International Monetary Fund

Ghana and the IMF

Press Release:
IMF Executive Board Completes First and Second Reviews Under Ghana's ECF Arrangement and Approves US$119 Million Disbursement
June 9, 2010

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

May 13, 2010

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

May 13, 2010

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

Dear Mr. Strauss-Kahn:

The government, on assuming office in 2009, faced very serious economic challenges. The fiscal deficit in 2008 had risen to 14½ percent of GDP, excluding new domestic expenditure arrears of 4.2 percent of GDP. Efforts to address these imbalances were complicated by the spreading impact of the global financial crisis. Although strong cocoa and gold exports partly insulated Ghana from the worst effects of the global recession, a shortfall in capital inflows exacerbated underlying balance of payments difficulties. The government requested financing from the IMF as well as scaled up support from other development partners to provide the country with breathing space to adopt a program of fiscal consolidation and strengthened public finance management.

Considerable progress was made in implementing the economic program in 2009. The fiscal deficit was substantially reduced from 2008 levels. At the same time, good progress was made in launching programs to reform public financial management and revenue administration, supported by IMF and other technical assistance. For 2010, policies have been adopted to achieve a further reduction in the fiscal deficit, and ambitious goals have been established for carrying forward the structural fiscal reforms. These and other components of the government's economic stabilization and reform program are described in the attached Memorandum of Economic and Financial Policies (MEFP).

The MEFP also describes corrective policies adopted by the government in response to breaches of the end-September 2009 performance criterion under the Extended Credit Facility (ECF) arrangement for the overall fiscal deficit, as well as the continuous performance criterion on contracting or guaranteeing new external nonconcessional debt. Based on these policies, the government requests that the IMF Executive Board grant waivers for these performance criteria. The government also requests approval of the proposed modifications to the performance criteria for end-June 2010 and establishment of the proposed new performance criteria and structural benchmarks for the period through June 2011 as described in the MEFP.

In support of its policies, the government requests that the Executive Board of the IMF complete the first and second reviews of Ghana's ECF arrangement and approve disbursement of the second and third tranches of the loan, based on proposed rephasing of disbursements as set forth in the attached schedule to the MEFP.

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 this letter 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.

We have no objection to publication of the staff report for the first and second reviews under the ECF arrangement, this letter of intent, and the attached memorandum of economic and financial policies and technical memorandum of understanding.

/s/	/s/
Dr. Kwabena Duffuor	Mr. K.B. Amissah-Arthur
Minister of Finance and	Governor
Economic Planning	Bank of Ghana

ATTACHMENT I

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES, 2010–12

1. This memorandum summarizes the government's assessment of Ghana's current economic situation (Section I), the government's policies that are being adopted to address the challenges that the country faces (Section II), and the quantitative targets and structural policies that will be monitored in the context of the IMF's financing arrangement (Section III).

I. Recent Developments and 2009 Program Performance

A. Growth and Inflation

2. Ghana weathered the global recession relatively well, despite some slowing of overall economic growth, with favorable global market conditions for cocoa and gold exports, and good rainfalls supporting hydroelectricity production and agricultural output. However, remittances declined modestly and access to private external financing tightened.

3. Consumer price inflation fell to 13.3 percent in March 2010, after peaking at 20.7 percent in June 2009. The surge in inflation during 2008–09 from around 10 percent in 2007 reflected highly expansionary fiscal policy in 2008, pass-through from the 2007–08 global food and fuel price increases, and currency depreciation between mid-2008 and mid-2009. Since mid-2009, the decline in inflation reflected tighter fiscal and monetary policies and appreciation of the cedi against the U.S. dollar since July 2009. Although inflation remains slightly higher than the target under the program, it has been within the inner consultation band (Table 1 attached).

B. Fiscal Performance

4. With tight expenditure control, the fiscal deficit met the adjusted end-December 2009 program ceiling, after exceeding the September 2009 ceiling (Table 1). The full-year deficit was equivalent to 9.7 percent of GDP, down from 14.5 percent of GDP in 2008.

5. **Revenues**. Budget management in 2009 was complicated by a shortfall in total revenues and grants of GH¢422 million (1.9 percent of GDP). Direct tax collections over-performed, reflecting strong increases in personal income taxes following partial computerization of payroll returns, an increase of up to 50 percent in the airport tax in March 2009, and adoption of the National Fiscal Stabilization Levy[1] in July 2009. Nontax revenues also exceeded program projections due to an unbudgeted profit transfer from the

[1] A temporary profit tax levied on corporations in selected sectors.

Ghana Cocoa Board amounting to 1.3 percent of GDP. This was more than offset, however, by lower than projected indirect taxes on account of an apparently sharper than programmed downturn in domestic demand. Receipts of grants fell short of programmed levels by nearly 1 percent of GDP, reflecting capacity constraints and slow disbursement procedures.

6. **Expenditures**. Cash outlays in 2009 fell 2½ percent of GDP below programmed levels, despite an overrun in the wage bill (by 0.6 percent of GDP) and domestic interest costs (0.6 percent of GDP). Faced with limited revenues, the government accumulated new domestic payments arrears in 2009 to domestic suppliers of goods and services (1.8 percent of GDP) and to the government's own statutory funds that finance projects in various sectors (2.4 percent of GDP).[2]

7. **Expenditure arrears**. The discovery of expenditure arrears from 2008 made fiscal management in 2009 more challenging. A stock take was conducted across spending units by external auditors through September 2009. Based on this exercise, the stock of domestic expenditure arrears at end-2008 was calculated at GH¢1.1 billion (Table below). In 2009, arrears to domestic suppliers of goods and services were settled amounting to GH¢0.6 billion. At the same time, reflecting revenue shortfalls and expenditure pressures, new payments arrears amounting to GH¢0.9 billion (4.2 percent of GDP) were accumulated in 2009, of which more than half represented arrears to governmental statutory funds. This increased the stock of arrears at end-2009 to GH¢1.4 billion.

Outstanding Arrears, 2008–09

	GH¢ millions		Percent of GDP	
	2008	2009	2008	2009
Domestic suppliers	830	855	4.7	3.9
Statutory funds	301	574	1.7	2.6
Total	1,132	1,429	6.4	6.5

C. Financing and Public Debt

8. Consistent with the efforts to limit the fiscal deficit, the program limits on net domestic financing were met with a small margin during 2009 (Table 1). Public debt increased by about 2½ percentage points of GDP during 2009. This increase was smaller than earlier projected, reflecting currency appreciation in late-2009 which reduced foreign debt relative to nominal GDP, and delays in some external borrowing. New external borrowing was mainly long term in nature and on concessional terms. Nonconcessional

[2] Transfers to statutory funds are earmarked through legislation, and comprise specified shares of selected revenue collections. The funds experiencing reduced transfers comprise the Social Security Fund, the National Health Fund, the Ghana Education Trust Fund, and the District Assemblies Common Fund.

borrowing under the ECF arrangement through March 2010 was limited to the take-over by the government of a $100 million obligation of the state oil company, Ghana National Petroleum Company (GNPC). The government regarded this as restructuring of public debt inherited from the previous administration. However, Fund staff has concluded that it breached the limit under the ECF arrangement on contracting or guaranteeing new external nonconcessional debt (Table 1).

D. Monetary and Financial Sector Developments

9. Monetary policy continued to be guided by Bank of Ghana's inflation targeting framework during 2009. Reflecting a tighter monetary policy stance in 2008 and early 2009, private credit growth slowed sharply. As inflationary pressures eased, the BoG reduced its policy interest rate starting in late-2009. The program ceilings on net domestic assets (NDA) of the BoG have been met with large margins (Table 1). Broad money growth slightly exceeded program projections in 2009, albeit slowing from the 2008 growth rate, as net foreign assets rose in late-2009, boosted by a strong balance of payments.

10. The banking system weathered the global financial crisis and economic slowdown in 2009 relatively well, although risks to financial stability have increased. Nonperforming loans (NPLs) rose sharply to 20 percent in February 2010 from 7.7 percent in 2008, largely reflecting domestic factors, notably government expenditure arrears and impaired loans to energy sector utilities. The banking system is generally well capitalized, liquid,[3] and profitable, though there is substantial variation across banks. Credit performance problems of the Tema Oil Refinery have been particularly problematic for the Ghana Commercial Bank (see below).

E. External Sector

11. The balance of payments in 2009 recorded the largest surplus in a decade. The current account improved substantially on account of strong exports and a fall in imports. The former was the result of favorable trends in cocoa and gold prices, while the latter reflected tighter fiscal and monetary policies, slowing economic growth, and a more depreciated exchange rate. The stronger current account more than offset a slight deterioration in the financial account. While the recent SDR allocations and foreign bank recapitalization contributed positively to the financial account, this was partly offset by repayment of corporate credit lines. The improved external performance contributed to an appreciation of the cedi against the U.S. dollar since July 2009, as well as an increase in Ghana's net international reserves of $1.2 billion during 2009, compared to a projected decline of $404 million under the program.

[3] The required increase in foreign commercial banks' minimum capital to GH¢60 million by the end of 2009 has been a source of new liquidity.

F. Energy Sector Utilities

12. The government is working to address domestic bank debts of the state oil refinery and electricity sector utilities amounting to more than 8 percent of GDP. These represent quasi-fiscal liabilities, adding to the public debt burden discussed above.

13. Although refined petroleum product prices have been adjusted to reflect trends in market costs under the ECF arrangement, under pricing of refined products in 2007–08 resulted in debts by the state oil refinery and other energy importers to the Ghana Commercial Bank (GCB) that are not being serviced amounting to about 5 percent of GDP. These liabilities have created asset quality and liquidity problems for GCB.

14. Electricity sector tariffs have not been adjusted since late 2007. Large losses were made in 2008 as oil prices rose, and losses have reemerged in 2010 with the resumed strength of oil prices. At end-2009, the bank debts of the electricity utilities were equivalent to more than 3 percent of GDP. An application to raise the electricity tariff has been submitted to the Public Utilities Regulatory Commission (PURC), the agency responsible for recommending tariff changes. The PURC is conducting stakeholder consultations ahead of reaching a decision.

II. Ghana's Stabilization and Reform Program

A. Macroeconomic Framework for 2010 and the Medium Term

15. **Outlook for 2010**. Real GDP growth is expected to strengthen moderately in 2010, reflecting strong gold and cocoa exports and a recovery in business confidence as oil production approaches. The year-end inflation target remains unchanged at 9.2 percent. The current account deficit is projected to rise to 12.1 percent of GDP in 2010, but reserve cover is expected to remain broadly stable at 2.9 months of imports of goods and services.

16. **Medium-term outlook**. In 2011, the economy is expected to benefit from the start of oil production. Real GDP growth is projected to surge to over 20 percent, the current account deficit to decline to 8 percent of GDP, and reserve cover to rise to the equivalent of 3.6 months of goods and services imports. Over the medium term, the non-oil economy is projected to achieve annual growth averaging about 6 percent, while inflation is projected to remain in the upper single-digit range.

17. **Poverty reduction strategy**. The process of updating Ghana's previous Poverty Reduction Strategy (GPRS-II) is the responsibility of the National Development Planning Commission (NDPC). The Commission's developmental and poverty reduction strategy for the period 2010–13 is being prepared for publication ahead of the September 2010

Consultative Group meeting. The strategy benefited from earlier consultations with key stakeholders, and will be updated on an annual basis in light of changing policy priorities.

B. Fiscal Policy in 2010 and the Medium Term

The 2010 budget

18. **Fiscal deficit target**. Fiscal policy in 2010 aims to continue progress in restoring fiscal sustainability and macroeconomic stability. The 2010 budget targets a further reduction in the deficit to 8.0 percent of GDP. In 2011–12, the government intends to reduce the deficit to the 3–5 percent of GDP range.

19. **Revenues and grants**. On the revenue side, collections are projected to increase in 2010 by 3½ percentage points of GDP through higher mining royalties, a shift from specific to ad-valorem taxes on tobacco and drinks, higher fees and user charges, restoration of import duties on food products that were eliminated in 2008, strengthened enforcement of mobile phone taxation, elimination of import tax exemptions, new capital gains taxes, transfers of surplus income from the Ghana Cocoa Board and the Bank of Ghana, and strengthened tax administration (including creation of a single revenue authority and improved VAT enforcement).

20. **Expenditure program**. Expenditures are projected at 38.1 percent of GDP in 2010, similar to a "current policies" projection under the medium-term fiscal program developed in early-2009. Compared to the latter projection, interest costs have been revised up by more than 1 percentage point of GDP, reflecting the higher than expected cost of debt issuance in 2009, while wage and salary costs have also been revised upwards, reflecting a larger wage increase in 2009 than in the baseline program. Against this, savings will be realized by the phased adjustment of electricity tariffs to cost recovery levels which will limit the need for budget subsidies, as well as through savings in the investment budget.

21. **Risks and contingencies**. The government has reviewed the 2010 fiscal projections carefully and expects to limit the fiscal deficit to 8 percent of GDP or lower with existing policies. Fiscal developments will be monitored on a monthly basis, with a special emphasis on revenue mobilization to ensure that the fiscal goals are met. The government stands ready to take whatever measures are needed to achieve its fiscal objective for 2010. In the event of an adverse fiscal shock, it would consider delaying some expenditures from 2010 to 2011, and would examine carefully options to strengthen revenue mobilization through improved administration, base broadening, and other regime changes. In the event of fiscal overperformance, available resources would be dedicated first to bringing forward the repayment of expenditure arrears.

22. **Domestic arrears repayment strategy**. With very limited resources to finance arrears clearance in 2010, provision has been made in the 2010 budget to repay arrears in the amount of GH¢223 million (0.9 percent of GDP). Priority is being given to repaying road

contractors, to relieve pressures on these companies, as well as on their lending banks. Of the outstanding arrears to suppliers, a little over one quarter will be cleared with cash payments in 2010, with the remainder cleared in 2011–12. The government is exploring possible concessional financing options to bring forward the payment of these arrears.

23. In 2010 and beyond, the government has taken measures to further strengthen commitment controls to ensure that new payment arrears are not incurred. In particular, the government will remain current on transfers to the statutory funds from 2010, with arrears settled in 2011 to 2012. Nevertheless, these funds will experience large increases in cash flows in 2010 as funding returns to normal levels, and a further large increase in 2011–12 as arrears are settled.

24. **Social safety nets**. The government operates a number of programs to support the most vulnerable groups, including financial support for school fees and feeding, fertilizer subsidies for small-scale farmers, and reduced electricity tariffs for initial consumption amounts. In updating the government's poverty reduction strategy for the period 2010–13, the government is reviewing the complementarity and effectiveness of Ghana's various social safety nets. In the context of the envisaged adjustment of electricity tariffs, a decision will be made on whether additional support for low income groups is required, in part depending on the magnitude of the required tariff adjustment. At the same time, the government is working with development partners to review the current classification of poverty-reducing expenditure to ensure that this measure focuses on the key programs.

Medium-term budget outlook

25. The government is targeting a further reduction of the fiscal deficit through 2011–12, to slow the growth of public debt and bring down the share of the budget devoted to debt service. Oil revenues will provide new fiscal space starting in 2011, but there will be many competing demands for these resources. These include the need to clear a residual stock of domestic expenditure arrears projected at about 5 percent of GDP at end–2010. In addition, even though every effort will be made to strengthen the non-oil budget through tight expenditure management and reinforced revenue administration, a portion of oil revenues may need to be dedicated to reducing the fiscal deficit. Until the outlook for oil incomes is better defined, and pending an assessment of revenue yields in 2010, the government intends to avoid committing to using oil revenues for specific projects for the near term. Notwithstanding this, a list of potential projects is being drawn up, and their respective contributions to Ghana's future development are being assessed, to guide any future scaling up of infrastructure and social spending.

III. Structural Fiscal Reforms[4]

Tax policy and revenue administration

26. **Tax policy reforms**. The government has started a review of the nature and scope of tax exemptions and discretionary waivers (structural benchmark for September 2009; Table 3). A circular has been issued to all Ministries, Departments and Agencies (MDA) reconfirming that requests to parliament for approval of exemptions may be submitted only by the Ministry of Finance. A comprehensive and detailed review of remaining tax exemptions was delayed by work on the broader revenue administration and tax reform program (see below), and will be completed by end-September 2010. Consistent with IMF TA recommendations, excise taxes are now included in the base for VAT collections, and the three products subject to VAT zero-rating (pharmaceuticals, paper for books and newsprint, and agricultural machinery) have been converted to VAT exemptions. In the context of the 2010 budget, specific excise duties on tobacco products and beverages were replaced with ad valorem duties.

27. To strengthen revenue collections from the mining and minerals sector, the government increased the royalty rate in March 2010 from 3 to 5 percent. To reduce interest deductions the government will apply the provisions of the Internal Revenue Act on thin capitalization. Other elements of the fiscal regime for the mining sector that are being reconsidered include: (i) a five-year straight-line depreciation for capital; (ii) limiting to 5 years the provision for carry forward losses; (iii) extending the obligation to paying withholding taxes; (iv) requiring mines to declare at least 35 percent of their after tax profit as dividends; and (v) withdrawing the exemption to payment of property taxes. Going forward, the government is preparing a comprehensive program to strengthen other elements of tax policy (including on personal and corporate tax regimes), and may seek IMF assistance in preparing required amendments to tax legislation. In the year ahead, the government will also complete an assessment of the impact on households of increasing petroleum excise taxes. In addition, the government will substantially raise the VAT threshold in phases (in the first stage to GH¢45,000; see Table 3).

28. **Revenue administration**. The government is modernizing revenue administration under a project managed by a newly formed Public Finance Management and Revenue Administration Steering Committee, chaired by a Deputy Minister of Finance. The three pre-existing revenue agencies have been brought under common management in a newly established Ghana Revenue Authority (GRA), with the new Commissioner General appointed in March 2010. By end-June, key management will be in place (commissioners

[4] Structural benchmarks under the ECF arrangement are summarized in Table 3.

and deputy commissioners), and the process of integrating junior staff into a common tax service will be underway.

29. In the year ahead, the focus in GRA will be on effectively integrating VAT and income taxation in a single domestic tax department, and adopting an organizational structure based on taxpayer size. About 350 companies will be covered by large taxpayer offices (LTOs), covering at least 70 percent of domestic tax collections. Coverage of the LTOs will be based on a minimum annual turnover of GH¢3 million, to be reviewed annually. Medium- and small taxpayer offices will also be established. In the first phase, one medium taxpayer office will be established in Accra to assess business processes. Small taxpayers (those falling below the threshold level) will be removed from the VAT register—the government is currently assessing an appropriate tax regime for them, which will be adopted by end-June 2011 for introduction in the 2012 fiscal year.

Public finance management

30. **Cash management**. Since May 2009, cash management committee meetings have been held on a weekly basis, involving the Ministry of Finance, Controller and Accountant General's Department (CAGD), and BoG. The more frequent and more up-to-date monitoring of revenues, cash balances, and expenditures has proved critical in setting affordable monthly cash ceilings for spending units. Based on this monitoring, for example, provisions were not authorized in September-November 2009 for new domestically-financed investment activities. As an interim measure, the cash management committee, using a module in the existing budget program, is strengthening data collection on all current commitments and contracts for capital expenditure. This system will be replaced by a fully developed commitment control system once the new Ghana Integrated Financial Management Information System (GIFMIS) becomes operational. To address the delays in transferring revenue collections by commercial banks to the government's accounts at the BoG, regular monthly meetings with commercial banks have been instituted, and a penalty rate, equal to the BoG's prime rate, is to be levied on all revenues not transferred within the required 48 hours. Going forward, the cash management committee will work with MDAs to strengthen monthly cash planning.

31. **Treasury single account (TSA)**. Since May 2009, a number of ministerial, departmental, and agency accounts at the BoG have been closed, with a view to strengthening oversight over government cash balances. The remaining accounts are now monitored on a daily basis by the BoG to inform the work of the cash management committee. This is expected to result in some cost savings, with idle cash balances reallocated to finance expenditures, reducing the need for new domestic debt issuance. The TSA will become operational in three phases. In phase I, attention will be focused on linking the MoFEP and the CAGD to the government accounts at the BoG in Accra (about 1,400 accounts) – this is expected to be completed by mid-2010. Phase II, to be completed by January 2011, will entail extending the monitoring to all government accounts at the

BoG (about 2,500 accounts), and Phase III, to be completed in 2012, will extend monitoring to government accounts at commercial banks.

32. **Financial management information system**. The existing financial management information system which effectively stalled after being rolled out to 8 pilot ministries is being upgraded and expanded under the GIFMIS project. The project is being managed under the Steering Committee chaired by a Deputy Minister of Finance. An implementation strategy for GIFMIS is being developed with IMF technical assistance, based on a review of existing public financial management processes and guided by the systemic weaknesses identified in the recent Public Expenditure and Financial Assessment (PEFA) report. The implementation strategy will include a well formulated action plan and a timetable for the planned reforms to PFM processes, technical specifications and users' requirements of the new GIFMIS, hardware and software requirements, and plans for acquisition, pilot testing, and subsequent full roll out of the new system. This strategy will be finalized by mid-2010, assuming good progress in agreeing technical assistance and financing with the World Bank and other development partners.

33. Phase I of the re-launched public financial management reform program (to March 2011) will entail refining the budget process and MTEF, reforming budget execution and the chart of accounts, and testing the new integrated financial information system—first through in house testing, followed by a roll-out to 14 MDAs. During 2011–13, the updated PFM framework, including GIFMIS, will be extended to all remaining MDAs.

34. Learning from the former stalled roll-out of management information systems, the GIFMIS focuses on in-house staff, rather than long-term consultants (as in the past), which will ensure retention of key skills. The project is also being led by users, rather than by IT professionals, with involvement of affected government units from the outset in the project steering committee. Experience with the intensified cash management procedures noted above has also highlighted the need for a comprehensive financial management tool. Funding will be a challenge, but the government has received commitments from a number of development partners, in addition to funding for a financial management advisor.

Oil revenue management

35. The government is committed to establishing a transparent framework for managing petroleum and gas revenues. Drawing on international experience, a draft Petroleum Revenue Management Bill has been prepared. Receipts will be managed through a dedicated Petroleum Account, to be established at the Bank of Ghana, with full fiscal reporting to Parliament and the public, subject to stringent requirements for auditing of account transactions. The proposals envisage saving part of revenues in a “fund for future generations,” with a second part accumulated for use in smoothing expenditures in the face of commodity price or production shocks. National consultations on the draft bill have been launched. Based on these consultations and after cabinet approval, the bill will be submitted

to parliament by December 2010. In addition, a Petroleum Regulatory Authority bill will be submitted to parliament for its session starting September 2010.

Public sector reform and payroll management

36. The headcount of the 283 thousand staff of the Public Education Sector was conducted in July-August 2009, with data collected from nearly 20 thousand educational establishments. Following cross-checks conducted through March 2010, and an opportunity to appeal, salary payments for apparent ghost workers have been suspended starting in April 2010. Reflecting good progress on this headcount, similar audits will be launched for other ministries (other than the health service, which was covered in late 2007), to be completed by end-June 2011.

37. Progress in migrating all of the 119 subvented agencies to the Integrated Personnel and Payroll Database has been slow. The deadline for full migration by end-September 2009 was missed due to inadequate funding for software and consultants and as a result of push-back from some agencies. By end-March 2010, the government had migrated 79 agencies onto the computerized payroll database. Data for a further 28 agencies, representing tertiary educational institutions, have been received; data verification for these agencies is being completed, and migration is expected to be completed by end-July 2010. The remaining 12 agencies, other than those in the security sector where personnel records are good, will be addressed by July 2010. The current stand-alone payroll database will be integrated and upgraded into the GIFMIS once roll-out of the latter has been completed. Pending this integration, for agencies already on the payroll database, new recruitment is verified by the CAGD on a continuous basis to ensure appropriate budget authorization.

Energy sector reforms

38. **Electricity sector.** Following finalization of a World Bank-supported study, government adopted a comprehensive financial restructuring and recovery plan for the electricity sector. The key elements of this plan are: (i) an average increase in electricity tariffs by 33 percent by no later than June 1, 2010 (prior action for the first and second reviews under the ECF arrangement); (ii) implementation of actions to strengthen revenue collection by the electricity sector public utilities; and (iii) adoption of a plan to restructure the balance sheets of the utilities during 2010–11. Any remaining shortfall relative to full cost recovery, if needed, will be closed by a further tariff adjustment in October 2010. The required power subsidy in 2010 is estimated at GH¢358 million, and has been provided for in the revised budget estimates under the program. Going forward, tariffs will be subject to quarterly reviews to ensure continued cost recovery.

39. **Petroleum products.** The administered price ceilings for refined petroleum products remain subject to bi-weekly review. However, to smooth petroleum price adjustments, the government has decided to purchase call options, costed at up to 0.3 percent of GDP. A Risk Management Committee has been appointed to manage the government's hedging policy.

The debts of TOR to banks and suppliers will be cleared by the government during 2010, while respecting fiscal and other limits under the ECF arrangement. A strategy for restoring TOR to financial and commercial viability will be developed by end-year; World Bank support for this is being sought.

Public Debt Management

40. While grant financing and concessional loan financing will constitute the core component of external support in the near future, nonconcessional financing will be used for projects contracted or guaranteed by the government where there is no scope for concessional or grant financing, the impact on debt sustainability is manageable, and project evaluations show a high rate of social or economic return. The ECF arrangement previously provided for public guarantees of up to $300 million for nonconcessional borrowing by GNPC to participate in the first stage of a program to exploit gas deposits. This borrowing facility has not yet been used, and GNPC is seeking to arrange the needed financing without government guarantees. In light of this, the government requests that the ceiling for GNPC be reduced to $200 million to make way for other priority projects. Specifically, projects to re-equip the fire service and to strengthen coastal protection in the Ada area have high calculated rates of social and economic return, but concessional financing is not available to cover the combined cost of $150 million. The government has also committed $100 million to the repayment of a loan related to the purchase of crude oil and requests the accommodation within the program of a further $200 million of nonconcessional debt that could be contracted or guaranteed without prior authorization under the ECF arrangement. This is consistent with an unchanged overall risk vulnerability assessment.

41. A number of reforms are being introduced to further strengthen debt management, supported by technical assistance provided by the IMF and World Bank.

- Debt limits under the ECF arrangement will be extended to cover the external nonconcessional borrowing of only five specific energy-related state-owned enterprises.[5] The coverage will be extended to other SOEs, as the government's capacity to monitor the external nonconcessional borrowing is strengthened.

- An explicit **debt management strategy** will be adopted and published by end-2010, establishing clear objectives for debt management in terms of the cost and risk of the debt portfolio, and identifying potential funding sources. The government envisions that the adoption of new financial instruments may require changes in the relevant legislation. Annual reporting to parliament will continue.

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[5] The Tema Oil Refinery (TOR), Ghana National Petroleum Corporation (GNPC), Bulk Oil Storage and Transport Corporation (BOST), Volta River Authority (VRA), and Electricity Company of Ghana (ECG). The debt limits would exclude normal import-related credits and pre-export financing.

- All public sector external debt contracts will be monitored closely by the Ministry of Finance's Debt Management Division.

- Public investment projects being considered for nonconcessional external loan financing will be subject to clearly defined framework for appraising their benefits and prioritizing across projects to ensure consistency with the government's developmental priorities. Guidelines laying out this process will be developed by the Ministry of Finance and submitted to Cabinet for approval by end-December 2010.

IV. Monetary and Exchange Rate Policy

42. The BoG aims to bring inflation down to single digit level by the end of 2010, a process that has been helped by the recent currency stability. Against this, electricity tariffs will rise substantially in the coming months and the domestic and global economies are recovering. The BoG stands ready to tighten monetary conditions, if necessary, to ensure that its inflation target is achieved.

43. The BoG will continue to maintain a flexible exchange rate regime. Notwithstanding this, and while allowing some currency appreciation, it has used the opportunity provided by the strong balance of payments position in late 2009 to strengthen its international reserve position. The liquidity impact of any reserve accumulation will be monitored closely. If the balance of payments continues to see strong inflows, the BoG will respond consistently with its inflation targeting framework.

Financial sector issues

44. The Bank of Ghana is further strengthening its risk-based banking supervision capacity. Technical assistance is being provided by the Office of the Superintendent of Financial Institutions (OSFI) of Canada, including on preparation for Basel II. As part of this program, the technical unit of the banking supervision department is being strengthened by recruiting staff with analytical, IT, and other special skills. A program for building capacity in banking supervision will be developed as part of a broader modernization effort following the mission for the Financial Stability Assessment Program (FSAP) update around mid-2010. The BoG is also working with commercial banks to encourage them to update their own risk management capacity. The BoG has signed a memorandum of understanding with the central banks of the West African Monetary Zone to pave the way for strengthened cross-border supervision. The increased minimum operating capital has resulted in substantial additional liquidity for some banks, creating scope for credit expansion. The BoG will monitor banks experiencing rapid credit expansion to ensure that lending standards are maintained.

45. The situation of the Ghana Commercial Bank (GCB) is being given close attention, given its exposure to the financially illiquid state oil refinery. As a first step, government issued debt in March-April 2010 to improve GCB's liquidity, and by end-July 2010, a full

strategy will be developed for adequately strengthening GCB's balance sheet, drawing on advice from an IMF mission in April/May 2010. Policies will also be developed for the design and application of appropriate depositor and exposure concentration benchmarks for the full banking industry.

V. Program Design and Monitoring

46. Based on the government's policies described in this memorandum, the government requests access to the second and third disbursement following completion of the first and second reviews under the ECF arrangement as summarized in Table 4. Looking ahead, the government is committed to meeting the quantitative macroeconomic targets and implementing the structural reforms highlighted as structural benchmarks detailed in the attached tables.

47. Quantitative performance under the ECF arrangement through end-December 2009 is summarized in Table 1. Quantitative targets for the period through end-June 2011 are proposed in Table 2. The fourth and fifth reviews under the ECF program are expected to be completed by end-June and end-December 2011, respectively. Consistent with the government's intention to sustain poverty-reducing spending during its program of economic stabilization and reform, an indicative floor for such spending will be adopted starting from end-June 2010 (Table 2). A new limit has also been proposed for the outstanding stock of domestic arrears, consistent with the government's arrears clearance strategy.

48. Structural benchmarks under the program through end-June 2011 are presented in Table 3. The focus of these benchmarks is on strengthening revenue administration, public expenditure management, public debt management, pay and payroll management, and cost-recovery energy pricing.

Macroeconomic monitoring

49. Continuing efforts are needed to strengthen the macroeconomic database. In that connection, the Ghana Statistical Services (GSS) has launched the Ghana Statistical Development Plan (GSDP). Under the plan, the GSS aims to rebase the national accounts from 1993 to 2006 weights and to produce quarterly national accounts data by May 2010. The GSDP also aims at improving the Ghana Living Standards Survey (GLSS) and producing the survey on a four-yearly basis. The GSS is being supported in these efforts by financing and technical assistance from development partners.

Table 1. Ghana: Quantitative Program Targets (December 2008 - December 2009) [1]
(Cumulative from the beginning of calendar year, unless otherwise indicated)

	2008	2009									
	Dec.	Mar.	Jun.	Sep. (MEFP, 7/09)				Dec. (MEFP, 7/09)			
	Act.	Act.	Act.	Prog. [2]	Adjusted Target	Act.	Met or Not met	Prog. [2]	Adjusted Target	Prel.	Met or Not met
I Quantitative Performance Criteria											
Overall fiscal deficit of the government (ceiling; in millions of cedis)	2,558	344	922	1,470	1,459	1,629	**Not met**	2,034	2,249	2,131	Met
Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars)[3]	1,301	-404	-626	-728	-143	-30	Met	-404	49	1,159	Met
II Continuous Performance Criteria (cumulative from July 15, 2009)											
Non-accumulation of external arrears (ceiling; millions of U.S. dollars)	0	0	0	0	0	0	Met	0	0	0	Met
Contracting or guaranteeing of new medium-to-long-term nonconcessional external debt (ceiling; US$ millions)	…	…	…	300	300	0		300	300	100	
Oil and gas sector	…	…	…	300	300	0	Met	300	300	0	Met
Other sectors	…	…	…	0	0	0	Met	0	0	100	**Not met**
III Inflation Consultation											
Twelve-month consumer price inflation (percent)											
Outer band (upper limit)	…	…	…	19.5	19.5			17.6	17.6		
Inner band (upper limit)	…	…	…	18.5	18.5			16.6	16.6		
Central target rate of inflation	18.1	20.5	20.7	16.5	16.5	18.4	Met	14.6	14.6	16.0	Met
Inner band (lower limit)	…	…	…	14.5	14.5			12.6	12.6		
Outer band (lower limit)	…	…	…	13.5	13.5			11.6	11.6		
IV Indicative Targets											
Net domestic financing of the government (ceiling, in millions of cedis)	1,735	243	674	828	903	826	Met	1,033	1,108	1,042	Met
Net domestic assets of the Bank of Ghana (ceiling; millions of cedis) [4]	64	331	698	990	990	462	Met	605	605	-342	Met

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

[1] All variables and adjustors the targets are defined in the attached Technical Memorandum of Understanding (TMU).

[2] Performance criterion.

[3] September and December 2009 targets after adjustment for SDR allocation.

[4] The program ceiling has been adjusted to reflect the reclassification of SDR liabilities in the accounts of the Bank of Ghana as long-term foreign liabilities.

Table 2. Ghana: Quantitative Program Targets (December 2009 - June 2011) [1]
(Cumulative from the beginning of calendar year, unless otherwise indicated)

		2008	2009	2010					2011	
		Dec.	Dec	Mar.		Jun.	Sep.	Dec	Mar.	Jun.
		Act.	Act.	Rev. Prog.[3]	Prov.	Rev. Prog.[2]	Prog.[3]	Prog.[2]	Prog.[3]	Prog.[2]
I	**Quantitative Performance Criteria**									
	Overall fiscal deficit of the government (ceiling; in millions of cedis)	2,558	2,131	500	…	1,186	1,958	2,077	444	746
	Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars)[4]	1,301	2,459	-83	…	-15	-98	315	104	207
	Net change in the stock of domestic arrears (celing, in millions of cedis)[5]		1,429	-28	…	-55	-83	-110	-257	-405
II	**Continuous Performance Criteria (cumulative from July 15, 2009)**									
	Non-accumulation of external arrears (ceiling; millions of U.S. dollars)	0	0	0	…	0	0	0	0	0
	Contracting or guaranteeing of new medium-to-long-term nonconcessional external debt (ceiling; US$ millions)	…	100.0	300.0	…	649.1	649.1	649.1	649.1	649.1
	Oil and gas sector [6]	…	0.0	300.0	…	200.0	200.0	200.0	200.0	200.0
	Fire-fighting equipment		…	0.0	…	49.1	49.1	49.1	49.1	49.1
	Ada coastal protection project		…	0.0	…	100.0	100.0	100.0	100.0	100.0
	Any sectors	…	100.0	0.0	…	300.0	300.0	300.0	300.0	300.0
III	**Inflation Consultation**									
	Twelve-month consumer price inflation (percent)									
	Outer band (upper limit)	…		15.2	…	12.7	12.5	12.5	12.0	12.0
	Inner band (upper limit)	…		14.2	…	11.7	11.5	11.5	11.0	11.0
	Central target rate of inflation	18.1	16.0	12.2	13.3	9.7	9.5	9.5	9.0	9.0
	Inner band (lower limit)	…		10.2	…	7.7	7.5	7.5	7.0	7.0
	Outer band (lower limit)	…		9.2	…	6.7	6.5	6.5	6.0	6.0
IV	**Indicative Targets**									
	Net domestic financing of the government (ceiling, in millions of cedis)	1,735	1,022	875	…	1,234	1,650	1,688	385	471
	Net domestic assets of the Bank of Ghana (ceiling; millions of cedis)[4]	-76	-278	-103	-165	-278	-8	50	-350	-451
	Poverty-reducing budget expenditures (floor; in millions of cedis)	1,687	1,856	444	…	820	1,463	2,106	554	1110

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

[1] All variables and adjustors the targets are defined in the attached Technical Memorandum of Understanding (TMU).

[2] Performance criterion.

[3] Indicative target.

[4] December 2009 target after adjustment for SDR allocation. March 2010 indicative ceiling from the original July 2009 ECF program.

[5] Cumulative from December 31, 2009. The end-of-period stock is GHc 1,429 million.

[6] For the GNPC to finance oil and gas exploration and production projects in Ghana and to acquire equity stakes in companies undertaking oil and gas exploration and production in Ghana.

Table 3. Ghana: Prior Actions and Structural Benchmarks Under ECF Arrangement, 2009–11

Measures	Timing	Implementation status	Macroeconomic rationale
1. Tax policy and revenue administration			
● Complete comprehensive reviews of zero-rated VAT items and the nature and scope of tax exemptions and discretionary waivers.	End-Sep. 2009	**Delayed**. A number of exemptions have been eliminated (MEFP para. 26). A full review of the extent, nature, and scope for scaling back exemptions has been initiated, and will be completed by end-September 2010 (structural benchmark).	Strengthen revenue mobilization as part of the fiscal consolidation strategy.
● Cabinet approval of a modernization strategy for revenue administration.	End-Dec. 2009	**Implemented**. Presidential assent to legislation establishing the Ghana Revenue Authority was given at end-2009.	As above.
● Appoint senior GRA management (commissioners and deputy commissioners) and adopt criteria to ensure that the Large Taxpayer Office covers businesses accounting for at least 70 percent of total tax revenues.	End-Jun. 2010	**New benchmark** (MEFP para. 28)	As above.
● Increase the VAT threshold to no less than GH¢45,000 as the first stage of a phased increase.	End-Dec. 2010	**New benchmark** (MEFP para. 27)	As above.
● Adopt a tax regime for small business taxpayers for introduction in the 2012 fiscal year.	End-Jun 2011	**New benchmark** (MEFP para. 29)	As above.
2. Public expenditure management			
● Review the effectiveness of the existing budget management information system, and decide on whether it should be modernized or replaced.	End-Dec. 2009	**Implemented early**. The existing system will be upgraded through new software and hardware and additional modules. A project implementation committee has been established, chaired by the Deputy Minister of Finance. Funding is being identified.	Strengthen monitoring and control of budget execution.
● Roll out GIMFIS to 14 selected pilot MDAs.	End-March 2011	**New benchmark**	As above.

3. Public Debt Management			
● Develop and publish a debt management strategy for Ghana.	End-Dec. 2010	**New benchmark** (MEFP para. 41)	To support the achievement of public debt sustainability.
● Develop and submit to Cabinet for approval procedures for appraisal and selection of public investment projects considered for external nonconcessional loans.	End-Dec 2010.	**New benchmark** (MEFP para. 41)	As above.
4. Public sector reform and payroll management			
● Steps to strengthen oversight and control of public service recruitment and staffing.	End-Sep. 2009	**Partially met**. The selective hiring freeze remains in place and new recruits by agencies included on the payroll database are audited on a monthly basis to verify consistency with budget provisions. The headcount of the Ghana Education Service was conducted by end-August. Only limited progress was made in the planned migration of all subvented agencies to the automated payroll database by end-September 2009, largely reflecting inadequate funding for software and consultants.	To strengthen oversight and control of the high and growing public payroll.
● Establish institutional responsibility for the restructuring, commercialization, or liquidation of subvented agencies.	End-Dec. 2009	**Implemented early**. The Ministry for the Public Sector has been appointed to head this project.	To promote fiscal savings by rationalizing subvented agency numbers.
● Migrate to the automated payroll system (IPPD2/3) all remaining non-security subvented agencies.	End-July 2010	**Revision of the earlier September 2009 benchmark (see above).**	As above.

● Submit for cabinet approval list of subvented agencies to be commercialized or liquidated.	End-Dec 2010.	**New benchmark**.	As above.
● Complete pay comparability survey for public and private sectors for a sizeable number of public sector career streams.	End-June 2011.	**New benchmark**.	As above.
5. Energy sector management			
● New electricity tariff structure, with the average increased by at least 33 percent, will become effective no later than June 1, 2010, as part of phased approach to bring the average tariff to cost recovery levels.	2nd ECF review.	**Prior action for 2nd ECF review.**	To avoid energy sector SOE losses, which have historically posed serious burdens on the budget.
● Implement additional required increase in electricity tariffs to bring the average tariff to cost recovery levels.	3rd ECF review.	**New benchmark** (MEFP para. 38)	As above.
● Submit to parliament legislation establishing rules for oil and gas revenue management, establishing clear rules for the transparent reporting of revenues and spending in the budget, rules governing possible revenue retention by GNPC, and audit requirements.	End-Dec 2010	**New benchmark** (MEFP para. 35)	Ensure transparent and prudent management of Ghana's oil incomes.
● Develop strategy for restoring financial and commercial viability to Tema oil refinery.	End-Dec 2010.	**New benchmark.**	As above.

6. Monetary and financial policy			
● Adoption and launch of program to strengthen communication of framework for inflation targeting and disinflation over program period.	End-Dec. 2009.	**Implemented early**. A redesigned website to strengthen the communication of the Bank of Ghana's inflation targeting policy framework was launched in November 2009.	To support the disinflation program.
● Develop strategy to fully strengthen Ghana Commercial Bank balance sheet.	End-July 2010.	**New benchmark.**	To contribute to continued financial sector stability.

Table 4. Ghana: Proposed Schedule of Disbursements under the ECF Arrangement, 2009–12 [1]

Amount	Date available	Condition necessary for disbursement
SDR 67.65 million	July 15, 2009	Disbursed on approval of ECF arrangement
SDR 16.00 million [2]	Dec 15, 2009	Observance of the performance criteria for September 30, 2009, and completion of the first review under the arrangement.
SDR 65.50 million [2/]	March 15, 2010	Observance of the performance criteria for December 31, 2009, and completion of the second review under the arrangement.
SDR 65.50 million [3]	September 15, 2010	Observance of the performance criteria for June 30, 2010, and completion of the third review under the arrangement.
SDR 43.20 million [4]	March 15, 2011	Observance of the performance criteria for December 31, 2010, and completion of the fourth review under the arrangement.
SDR 43.20 million	September 15, 2011	Observance of the performance criteria for June 30, 2011, and completion of the fifth review under the arrangement.
SDR 43.20 million	March 15, 2012	Observance of the performance criteria for December 31, 2011, and completion of the sixth review under the arrangement.
SDR 43.20 million	June 15, 2012	Observance of the performance criteria for March 31, 2012, and completion of the seventh review under the arrangement.
SDR 387.45 million	Total for the ECF arrangement	

[1] In addition to the generally applicable conditions under the Extended Credit Facility arrangement.
[2] About $125 million for the combined first and second ECF reviews, at a projected exchange rate of SDR1 = $1.537.
[3] About $100 million, at a projected exchange rate of SDR1 = $1.537.
[4] About $66 million, at a projected exchange rate of SDR1 = $1.537.

ATTACHMENT II

TECHNICAL MEMORANDUM OF UNDERSTANDING

Arrangement under the Extended Credit Facility
June 2010–12

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-June 2010, end-December 2010, and end-June 2011, while indicative targets are set for end-March, end-September 2010, and end-March 2011. Performance criteria, indicative targets, and adjusters are calculated as cumulative flows from the beginning of the calendar year, except for external nonconcessional debt, which is defined as in cumulative terms from July 1, 2009.

4. The **performance criteria** under the arrangement are:
- a ceiling on the overall fiscal deficit of the government, measured in terms of financing;
- a floor on the net international reserves of the Bank of Ghana;
- a ceiling on the net change in the stock of domestic arrears;
- a continuous zero ceiling for the accumulation of new external arrears; and
- a ceiling on the contracting or guaranteeing of new external nonconcessional debt

5. **Indicative targets** are established as:
- a ceiling on the net domestic financing of the government;
- a ceiling on the net domestic assets of the Bank of Ghana; and
- a floor on poverty-reducing government expenditures.

6. A **target** is set for the twelve-month rate of consumer price inflation, with triggers on discussions or consultations with the Fund if inflation moves outside specified inner and outer bands.

A. Government

7. **Definition:** The government is defined as comprising the central government, all special funds (including 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

8. **The fiscal deficit** is measured as total financing extended to the government (as defined in paragraph 7 above), comprising the sum of net foreign borrowing (as defined in paragraph 12 below), net domestic financing (defined in paragraph 11 below), exceptional financing (including HIPC and MDRI relief against loan repayments falling due), and receipts from net divestitures.

9. **Domestic payments arrears** will be measured as the sum of two components. The first component, arrears to the *government's statutory funds*, represents any delay of more than one month in revenue transfers to these statutory fund, relative to the normal payment schedule (typically monthly or quarterly, and defined as a specific percentage of the previous month or quarter's revenue collections).[1] The second component, arrears to *contractors*, is defined as payments that are due and not settled within 30 days after the end of the fiscal year. Net changes in the stock of arrears to contractors at end-March, June, and September are defined as the stock of arrears at the end of the previous fiscal year less the amounts settled during the current fiscal year. The end-December stock of arrears is measured as the end-year balance at the end of the previous fiscal year, minus amounts settled during the current year, plus the accumulation of new arrears to contractors in the current year (defined as payments outstanding for 30 days or more after the end of the current fiscal year). As fiscal monitoring systems are strengthened, the goal will be to also include arrears to contractors that accrue *within* a given year, measured at end-March, June, and September.

10. **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

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

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 the government considers as poverty-related. Accordingly, actual poverty spending will exclude some donor-supported expenditure not currently captured by the CAGD.

11. **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).

12. **Net foreign financing of government** is defined as the sum of project and program loans by official donors, commercial external borrowing, minus amortization due.

13. **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.

14. **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 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.

15. **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

16. **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 Tables 1 and 2 attached to the memorandum of economic

and financial policies. Projected CPI for end-June 2010, end-December 2010, and end-June 2011 will be subject to the consultation mechanism, while those for end-September 2010 and end-March 2011 are indicative targets.

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

18. 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 ECF arrangement if inflation moves outside of the outer band until the consultation with the Executive Board has taken place.

19. 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.

20. 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

21. **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 program exchange rate defined in paragraph 2. A more detailed listing of accounts to be included in the measure of net foreign assets is contained in the monetary template referred to in paragraph 14 above.

22. **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 program exchange rate defined in paragraph 2. 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 14 above.

23. **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

24. **Nonconcessional medium- and long-term external debt** is defined as debt to non-residents contracted or guaranteed by the government (as defined in paragraph 7), the Bank of Ghana, and specific enterprises defined in paragraph 26, with an original maturity of more than one year, provided that debt maturing within one year which has been extended beyond one year from its original date, pursuant to the contract which allows for maturity extension, would be considered medium to long term. Medium- and long-term external 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.

25. **External payment arrears** would accrue when undisputed interest or amortization payments of the government (as defined in paragraph 7) are not made within the terms of the contract.

E. Ceiling on the Contracting or Guaranteeing of New Nonconcessional External Debt

26. A ceiling applies to the contracting and guaranteeing by the government and the BoG, and the following public enterprises: (i) Tema Oil Refinery; (ii) Ghana National Petroleum Corporation; (iii) Bulk Oil Storage and Transport Corporation; (iv) Volta River Authority; and (v) Electricity Company of Ghana. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received.

27. The definition of debt, for the purposes of the program, is set out in Point 9 of Executive Board Decision No. 6230-(79/140) , as amended by Decision No 14416-(09/91, effective December 1, 2009).[2]

28. Excluded from the ceiling are (i) the use of Fund resources; (ii) lending from the World Bank, the African Development Bank, and the International Fund for Agricultural Development; (iii) concessional external debts; and (iv) any cedi-denominated treasury bills and government bonds, and BoG bills held by nonresidents.

29. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the net present value (NPV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The NPV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the NPV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD would continue to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more). Loans provided by a private entity will not be considered concessional unless accompanied by a grant or grant

[2] 9 (a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property, and 9 (b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition will not give rise to debt.

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.

F. Adjustors to the Program Targets

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

Overall fiscal deficit of the government

31. The deficit ceilings for 2010–11 will be adjusted for excesses and shortfalls in loans and grants as defined below, relative to the program assumptions in the table below. The fiscal deficit will be adjusted:

(i) Upward (or downward) for the full amount of any **excess (or shortfall) in project loans**. Thus, foreign-financed investment projects, which are not under the short-term control of the government, would be unconstrained, varying in line with project loan financing.[3]

(ii) Downward by 50 percent of any **shortfall in program loans**[4] of GH¢150 million or less, and downward by the full amount of any shortfall beyond this amount. Thus, for shortfalls of up to GH¢150 million in external loans, the government would have the option of balancing cuts in expenditures with resort to additional domestic financing. The possible resort to additional domestic financing from this adjuster is effectively capped at GH¢75 million, limiting potential crowding-out of private sector credit;

(iii) Upward by 50 percent of any **shortfall in program grants** of GH¢150 million or less, with no adjustment for any shortfall beyond this amount. As with adjuster (ii), this gives the option of balancing cuts in spending with additional resort to domestic financing. The latter is capped, again, at GH¢75 million;[5]

(iv) Downward by the full amount of any **excess of program grants**, less any use of program grants to repay outstanding domestic arrears at a more rapid pace than programmed; and

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[3] No adjuster is needed for project grants, as shortfalls/excesses in project grants are precisely offset by shortfalls/excesses in foreign-financed capital spending, leaving the fiscal deficit unaffected.
[4] Program grants and loans are also referred to as budget grants and loans.
[5] The combined scope for additional domestic financing from adjusters (ii) and (iii) is thus GH¢150 million.

(v) Upward for the full amount of any **excess in program loans**, where these are used to repay outstanding domestic arrears at a more rapid pace than programmed.[6]

Budget Financing Assumptions, 2010–11

(GH¢ millions, cumulative from the start of the calendar year)

	2010 Jun	2010 Sep	2010 Dec	2011 Mar	2011 Jun
Program/budget grants	195	289	298	82	192
Program/budget loans	289	579	579	4	98
Project loans	318	479	651	166	363

Net international reserves of the Bank of Ghana

32. For the net international reserve (NIR) floors will be adjusted upward for any excess of budget grants and loans relative to the program baseline (see paragraph 27), except where this financing is used to repay outstanding domestic arrears at a more rapid pace than programmed.

Net domestic financing of the government

33. The ceiling on net domestic financing (NDF) will be adjusted upward by 50 percent of any shortfall in program loans and grants relative to the program (see paragraph 27), up to a maximum adjustment of GH¢75 million for shortfalls in each of program loans and grants (and a maximum combined adjustment of GH¢150 million). For higher than programmed loans and grants, the ceiling will be adjusted downward by the full amount, except where these loans or grants are used to repay outstanding domestic arrears at a more rapid pace than programmed.

Consumer price inflation

34. The consumer price index is expected to be boosted in 2010 by adjustments of electricity tariffs to bring the average tariff to cost recovery levels. The Bank of Ghana intends to accommodate the first-round impact of these relative price adjustments on headline inflation, but will resist any second-round pass-through. Accordingly, the inflation consultation mechanism will be adjusted upward for a 12-month period by an amount equal to the increases in the residential electricity tariff (but not for any subsequent adjustments in line with market prices), multiplied by the weight of household electricity consumption in the CPI (1.51 percent). The adjuster will be rounded to the nearest 0.1 percent.

[6] Adjusters (iv) and (v) ensure that higher than programmed budget support (grants or loans) are used to repay domestic expenditure arrears as a first priority.

F. Provision of Data to the Fund

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

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, including clearance of arrears.	Monthly, within eight weeks of the end of each month.
Divestiture receipts received by the budget (in cedis and foreign exchange, net of divestiture transactions costs).	Monthly, within six weeks of the end of each month.
The stock of domestic payments arrears by sub-category (as defined in para. 9 of the MEFP)	Quarterly, within six weeks of the end of each quarter
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.	Quarterly, 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.
Short-term liabilities to nonresidents (maturity in one year or less), including overdraft positions and debt owed or guaranteed by the government or the BoG. Data on the BoG short-term liabilities to nonresident commercial banks on accounts 1201 plus 301 plus Crown Agent).	Quarterly, within three weeks of the end of each quarter.
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.