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Ghana: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

June 26, 2009

The following item is a Letter of Intent of the government of Ghana, which describes the policies that Ghana intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Ghana, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

LETTER OF INTENT

June 26, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Mr. Strauss-Kahn:

After another peaceful, democratic and competitive election in Ghana in December 2008, a new government of the National Democratic Congress Party took over power in January 2009. The Government sees its political mandate as an opportunity to manage the economy to achieve prosperity for all Ghanaians.

While the country achieved significant gains in the macroeconomic and social areas through 2005, the last three years were characterized by severe imbalances brought on by external shocks that were compounded by expansionary domestic policies.

The new government is committed to addressing the economic imbalances, re-stabilizing the economy, and placing it on a path of sustained high growth in order to accelerate the pace of progress toward the Millennium Development Goals and middle income status for Ghana.

The attached Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and policies, and outlines adjustment and reform policies intended under the program. In support of the policies in the MEFP, the government requests that the Executive Board of the IMF approve a Poverty Reduction and Growth Facility (PRGF) arrangement with access in the amount of SDR 387.45 million (105 percent of quota).

The Government of Ghana will provide such information as the Fund may request in connection with progress in implementing its economic and financial policies. The government believes that the policies set out in the attached MEFP are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. The Government will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund’s policies on such consultations.

Sincerely yours,

/ s /

Dr. Kwabena Duffuor
Minister of Finance and
Economic Planning

/ s /

Dr. Paul A. Acquah
Governor
Bank of Ghana

ATTACHMENT I

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES, 2009-12

I. Introduction

1. The Government of Ghana has adopted a comprehensive program of macroeconomic stabilization and reform. This memorandum sets out Ghana's economic and financial policies for the period July 2009-June 2012, to be supported by the International Monetary Fund under a three-year PRGF arrangement.

2. Ghana successfully went through a keenly contested presidential and parliamentary elections in December 2008. A clear winner emerged after two rounds of balloting in the presidential elections with a slim majority. There was, subsequently, a smooth handover of power from the New Patriotic Party to the National Democratic Congress, the second such transfer since Ghana ushered in multi-party democratic governance in 1992. This outcome is a manifestation of the consolidation of the democratic gains, making Ghana a strong functioning democracy in Africa, and stands as the single most remarkable achievement in the country's governance history.

Recent economic and social achievements

3. Real GDP growth increased steadily from 3.7 percent in 2000 to 7.3 percent in 2008. This growth was fostered by significant debt relief which provided the country with fiscal space to embark on critical infrastructure investments, particularly in the energy and road sectors, as well as targeted social spending, all under the Ghana Poverty Reduction Strategy (GPRS). The combination of higher output growth, declining inflation, and improved social spending under the GPRS framework contributed significantly to lower poverty levels. The national incidence of poverty declined from 39.5 percent in 1998/99 to 28.5 percent in 2005/06. At this rate, Ghana is poised to achieve the Millennium Development Goal (MDG) of halving extreme poverty ahead of 2015.

4. In the education sector, gross enrolment ratios have increased. A major initiative for improved enrolment ratios was the abolition of mandatory school fees for basic education and the introduction of capitation grants in the 2005–06 academic year.

5. In the health sector, there have been progressive improvements in the delivery of a number of important outputs. Most notable are: increase in life expectancy from 55 years in 2003 to 57.9 in 2006; the introduction of a pre-paid National Health Insurance Scheme in 2004; and the introduction of free maternal care for expectant mothers. These, together, have put healthcare within the reach of the poor and vulnerable groups.

6. Gender disparities are gradually declining in some areas of service provision, such as in primary education, where the country has almost achieved gender parity. Recent estimates suggest that gross enrolment ratios have been higher for girls than for boys putting Ghana on track to achieve MDG 3 (gender parity in primary enrolment).

7. The improved macroeconomic environment during the period paved the way for Ghana to make a debut on the international capital markets in October 2007, raising US$750 million as additional capital targeted at infrastructural development for growth, especially in the key area of energy.

8. In the financial sector, important structural and institutional reforms have also been undertaken recently. In particular, a comprehensive legal and regulatory framework and strengthened risked-based prudential supervision policies have been put in place to further deepen the financial sector and safeguard the safety and soundness of the financial system.

Macroeconomic stress during 2007–08

9. In spite of the progress in the macroeconomic and structural areas, the economy has come under severe stress since 2006. The macroeconomic situation deteriorated sharply on the back of both domestic and external shocks. In 2006–07, Ghana suffered a severe energy crisis as a result of severe drought, leading to a significant shift from a predominant hydro to thermal power generation at a time of rising crude oil prices, with adverse impacts on the economy.

10. The global food and fuel price increases in 2007–08 adversely impacted most sub-Saharan African countries, including Ghana. In the context of these global shocks and the 2008 elections, public sector spending increased substantially, raising the fiscal deficit from 7.5 percent of GDP in 2006 to 14.5 percent of GDP in 2008. Contributing to the strong fiscal expansion were high energy-related subsidies, increased infrastructure investment, higher wages and salaries, and a rise in social mitigation expenditures to dampen the effects of the global price shocks.

11. The global financial crisis has contributed to further balance of payments pressures. While export proceeds have not, thus far, been significantly impacted, private remittances are slowing, there has been some outflow of portfolio investments, and the outlook for foreign direct investment is not encouraging. Official access to global market financing is now extremely limited. This has reinforced the urgency of macroeconomic adjustment and efforts to identify new external financing from development partners.

12. Strong public spending growth, combined with rapid credit expansion and rising oil import costs contributed to a widening of the external current account deficit from 9.9 percent of GDP in 2006 to 19.3 percent of GDP in 2008. In 2008, the overall balance of

payments recorded a deficit of US$941 million compared with a surplus of US$413 million in 2007 (inclusive of the balances on sovereign bond proceeds). The 2008 deficit was mainly financed by a drawdown of reserves, leading to a decline in the stock of gross international reserves, by US$800 million to US$2,036 million at the end of 2008, equivalent to 2.2 months of import cover.

13. Real GDP growth for 2008 remained strong at an estimated 7.3 percent, up from 5.7 percent in 2007. The pass through from higher global commodity price shocks, combined with fiscal expansion, resulted in a rise in headline inflation from 12.7 percent in December 2007 to 18.1 per cent by end-2008. The Bank of Ghana responded by increasing the prime rate by a cumulative 350 basis points in 2008, ending the year at 17 percent.

14. Inflationary pressures have remained strong in the first four months of 2009, with 12-month inflation in the 20 percent range from January through April 2009. This reflects sharp increases in some components of the non-food category of the inflation basket, mainly as a result of sharp depreciation of the cedi against the major international currencies in the first quarter. The prime rate was further increased by another 150 basis points to 18.5 percent in February 2009, and the Bank of Ghana stands ready to tighten further as needed.

15. The Ghana cedi weakened against the US dollar and the Euro following a surge in demand for foreign exchange in 2008. In the interbank market, the Cedi depreciated by 38 percent against the US dollar. The larger than expected twin deficits of 2008, the drawdown in reserves, and the uncertainties in the domestic and global financial markets continued to weigh heavily on the Ghana cedi in the first quarter of 2009, with the cedi registering a further 16 percent against the dollar through end-May.

16. The banking system remains sound, well capitalized and fairly liquid. In 2008, the sector witnessed a reduction in concentration, intensified competition and expansion in branch networks.

II. The Government's Economic Program

Medium-term objectives

17. The Government is committed to pursuing measures that will ensure the attainment of macroeconomic stability. The strategy will be accomplished through fiscal discipline that hinges on prudent public expenditure management, enhanced domestic revenue mobilization, adherence to public procurement rules, restructuring of the utility companies to reduce the subsidy burden to the budget, public sector reforms, with particular emphasis on wage reforms, and encouraging the private sector to participate in the accelerated growth agenda through Public Private Partnerships (PPPs).

18. To restore and consolidate fiscal and debt sustainability, the government intends to reduce the fiscal deficit (excluding divestiture receipts) from 14.9 percent of GDP in 2008 to 9.4 percent in 2009, 6.0 percent in 2010, and to 4.5 percent in 2011. Further reduction is planned beyond 2011. Deficit reduction will be driven, to the extent possible, by cuts in low-priority public spending, with a view to reducing public expenditure in relation to GDP, and shifting the balance from recurrent spending to infrastructure investments. Strengthened revenue mobilization would aim to increase revenues in relation to GDP. Consistent with the fiscal deficit targets, domestic financing of the budget would be reduced to low levels over the medium term. This would free financial resources for private sector investments and job creation.

19. To help achieve the above fiscal goals, tax reforms and improved revenue administration will enhance the revenue mobilization effort. There will also be decisive measures to improve public expenditure management, enhance public financial management, restructure state-owned enterprises (SOEs), in particular the utility companies, and ensure the success of the public sector reforms.

20. In line with the above policies, the macroeconomic goals for 2011 include real non-oil GDP growth of a little over 6 per cent; gross international reserves close to three months of import cover; and stabilization of the total public debt relative to GDP, and with subsequent reduction to reduce risks of debt distress over the medium term.

21. Monetary policy will support the government's fiscal consolidation efforts over the medium term with a focus on stabilizing price and exchange rate expectations. Under the inflation targeting (IT) framework, monetary policy will aim at achieving a medium term inflation target of 7–9 percent within a forward looking time horizon of 18–24 months.

Macroeconomic program for 2009

22. The government's 2009 budget, approved in March 2009, was based on a growth projection of 5.9 percent. Although the outlook for the global economy has subsequently deteriorated, the government anticipates that Ghana will be somewhat insulated from the global recession on account of buoyant prices for its two main exports, cocoa and gold, and because of strong rain-based agricultural production. For fiscal prudence, the revenue projections have been updated, to reflect revised nominal GDP estimates. The GDP deflator figures, which are somewhat higher than earlier estimated, reflect inflation developments in the first quarter. This is broadly offset by lower growth forecasts of 4.5 percent prepared by Fund staff which recognizes downside risks to external demand and financing in the context of the global recession. Based on these calculations the earlier budget revenue projections have been largely retained. If growth and revenue collections over-perform, this may provide scope to reduce the deficit below the budget target. At the same time, if growth and revenue collections fall short, the government has contingency plans to maintain the deficit target

through cuts in discretionary spending, including by delaying non-critical investment projects.

23. The 2009 budget included a combination of expenditure savings and revenue measures. On the expenditure side, cuts were made in spending on overseas travels, workshops, and conferences; by reducing the number of Ministries from 27 to 23; eliminating subsidies to the Volta River Authority (VRA) for oil imports; eliminating transfers to the Bulk Oil Storage and Transport Company (BOST); delaying the contribution to the West Africa Gas Pipeline Escrow Account until 2010; reducing non-developmental capital spending; and by reallocating HIPC relief funds across programs to reflect the most recent poverty-reduction priorities. On revenues, collections are being enhanced by increasing the airport tax, road tolls, fees and charges, and by more effective application of the communication service tax.

24. Data through the first quarter of 2009 suggests that revenue and non-interest expenditures are broadly on track. However, with treasury bill interest rates remaining high through May 2009, interest costs are projected to exceed earlier estimates for 2009 as a whole. To achieve the targeted fiscal deficit of 9.4 percent of GDP, additional fiscal savings totaling 1.0 percent of GDP (GH¢ 209 million) have been identified. Specifically:

a) The provision in the 2009 budget for wage structure reform (GH¢ 50 million) has been eliminated, due to the postponement of reform to 2010 and later;

b) The agreed 2009 salary increase for medical workers was lower than budgeted, yielding savings of GH¢ 34 million;

c) The 2009 allocation for domestic investment spending has been reduced by GHc31 million, by delaying purchases of vehicles, office equipment, and other miscellaneous items. Social protection programs, particularly in health, education, and sanitation, will be preserved;

d) Tax exemptions will be reduced, yielding projected savings of GH¢ 40 million. Effective June 17, 2009, special permits and general concessions will no longer be available on a discretionary basis, and the Ghana Investment Promotion Center will no longer have discretionary power to grant exemptions. These exemptions would be available, in future, only with parliamentary approval, through the Ministry of Finance.

e) Customs and excise revenue collections are more buoyant than earlier projected, and the 2009 revenue projection has been increased by GH¢ 43 million.

f) The government is tabling legislation to establish a National Stabilization Levy, comprising an additional 5 percent profit tax, effective through end-2010, applicable to companies in the following sectors: banking, insurance, other financial services, communications, mining, and brewing. The projected yield in 2009 is GH¢11 million, with a full-year yield in 2010 of GH¢ 22 million or more.

25. The government is confident that these measures will have a combined yield of at least 1 percent of GDP. As noted above, the government has contingency plans to maintain the deficit target through further cuts in discretionary spending, including by delaying non-critical investment projects, in the event of a fiscal shortfall.

26. To further strengthen expenditure control, a temporary pause has also been imposed on the issuance of commencement certificate for new investment projects, with on-going projects subject to a review in order to prioritize them and better sequence their implementation. The government also intends to review the cash management by earmarked funds to identify potential unused resources, provided that this does not jeopardize poverty-reducing expenditures.

27. Based on potential domestic financing for the budget of 4.8 percent of GDP in 2009, and updated projections for external disbursements, Ghana has a financing gap of $250 million. This would be covered by a Development Policy Loan from the World Bank which would augment planned World Bank support by $200 million in 2009, and by exceptional budget support from development partners. In the event of a shortfall in foreign program grant and loan financing, the government will offset this in part through spending cuts and in part through increased resort to domestic financing, up to a maximum of GH¢ 75 million (see details in the Technical Memorandum of Understanding).

28. Fiscal tightening in 2009, combined with a tight monetary policy stance, is projected to ease pressure on the balance of payments. With exceptional budget support and projected Fund financing, gross international reserves are projected at slightly below two months of import cover of goods and services at end-2009. To further strengthen Ghana’s international reserves position, the authorities do not intend to draw on the proposed new SDR allocation.

29. Ghana intends to maintain and strengthen its inflation targeting regime. The disinflation process will be supported by fiscal consolidation, including as greater stability returns to the foreign exchange market. For 2009, the Bank of Ghana will aim for a progressive convergence on the medium-term inflation target range, with inflation projected to decline to a 12-month rate of 14½ percent by end–2009.

III. The Structural Reform Agenda

Strengthening fiscal institutions

30. Achieving success in the medium term will depend on strengthening fiscal institutions and enhancing revenue mobilization and a strong public expenditure management agenda. Key policy initiatives are summarized below.

Tax Policy and Tax Administration

31. Ghana in the 1990s reformed its revenue administration and tax policy with some success. It created new administrative structures, introduced the value-added tax, and made changes to the personal income tax schedule in order to increase the incentives to work and save. The corporate tax has been successively reduced from 35% to 25%. A decade and a half later, the tax system is beginning to face new challenges emanating especially from ad hoc changes to parent acts and the adoption of ad hoc exemptions and discretionary waivers. Against this background, the government requested IMF technical assistance on tax policy and revenue administration which was provided in April-May 2009. Their recommendations will inform the new directions for Ghana's tax system.

32. **Tax policy**. The government is committed to streamline the tax legislation process so that all legislation affecting the tax system is reviewed and tabled by the Ministry of Finance and Economic Planning. As a first step, the government is committed to conduct reviews by September to inform the 2010 Budget in the following areas:

a) A review will be conducted of the nature and scope of tax exemptions and discretionary waivers by sectors, beneficiaries, and their rationale, including those related to any remaining firm-level customs tariff exemptions, with the objective of phasing out unneeded tax holidays and other business incentives, and curtailing the broad discretion given to other institutions;

b) the number of zero-rated items (excluding exports) will be reviewed with the goal of eliminating the zero-rating, or, if necessary, converting some to VAT exemptions.

33. Over the medium-term, to broaden the tax base and minimize distortions, reviews will also be conducted on:

c) the VAT regime, especially the threshold and refunds regime to strengthen the effectiveness of the VAT;

d) options to simplify the taxation of small businesses below the VAT threshold;

e) the coverage of the VAT to the service sector; and

f) the taxation of all investment income and the final taxation of dividends.

34. The base of the income tax will also be broadened to cover the large potential taxpayers in the private and informal sectors who currently are not paying any income tax. The retention of internally generated funds by MDAs will also undergo serious review.

35. **Revenue administration**. Ghana's three tax revenue agencies operate independently, share no activities and have very little exchange of information at the operational level. This results in high compliance cost for tax payers, high administrative costs for government, and high opportunities for tax evasion. The government intends to consolidate and centralize management of the three agencies, with a specific objective to merge the VAT and income tax services into a single, integrated tax administration. A modernization strategy for these and other aspects of revenue administration is to be developed and approved by Cabinet before end-2009.

36. Efforts will also be directed towards closing the various leakages from the tax system. Leakages have been associated with customs valuation and invoicing, transit goods, free zone exemptions and bonded warehousing facility; VAT collection and payment to the VAT office; and management of the withholding tax by the Internal Revenue Service (IRS). Preventive services of the Customs, Excise and Preventive Service will be strengthened to reduce smuggling and the abuse of the transit goods arrangement.

37. **Oil revenue management**. Revenues from our oil production activities are expected to come on board by 2011. Like all oil-producing economies, we are faced with a number of challenges, including how much of the oil revenues should be saved, how to insulate fiscal policy from fluctuations in oil prices, and how to protect the economy from possible exchange rate appreciation (the so-called Dutch Disease). The goal is to ensure a cautious phasing of petroleum revenues into the economy. This will be guided by the country's absorptive capacity, by the balance between how much to spend to accelerate growth and reduce poverty, and by how much to save for the future.

38. The government intends to continue with the national dialogue on the use of oil revenues and with the ongoing work on the technical details of oil revenue management. Work on a petroleum regulatory bill and an oil revenue management bill are ongoing and will benefit from an IMF technical assistance mission scheduled for June 2009. Public consultations on the allocation of petroleum revenues and on the guidelines for the management of the funds will be held prior to legislation. In this area, the government intends to ensure that oil revenues are fully and transparently included within the budget. To further ensure the transparent treatment of oil and gas revenues, the government intends to

extend Ghana's participation in the Extractive Industry Transparency Initiative (EITI) to cover this sector, as well as fishing.

39. **Enhancing Fiscal Responsibility.** Recent experience suggests that maintaining fiscal discipline remains a major challenge in fiscal management. As first step to instituting fiscal responsibility laws, the government intends, in the short-term, to lay out some fiscal rules that will strengthen fiscal discipline and help ensure desired fiscal policy outcomes. These rules will also provide a solid institutional foundation for managing the oil revenues that are projected to come on stream in 2011.

Expenditure management initiatives

40. Although public financial management reforms have advanced in recent years, continued expenditure slippages and budget over-runs expose weaknesses in the system. Budgetary processes have improved over the years, but current developments indicate the lack of adequate institutional and human capacity (a) to track expenditures at the budget implementation stage and (b) to effectively manage commitments from the Ministries, Departments and Agencies. The result is the inability to block unapproved spending at the commitment stage, with risk of an over-run in commitments and emergence of domestic arrears. The first step to addressing the problem is to strengthen Public Expenditure Monitoring Unit (PEMU) in its human resources and in its processes of monitoring and reporting of expenditure paths. Another important step is the establishment of a cash management framework that will provide an early warning system for management.

41. **Cash Management.** As part of the resolve to strengthen fiscal management, the government has already adopted a strengthened cash management system involving the Ministry of Finance and Economic Planning, the Bank of Ghana, and the Controller and Accountant General. The three institutions have also initiated a process of developing a Treasury Single Account (TSA) which brings all government accounts under a single composite account structure. The TSA will allow for better cash flow management and better planning of financing the public sector borrowing requirement. Revenue Management and Expenditure Management Committees have been established to support the cash management framework and the work of the EPCC.

42. **Budget management systems**. To further strengthen the government's capacity for budget monitoring and control, it intends to press forward with plans for comprehensive adoption of an integrated financial management information system (IFMIS). The existing system has underperformed in the past due to technical factors, and has been rolled out to only a limited number of ministries. Accordingly, this system will be reviewed with a view to either developing a plan to address its shortcomings in advance of comprehensive adoption or to lay the basis for moving to an alternative system. This review will be conducted by end–December 2009.

43. **Other expenditure reforms**. The efficiency of public spending will be enhanced by re-introducing public expenditure tracking surveys; improving evaluation of investments and projects and identifying programs that do not work, and for which less should be spent or stopped altogether; strengthening performance orientation in the public sector through effective implementation of performance management and development system (PMDS); and strengthening the legal framework for public/private partnerships (PPPs).

Public Sector Reform and Payroll Management

44. The heavy burden of the public sector wage bill remains a major concern. Between 2002 and 2008, wages absorbed an average of 44.5 percent of total tax revenue. This number is expected to rise to 49.5 percent in 2009. The main objective of the reform is to strengthen the link between public sector pay and productivity; maintain the competitiveness of public sector incomes relative to the private sector; and determine the optimal number of employees needed to efficiently deliver public services. The government intends to adopt a comprehensive program of public sector reform, with the support of the World Bank.

45. **Payroll management**. Incomplete automation has allowed Ministries, Departments, and Agencies (MDAs) to significantly exceed approved hiring budgets. The government is committed to strengthening the existing database management system for personnel and payroll data of all public sector institutions. Sixty-five of the 114 agencies have migrated to the new payroll database as at end of April 2009, though this accounts for just 4 percent of the total staff strength of the subvented agencies. The government intends to migrate all subvented agencies by end-September 2009. A committee would be established to monitor progress of the migration exercise.

46. **Hiring controls**. To contain the wage bill, the government has adopted a selective hiring freeze under which new recruitment is principally in the education and health services. At the same time, the validation of personnel into the centralized personnel database has been strengthened to ensure that new recruits are consistent with budgetary provisions. This will be comprehensive across the public sector including all subvented agencies by end-September 2009.

47. **Payroll audits**. An annual audit of the personnel database will be conducted by a joint team of the Auditor General and the Internal Audit Agency. In addition, as an initial exercise, a headcount of all staff of the Ghana Education Service will be conducted as part of the efforts to ensure fiscal consolidation whilst improving the personnel database in the sector. The headcount exercise is expected to be completed by end-September 2009.

48. **Subvented agency restructuring**. Over the medium-term, a functional review of the public service will be undertaken to provide an objective basis for a plan and schedule for right-sizing. The restructuring of subvented agencies will be stepped up, and those that are no

longer relevant to the government's objectives will be liquidated, while those that need to be partially or fully commercialized will be instructed to do so within an agreed time frame. Institutional responsibilities for this reform effort will be established by end-2009 with a view to making good subsequent progress in auditing and restructuring the subvented agencies.

49. **Pay reform**. The government will ensure that discussions on a simplified "single spine" public sector salary structure take account of affordability within the medium-term wage and salary budget. Consistent with the government's objective of ensuring that the outcome of public pay negotiations informs the annual budget, the government intends to put in place measures to complete such negotiations before the Budget is prepared and passed by Parliament. It is, thus, expected that public sector salary and salary-related negotiations would be completed by September before the budget is finalized and submitted to Parliament in November.

Statutory Funds

50. Another area of institutional policy reform has to do with the increasing rigidities in the budget and the limiting effects on policy maneuvering. Current rigidities arise partly from the existence of a number of statutory funds and committed expenditure items determined by contracts and agreements with development partners. Excluding wages and salaries, the total of these payments in the provisional budget outturn for 2008 was 48.5 per cent of total payments, and for the 2009 the estimate is about 60 per cent. Government plans to review the legal provisions and management of some of these statutory funds, with the view to introducing some flexibilities and efficiencies in the overall fiscal management.

Energy sector reform

51. **Financial restructuring**. The balance sheets of the majority of the state-owned enterprises are under serious financial distress. Government plans to move speedily to ensure that the Power Sector Financial Restructuring and Recovery Study commissioned in May 2008 is completed. This study will review of the financial status of all three power sector utilities and propose a financial restructuring and recovery program that will ensure their long-term viability. The study is expected to produce a comprehensive financial recovery plan to improve upon financial operating ratios, reduce short-term indebtedness and reduce arrears of each of the power utilities to suppliers and creditors. Additionally, the Plan will clearly mark out VRA's core and non-core assets, effect full transfer of national transmission grid assets from VRA to GRIDCO and ring-fence assets and liabilities associated with GoG-sponsored gas-turbine power projects.

52. **Energy subsidies**. To address the cost of energy subsidies, the government intends to (a) retain bi-weekly price adjustments for petroleum pricing, which are designed to ensure cost recovery for the oil refinery and bulk importers; (b) adjust electricity pricing by end-2009 to bring the average tariff to cost-recovery levels—that is, to a level that will allow the VRA to cover, at a minimum, its operating costs without resort to government subsidies, other than the lifeline subsidy for low-income consumers, which cost GH¢ 46 million in 2008 (0.3 percent of GDP); and (c) the electricity tariff structure will be subject to quarterly reviews starting in 2010 to ensure continuing cost recovery.

Management of Domestic Arrears

53. Provision has been made within the budget to settle in 2009 GH¢534 million of domestic arrears carried over from 2008. MDAs have been required to report any other potential domestic arrears from 2008 by end-September 2009, and a due diligence process has been launched to validate reported liabilities. If the arrears from 2008 exceed the amounts provided for in the budget, MDAs will be required to settle them, where possible, within their 2009 budget ceilings. Where this is not possible, remaining amounts will be addressed as a priority in the 2010 budget. At the same time, to avoid possible new arrears pressures, all MDAs have been instructed to take steps to avoid over-commitments.

Debt Management

54. To support the government's goals for debt and fiscal sustainability, the Government will adopt a comprehensive public debt management strategy, providing a clear framework for borrowing, establishing the principles that should guide the debt manager's decision regarding the currency composition, maturity, interest rates and other risks of the debt portfolio. Under this strategy the government intends to explore all avenues for concessional financing, and will seek to avoid nonconcessional borrowing in foreign currency wherever possible. In some cases, high-return infrastructure projects may require market-related financing (such as for energy, road, and rail projects, and public private partnerships), and may not be feasible without state guarantees. The government will evaluate these projects on a case-by-case basis, based on economic rate of return, impact on debt sustainability, and alternatives for achieving the same developmental goals. The government will provide to the Fund a semi-annual listing of projects being considered for market-related foreign financing, with a first report provided at the time of the first program review. On this basis, the government would request that the limits under the PRGF arrangement imposed on

contracting or guaranteeing new external nonconcessional debt be set so as to accommodate such projects.[1]

Poverty reduction strategy

55. To mitigate the risks associated with slower growth for low income and vulnerable groups, the social protection and safety nets will be strengthened and expanded. Current protection for the most vulnerable include "lifeline" scheme for utility costs, the Livelihood Empowerment Against Poverty (LEAP) cash transfer program, school feeding program, and free maternal care for almost 500,000 women. Others include grants and subsidies for basic education, and national youth employment program. New initiatives include the provision of school uniforms to about 1.6 million pupils in public basic schools in deprived communities throughout the country. Free exercise books will also be provided for every pupil in all public basic schools. In addition, the current capitation grant will be increased by 50 percent. In the context of a move to full cost recovery utility pricing, a review will be conducted of the possible need to expand support provided to poor households.

56. The current Ghana Poverty Reduction Strategy (GPRS) covers the period through end-2009. The government will shortly develop a strategy to extend the GPRS to 2010 and beyond. This extended GPRS will underpin the government's program of adjustment and reform described in this memorandum.

IV. Monetary Policy, Exchange Rate Policy, and Financial Sector Issues

57. One of the key aspects of BOG's IT framework is to build confidence and anchor expectations. The 2007–08 global financial crisis and its domestic pass-through effect seems to have dislodged inflation and exchange rate expectations temporarily but the Central Bank remains committed to the path of disinflation. In line with this, the BOG has recently increased the prime rate by 150 basis points, to 18.5 percent. It is projected that inflationary pressures will begin to ease by the second half of 2009, paving the way for reduction in the policy rate. Policies will aim at reducing inflation below 10 percent during 2010.

58. To strengthen the IT framework, the BOG will continue to build its forecasting and analytical capacity to support monetary policy implementation, drawing on the experience of other IT countries. The BOG will liaise closely with Fund staff in this area. In addition, the

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[1] During the coming year, the government has identified a potential need for debt guarantees during 2009-10 of up to $300 million to the Ghana National Petroleum Company (GNPC) to facilitate its participation in the first phase of a program to exploit offshore gas deposits starting in 2011. The project would be commercially viable, and is anticipated to involve majority private sector equity participation. Debt service would be financed from gas sales to domestic or regional refineries, and risks to Ghana's debt sustainability outlook would be low

communication strategy, which includes a press conference after each MPC, will be further strengthened. The Bank of Ghana intends to restructure its website by end-year to consolidate and give greater prominence to its inflation targeting policies and goals, and provide more user-friendly access to MPC press releases, inflation reports, and other IT materials. This transparency will help to reshape public expectations and in the process provide a forum for greater accountability by the Bank of Ghana.

59. The Bank of Ghana will continue to maintain a flexible exchange rate regime, with foreign exchange market interventions limited to smoothing short-term fluctuations.

Financial supervision and regulation

60. The Bank of Ghana launched a multi year program for risk-based supervision of banks in 2007 which is supported by the Canadian Office of the Superintendent of Financial Institutions (OSFI). It has set 2010 as the implementation year for BASEL II and in collaboration with the banking industry, agreed to adopt the Standardized Approach for credit risk and operational risk, and Standardized Measurement Method for market risk. An updated Financial Sector Strategic Plan (FINSSPII), a blueprint for financial sector development, will be completed during 2009, with implementation targeted to start in 2010.

61. The Bank of Ghana is alert to the risks that weak governance structures and inadequate risk monitoring systems can play in the banking system, including in state-owned financial institutions. The Bank of Ghana is addressing risks in this area in the multi-year banking supervision program. Banks have been required to appoint compliance officers; the committee overseeing the BASEL II process meets quarterly to discuss risk management policies; and the Bank of Ghana liaises more closely with external auditors in conducting bank supervision to supplement information available from their written reports. Vigilance has led to early Bank of Ghana intervention in some cases of problems inconsistent with prudential regulations.

62. To further extend the capacity of the banking system to play a key role in a rapidly growing economy, the Bank of Ghana has increased the capital requirements of banks. The Bank of Ghana has set the new minimum capital requirement at GH¢60 million to be met by end of 2009. Banks with majority domestic shareholders however, are required to increase their minimum capital to GH¢25 million by end 2010, and then to GH¢60 million by end 2012.

63. Major financial sector reforms initiated recently and in the early stages of implementation will be brought to full implementation during the program period. Notable among these are (i) National Pensions Act, 2008 which will establish a regulatory framework for a three-tier pension system; (ii) the Financial Services Bill, to provide the legal and regulatory framework for providing nonbank financial services to non-residents; (iii) the full

blown establishment of the Financial Intelligence Centre under the Anti Money Laundering Act., 2008; (iv) the Borrowers and Lenders Act; and (v) the Home Mortgage Finance Act.

64. The reform of the domestic debt market is an important component of our efforts to deepen financial markets and to improve the efficiency of the government's debt operations. Among the measures to be implemented in the medium term are a rationalization of the primary dealer system, the annual publication of an issue calendar to guide portfolio managers to plan an orderly rebalancing of their portfolios, and the implementation of a comprehensive investor relations program targeted at both domestic and international participants in the government debt market.

65. Given the extensive changes in Ghana's financial sector since the last Bank-Fund Financial Sector Assessment Program (FSAP) update, the government would welcome a new FSAP update at the earliest possible opportunity.

V. Risks and Contingencies

66. Key economic and financial downside risks to the program include lower-than-expected remittances and private capital inflows, a more rapid than expected increase in global oil prices, and a greater than anticipated economic slowdown in trading partner countries. If 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.

VI. Data Provision and Program Monitoring

Statistics

67. The following statistical data will be made available to the public as part of information dissemination strategy of Government and to allow for transparency in government operations:

- **National accounts**. With technical assistance from the IMF, the National Accounts numbers have been revised and rebased to 2004. The Ghana Statistical Service plans to publish the new numbers by end December 2009. The GSS also plans to produce quarterly national accounts after the publication of the new national accounts series.

- **Inflation data**. Inflation (CPI) data will be announced by the 10^{th} of the month following the one that the outturn relates to. The Prime Building Cost Index (PBCI) will be produced and disseminated quarterly. The Producer Price Index (PPI) will be produced and disseminated with a month's lag.

- A **population and housing census** will be undertaken in 2010. Preparatory work has started, and the census report is expected to be produced and disseminated starting May 2011; and

- **Public finance data**. The Controller and Accountant General will release the monthly statement of the Final Accounts of government with a maximum of six weeks lag. The Ministry of Finance will publish monthly fiscal outturns on its website with a maximum lag of eight weeks, starting with the January to March 2009 accounts and historic monthly data for 2008, which will be published by end-June 2009. Annual data on the breakdown of public sector staff strength by MDA in 2008, together with corresponding data on the aggregate wage bill by MDA will be published on the Ministry's website by end-September 2009, with estimates for 2009 and subsequent years published within three months of end-year.

- **Nonconcessional financing**. The Ministry of Finance will provide a listing and status report for projects being considered for nonconcessional financing for end-June and end-December of each year (see para. 52).

Program monitoring

68. To ensure coordinated implementation of the government's program, the Economic Policy Coordinating Committee (EPCC), with participants from the Ministry of Finance, Bank of Ghana, and other affected ministries, departments, and agencies (MDAs) will meet on a regular basis to track progress under the various reform agendas. The EPCC, together with the Ministry of Finance's Public Expenditure Monitoring Unit, will have particular responsibility for oversight of public spending to ensure compliance with budget limits.

69. Furthermore, with the view to enhancing data dissemination and transparency, the Ministry of Finance will post a broad range of macroeconomic data on a timely manner on its website on a continuous basis, including (a) quarterly fiscal estimates, with a lag of no more than 8 weeks, starting with the 2009 first quarter accounts and comparable quarterly data for 2008; (b) the Controller and Accountant General's Department's (CAGD) monthly statement of the Final Accounts of the government with a maximum lag of 6 weeks; (c) annual data on the staff strength of public sector workers and aggregate wage bill, broken down by MDAs.

70. Quantitative performance criteria and structural benchmarks for 2009–2010 are set out in Tables 1 and 2. Progress on structural reforms in the key areas previously mentioned, namely tax policy and revenue administration, public expenditure management, public sector reform, energy sector reform, the inflation targeting framework, and financial supervision and regulation, will be monitored in the context of reviews. To facilitate such monitoring, structural benchmarks for 2009-10 are set out in Table 2. In addition, given the need for close monitoring in the context of an uncertain global environment, the program includes quarterly

reviews for 2009 followed by semi-annual reviews starting in 2010. The first review of the program is expected to be completed by end-December 2009, with end-September 2009 as the test date for the quantitative performance criteria; the second and third reviews under the program are expected to be completed by end-April and end-October 2010, with end-December 2009 and end-June 2010 as the test dates. Detailed definitions and reporting requirements for all performance criteria are contained in the Technical Memorandum of Understanding (TMU) attached to this letter.

71. We believe that the policies specified in the MEFP provide a basis for sustaining growth, reducing inflation, and alleviating poverty—but we stand ready to take additional measures if required. The government will provide the Fund with the information needed to assess progress in implementing our program as specified in the TMU, and will consult with the Fund staff on any measures that may be appropriate at the initiative of the Government or whenever the Fund requests a consultation. The Government intends to make this letter and the TMU available to the public. In this context, it authorizes the IMF to arrange for them to be posted on the Fund's website, subsequent to Executive Board approval.

72. Accordingly, we are requesting Board approval of the policies set forth in the MEFP, and disbursement of the first loan installment, totaling SDR 387.45 million.

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

		2008	2009				2010	
		Dec.	Mar.	Jun.	Sep.	Dec	Mar.	Jun.
		Act.	Act.	Proj.	Prog.[2]	Prog.[2]	Prog.[3]	Prog.[2]
I	**Quantitative Performance Criteria**							
	Overall fiscal deficit of the government (ceiling; in millions of cedis)[4]	2,558	344	788	1470	2034	192	742
	Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars)[5]	1,301	-404	-637	-728	-404	-81	-37
II	**Continuous Performance Criteria**							
	Non-accumulation of external arrears (ceiling; millions of U.S. dollars)	0	0	0	0	0	0	0
	Contracting or guaranteeing of new external nonconcessional external debt (ceiling; millions of U.S. dollars)[6]	…	…	…	300	300	300	300
	Oil and gas sector projects[7]	…	…	…	300	300	300	300
	Other sectors	…	…	…	0	0	0	0
III	**Inflation Consultation**							
	Twelve-month consumer price inflation (percent)[8]							
	Outer band (upper limit)	…	…	…	19.5	17.6	15.2	12.7
	Inner band (upper limit)	…	…	…	18.5	16.6	14.2	11.7
	Central target rate of inflation	18.1	20.5	19.7	16.5	14.6	12.2	9.7
	Inner band (lower limit)	…	…	…	14.5	12.6	10.2	7.7
	Outer band (lower limit)	…	…	…	13.5	11.6	9.2	6.7
IV	**Indicative Target**							
	Net domestic financing of the government (ceiling, in millions of cedis)[9]	479	243	591	828	1,033	47	92
	Net domestic assets of the Bank of Ghana (ceiling; millions of cedis)[10]	299	41	382	662	146	-103	-128

[1] All items as defined in the attached Technical Memorandum of Understanding (TMU).
[2] Performance criterion.
[3] Indicative target.
[4] The deficit ceiling will be adjusted upward (downward) for the full amount of higher (lower) than programmed project loans. The ceiling will be adjusted downward (upward) by 50 percent of the shortfall, up to a maximum adjustment of GH¢75 million, for lower than programmed program loans (grants). The ceiling will be adjusted downward for higher than programmed program grants.
[5] Net international reserves at end-December 2008 was US$1,300.6 million. The NIR floor will be adjusted upward by any new SDR allocation. The floor will be adjusted upward for higher than programmed program loans and grants.
[6] Includes debt with maturity of more than one year, as well as obligations with maturity of one year or less, excluding normal import-related credit and sales of treasury bills to nonresidents. The maximum ceiling is US$300 million, cumulative from July 1, 2009.
[7] The projects would be conducted by the GNPC.
[8] Consultation arrangements triggered should inflation breach the inner or outer bands are described in the TMU.
[9] Indicative target. The ceiling will be adjusted upward by 50 percent of the shortfall, up to a maximum adjustment of GH¢75 million, for a shortfall in program loans and grants. The ceiling will be adjusted downward for higher than programmed program grants and loans.
[10] At program exchange rate (see TMU, paragraph 2). Net domestic assets at end-December 2008 was GH¢298.5 million. The NDA ceiling will be adjusted downward by any new SDR allocation.

Table 2. Ghana: Structural Conditionality under PRGF Arrangement, 2009–2010 1/

Measures	Timing	Macroeconomic rationale (MEFP para)
I. PRIOR ACTIONS		
● Adoption of budget to limit fiscal deficit to 9.4 percent of GDP in 2009.	Implemented.	A first step toward fiscal and debt sustainability (¶18).
● Adoption of measures yield at least 1.0 percent of GDP to offset projected expenditure over-runs in the 2009 budget.	Implemented.	To preserve macroeconomic stability and avoid crowding out private sector credit (¶24).
● Selective public sector hiring freeze, with exemptions mainly limited to health and education trainees.	Implemented.	To strengthen control of the high and growing public payroll (¶46).
● Reinstatement of automatic bi-weekly price adjustments for petroleum products.	Implemented.	To eliminate energy subsidies (¶52).
II. STRUCTURAL BENCHMARKS		
Tax policy and revenue administration		
● Complete comprehensive reviews of zero-rated VAT items and the nature and scope of tax exemptions and discretionary waivers, as defined in paragraph 32.	End-Sep. 2009	Strengthen revenue mobilization as part of the fiscal consolidation strategy (¶32).
● Cabinet approval of a modernization strategy for revenue administration, as defined in paragraph 35.	End-Dec. 2009	Strengthen revenue mobilization as part of the fiscal consolidation strategy (¶35).
Public expenditure management		
● Review of the effectiveness of the existing budget information management system, and decision on whether it should be modernized or replaced.	End-Dec. 2009	Strengthen monitoring and control of budget execution (¶42).
Public sector reform and payroll management		
● Steps to strengthen oversight and control of public service recruitment and staffing, as defined in paragraphs 45-47.	End-Sep. 2009	To strengthen oversight and control of the high and growing public payroll (¶45-47).
● Establish institutional responsibility for the restructuring, commercialization, or liquidation of subvented agencies.	End-Dec. 2009	To promote fiscal savings by rationalizing subvented agency numbers (¶48).
Monetary policy		
● Adoption and launch of program to strengthen communication of framework for inflation targeting and disinflation over program period.	End-Dec. 2009	To support the disinflation program (¶58).

1/ Structural conditionality for the third and fourth reviews, to cover the period through end-June and end-December 2010 will be determined in the first and second reviews.

ATTACHMENT II

TECHNICAL MEMORANDUM OF UNDERSTANDING

Arrangement Under the Poverty Reduction and Growth Facility
July 2009-June 2012

1. This technical memorandum of understanding (TMU) defines the variables subject to quantitative targets (performance criteria and indicative targets), as specified in the Letter of Intent (LOI). 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 (GH¢) to the U.S. dollar will be GH¢ 1.45 per US$ 1, which is calculated as the average of buying and selling exchange rates reported by banks to the Bank of Ghana as of June 19, 2009. The exchange rates to other currencies will be calculated as the average of buying and selling exchange rates against the U.S. dollar as of June 19, 2009.

I. Quantitative Program Indicators

3. For program monitoring purposes, the performance criteria are set for end-September 2009, end-December 2009, and end-June 2010, while indicative target is set for end-March 2010. The performance criteria under the arrangement are: (a) a ceiling on the overall fiscal deficit (including grants) of the government; (b) a floor on the net international reserves of the Bank of Ghana; (c) a continuous zero ceiling for the accumulation of new external arrears; and (d) a ceiling on the contracting or guaranteeing of new external nonconcessional debt. Indicative targets are established as: (a) a ceiling on the net domestic financing of the government; and (b) as a ceiling on the net domestic assets of the Bank of Ghana. A target is set for the twelve-month rate of consumer price inflation, with triggers discussions or consultations with the Fund if inflation moves outside specified inner and outer bands. Performance criteria, indicative targets, and adjusters are calculated as cumulative flows from the beginning of the calendar year.

A. Government

4. **Definition:** The government is defined as comprising the central government, all special funds (the Education Trust Fund, the Road Fund, the District Assembly 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.

5. **The fiscal deficit** is defined as the difference between total expenditures and the sum of total revenues and total grants.

6. **Revenues** comprise all tax and nontax revenues of the government (both in cedi and in foreign currencies), excluding foreign grants and divestiture receipts. Revenue will be measured on a cash basis as gross inflows to the government's uncommitted treasury collections accounts (as reported by the BOG).

7. **Expenditures** comprise all spending from uncommitted accounts for Items 1-4, as captured by the accounts of the Controller and Accountant General's Department (CAGD), transfers, payments to statutory funds, HIPC-financed expenditure, and VAT refunds. Reporting will be based on the current National Expenditure Tracking System (NETS) accounting system and its associated 15-digit chart of accounts and will be fully reconciled with BOG bank statements on spending (outflows) from the ministries, departments, and agencies' (MDA's) operational accounts (plus any residual use of existing treasury drawing/overdraft accounts). Expenditure will also be verified by comparing it with accounts produced by the Budget and Public Expenditure Management System (BPEMS) accounting system, until such time as it becomes fully operational.

8. **The government will continue to report poverty-related expenditures,** including the use of funds from the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. Budgeted poverty spending for these categories will be taken from each year's final appropriations bill and will include spending financed by the government or donors or from internally generated funds. Actual poverty-related spending will be identified using the last 3 digits of the 15-digit chart of accounts of the CAGD's current NETS and the subcomponent that is financed through HIPC Initiative debt relief. This data will be supplemented with that proportion of transfers to the District Assembly Common Fund, the Ghana Educational Trust Fund, and the Road Fund, which are deemed by those entities to be poverty-related. Accordingly, actual poverty spending will exclude some donor-supported expenditure not currently captured by the CAGD.

9. **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. Such credit will also exclude treasury bills issued for open market operation purposes from January 1, 2003 onward (the holdings of which are excluded from the BOG Treasury Department's Debt Registry of central government securities, and the proceeds of which are sterilized in deposits held as other BOG liabilities, as defined in the monetary template provided to the IMF on December 3, 2003).

10. **Outstanding net credit to the government by the Bank of Ghana** comprises the sum of claims on government (SOA codes 0401 and 050101-4), including overdrafts of the government with the BOG, less government deposits (1101 including the main HIPC Initiative receiving account, and 1202) as defined in the monetary template.

11. **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, plus overdrafts less government deposits (the BOG's definition of government will be used for program purposes) 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.

12. **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. For each test date, any adjustment by the BOG to the data reported by individual DMBs, on account of their misclassification of government or for other reasons, will be reported to the Fund.

B. Consultation Mechanism on Inflation

13. **The quarterly consultation band for the twelve-month rate of consumer price inflation** (as measured by the headline consumer price index (CPI) published by the Ghana Statistical Services) are specified in the text table: Inflation Targets. Projected CPI for end-September 2009, end-December 2009, and end-June 2010 will be subject to the consultation mechanism, while those for end-June 2009 and end-March 2010 are indicative targets.

Text Table: Inflation Targets					
	Jun. 2009	Sep. 2009	Dec. 2009	Mar. 2010	Jun. 2010
Outer band (upper limit)	…	19.5	17.6	15.2	12.7
Inner band (upper limit)	…	18.5	16.6	14.2	11.7
Central inflation target	19.7	16.5	14.6	12.2	9.7
Inner band (lower limit)	…	14.5	12.6	10.2	7.7
Outer band (lower limit)	…	13.5	11.6	9.2	6.7

14. **When the observed year-on-year CPI inflation rate falls outside a specific band, this would trigger consultation with the Fund.**

a. The authorities will **complete consultation** with the Executive Board of the Fund on the proposed policy response before requesting further purchases under the program when the observed year-on-year CPI inflation rate moves outside the **outer band** as specified for the end of each quarter in the above table. The authorities will not be able to request any further disbursements under the PRGF arrangement if inflation moves outside of the outer band until the consultation with the Executive Board has taken place.

b. The authorities will **conduct discussions** with the Fund staff when the observed year-on-year CPI inflation rate falls outside the **inner band** as specified for the end of each quarter in the above table.

15. In line with our accountability principles, we are committed to report to the public the reasons for any breach of the outer bands, and our policy response.

C. Bank of Ghana

16. **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 and HIPC Initiative trust investment in the IMF, the HIPC Initiative Umbrella SDR account (all as reported by the IMF), foreign notes and travelers checks, foreign securities, positive balances with correspondent banks, 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, and deposits of international institutions at the BOG. Long-term foreign assets and liabilities are comprised of: other foreign assets (BOG statement of accounts code 303), investments abroad (a subset of 60201), other long-term liabilities to nonresidents (a subset of 1103), and bilateral payment agreements (305). All values not in U.S. dollars are to be converted to U.S. dollars at the exchange rates prevailing at end-June 2009 and then into cedis at the program exchange rate. A more detailed listing of accounts to be included in the measure of net foreign assets is contained in the monetary template referred to in paragraph 7 above.

17. **Net international reserves** of the BOG are defined for program monitoring purposes and in the balance of payments 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, but not limited to, the HIPC umbrella SDR account), they will be excluded from the definition of net international reserves. Net international reserves are also defined to include net swap transactions (receivable less payable) and exclude all positive foreign currency deposits at the BOG held by resident deposit money banks, public institutions, nonfinancial public enterprises, other financial institutions, and the private sector. All values not in U.S. dollars are to be converted to U.S. dollars at the exchange rates prevailing at end-June 2009 and then into cedis at the program exchange rate. A more detailed listing of accounts to be included in the measure of net international reserves is contained in the monetary template referred to in the paragraph above.

18. **Net domestic assets** of the Bank of Ghana are defined as the difference between reserve money and net foreign assets of the BOG, excluding the HIPC Umbrella SDR account, converted from U.S. dollars to cedis at the program exchange rate.

D. External Debt and Debt Service

19. **Short-term external debt** is defined as the outstanding stock of external debt with an original maturity of one year or less, including overdraft positions and debt owed or guaranteed by the government or the BOG.[1] Data on the BOG's short-term external debt are those reported from the statement of accounts template as short-term liabilities to nonresident

[1] (A) The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) August 24, 2000). This includes overdrafts on accounts with correspondent banks. (B) Excluded from this performance criterion are 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.

commercial banks (BOG statement of accounts code 1201 plus 301 overdrafts plus Crown Agent).

20. **Nonconcessional medium- and long-term external debt** is defined as outstanding stock of external debt contracted or guaranteed by the government or Bank of Ghana with an original maturity of more than one year.[2] Medium- and long-term debt and its concessionality will be reported by the Aid and Debt Management Unit of the Ministry of Finance and Economic Planning, and will be measured in U.S. dollars at current exchange rates.

21. **External payment arrears** would accrue when undisputed interest or amortization payments of the government are not made within the terms of the contract, or in conformity with the terms for interim relief provided under the enhanced HIPC Initiative and the deferral agreed with the Paris Club on December 10, 2001.

E. Adjustors to the Program Targets

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

- *Overall fiscal deficit of the government*: the deficit ceiling will be adjusted upward (downward) for higher (lower) than programmed project loans; downward (upward) by 50 percent of lower than programmed program loans (grants), up to a maximum adjustment of GH□$75 million; and downward for higher than programmed program grants by full amount.

- *Net international reserves of the Bank of Ghana:* the floor will be adjusted upward for any new SDR allocation. The NIR floor will also be adjusted upward for any excess of budget grants and loans relative to the program baseline.

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[2] (A) This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) August 24, 2000) but also to commitments contracted or guaranteed for which value has not been received.
(B) Excluded from this performance criterion are: debts with a grant element equivalent to 35 percent or more, calculated using currency-specific discount rates based on OECD commercial interest reference rates; borrowing for specific high-return public infrastructure investment projects, subject to prior consultation with the Fund. For 2009/10, the ceiling is set at US$300 million to allow for possible guarantees to the Ghana National Petroleum Company to facilitate its participation in the first phase of a program to exploit offshore gas deposits. The grant element of each loan will be assessed with regard to the terms of the loan provided by a foreign official entity in connection with the loan in question. Loans provided by a private entity will not be considered concessional unless accompanied by a grant or grant element provided by a foreign official entity, such as both components constitute an integrated financing package with a combined grant element equal to at least 35 percent.

- *Net domestic financing of the government:* the ceiling will be adjusted upward by 50 percent of any shortfall in programmed program loans and grants, up to a maximum adjustment of GH¢75 million. For higher than programmed loans and grants, the ceiling will be adjusted downward by full amount.

- *Net domestic assets of the Bank of Ghana:* the ceiling will be adjusted downward for any new SDR allocation.

F. Provision of Data to the Fund

23. 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.

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

Item	Periodicity
Fiscal data (to be provided by the MOFEP)	
Central budget operations for revenues, expenditures and financing.	Monthly, within six weeks of the end of each month.
Functional breakdown by Ministry, Department, and Agency of expenditure authorizations, payment vouchers issued, payment vouchers liquidated, and arrears. This data will also identify poverty-related and expenditures financed through the HIPC Initiative, as well as the inflows and disbursements from the HIPC receiving and drawing accounts at the BOG.	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.
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 using the new BSD2 Report Form.	Monthly, within six weeks of the end of each month.
Summary position of government committed and uncommitted accounts at BOG, as well as total financing from BOG. Accompanying table showing composition of other receipts and other expenditure.	Monthly, within four weeks of the end of each month.
Composition of banking system and nonbanking system net claims on government.	Monthly, within four 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.

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

External debt and foreign assistance data (to be provided by MOFEP)	
Information on the concessionality of all new external loans contracted by the government or with a government guarantee.	Monthly, within four weeks of the end of each quarter.
For the coming quarter: (i) total debt service due by creditor, (ii) amount of HIPC Initiative relief on each transaction, and (iii) debt service paid and the transfers to the HIPC Initiative account by creditor for the previous month. 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.
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).
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.