Ghana and IMF Program

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Presentation Outline

• Introduction:
• 2019 budget in perspective
• Ghana’s Debt in Context
• Ghana and IMF: Love at first sight, marriage, divorce and remarriage
• Structural similarities: Ghana in 1965 and Today
• 2019 Post ECF Budget Measures
• Way forward for Ghana
The following macroeconomic targets are set for the 2019 fiscal year:

- Overall Real GDP growth of 7.6 percent;
- Non-Oil Real GDP growth of 6.2 percent;
- End-period inflation of 8.0 percent;
- Fiscal deficit of 4.2 percent of GDP;
- Primary surplus of 1.2 percent of GDP; and
- Gross International Reserves to cover not less than 3.5 months of imports of goods and services.

Source: MoF, 2019 Budget
Fig 2: Resource Mobilization & Expenditure Plans for 2019

Resource Mobilization for 2019 (In GH¢ mn)

- **Grants**: 1,109.87
- **Other Revenue**: 2,954.47
- **Non-Tax Revenue**: 9,570.35
- **Total Tax Revenue**: 45,270.18
- **Domestic Revenue**: 57,795.00

Source: MoF, 2019 Budget statement
### Resource Allocation for 2019 (In GH¢ mn)

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount (GH¢ mn)</th>
</tr>
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<tbody>
<tr>
<td>Arrears Clearance</td>
<td>730</td>
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<tr>
<td>Other Expenditure</td>
<td>2,384</td>
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<tr>
<td>Capital Expenditure</td>
<td>8,531</td>
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<tr>
<td>Grants to Other Gov't Units</td>
<td>13,798</td>
</tr>
<tr>
<td>Interest Payment</td>
<td>18,646</td>
</tr>
<tr>
<td>Use of Goods &amp; Services</td>
<td>6,333</td>
</tr>
<tr>
<td>Compensation of Employees</td>
<td>22,838</td>
</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
<td><strong>73,441</strong></td>
</tr>
</tbody>
</table>

**Source:** Ministry of Finance
# BUDGET PROJECTIONS

<table>
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</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>5,616.61</td>
<td>7,474.22</td>
<td>9,729.59</td>
<td>11,967.36</td>
<td>16,927.60</td>
<td>22,533.43</td>
<td>26,230.28</td>
<td>30,526.23</td>
<td>37,889.35</td>
<td>43,096.66</td>
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<td>Tax Revenue</td>
<td>4,763.23</td>
<td>5,210.92</td>
<td>6,072.24</td>
<td>8,527.10</td>
<td>12,438.37</td>
<td>17,090.82</td>
<td>19,788.28</td>
<td>23,127.92</td>
<td>29,129.04</td>
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<tr>
<td>Personal Emoluments</td>
<td>1,559.89</td>
<td>2,171.37</td>
<td>3,112.95</td>
<td>5,637.50</td>
<td>9,004.99</td>
<td>10,793.44</td>
<td>12,312.91</td>
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<td>Interest payments</td>
<td>466.46</td>
<td>940.2</td>
<td>1,346.16</td>
<td>2,191.16</td>
<td>3,194.35</td>
<td>7,884.71</td>
<td>9,349.79</td>
<td>10,490.27</td>
<td>13,283.52</td>
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<td>Capital expense</td>
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<td>2,492.54</td>
<td>4,311.54</td>
<td>5,972.34</td>
<td>5,155.14</td>
<td>5,990.23</td>
<td>6,401.54</td>
<td>6,393.05</td>
<td>6,444.71</td>
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<td>Total expenditure</td>
<td>6,466.08</td>
<td>8,838.36</td>
<td>10,900.84</td>
<td>19,035.68</td>
<td>28,163.78</td>
<td>33,783.01</td>
<td>37,974.85</td>
<td>43,983.84</td>
<td>52,173.05</td>
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<td>Budget Deficit(Commitment)</td>
<td>-849.46</td>
<td>-1,364.14</td>
<td>-1,171.26</td>
<td>-1,566.67</td>
<td>-2,108.05</td>
<td>-5,629.94</td>
<td>-7,552.73</td>
<td>-7,448.63</td>
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<td>Budget Deficit(Cash)</td>
<td>-929.18</td>
<td>-2,033.77</td>
<td>-1,967.14</td>
<td>-2,430.05</td>
<td>-4,668.99</td>
<td>-8,010.82</td>
<td>-9,771.99</td>
<td>-8,407.66</td>
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# BUDGET OUTTURN (PROVISIONAL)

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<tbody>
<tr>
<td>Total Revenue</td>
<td>5,623.18</td>
<td>6,775.17</td>
<td>8,810.86</td>
<td>12,851.56</td>
<td>16,668.41</td>
<td>19,471.55</td>
<td>24,745.46</td>
<td>32,040.41</td>
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<td>Tax Revenue</td>
<td>4,299.18</td>
<td>4,657.53</td>
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<td>9,776.09</td>
<td>12,388.88</td>
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<td>4,599.48</td>
<td>3,182.53</td>
<td>4,534.87</td>
<td>6,665.52</td>
<td>9,479.06</td>
<td>10,466.82</td>
<td>12,111.18</td>
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<td>Interest payments</td>
<td>679.18</td>
<td>1,032.32</td>
<td>1,439.56</td>
<td>1,611.18</td>
<td>2,436.15</td>
<td>4,396.97</td>
<td>7,080.87</td>
<td>9,075.34</td>
<td>10,770.44</td>
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<td>Capital expense</td>
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<td>2,328.45</td>
<td>3,168.63</td>
<td>3,674.99</td>
<td>4,616.30</td>
<td>4,791.21</td>
<td>6,095.69</td>
<td>7,133.56</td>
<td>7,678.10</td>
<td>6,331.41</td>
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<tr>
<td>Total expenditure</td>
<td>8,012.35</td>
<td>8,248.08</td>
<td>11,532.21</td>
<td>13,379.98</td>
<td>20,589.73</td>
<td>27,463.04</td>
<td>31,962.21</td>
<td>38,589.91</td>
<td>51,125.04</td>
<td>51,985.95</td>
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<td>Budget Deficit(Commitment)</td>
<td>-2,389.17</td>
<td>-1,473.08</td>
<td>-2,721.35</td>
<td>-528.42</td>
<td>-3,921.32</td>
<td>-7,991.49</td>
<td>-7,216.75</td>
<td>-6,549.50</td>
<td>-17,446.87</td>
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<td>Budget Deficit(Cash)</td>
<td>-2,557.57</td>
<td>-2,130.75</td>
<td>-3,408.47</td>
<td>-2,466.18</td>
<td>-7,751.14</td>
<td>-10,343.95</td>
<td>-11,453.97</td>
<td>-9,586.07</td>
<td>-14,731.56</td>
<td>-12,246.13</td>
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</table>
GHS' MILLIONS

BUDGET PROJECTIONS


Total Revenue  Tax Revenue  Personal Emoluments  Interest payments
Capital expense  Total expenditure  Budget Deficit(Commitment)  Budget Deficit(Cash)
Ghana’s Debt in Context

• Sovereign debt is created when countries spend more than what they receive in tax revenues (other revenues), thus creating deficits.

• The national debt is the sum of the current and all past deficits/surpluses

• For example Ghana’s 2012 deficit was 12.1% of GDP while total public debt (including government guaranteed debt) was 49.4% of GDP in 2012 (40.8% in 2011, 71.5% 2015, 73.1% in 2016, 68.2% in 2017, 57.4% Sept 2018 based on revised series......)

• This debt is the net accumulation of all spending shortfalls back to the founding of the country.
A helicopter tour of Ghana’s debt

- Ghana’s debt stock stood at $500m in 1965 from a very negligible amount from 1960.
- External reserve position declined from positive USD 269m in 1957 to negative $391m in 1966.
- Ghana’s debt started climbing ambitiously. Subsequently IMF/World Bank intervened.
- Ghana has struggled to manage its debt including the unilateral debt repudiation of $94.4m by NRC headed by Gen. Acheampong.
Ghana’s Debt

• Ghana’s debt towards the end of 2000 was life threatening.

• Debt to GDP ratio was approaching 130% signifying debt unsustainability and with serious implications for debt affordability.

• Salvation was found then in HIPC which we completed in 2004 and the MDRI in 2006

• Ghana achieved a combined debt relief of over 4 billion dollars bringing our debt to GDP ratio to about 26%
Fiscal Deficit: A Precursor to Debt

• The fiscal deficit is an indication of the borrowing requirement of the government
• Fiscal deficit (cash Basis) was 8.7% (9.3%), (commitment) 10.1% in 2016, for 2017 5.6%, 3.0 revised GDP series end of September, 2018
• Large fiscal deficit leads to the crowding out of the private sector rather than crowding them in
• It has implications for debt sustainability and debt affordability. Fiscal deficit/fiscal unsustainability and debt unsustainability are
Why do government borrow any way?

2018 budget

• Tax smoothing – to smooth out temporary imbalances between revenues and expenses
• Finance infrastructure e.g. roads, water, power
• Less tangible expenditures such as education and health care
• How do we pay it off

“Rolling over debt” means paying off old debt by issuing new debt. Sovereigns typically roll over debt when it comes due
Why Ghana Borrows?

• 57(1) of PFM: Government may borrow for the following purposes:
  • to finance government budget deficit as approved by Parliament;
  • to build up and maintain a liquidity buffer at a level or range determined by the Minister;
  • to on-lend funds to local government authorities, state owned enterprises, public corporations or any other entity as approved by Parliament;
  • to honour obligations under outstanding government guarantees;
  • to refinance outstanding government debt, including repayment of a loan prior to the maturity date of the loan and repurchase of government debt securities; and
  • for any other purpose as may be approved by Parliament.
Ghana and IMF: Love at First Sight

• Ghana officially joined IMF on 20th September, 1957.

• Ghana first approached IMF in 1965 for a fund supported but was rejected by the government then. Ghana. Since then the country has visited the Fund more times (16 times) than an average couple in Ghana has had to visit the labour ward.

• Averaging 3.8 since independence or in every 4 years we approach IMF
1965 Program Template

| 1965                  | Deteriorating economic conditions occasioned by unfavourable development in commodity prices namely cocoa, gold. Ballooning public debt from a negligible amount to over 500 million dollars by 1965, deteriorating external reserves from positive USD 269m in 1957 to negative USD 391m in 1966 reflecting a balance of payment problems. Inflation surged from 0.98% in 1964 to 26.4% in 1965. **Conclusion**: Offer not taken by the Government |
## HISTORY OF IMF’S ENGAGEMENT

<table>
<thead>
<tr>
<th>Date of Arrangement</th>
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<tbody>
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<td>Apr 02, 2018</td>
</tr>
<tr>
<td>May 09, 2003</td>
<td>Oct 31, 2006</td>
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<tr>
<td>May 03, 1999</td>
<td>Nov 30, 2002</td>
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<td>Jun 30, 1995</td>
<td>May 02, 1999</td>
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<td>Mar 05, 1992</td>
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<td>Nov 06, 1987</td>
<td>Nov 09, 1988</td>
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<tr>
<td>Nov 06, 1987</td>
<td>Nov 09, 1988</td>
</tr>
<tr>
<td>Aug 27, 1984</td>
<td>Dec 31, 1985</td>
</tr>
<tr>
<td>Aug 03, 1983</td>
<td>Aug 02, 1984</td>
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<tr>
<td>Jan 10, 1979</td>
<td>Jan 09, 1980</td>
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<td>May 29, 1969</td>
<td>May 28, 1970</td>
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<td>May 28, 1968</td>
<td>May 27, 1969</td>
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<tr>
<td>May 25, 1967</td>
<td>May 24, 1968</td>
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<tr>
<td>May 17, 1966</td>
<td>May 16, 1967</td>
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</table>

Source: IMF Data-Ghana
Ghana and IMF in Perspective

• 1966-69 Ghana was under an IMF program-Reasons as in 1965
  • Program measures mainly: Monetary and credit policy, Fiscal policy and trade liberalization and payment
• 1978-79 Reasons: Budget deficit, Balance of payment problems
• 1983-91 IMF Program (budget deficit, overvalued cedi, severe weather condition, high inflation
• 1998-2000 (budgetary indiscipline, fiscal deficit, high inflation)
• 2001-2004 (rising public debt, high interest commitment, depletion of reserves
• 2004-2006
Ghana and IMF: An Inseparable affair

• But Ghana divorced the IMF in 2006
• Though a U-turn was made in 2009 and remarried each other
• July 2009 to July 2012 was another affair
Structural Similarities

- Ghana at independence enjoyed relatively high growth rate.
- External shocks from slump in cocoa prices necessitated economic retrogression.
- Factors that led Ghana to its first IMF marriage are substantially not different from today.
- Ghana’s debt stock stood at about USD 500m in 1965.
Structural Similarities

- External buffers/reserves dipped from USD 269 million in 1957 to negative USD 391 million in 1966
- Balance of payment problems
- Poor credit ratings
- Price development was adverse. Inflation jumped from 0.98% in 1964 to 26.4% in 1965
Ghana’s marriage with IMF renewed in 2015

- Ghana enjoyed economic progress with debt relief from HIPC and MDRI
- Structural weaknesses exposed the country to external developments
- Home grown solution (Senchi consensus) did not satisfactorily address the issues

On August 6th, 2014, the government announced it has approached the IMF for an economic program the Fund could support.

IMF and Ghana started discussions that resulted in the approval of the program in April 2015.
2015 IMF Program

• Both internal and external factors accounted for the IMF program. The IMF asserts that the twin deficits largely account for the move:

• Current Account Deficit and

• Fiscal deficit

• The twin deficits essentially reflect systematic weaknesses in the economy as it interact with the external environment/world economy especially world commodity prices.

• Ghana really never recovered from the 2012 election shocks and it largely accounted for the latest marriage born more out of necessity than love
Program broad Goals

• To ensure a sizeable and frontloaded fiscal adjustment to restore debt sustainability, rebuild external buffers, and eliminate fiscal dominance of monetary
• Restoring macroeconomic stability
• Restoring the effectiveness of the inflation targeting framework
• Eliminate fiscal dominance of monetary policy
• Implementing a prudent borrowing strategy
• Expanding Social Safety net programs to restore real income of the poor
• Strengthening public financial management and revenue administration
Elections and Fiscal Slippages

Figure 1: Budget deficit/surplus over the period 1992 - 2017

Budget Deficit/Surplus

Red bars are Election Years
Wide deviations show policy incredibility

**Budget Deficit**

- **Actual Budget Deficit**
- **Target Budget Deficit**

Annual rate:

- 2017: 4%
- 2016: 5%
- 2015: 6%
- 2014: 7%
- 2013: 8%
- 2012: 9%
- 2011: 10%
- 2010: 11%
- 2009: 12%
- 2008: 13%
- 2007: 14%
- 2006: 15%
- 2005: 16%
- 2004: 17%
- 2003: 18%
- 2002: 19%
- 2001: 20%
- 2000: 21%
Elections and Instability

Average Inflation

- Actual Inflation
- Target Inflation

Annual Rate Axis Title


0 10 20 30 40 50 60 70
Revenue Enveloped remains dwarfed

• Some African countries middle income status meant the tapering off of ODA.
• ODA has been volatile for Africa and Ghana for that matter.
• The decline also reflect challenges in the developed countries
Figure 1: Official Development Assistance as a percentage of Gross National Income

Source: World Bank Development Indicators
Borrowing Spree

• Africa has limited fiscal space coupled with huge infrastructure deficit.

• Injecting growth by Scaling up infrastructural investment is critical to improving the conditions of its people

• To fill the revenue gap, African Countries have been busy issuing Eurobonds.
EUROBONDS

- Since 2005, 11 out of the 15 Least Developed Countries that issued sovereign bonds were from Africa, with Ghana, Kenya and Cote d’Ivoire leading the pack.
- Total Eurobonds issued by Africa in 2016 was US$ 18 billion with the cumulative bond issued since 2006 amounting to $25.8bn.
- The excess cost (African Premium) incurred was 2.9bn according to empirical studies
- Now century bond/green bond
Public debt ratios are on the rise...

Source: IMF, World Economic Outlook database.
Motivation: Why more revenue needed in Ghana?

Source: IMF, World Economic Outlook database.
SSA still has lowest revenue ratios globally

Total Revenue Excluding Grants and Tax Revenue, Median, 2016
Percent of GDP

Source: IMF, World Economic Outlook database.
VAT productivity average lowest in SSA countries

VAT C-Efficiency, Average

Sources: World Revenue Longitudinal Database (WoRLD), IMF Fiscal Affairs Department Tax Rates Database, and World Economic Outlook database.
Ghana my Beloved Country

Cross-country comparison of c-efficiency

Source: IMF Staff estimates.
Transnational Crime/illicit financial flows

• Transnational crime in all its forms deprive Africa of much needed revenue to develop and reduce poverty.
• Despite efforts, this continue to grow and Africa is at the receiving end.
• It takes the following forms: Drug Trafficking, Small Arms & Light Weapons Trafficking, Human Trafficking, Organ Trafficking, Trafficking in Cultural Property, Counterfeiting, Illegal Wildlife Trade, IUU Fishing, Illegal Logging, Illegal Mining, Crude Oil Theft (Nigeria epicentre of crude oil theft)
Ghana in Context

- In 2011, Tax exemptions/tax expenditures cost the nation 6.13% of GDP translating 2.4 billion dollars.
- In 2013, Ghana lost 5.2% of its GDP to tax expenditures (Oppong and James, 2016) amounting to USD 2.5 billion and issued Eurobond of USD 750 million at approximately 8%.
- In 2014, Ghana lost 5% of its GDP to Tax expenditures amounting to USD 2 billion reflecting dwarfed economic growth of the year.
Costs of Illicit Financial Flows to Africa

- Africa loses USD 50 billion annually via illicit financial flows to developed countries mostly (AfDB).
- It only receives USD 20 billion in foreign aid whilst it borrowed in all USD 18 billions in Eurobonds.
- How much Africa loses through transnational crime far outweigh what it receives in aid. Africa and Ghana for that matter may not need to borrow/ask for aid if it is able to close these leakages.
Debt Sustainability Issues

• Ghana already a high risk debt distress country. The 2018 DSA is used as a guide
• Debt to GDP ratio more backward
• PV of Debt to GDP ratio
• PV of Debt to Revenue Ratio
• PV of Debt to Export Ratio
• Debt Service to Export Ratio
• Debt Service to Revenue Ratio
The Economics of Debt-GDP Ratios

Government Debt

Debt-GDP Ratio = \frac{\text{Government Debt}}{\text{Nominal GDP}} \times 100

- Government (or public) debt grows when the government has a budget deficit and it stops growing when it balances its budget.

- To reduce the debt-GDP ratio, nominal GDP must grow faster than the government debt. For this to happen, the economy must experience economic growth in output (real GDP), rise in prices (inflation) or both.

- As the World Bank’s Country Policy and Institutions Assessment (CPIA) ranks Ghana as a medium performer, the relevant public debt benchmark for Ghana is 56 percent of GDP and not 70% we are so used to.

- Debt sustainability via fiscal sustainability approach.
Rate of Debt accumulation

Figure 1: Trends in Public Debt and Debt Accumulation 2013- Sept. 2018

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<td>Domestic</td>
<td>27,224.08</td>
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<td>66,769.08</td>
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<td>68,859.62</td>
<td>75,847.49</td>
<td>86,647.60</td>
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<td>Debt Acc W/O Bailout</td>
<td>47.45%</td>
<td>49.99%</td>
<td>25.97%</td>
<td>21.98%</td>
<td>16.65%</td>
<td>19.79%</td>
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<tr>
<td>Debt Acc With Bailout</td>
<td>47.45%</td>
<td>49.99%</td>
<td>25.97%</td>
<td>21.98%</td>
<td>16.65%</td>
<td>11.47%</td>
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</table>

Source: MoF, 2019 Budget
IMF Review Report (95)

• PV of Debt to GDP ratio
• PV of Debt to Revenue Ratio
• PV of Debt to Export Ratio
• Debt Service to Export Ratio
• Debt Service to Revenue Ratio
Post IMF measures in 2019 Budget

- “The Fund is looking forward to the successful completion of the ECF arrangement in the coming year and stands ready to continue to support Ghana in the future.” (IMF 2018 with 5&6 Review)

- “We are now on course to exit the IMF programme by the end of the year” (Budget, 2019 p.24)
Ghana’s Proposal (p.34)

- Legislate a fiscal responsibility rule to cap the fiscal deficit to no more than 5% of GDP as part of measures to promote budget credibility and fiscal sustainability, Strictly enforce PFM to promote effective and efficient PFM
- continue with the zero central bank financing arrangement with the BoG to curb fiscal dominance as part of measures to rein in on inflation
- maximize domestic resource mobilization and increase Tax Revenue-to-GDP ratio to levels in line with our peer Lower Middle Income countries (in excess of GHS59bn author’ insertion); implement expenditure efficiency and rationalisation measures to increase efficiency in public spending and free more fiscal space for growth oriented and job-creating programmes; enforce the Public Procurement Act and ensure sole sourcing is minimized to
- promote competition and efficiency in public spending, thereby, promoting value for money and institute risk management framework to mitigate macro-fiscal risks
Additionally

- Government will institute a Fiscal Council to promote sustainable public finances through public assessments of fiscal plans and performance, and the evaluation of macroeconomic and budgetary forecasts.
- Issues: Independence, composition, authority, access to relevant and timely data needs to be clarified
Consider Policy Support Instrument (PSI)

- PSI “offers low-income countries that do not want — or need— Fund’s financial assistance, a flexible tool that enables them to secure advice and support without a borrowing arrangement.”

- “This non-financial [PSI] instrument is a valuable complement to the lending facilities under the Poverty Reduction Growth Facility (PRGF). The PSI helps countries design effective economic programmes that deliver clear signals to donors, multilateral development banks and markets of the fund’s endorsement of the strength of a member’s policies”

- This allows them to continue their periodic review
Adequacy and Sufficiency

- Ghana signs for the Enhanced General Data Dissemination.
- Laws are observed more in breach than in compliance. BoG Act with 10% financing was abused.
- In 2016 under the watch of the IMF fiscal slippages occurred.
- Diagonal/vertical accountability key
- Monitoring by key stakeholders
Take home

• Growing your economy and exporting more will improve our rankings on the DSI

• Maintaining stable exchange rate is key given the composition of Ghana’s debt stock

• Gov’t needs to devise fiscally responsible funding alternatives to bridging the huge infrastructural deficit.

• The rate at which we borrow to finance the infrastructural deficit has implication for boosting productivity growth.
Conclusion

- THANK YOU AND GOD (JESUS CHRIST) BLESSES YOU ALL

- TGBTG