



GHANA

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

August 2015

Approved By
Abebe Aemro Selassie
and **Dhaneshwar Ghura**
(IMF) and **John Panzer**
(WB)

Prepared by the International Monetary Fund and the World Bank¹

This DSA updates the previous one conducted in April, 2015. Ghana continues to face a high risk of debt distress based on updated macroeconomic projections, with the debt service-to-revenue ratio breaching the policy dependent threshold under the baseline.² The long-term debt trajectory remains broadly the same as before even after reflecting an increase of the debt limits on nonconcessional borrowing by US\$1500 million. In the first half of 2015, budget financing has increasingly become reliant on short-term domestic T-bills, increasing the rollover risks. Waning appetite of both domestic and foreign investors for Ghanaian debt would put Ghana in a difficult position to meet elevated gross financing needs. The forthcoming Eurobond of up to US\$ 1.5 billion should reduce amounting pressures on domestic debt market as well as lengthen the average maturity of public debt. Fiscal consolidation measures remain on track, and achieving ambitious fiscal targets envisaged under the Fund program along with active debt management will be key to maintaining debt sustainability.

¹ Prepared in collaboration with Ghanaian authorities. The previous DSA was prepared in April 2015 (IMF Country Report No. 15/103).

² The World Bank's Country Policy and Institutions Assessment (CPIA) ranks Ghana as a strong performer (the average CPIA in 2011–13 is 3.79). Thus, the external debt burden thresholds for Ghana are (i) PV of debt-to-GDP ratio: 50 percent; (ii) PV of debt-to-exports ratio: 200 percent; (iii) PV of debt-to-revenue ratio: 300 percent; (iv) debt service-to-exports ratio: 25 percent; and (v) debt service-to-revenue ratio: 22 percent. The 2014 CPIA has been released recently and Ghana's score has deteriorated to 3.37, which would downgrade Ghana to a medium performer. This DSA has been conducted under the transition period where the 2011-13 average is still used. This change will be incorporated in the next DSA.

A. Background and Macroeconomic Assumptions

1. **While fiscal consolidation is on track under the ECF, the budget financing has increasingly relied on expensive short-term T-bills.** Ghana has met all the fiscal performance criteria in the context of the first review of the ECF, and the primary balance was better than expected partly due to dividend payment by the Bank of Ghana (BoG). However, with budget support planned to be disbursed only from mid-year, the authorities needed to heavily resort to short-term domestic debt. Reflecting tight liquidity conditions, interest rates of T-bills remain elevated at around 25 percent. Despite the worsening economic conditions, the share of nonresidents' holdings³ in the domestic marketable debt stayed broadly the same at around 20 percent. Spreads on existing Eurobonds also at around between 500 and 700 bps, depending on maturities, and yield at above 900bps in July 2015.

2. **The macroeconomic projections remain broadly the same (see Table below).** Economic growth and fiscal performance are in line with earlier projection for 2015. Inflation may be slightly higher than expected in 2015 depending on exchange rate developments. Ghana has recorded continued depreciation of cedi in the first half of 2015 partly due to smaller-than-expected balance-of-payments adjustments. However, the depreciation was almost fully reversed during the first half of July. For 2015 as a whole, the current account deficit is projected to be larger than under the previous projection. With a moderate revision in oil prices⁴, the medium-term projections on key macro variables remain as expected (see Box below). The current account deficits would also improve as much as previously envisaged in the medium- and long-term.

Table. Key Macroeconomic Assumptions

	2015	2016	2015-2020	2021-2035
Real GDP Growth	(annual percentage change)			
Previous DSA	3.5	6.4	5.8	5.7
Current DSA	3.5	5.7	5.8	5.8
Inflation (GDP deflator)	(annual percentage change)			
Previous DSA	13.6	9.7	9.2	7.0
Current DSA	14.3	9.0	9.1	7.0
Real interest rate (foreign debt)	(percent)			
Previous DSA	3.9	2.4	2.7	4.5
Current DSA	4.9	3.4	2.6	2.4
Current account balance	(in percent of GDP)			
Previous DSA	-7.0	-6.2	-5.2	-4.5
Current DSA	-8.3	-7.2	-5.7	-4.5
Primary fiscal balance	(in percent of GDP)			
Previous DSA	-0.3	0.4	1.5	0.4
Current DSA	-0.3	0.1	1.6	0.4

3. **The debt limits for nonconcessional loans have been revised upward by US\$1500 million.** Given the tight liquidity condition in the domestic financial market and the consequent higher interest rate bills for domestic debt, the authorities envisage to increase by US\$500 million the total amount of the Eurobond planned to be issued in September / October up to US\$1.5 billion depending on market conditions. The Eurobond would be partly guaranteed by the World Bank, presumably reducing the borrowing costs substantially, lowering the rollover and liquidity risks. In addition, the authorities have identified key projects which are critical for national development and need to be financed with

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 3 years or longer. The authorities are considering allow nonresidents to invest into 2-year domestic debt to further broaden the investor base.

⁴ The latest WEO expects the price of oil to recover to around US\$70 per barrel by 2019 from around US\$ 55 in 2015 and subsequently; prices are assumed to stabilize at this level over the medium term in real terms

nonconcessional loans. The prioritized project list includes projects totaling US\$850 million, which are envisaged to be contracted in 2015, in the areas of infrastructure and agricultural development.⁵

Box. Baseline Macroeconomic Assumptions

Real GDP-growth: Real growth is projected to decline to 3.5 percent in 2015, due mainly to fiscal consolidation under the program, power shortages owing to shortfalls in power generation, and poor non-oil commodity production. Growth is projected to pick up in 2016 onwards. In the long run, real growth is assumed to stabilize at around 6 percent, with new oil discoveries and gas production implying significant upside potential. Non-oil growth is set to decelerate to 2.3 percent in 2015 and pick up to 4.7 percent in 2016, with a long-run steady-state growth rate of above 6 percent.

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

Government balances: The overall cash fiscal balance has been elevated at 10.2 percent of GDP in 2014, with interest expenditures amounting to some 6 percent of GDP. The program envisages an upfront and ambitious fiscal consolidation, including a decline in real wages and a strict payroll scrutiny and limited net hiring, combined with several tax measures. This would bring overall balance down to 7¼ percent of GDP in 2015. The expected longer-term increase in oil prices and increased oil/gas production will contribute to maintaining the overall deficits at a sustainable level. The primary surplus is projected to converge close to zero percent of GDP in the long-run.

Current account balance: Over the past years the current account deficit has been unsustainably high at around 10 percent of GDP. The impact on the current account of recent declines in oil prices would be relatively small given that Ghana still imports significant amount of refined oil. With the tightening of fiscal and monetary policies, the current account deficit would improve to about 5 percent of GDP in 2017. In the long-run, with increased oil/gas production and an improvement in oil prices, the deficit is projected to decline gradually to about 4.5 percent of GDP. Gross international reserves would reach the authorities' target of 4.5 months of imports in 2017 and increase steadily in the outer period.

Financing flows: Ghana has enjoyed high FDI inflows over the past years, even under increasing uncertainties surrounding the Ghanaian economy, reaching 8.7 percent of GDP in 2014, mainly driven by the hydrocarbon sector. Thanks to discovery of new fields, FDI is projected to stay around 7 percent of GDP in the medium term, and then gradually decline towards around 3 percent of GDP in the long run. Consistent with Ghana's improving income status and wealth, inflows from grants are projected to decline to less than 1 percent of GDP in the medium to long term. Borrowing is projected to become increasingly nonconcessional and these loans are expected to be used for key infrastructure projects to bring up potential growth rate. A series of issuances of Eurobonds are envisaged to rollover maturing Eurobonds, which are assumed to be repaid in amortization payments rather than a bullet payment similar to the 2014 Eurobond.

⁵ In addition to the priority projects, the World Bank provides a budget support loan, also non-concessional, equivalent to US\$150million.

B. External Debt Sustainability Analysis⁶

4. **Under the baseline, the basic picture remains the same as in the previous DSA, with debt service-to-revenue ratio breaching the threshold.** The PV indicators jump in 2015 and subsequently decrease to sustainable levels over the projection period. Compared with the previous exercise, PV of debt-to-GDP ratio marginally deteriorates at the end of projection period. The additional nonconcessional borrowing has a marginal impact on debt trajectory given that it is broadly in line with loans that were assumed to be in the pipeline, which were included under the previous projections. Protracted breaches of debt service-to-revenue ratio are partly due to the bullet nature of Eurobond repayments. The forthcoming Eurobond is assumed to have longer maturity with multi-year repayments.

5. **The debt outlook remains sensitive to shocks to nominal exchange rates and net non-debt creating flows.** The relevant debt indicators tend to be worst and the most extreme (in 2025) under standard shocks to exchange rates and net non-debt creating flows, with some marginal breaches of relevant indicators in addition to the debt service-to-revenue ratio. Historical scenario suggests the PV of debt-to-GDP ratio would also exceed the threshold mainly due to sustained larger current account deficits and much lower FDI seen in the past decade.

C. Public Debt Sustainability Analysis

6. **Ghana's total public debt is projected to decline under the ECF program with a peak in 2015** (Table 4, Figure 3). Owing to the envisaged ambitious fiscal consolidation under the program, as well as an improvement in borrowing conditions as fiscal dominance subsides and economic confidence is restored, the relevant debt indicators are expected to improve with PV of public debt declining to around 40 percent of GDP by the end of the projection period.

7. **PV of debt-to-GDP ratio remains below the public debt benchmark.** Under the baseline scenario all indicators show sustainable paths whereas they could be on an explosive path under the historical and the most extreme shock scenario. The debt vulnerabilities lie in possible abrupt changes in real exchange rate depreciation as seen in external DSA.

8. **Gross financing need remains elevated at around 25 percent of GDP, which is much higher compared with peer LICs or even EMs.** Heavy reliance on short-term marketable domestic debt (less than 1 year) has increased its share to above 50 percent of the total marketable domestic debt as of end-June. Ghana has been put in a vicious cycle where meeting the gross financing need through domestic

⁶ Hereafter, public external debt covers those contracted or guaranteed by the central government, and major state-owned enterprises (SoEs), and short-term liabilities contracted by the central bank for a reserve management purpose. These BoG liabilities do not include swaps contracted with resident banks and fully collateralized credit lines with foreign institutions. It is worth noting that SOEs have significant amount of USD denominated obligations with resident commercial banks and possible USD-denominated arrears associated with their commercial activities, the total of which could exceed USD 1 billion

debt with shorter maturities, combined with very high interest rates, further increases the near-term gross financing need and rollover risks of domestic debt. Temporary liquidity shortage in the domestic banking system has also weighed on the smooth rollover of maturing domestic debt.

D. Conclusion

9. **To restore debt sustainability, it is essential that Ghana continues to achieve the envisaged ambitious fiscal consolidation along with active debt management.** Substantial fiscal slippages would add to pressures on domestic debt market, leading to more reliance on shorter-term domestic debt with higher interest bills. Given already-high levels of gross financing needs of around 25 percent of GDP, reducing rollover needs by lengthening the average maturity as well as higher primary balances would be key to bringing the debt trajectory firmly on a sustainable path. The waning appetite for Ghanaian debt would be one of the most significant risks, including due to liquidity constraints of the domestic banking sector or a US interest rate hike. Revenue enhancement measures supported by proactive debt management to smooth and lengthen the maturity profile would bring down the stubbornly high debt service-to-revenue ratios in the long-run. Despite Ghana now being classified as a lower middle-income country with limited concessional resources available, it should continue seeking as concessional terms as possible for external loans, including from development partners.

10. **The authorities broadly concurred with the staff's views.** They shared the view that they are faced with increasing rollover risks, inter-alia, in the domestic market as domestic conditions tightened and need to continue seeking best financing mix reflecting then-prevailing market conditions. The authorities are concerned about the maturity of the Eurobond coming due in 2017 and of the view that they should buy-back it using the part of proceeds of the Eurobond.

Table 1 .Ghana: External Debt Sustainability Framework, Baseline Scenario, 2012-2035 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical ^{6/} Standard ^{6/}		Projections									
	2012	2013	2014	Average	Deviation	2015	2016	2017	2018	2019	2020	2015-2020 Average	2025	2035	2021-2035 Average
External debt (nominal) 1/	34.1	35.2	47.6			53.8	53.8	51.9	49.3	47.6	46.6		40.5	30.8	
<i>of which: public and publicly guaranteed (PPG)</i>	28.9	30.7	42.0			49.8	49.8	47.9	45.3	43.6	42.6		36.5	26.8	
Change in external debt	5.5	1.1	12.4			6.1	0.0	-1.9	-2.6	-1.7	-1.0		-1.2	-0.6	
Identified net debt-creating flows	2.2	1.0	9.3			-1.6	-3.9	-7.5	-6.6	-5.5	-3.9		-2.6	0.1	
Non-interest current account deficit	10.6	10.5	7.3	8.3	2.1	5.9	5.1	3.5	2.7	2.8	2.6		3.1	3.0	3.1
Deficit in balance of goods and services	12.4	13.2	10.3			11.8	9.7	7.3	6.2	6.1	6.0		6.8	5.5	
Exports	40.1	33.9	39.5			34.3	34.1	36.0	35.7	34.8	33.7		28.3	23.9	
Imports	52.5	47.1	49.8			46.1	43.8	43.4	41.9	40.9	39.6		35.1	29.4	
Net current transfers (negative = inflow)	-5.7	-4.1	-5.2	-7.1	1.7	-6.5	-5.7	-5.2	-5.1	-4.8	-4.6		-3.6	-1.9	-3.1
<i>of which: official</i>	-0.6	-0.2	0.0			-0.6	-0.1	0.0	-0.1	0.0	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	3.9	1.4	2.2			0.6	1.1	1.4	1.6	1.6	1.3		-0.1	-0.6	
Net FDI (negative = inflow)	-7.9	-6.7	-8.7	-6.4	3.1	-8.3	-8.3	-8.5	-7.5	-7.5	-6.5		-5.1	-2.4	-4.3
Endogenous debt dynamics 2/	-0.5	-2.7	10.6			0.7	-0.6	-2.5	-1.8	-0.7	-0.1		-0.6	-0.5	
Contribution from nominal interest rate	1.2	1.5	2.3			2.5	2.1	2.1	1.7	1.6	1.6		1.5	1.3	
Contribution from real GDP growth	-2.2	-2.2	-1.7			-1.7	-2.7	-4.6	-3.5	-2.3	-1.6		-2.1	-1.8	
Contribution from price and exchange rate changes	0.5	-2.0	10.1			...	...	...	...	...	...		...	...
Residual (3-4) 3/	3.3	0.1	3.1			7.7	3.9	5.5	4.0	3.7	2.9		1.3	-0.7	
<i>of which: exceptional financing</i>	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	44.7			46.8	46.3	44.5	41.9	40.3	39.5		35.8	28.0	
In percent of exports	...	...	113.2			136.3	135.6	123.4	117.6	115.8	117.4		126.1	117.1	
PV of PPG external debt	...	...	39.1			42.8	42.3	40.5	37.9	36.3	35.5		31.8	24.0	
In percent of exports	...	...	99.0			124.6	123.9	112.3	106.4	104.3	105.5		112.0	100.4	
In percent of government revenues	...	...	220.9			234.3	219.4	205.7	185.4	177.5	175.8		162.9	128.2	
Debt service-to-exports ratio (in percent)	8.6	9.9	14.5			21.7	19.2	19.1	14.7	13.3	15.7		17.8	20.7	
PPG debt service-to-exports ratio (in percent)	5.8	7.2	11.7			18.3	17.1	17.0	12.7	11.1	13.5		15.2	17.6	
PPG debt service-to-revenue ratio (in percent)	13.6	15.1	26.0			34.4	30.2	31.2	22.1	18.9	22.5		22.1	22.5	
Total gross financing need (Millions of U.S. dollars)	2587.8	3387.6	1682.6			2020.2	1847.8	899.2	241.8	-46.8	837.9		2533.1	10434.9	
Non-interest current account deficit that stabilizes debt ratio	5.1	9.4	-5.1			-0.2	5.1	5.4	5.3	4.5	3.6		4.3	3.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	8.0	7.3	4.0	7.3	2.9	3.5	5.7	9.4	7.3	5.1	3.6	5.8	5.4	6.3	5.8
GDP deflator in US dollar terms (change in percent)	-1.9	6.2	-22.3	3.6	12.7	-5.7	6.2	1.4	1.7	2.1	2.3	1.3	2.3	2.1	2.2
Effective interest rate (percent) 5/	4.3	4.9	5.2	3.8	1.1	5.0	4.4	4.2	3.6	3.5	3.5	4.0	4.0	4.6	4.2
Growth of exports of G&S (US dollar terms, in percent)	15.2	-3.6	-5.9	17.2	17.1	-15.2	11.6	17.1	8.1	4.8	2.4	4.8	5.1	6.7	5.7
Growth of imports of G&S (US dollar terms, in percent)	12.8	2.3	-14.5	15.0	17.8	-9.8	6.7	9.8	5.4	4.8	2.7	3.3	5.0	6.7	6.0
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	5.5	10.6	6.5	16.3	15.8	8.2	10.5	-1.5	-1.2	-0.7
Government revenues (excluding grants, in percent of GDP)	17.0	16.3	17.7			18.3	19.3	19.7	20.5	20.5	20.2		19.5	18.7	19.3
Aid flows (in Millions of US dollars) 7/	646.1	224.0	277.8			810.0	717.9	548.4	521.6	432.8	323.5		115.3	10.2	
<i>of which: Grants</i>	646.1	224.0	277.8			562.4	530.3	426.6	407.0	330.9	243.7		79.9	10.2	
<i>of which: Concessional loans</i>	0.0	0.0	0.0			247.6	187.6	121.8	114.6	101.9	79.8		35.4	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			2.0	2.0	1.4	1.5	1.2	0.8		0.0	0.0	0.0
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			17.9	24.3	16.9	29.0	27.5	16.1		0.8	-1.0	1.0
Memorandum items:															
Nominal GDP (Millions of US dollars)	41939	47806	38616			37679	42295	46921	51232	54992	58287		82847	188450	
Nominal dollar GDP growth	6.0	14.0	-19.2			-2.4	12.3	10.9	9.2	7.3	6.0	7.2	7.8	8.5	8.1
PV of PPG external debt (in Millions of US dollars)	...	...	13868			16293	17250	18419	18940	19484	20184		25731	44203	
(Pvt-Pvt-1)/GDPT-1 (in percent)	...	...	...			6.3	2.5	2.8	1.1	1.1	1.3	2.5	1.6	1.5	1.5
Gross workers' remittances (Millions of US dollars)	1760	1524	1638			1819	1955	2014	2054	2095	2137		2359	2865	
PV of PPG external debt (in percent of GDP + remittances)	...	...	37.5			40.8	40.4	38.8	36.5	35.0	34.2		30.9	23.6	
PV of PPG external debt (in percent of exports + remittances)	...	...	89.4			109.3	109.1	100.4	95.6	94.0	95.1		101.8	94.4	
Debt service of PPG external debt (in percent of exports + remittance)	...	...	10.5			16.0	15.0	15.2	11.4	10.0	12.2		13.8	16.5	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt. PPG debt is based on the residency criterion, thus including domestic debt held by nonresidents.

PPG debt also includes SoE's debt and the central bank's liabilities for a reserve management purpose.

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

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

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

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

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

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

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

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

(In percent of GDP, unless otherwise indicated)

	Actual			Average ^{5/}	Standard Deviation ^{5/}	Estimate						Projections		
	2012	2013	2014			2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035	2021-35 Average
Public sector debt 1/	49.6	56.7	69.8			75.1	74.0	69.3	63.7	59.8	56.9		51.2	38.4
<i>of which: foreign-currency denominated</i>	28.9	30.7	42.0			49.8	49.8	47.9	45.3	43.6	42.6		36.5	26.8
Change in public sector debt	7.5	7.1	13.1			5.3	-1.1	-4.7	-5.6	-3.9	-3.0		-1.8	-0.9
Identified debt-creating flows	6.9	5.0	11.6			-0.1	-0.7	-5.1	-5.4	-3.5	-2.6		-2.1	-1.3
Primary deficit	8.6	5.6	3.3	3.9	2.5	0.1	-0.3	-1.8	-3.2	-2.6	-2.3	-1.7	-0.5	-0.1
Revenue and grants	18.5	16.7	18.4			19.7	20.5	20.6	21.3	21.1	20.6		19.6	18.7
<i>of which: grants</i>	1.5	0.5	0.7			1.5	1.3	0.9	0.8	0.6	0.4		0.1	0.0
Primary (noninterest) expenditure	27.1	22.3	21.7			19.8	20.2	18.7	18.0	18.4	18.3		19.0	18.7
Automatic debt dynamics	-1.7	-0.6	8.3			-0.2	-0.4	-3.3	-2.1	-0.9	-0.3		-1.6	-1.3
Contribution from interest rate/growth differential	-3.0	-1.3	0.2			1.0	-0.4	-3.3	-2.1	-0.9	-0.3		-1.6	-1.3
<i>of which: contribution from average real interest rate</i>	0.1	2.0	2.4			3.4	3.6	3.1	2.6	2.2	1.8		1.1	1.1
<i>of which: contribution from real GDP growth</i>	-3.1	-3.4	-2.2			-2.4	-4.0	-6.4	-4.7	-3.1	-2.1		-2.7	-2.3
Contribution from real exchange rate depreciation	1.3	0.8	8.1			-1.2	0.0	0.0	0.0	0.0	0.0		...	...
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Residual, including asset changes	0.7	2.1	1.5			5.4	-0.4	0.4	-0.2	-0.4	-0.4		0.3	0.4
Other Sustainability Indicators														
PV of public sector debt	...	...	66.9			68.1	66.5	61.9	56.4	52.6	49.8		46.4	35.6
<i>of which: foreign-currency denominated</i>	...	...	39.1			42.8	42.3	40.5	37.9	36.3	35.5		31.8	24.0
<i>of which: external</i>	...	...	39.1			42.8	42.3	40.5	37.9	36.3	35.5		31.8	24.0
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...
Gross financing need 2/	22.3	22.2	25.7			25.9	25.3	19.4	15.7	14.4	13.1		11.7	10.0
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	363.1			344.8	324.1	300.8	265.3	249.6	241.6		236.9	190.1
PV of public sector debt-to-revenue ratio (in percent)	...	...	377.9			373.0	345.2	314.7	275.6	256.9	246.6		238.1	190.2
<i>of which: external 3/</i>	...	...	220.9			234.3	219.4	205.7	185.4	177.5	175.8		162.9	128.2
Debt service-to-revenue and grants ratio (in percent) 4/	39.0	59.7	74.9			74.1	63.4	62.7	51.7	46.8	43.3		38.4	34.1
Debt service-to-revenue ratio (in percent) 4/	42.5	61.4	78.0			80.1	67.5	65.6	53.7	48.2	44.2		38.6	34.1
Primary deficit that stabilizes the debt-to-GDP ratio	1.0	-1.5	-9.8			-5.2	0.8	2.9	2.3	1.3	0.7		1.3	0.9
Key macroeconomic and fiscal assumptions														
Real GDP growth (in percent)	8.0	7.3	4.0	7.3	2.9	3.5	5.7	9.4	7.3	5.1	3.6	5.8	5.4	6.3
Average nominal interest rate on forex debt (in percent)	4.8	5.7	5.9	4.3	1.4	5.7	4.8	4.6	3.9	3.8	3.8	4.4	4.4	5.3
Average real interest rate on domestic debt (in percent)	-2.8	4.7	4.3	-0.1	4.3	5.1	8.5	8.4	9.5	8.8	7.5	8.0	2.6	2.3
Real exchange rate depreciation (in percent, + indicates depreciation)	5.9	2.8	26.3	0.5	11.1	-2.9	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	16.6	15.6	16.7	15.7	2.3	14.3	9.0	8.4	7.7	7.5	7.5	9.1	7.0	6.9
Growth of real primary spending (deflated by GDP deflator, in percent)	42.8	-11.7	1.3	3.3	14.4	-5.5	7.9	1.4	3.1	7.5	3.0	2.9	2.7	6.2
Grant element of new external borrowing (in percent)	...	...	...	...	...	5.5	10.6	6.5	16.3	15.8	8.2	10.5	-1.5	-1.2

Sources: Country authorities; and staff estimates and projections.

1/ The external debt covers the central government, SoEs, and the central bank's liabilities contracted for a reserve management purpose. The domestic debt covers the debt stock of the central government.

In this table, *foreign-currency denominated* should be read as "external".

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

3/ Revenues excluding grants.

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

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

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

	Projections							
	2015	2016	2017	2018	2019	2020	2025	2035
PV of debt-to GDP ratio								
Baseline	43	42	40	38	36	35	32	24
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	43	48	53	56	59	61	58	33
A2. New public sector loans on less favorable terms in 2015-2035 2	43	42	42	41	40	40	39	35
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	43	41	42	39	37	37	33	25
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	43	44	51	48	47	45	36	24
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	43	48	51	48	46	45	40	30
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	43	46	50	47	45	44	35	24
B5. Combination of B1-B4 using one-half standard deviation shocks	43	50	61	58	55	54	42	28
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	43	57	55	51	49	48	43	32
PV of debt-to-exports ratio								
Baseline	125	124	112	106	104	105	112	100
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	125	141	147	157	170	181	204	138
A2. New public sector loans on less favorable terms in 2015-2035 2	125	124	117	114	114	118	136	147
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	125	120	109	103	101	102	109	97
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	125	145	185	177	174	176	164	128
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	125	120	109	103	101	102	109	97
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	125	136	137	131	129	130	123	98
B5. Combination of B1-B4 using one-half standard deviation shocks	125	137	159	152	150	150	139	109
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	125	120	109	103	101	102	109	97
PV of debt-to-revenue ratio								
Baseline	234	219	206	185	177	176	163	128
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	234	250	270	274	289	302	297	177
A2. New public sector loans on less favorable terms in 2015-2035 2	234	219	214	198	194	196	198	188
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	234	214	211	191	183	181	168	132
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	234	230	260	237	228	225	183	126
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	234	248	260	235	225	223	206	162
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	234	240	252	229	220	216	178	126
B5. Combination of B1-B4 using one-half standard deviation shocks	234	259	309	281	271	266	215	148
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	234	295	278	251	240	238	220	173

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

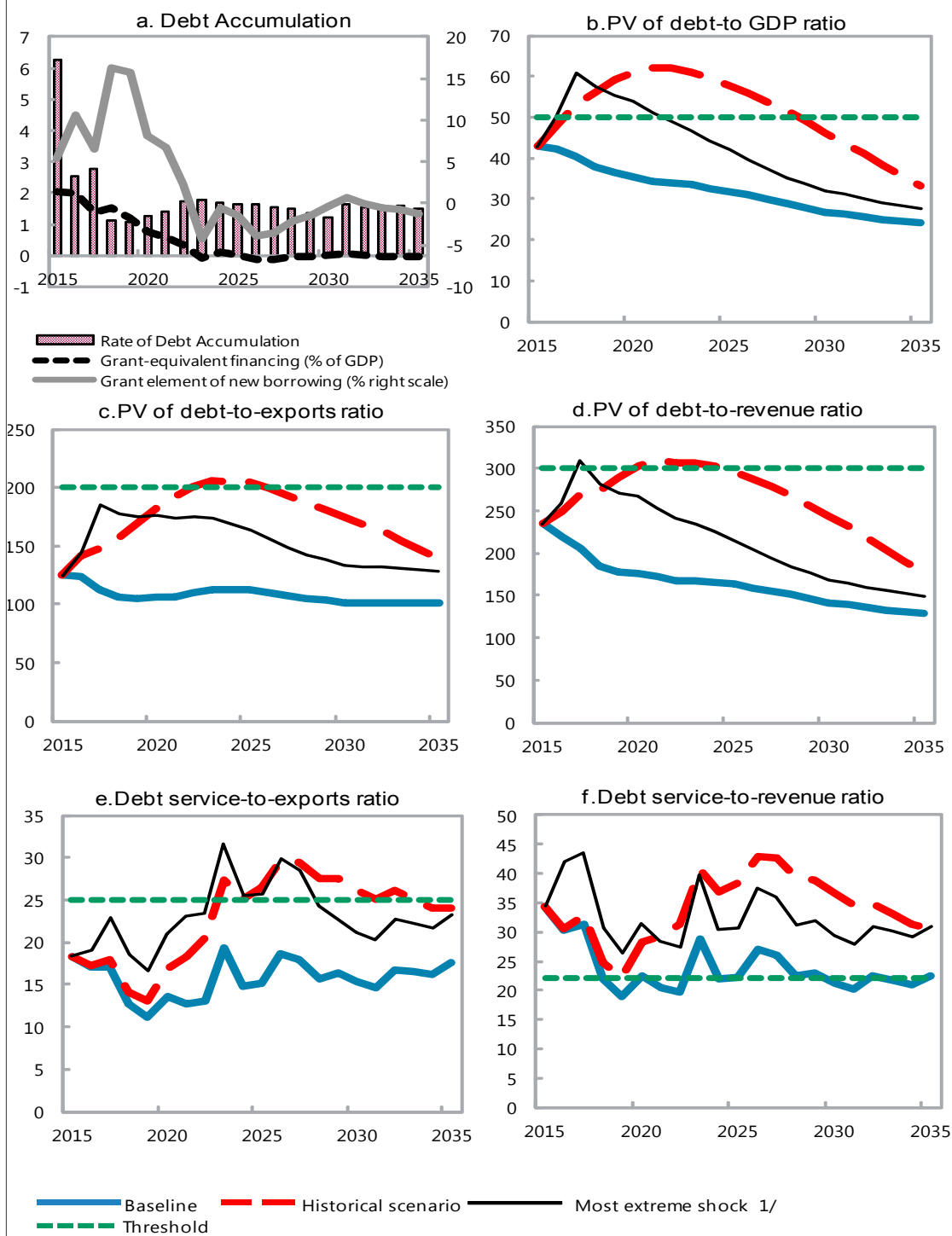
Debt service-to-exports ratio								
Baseline	18	17	17	13	11	13	15	18
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	18	17	18	14	13	17	26	24
A2. New public sector loans on less favorable terms in 2015-2035 2/	18	17	16	9	9	8	18	23
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	18	17	17	13	11	13	15	17
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	18	19	23	19	17	21	26	23
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	18	17	17	13	11	13	15	17
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	18	17	18	14	13	16	19	18
B5. Combination of B1-B4 using one-half standard deviation shocks	18	18	20	16	14	18	22	20
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	18	17	17	13	11	13	15	17
Debt service-to-revenue ratio								
Baseline	34	30	31	22	19	22	22	22
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	34	31	33	25	22	28	38	31
A2. New public sector loans on less favorable terms in 2015-2035 2/	34	30	28	16	14	14	26	30
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	34	31	33	23	20	24	23	24
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	34	30	32	25	22	27	29	23
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	34	35	41	29	25	29	29	29
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	34	30	33	25	21	27	28	23
B5. Combination of B1-B4 using one-half standard deviation shocks	34	33	38	29	26	32	34	27
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	34	42	44	31	26	31	31	31
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	-3	-3	-3	-3	-3	-3	-3	-3
Sources: Country authorities; and staff estimates and projections.								
1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.								
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.								
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).								
4/ Includes official and private transfers and FDI.								
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.								
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.								

Table 4. Ghana: Sensitivity Analysis for Key Indicators of Public Debt 2015-2035

	Projections							
	2015	2016	2017	2018	2019	2020	2025	2035
PV of Debt-to-GDP Ratio								
Baseline	68	66	62	56	53	50	46	36
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	68	70	72	74	75	76	85	94
A2. Primary balance is unchanged from 2015	68	67	64	62	61	60	60	49
A3. Permanently lower GDP growth 1/	68	67	63	58	55	53	56	63
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	68	67	67	62	60	58	60	56
B2. Primary balance is at historical average minus one standard deviations in 2016-201	68	73	77	71	67	64	59	45
B3. Combination of B1-B2 using one half standard deviation shocks	68	72	77	71	68	65	64	54
B4. One-time 30 percent real depreciation in 2016	68	87	81	75	71	69	69	65
B5. 10 percent of GDP increase in other debt-creating flows in 2016	68	77	72	66	62	59	55	42
PV of Debt-to-Revenue Ratio 2/								
Baseline	345	324	301	265	250	242	237	190
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	345	340	351	347	356	369	434	502
A2. Primary balance is unchanged from 2015	345	326	312	292	289	294	308	261
A3. Permanently lower GDP growth 1/	345	326	306	273	261	257	285	334
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	345	329	325	293	283	281	306	300
B2. Primary balance is at historical average minus one standard deviations in 2016-201	345	357	374	333	317	310	303	243
B3. Combination of B1-B2 using one half standard deviation shocks	345	351	372	334	321	317	326	290
B4. One-time 30 percent real depreciation in 2016	345	423	394	353	337	333	350	346
B5. 10 percent of GDP increase in other debt-creating flows in 2016	345	374	348	309	293	286	280	224
Debt Service-to-Revenue Ratio 2/								
Baseline	74	63	63	52	47	43	38	34
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	74	62	64	54	50	47	55	67
A2. Primary balance is unchanged from 2015	74	63	63	52	48	45	47	44
A3. Permanently lower GDP growth 1/	74	64	63	53	48	45	43	50
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	74	64	66	55	50	47	45	47
B2. Primary balance is at historical average minus one standard deviations in 2016-201	74	63	64	55	51	47	48	42
B3. Combination of B1-B2 using one half standard deviation shocks	74	63	66	56	52	48	50	47
B4. One-time 30 percent real depreciation in 2016	74	70	77	63	57	56	58	66
B5. 10 percent of GDP increase in other debt-creating flows in 2016	74	63	65	54	49	46	45	39

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

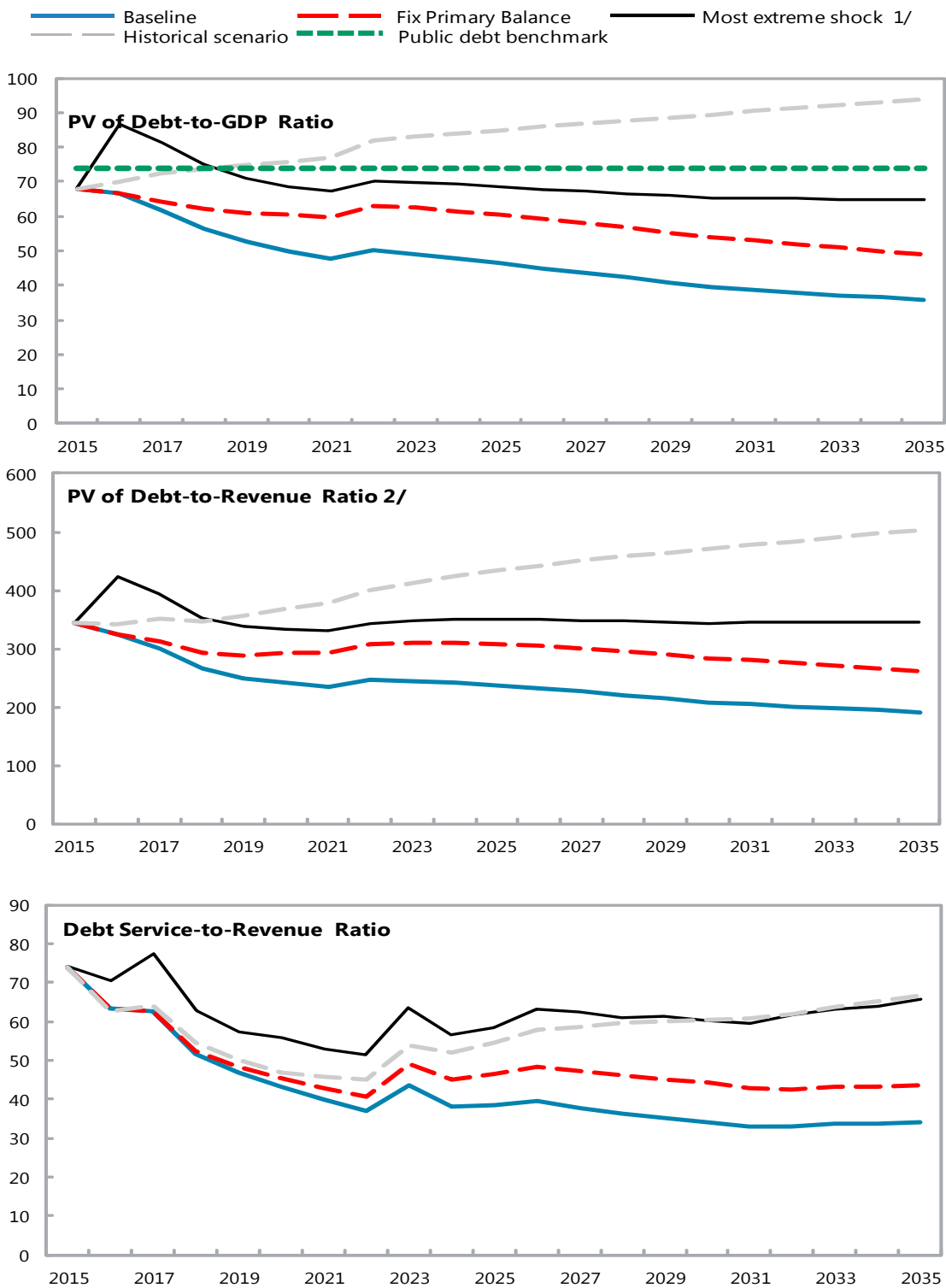
Figure 1. Ghana: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2015-2035 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination 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, 2015-2035 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.

2/ Revenues are defined inclusive of grants.



GHANA

August 2015

GHANA—FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR WAIVER AND MODIFICATIONS OF PERFORMANCE CRITERIA— SUPPLEMENTARY INFORMATION AND SUPPLEMENTAL LETTER OF INTENT

Prepared by

African Department

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

1. **Staff received last week additional information on minor external arrears that were temporarily accumulated to one official creditor.** Small payments, not exceeding USD 2 million, were due to a Spanish creditor and not paid on time since the program was approved on April 3, 2015. The Ghanaian authorities received a payment notice from the creditor – which is needed to initiate the payment order in compliance with PFM procedures and regulations – after the due dates. The creditor notified the authorities of the overdue payments in early July, and all amounts due were paid by end-July. Other very small overdue payments were notified in mid-August and paid by August 25. Considering that payments were made within the usual period following reception of the payment advice from the creditor, the authorities informed staff that no arrears were accumulated. However, after further review of the loans documents, since neither the obligation of the lender to issue a payment notice nor a related grace period are specified in the loan agreements, staff clarified that any delay in payment made beyond the due date gives rise to arrears and constitutes a non-observance of the continuous PC as defined in the TMU.¹

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

2. **Staff supports the authorities' request for a waiver for the non-observance of the continuous PC on the basis of the minor and temporary nature of the breach and corrective measures put in place by the authorities.** Given that the amount of arrears was very small and that payments were made within a reasonable time period of less than a month following the receipt of the payment notice, staff believes that this issue does not alter the overall assessment conducted in the staff report, including the authorities' continued commitment to the program. Further, to prevent recurrence of this issue in the future, the authorities have taken a series of steps, including by: (i) reviewing payments due on a monthly basis in accordance with the contracted schedule of payments—regardless of whether a payment notice is sent by the creditor; (ii) strengthening the coordination between the Finance Ministry and Bank of Ghana for a weekly monitoring of payments awaiting funding and payments made; and (iii) requesting creditors to send payments notices at least 4 weeks prior the due date to accommodate the length of Ghana's payment process.
3. **The PC table attached to the supplemental LOI will replace "Table 1. Ghana Quantitative Program Targets" attached to the original LOI and MEFP.**

Supplemental Letter of Intent

Accra, August 25, 2015

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 August 17, 2015, we wish to provide additional information on minor external arrears that were temporarily accumulated to one of our official creditors. All amounts due have since been paid and we wish to assure you we have implemented corrective actions to prevent such arrears from taking place in the future, and we request a waiver for the non-observance of this continuous Performance Criteria.
2. Small payments, not exceeding USD 2 million, due to a Spanish creditor since the program was approved on April 3, 2015, were paid with some delay. The creditor did not issue a payment notice before the due dates – such payment notice is required to initiate the payment order in compliance with our PFM procedures and regulations. On July 8, the creditor notified us of the overdue payments, and all amounts due were paid on July 21. Considering that payments were made within the usual period following reception of the payment notice from the creditor, we informed staff that no arrears were accumulated.
3. We now understand that the relevant loan agreements under consideration have no contractual requirement for a payment notice to be sent to initiate a payment. The government is thus obligated to make payments according to the repayment schedule established with the creditor.
4. To prevent such occurrence in the future, the government has taken steps to ensure that payments due are reviewed on a monthly basis and payment orders issued in accordance with the schedule of payments. Additional steps have been taken to strengthen the coordination between the Finance Ministry and Bank of Ghana for a weekly monitoring of payments awaiting funding and payments transferred. In addition, we will instruct creditors to send payments notices at least 4 weeks prior the due date to accommodate the length of our legal payment process.
5. We believe that the corrective measures adopted in response to the non-observance of the continuous performance criterion under the ECF on non-accumulation of external arrears will prevent accumulation of external arrears in the future. On this basis, we would like to request a waiver for non-observance of this PC.

GHANA

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

Sincerely yours,

/s/

Seth Emmanuel Terkper
Minister for Finance

/s/

Henry Akpenamawu Kofi Wampah
Governor of Bank of Ghana

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

	2014		Apr 2015			Aug 2015		Dec 2015	
	Act.	Revised	Target	Adjusted target	Actual	Revised		Revised	
I Quantitative Performance Criteria									
Primary fiscal balance of the government (floor in millions of cedis)	-3,555	...	-544	-536	46	-380	...	-422	...
Wage Bill (ceiling; in millions of cedis)	9,449	...	3,413		3,341	6,857	...	10,286	...
Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars) ²	1,415	...	1,042		1,186	331	147	1,962	2,278
Net Domestic Assets of Bank of Ghana (ceiling; millions of cedis) ³	3,095	...	5,755		5,561	8,772	...	4,914	3,410
Net change in stock of arrears (ceiling, millions of cedis)	428	...	-424		-565	-1,001	...	-1,561	...
II Continuous Performance Criteria									
Gross financing of BoG to the Government and SOEs (ceiling; in millions of cedis) ⁴	13,603	19,723	14,614		14,873	14,614	15,814	14,614	15,814
Non-accumulation of external arrears (ceiling; millions of U.S. dollars) ⁵	...	...	0		1.7	0	...	0	...
Non-accumulation of domestic arrears (ceiling; millions of cedis)	...	...	0		0	0	...	0	...
Contracting or guaranteeing of new external nonconcessional debt (ceiling; millions U.S. Dollars)	...	...	0		0	1,000	...	1,000	2,500
III Indicative Target									
Program central target rate of inflation (12 month percentage change)	17.0	...	15.4		16.8	13.8	15.0	12.0	...
Contracting or guaranteeing of new external concessional debt (ceiling; millions U.S. Dollars)	...	...	...		...	...	...	100	...
Social Protection (floor, in million of cedis)	947	...	388		252	806	...	1,294	...

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

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

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

⁴ Defined as a level.

⁵ The authorities have temporarily run small arrears to an official creditor for a technical reason. These arrears have been all cleared within a reasonable time period following the receipt of a formal payment notice.

**Statement by Mr. Mojarrad, Executive Director for Ghana
and Mr. Abradu-Otoo, Advisor to Executive Director
August 31, 2015**

On behalf of my Ghanaian authorities, I thank staff for their hard work and the constructive exchange of views during this first review of the ECF-supported program. The authorities are in full agreement with staff assessment and policy recommendations, which are in line with their own reform agenda and priorities. They also wish to reiterate their deep appreciation for the provision of technical assistance recently provided by the Fund's FAD, LEG, MCM and RES departments, and thank management and Executive Directors for their continued support.

The authorities are resolutely implementing the ECF-supported program and performance is on track. They are carrying out challenging reforms, stepping up efforts in areas where progress has been slower-than-expected, and promptly taking corrective actions in areas where technical difficulties emerged. All performance criteria for end-April 2015 were met, with the exception of the continuous limit on Bank of Ghana (BoG)'s gross financing of the government, which was missed by a small margin due to a minor technical problem that has been addressed, as explained in the Memorandum of Economic and Financial Policies (MEFP ¶14).¹ To better adhere to standard guidelines, the PC on net international reserves for August 2015 and December 2015 are being revised to exclude central bank deposits with the Ghana International Bank in London from the definition of foreign assets. Structural reform implementation was satisfactory in many areas, as outlined in MEFP ¶18, and work is progressing in other areas with IMF TA assistance. The authorities request a waiver of the missed target on the continuous performance criterion on the central bank gross financing, modifications of the PC on net international reserves, higher debt limits on external non-concessional borrowing, and completion of the first review.

¹ Information that a small amount due to an official creditor has been paid with some delay is currently being further examined to determine whether it gave rise to external arrears and may require a request for an additional waiver under the program.

A. Recent Economic Developments and Short-Term Outlook

The growth deceleration that started in 2014 is expected to continue in 2015. Growth is projected to slow down from 4.0 percent in 2014 to 3.5 percent in 2015, mainly as a result of the front loaded fiscal adjustment, the drag on economic activity brought about by the electricity crisis, the adverse effects of currency depreciation, and high interest rates in response to rising inflation. Average inflation, which rose to 15.5 percent in 2014, is expected to decline marginally to 15.3 percent and then to 10.1 percent by 2016. Despite a poor cocoa harvest and lower gold production, the current account position improved significantly, although by less than projected. Nonetheless, balance of payments pressures continued during the first half of the year which, combined with limited interventions by BoG and some speculative activities, led to a sharp depreciation of the cedi. The latter was, however, reversed in July with favorable fiscal consolidation indicators, the resumption of donor disbursements, and expectations of BoG intervention.

B. Fiscal Policy

Fiscal consolidation is on track. The overall deficit declined in the first 4 months of 2015 compared to the December projection, and the primary balance shifted to a surplus instead of a projected deficit. Strong revenue performance was underpinned by the impact of the currency depreciation on VAT on imported goods, taxes on petroleum products, and export taxes, as well as strong collection of corporate income tax and unanticipated dividend transfers from the Central Bank. Expenditures were contained, including wage and domestically-financed capital spending. While no new domestic arrears have been accumulated thus far, in line with the program objectives, the stock of arrears at end-2014 increased by 0.2 percent of GDP with uncovered arrears in connection with claims made by oil importers resulting from foreign exchange losses. Following the conclusions of an independent audit of these claims and in agreement with the oil importers, these new arrears will be settled over a four year period. The recent liberalization of the pricing of petroleum products will forestall the recurrence of such arrears. The authorities remain confident that the 2015 fiscal deficit objective of 7.3 percent of GDP, on a cash basis, will be met, and will take additional measures if necessary to achieve it.

Over the medium-term, the authorities are firmly determined to continue with their medium-term fiscal consolidation program and to resist any spending pressure that may arise in connection with the 2016 elections. They reiterate their commitment to reduce the deficit to 5.8 percent of GDP in 2016 and further to 3.7 percent of GDP in 2017. This will be achieved through tax reform to broaden the base and reduce exemptions and distortions, continued wage moderation, and improved public spending prioritization, transparency, and efficiency in line with the program's objective of strengthening public financial management.

C. Debt Management Strategy

The medium-term debt strategy seeks to support fiscal consolidation and monetary tightening through a financing mix that minimizes cost and improves the average maturity profile, while taking due account of the risks associated with domestic interest rates and rollover risks. The strategy is oriented towards reducing domestic financing in 2015, particularly in the shorter end of the domestic market while aiming to lengthen domestic debt maturities and diversifying the investor base, including by opening 1- and 2-year notes to non-resident investors. On the external front, while the strategy will continue to maximize concessional borrowing, non-concessional borrowing will be limited to projects critical for national development and the refinancing of existing expensive debt by tapping the international capital markets. The authorities are aware of the challenges posed by current financing constraints, and intend to strike the right balance between seeking non-concessional financing for critical development projects and maintaining debt sustainability. In addition, the authorities are implementing a number of debt management measures such as the establishment of a Sinking Fund, on-lending and escrows, and shifts from plain vanilla guarantees to project insurance structures to ensure cost effective access to funding in the short to medium-term as well as improve debt sustainability.

D. Monetary and Financial Sector Policies

Monetary policy has been kept tight over the past year. To prevent inflationary pressures from becoming entrenched, the BoG increased its monetary policy rate by (MPR) 100 basis points in May 2015. In August, in order to enhance transparency in monetary operations and improve the transmission mechanism, the BoG merged the reverse repo and monetary policy rates, thus further increasing the MPR by 200 basis points to 24 percent. This has also helped maintain positive interest rates since end-2014. Indications are that inflationary pressures would likely ease over the medium-term under the effect of fiscal consolidation and the reversal of past exchange rate depreciation. In addition to these developments, the central bank has taken steps to effect a key structural change by reversing the persistent excess liquidity situation in the banking system to one of liquidity shortages to improve monetary policy transmission and enhance its inflation targeting framework. The BoG has indicated that it will continue to monitor closely inflation developments and stand ready to tighten policies further if needed. In addition, steps are being taken to deepen the foreign exchange market and reduce volatility of the exchange rate by eliminating the compulsory surrender requirement of foreign exchange. Detailed implementation plans will be drawn with Fund TA in September 2015.

The banking sector continues to be stable. Banks remain well capitalized, non-performing loans and liquidity indicators remain broadly adequate, but profitability has declined slightly. The authorities are taking steps to ensure that the financial system remains strong and stable, including by strengthening the legal framework for supervision and regulation. To this end, important new bills—the Banks and Specialized Deposit-Taking Institutions bill and the Ghana Deposit Protection bill have been submitted to the legislature and are expected to be adopted by year end. In anticipation of the adoption of these new bills, the BoG is preparing the ground work to step up its monitoring activities and enhance prudential supervision to strengthen the stability of the sector. Moreover, a new Bank of Ghana Act is being drafted and will incorporate key recommendations of the April 2015 safeguard assessment update with the objective of strengthening the provisions on government financing and enhancing the autonomy of BoG. The growth of microfinance institutions in recent years has posed supervisory challenges for the central bank. Recent irregular activities have led to the suspension of some operators in the industry and the BoG has put in place measures to address these challenges and strengthen the industry (MEFP ¶42). The staffing of Other Financial Institutions Supervision Department (OFISD) of BoG, which supervises these institutions, has been increased to enhance both on-site and off-site supervision.

E. Structural Reforms

The authorities are strongly committed to their reform agenda aimed at achieving higher and more inclusive growth and reducing unemployment, while strengthening the social safety net. Continued efforts are being made to improve the business climate, upgrade infrastructure, strengthen competitiveness, and improve employment opportunities. The authorities attach high priority to the need to overcome the current power crisis which is acting as a drag on growth.

Efforts in this area are focusing on the implementation of fast-track private-financed power projects to address existing shortfalls as quickly as possible, while longer-term measures including the development of gas production and requisite infrastructure for thermal power generation are being put in place. An elaborate plan has been drawn to ensure that this key bottleneck is fully eliminated over the medium term (MEFP ¶81). In the short-term, emergency power projects are being brought on board to bring relief to businesses and consumers by the end of the first quarter of 2016. Wide ranging reforms are also underway in many areas, including in tax policy and tax administration. A new strategy for public finance management has been approved by the authorities, involving payroll management and control, treasury cash management, and public sector reform. Implementation plans will be developed with Fund technical assistance (MEFP, Section III A).

F. Conclusion

Program implementation is on track and the authorities are firmly committed to achieving their objectives, notwithstanding external shocks. The authorities share staff views on the risks outlined in the report, and are confident that they will be able to address those risks that are under their control. In particular, ongoing efforts to address the energy situation to further improve the business environment, along with the pursuit of sound macroeconomic policies should help enhance private sector confidence and boost investment and growth. Our authorities attach high value to their engagement with the Fund and are grateful for its continued support.