the medium term, with reduced gross borrowing needs, and expectation of a boost in foreign exchange inflows from increased oil and gas exports, the financing mix is expected to shift back to greater reliance on domestic debt under improved market conditions. Overtime, efforts will continue at deepening the domestic debt market and improving the liquidity of the secondary market to facilitate price discovery.

Monetary Policy

Inflation rose during the first quarter of the year to 19.2 percent on the back of hikes in utility and fuel prices and increases in local food prices due to unfavorable weather conditions. Although inflation eased by June 2016, it was still above the inner band of the MPCC, which triggered a consultation between the central bank and Fund staff. Reflecting continued tight monetary policy, inflation has since then continued on a downward trajectory to reach 16.9 percent in August 2016. The central bank projections show that the current macroeconomic stance and benign foreign inflation environment should allow for a further decline in inflation towards the medium-term target. The authorities will continue to monitor price developments closely and stand ready to tighten monetary policy, if necessary, to ensure that inflation and inflation expectations move towards the target. The authorities are confident that the important legislative steps taken this year to strengthen the autonomy of the central bank and the further amendments expected next year, as indicated above, together with improvements in monetary operations and the functioning of the money and foreign exchange markets, will help strengthen the inflation targeting framework.

Financial Sector

Although the banking system remains profitable in the aggregate, asset quality has deteriorated over the past year, with the non-performing loan ratio increasing from 11.2 percent in June 2015, to 18.8 percent in June 2016. A slowdown in economic growth, disruptions to energy supply, the impact of exchange rate volatility over the past year, and reclassification of some banks' portfolios following the December 2015 Asset Quality Review (AQR) exercise have been key drivers of the rise in NPLs.

The authorities are taking action to address these weaknesses through the design of a formal, time-bound roadmap, agreed with IMF staff (MEFP ¶34). An updated AQR exercise has begun in earnest to take account of developments since the first AQR, including the impact on the commercial banks' balance sheet of governments plans to address SOEs indebtedness. The exercise is expected to be completed by November 2016 and capital-deficient banks will be asked to submit recapitalization plans. A review of the banks' recapitalization/ restructuring plans is expected to be completed by February 2017 and the central bank will stand ready to initiate resolution procedures for affected banks, in accordance with the provisions of the Banking Law. Banks that fail to timely regularize their capital situation, or repay their emergency liquidity support, will be subject to supervisory action in accordance with the Banking Law.

Structural Reforms

As clearly elaborated in the MEFP, wide ranging structural reforms are being implemented and others are under active preparation in various areas. While the authorities agree that implementation of structural reform measures have slowed in some areas, they wish to underscore the complexity and time needed to secure legislative approval, especially from independent-minded local legislative assemblies. That being said, the authorities are committed to forge ahead and accelerate their structural reform agenda to help unleash Ghana's growth potentials.

The performance of large energy sector SOEs is receiving increased attention. The authorities recognize that a restructuring of their indebtedness to the banking system is needed to ensure their continued existence and viability and also to preserve the stability of the banking system. The Government has devised a plan to restructure and repay the existing debt of the largest energy sector SOE—the Volta River Authority—over a 5-year period with an upfront payment being sourced from the recently introduced Energy Sector Levy Act. The latter was recently passed and designed to provide cash for power generation, infrastructure spending, and restructuring of the debt of the SOEs. To gain better insights on the debt situation of the SOEs, including in the energy sector, the government has contracted a reputable audit firm to perform a comprehensive audit, including assessing the financial viability of these SOEs. Work will be completed by the end of the year, which would allow for full scale implementation of a detailed strategy to address the financial situation of the SOEs beginning in 2017. To support the anticipated rebound in economic activity, the Government is working relentlessly towards resolving the issues that have led to the disruption in production at the Jubilee oil field to eliminate the risk of the country relapsing into electricity shortages.

Ongoing reforms in the fiscal area to integrate the remaining key public institutions onto the central government mechanized payroll are being fast-tracked and efforts are also underway to improve on treasury and cash management, review and rationalize the existing exemption regime, and strengthen budget transparency and credibility in line with best international practices. Finally, the modernization of the Ghana Revenue Agency (GRA) will be stepped up to sustain revenue mobilization, and work will be completed to eliminate specific shortfalls identified in the pay-roll data clean-up exercise.

Conclusion

The Ghanaian authorities have delivered on their commitments under this third review of the ECF-supported program, despite difficult circumstances. They are firmly resolved to continue with strong program implementation and look forward to benefit from close cooperation and continued policy dialogue with the Fund. They see no room for complacency and are particularly determined to ensure that the fiscal deficit target is kept in line with the program objective in this electoral cycle. They are grateful to the Executive Board and management for their guidance and support.