July 2012
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Ghana: Sixth and Seventh Reviews Under the Three-Year Arrangement Under the Extended Credit Facility and Requests for Waiver of Nonobservance of Performance Criteria and Extension of the Arrangement—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Ghana.

In the context of the sixth and seventh reviews under the three-year arrangement under the extended credit facility and requests for waiver of nonobservance of performance criteria and extension of the arrangement, the following documents have been released and are included in this package:

- The staff report for the Sixth and Seventh Reviews Under the Three-Year Arrangement Under the Extended Credit Facility and Requests for Waiver of Nonobservance of Performance Criteria and Extension of the Arrangement, prepared by a staff team of the IMF, following discussions that ended on May 29, 2012, with the officials of Ghana on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 2, 2012. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Press Release summarizing the views of the Executive Board as expressed during its July 13, 2012 discussion of the staff report that completed the request and/or review.

- A statement by the Executive Director for Ghana.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Ghana*
Memorandum of Economic and Financial Policies by the authorities of Ghana*
Technical Memorandum of Understanding*

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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GHANA

Sixth and Seventh Reviews Under the Three-Year Arrangement Under the Extended Credit Facility, and Requests for Waiver of Nonobservance of Performance Criteria and Extension of the Arrangement

Prepared by the African Department
(In consultation with other departments)

Approved by Michael Atingi-Ego and Elliott Harris

July 2, 2012

Discussions: Discussions for the reviews under the Extended Credit Facility (ECF) arrangement were held in Accra during February 22–March 6 and May 16–29, 2012. The staff team consisted of Ms. Daseking (head), Mr. Baldini, Ms. Verdier (all AFR), and Ms. Nkhata (SPR). Mr. Mitchell, Resident Representative, supported the team in the field, and Mr. Mojarrad, Executive Director, joined the discussions during the missions. The mission met with President John Evans Atta Mills, Finance Minister Kwabena Duffuor, Bank of Ghana Governor Kwesi Amissah-Arthur, other senior officials, members of parliament, members of the Economic Advisory Council, and representatives from the private sector, labor unions, civil society, and Ghana's development partners.

IMF relations: Ghana's current three-year ECF arrangement was approved in July 2009, and the fifth review was concluded in December 2011.

Exchange rate regime: Ghana maintains a floating exchange rate regime and currently has a multiple currency practice, arising from a special reference rate for certain official transactions, subject to Fund approval.

Publication: The Ghanaian authorities have consented to publication of this staff report and the attached Letter of Intent and Memorandum of Economic and Financial Policies, which review the authorities' program implementation and outline their policies for the remainder of 2012.

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Executive Summary

After a successful economic performance in 2011, program performance has been mixed, and risks to the macroeconomic outlook have risen.

- *While policies have remained broadly on track, a few quantitative performance criteria were missed*. For end-December (sixth review) all quantitative performance criteria were met with the exception of net arrears clearance. For end-March 2012 (seventh review), the targets for the fiscal deficit and the floor on net international reserves were missed. Implementation of structural reforms continued, but with a number of delays relative to program benchmarks.

- *Macroeconomic risks have increased*. The recent depreciation of the cedi—fueled by high domestic demand and initially loose monetary policy—is putting upward pressure on inflation. Some carry over of spending from 2011, a larger-than-budgeted wage increase, and the reemergence of energy subsidies have raised concerns about fiscal discipline ahead of the December 2012 elections. External risks arise from a deeper global slowdown.

Program objectives remain within reach under an appropriately tight policy stance.

- *The authorities are committed to the program's primary fiscal deficit of 0.1 percent of non-oil GDP on a commitment basis*. This would imply an adjustment of 1.8 percentage points of non-oil GDP in 2012, after more than 5 percentage points in 2011. Achieving it, will require full implementation of an ongoing payroll audit, limits on energy subsidies, restraint in other expenditure, and sustained efforts to raise revenue. The government is also committed to the completion of the remaining structural reform agenda.

- *Monetary policy has already been tightened since the beginning of the year, with three consecutive increases in the policy rate.* With inflation risks on the upside, the authorities are committed to tighten policy further, as needed. Reserve coverage is low, and policies will support a gradual recovery to more comfortable levels by the end of 2012.

- *Based on these policies, staff recommends completion of the sixth and seventh reviews and a short extension of the program for making the final disbursements under the ECF arrangement.*

I. Background and Program Performance

A. Recent Economic Developments and Outlook

After a successful economic performance in 2011, risks to the macroeconomic outlook have risen. Growth remains strong, but external buffers are thin, the currency has come under pressure, and inflation expectations are on the rise.

1. **The Ghanaian economy performed well in 2011 (Figures 1 and 2).** GDP grew strongly—by an estimated 14½ percent—boosted by the onset of oil production, while end-December inflation of 8.6 percent remained well within the BoG's inner target range (6.5–10.5 percent). Despite buoyant exports, the current account deficit exceeded 9 percent of GDP in 2011, on account of high import growth. Continued strong foreign direct investment helped raise official reserves to $5.5 billion at end-2011—covering just over three months of prospective imports.

Macroeconomic Indicators, 2008-12

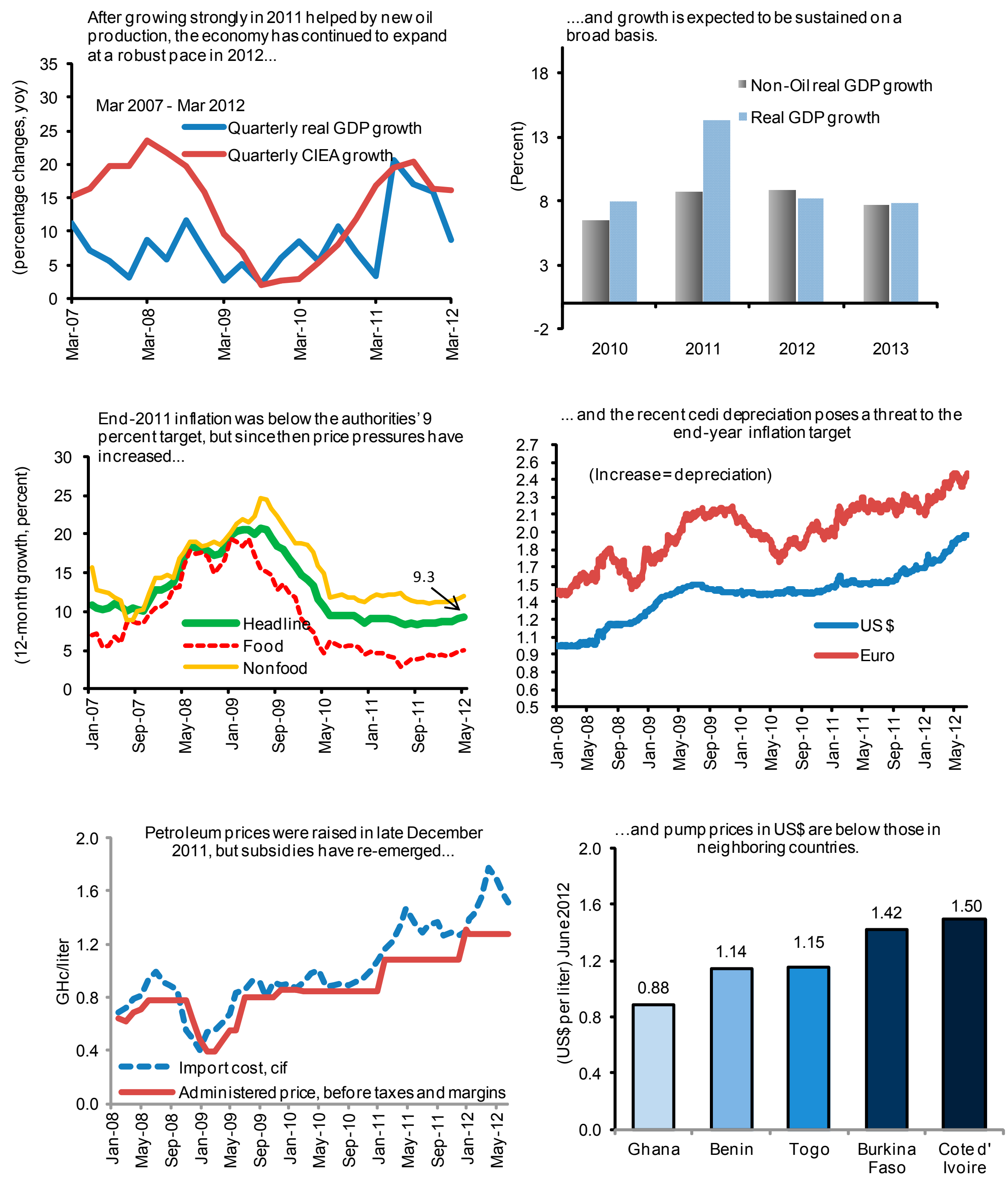
	2008	2009	2010	2011		2012	
				ECF 5Th	Prel.	ECF 5Th	Proj.
	(Annual percentage change)						
Real GDP	8.4	4.0	8.0	13.6	14.4	8.5	8.2
Non-oil real GDP	8.4	4.0	6.4	8.2	8.7	7.6	8.8
Inflation, end-of-period	18.1	16.0	8.6	9.0	8.6	8.7	11.5
Exchange rate (average, Ghc per U.S. dollar)	13.1	34.1	0.8	…	7.9	…	…
	(Percent of non-oil GDP, unless otherwise specified)						
Overall fiscal balance (cash)	-8.5	-5.8	-7.2	-5.1	-4.4	-5.2	-6.7
Overall fiscal balance (commitment)	…	-6.5	-10.1	-3.7	-4.8	-3.0	-3.2
Central Government debt (net)	30.1	32.7	43.2	42.7	42.2	44.0	44.9
Current account balance (percent of GDP)	-11.9	-5.4	-8.4	-8.3	-9.2	-6.0	-9.1
BOG GIR Stock (US$ mill)	2,036	3,168	4,680	5,432	5,475	6,390	5,517
Percent of prospective imports (G & S)	2.2	2.7	2.9	3.1	3.1	3.5	2.9

Sources: Ghanaian authorities and IMF staff projections.

2. **Risks to macroeconomic stability have risen recently**. A rapid depreciation of the cedi by about 15 percent in the first five months of the year—fueled, in part, by easy liquidity conditions—has begun to feed into inflation. Interventions by the Bank of Ghana (BoG) to stabilize the currency lowered foreign reserves by about $1 billion in January, but provided only temporary support to the currency. Meanwhile high public wage increases and reemergence of fuel price subsidies have raised concerns about potential fiscal slippages ahead of the December 2012 elections, while the depreciation adds to the burden of servicing foreign debt. External risks arise from a deeper global slowdown, with adverse implications for commodity prices and foreign capital inflows.

3. **Policies have responded, and program objectives remain within reach under an appropriately tight policy stance.** Measures have been taken to protect the fiscal deficit target, and a recent drop in international oil prices has reduced subsidies. At the same time, monetary policy has been tightened significantly, and the cedi has begun to stabilize. Based on current policy commitments, inflation is now projected to approach the upper limit of the 5.7–11.7 end-year target band. While oil production is somewhat lower than initially projected, the non-oil sector is growing at a robust pace, and overall GDP growth is still projected to exceed 8 percent in 2012. Helped by high gold prices and anticipated inflows from cocoa exports, the current account deficit is projected to remain broadly unchanged at about 9 percent of GDP, with official reserves recovering gradually to their end-2011 level.

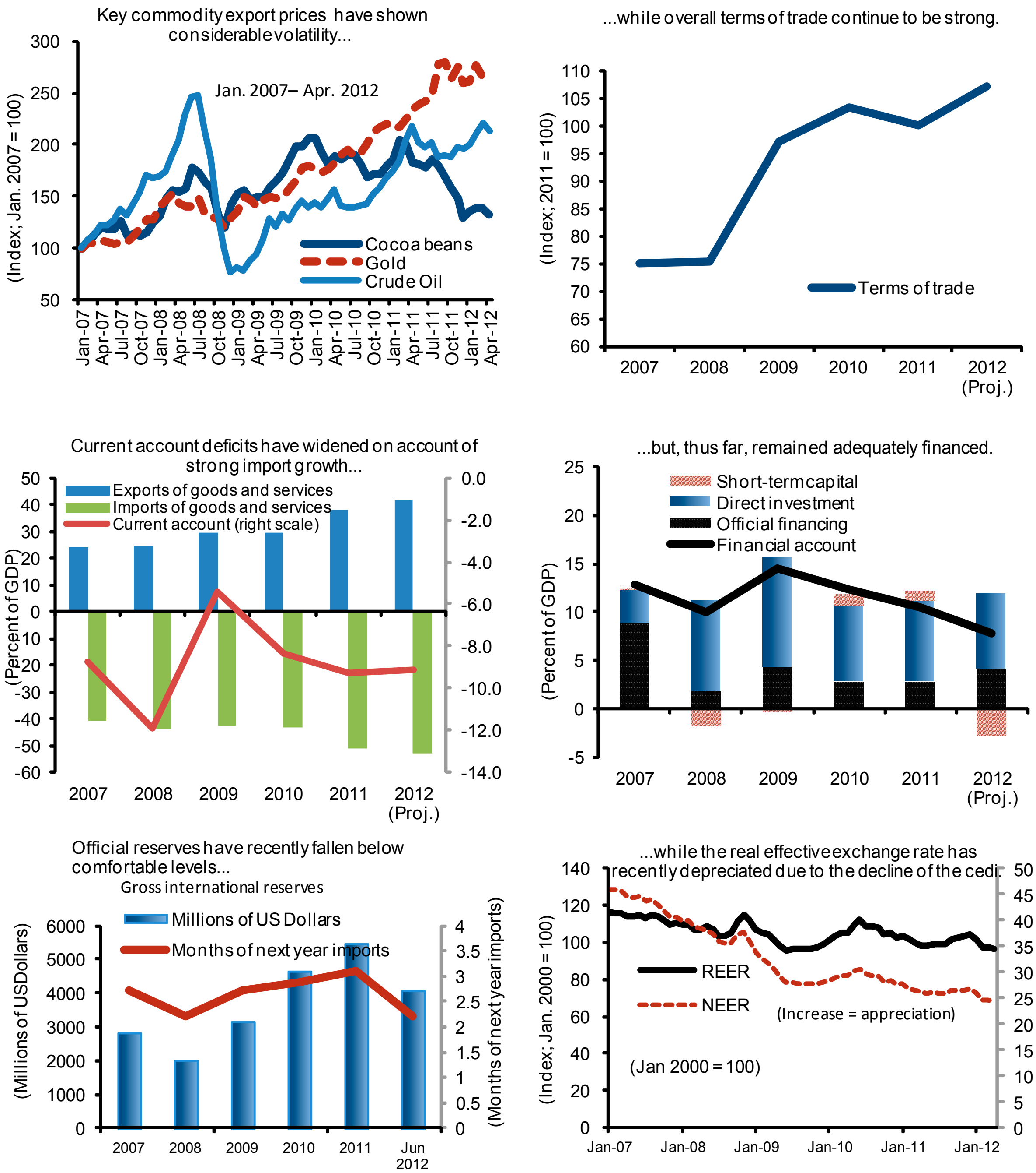
Figure 1. Ghana: Real Sector Indicators, 2007–13



Source: Ghanaian authorities and IMF staff estimates and projections.

[1] The CIEA is the Bank of Ghana's composite index of real economic activity.

Figure 2. Ghana: External Indicators, 2007–12



Source: Ghanaian authorities and IMF staff estimates.

B. Summary of Program Performance

Recent program performance has been mixed. In light of new fiscal obligations at the beginning of 2012, completion of the sixth review was postponed to provide time to assess the need for corrective measures.

4. **While policies have remained broadly on track, a few quantitative performance criteria were missed (MEFP, Appendix Table 1).** For end-December (sixth review) all quantitative performance criteria and indicative targets were met, with the exception of net arrears clearance, which was missed by about 1.1 percent of non-oil GDP. The government took corrective action to make up most of the shortfall in the first quarter of 2012, but, as a result, missed the adjusted deficit target for end-March (seventh review) by 0.1 percent of non-oil GDP, as well as the indicative target for poverty-related spending. The (adjusted) floor on net international reserves and the ceiling on Bank of Ghana net domestic assets for end-March were also missed—the former by about $1.1 billion—reflecting the BoG's large foreign exchange intervention in January in support of the cedi.

5. **Implementation of structural reforms continued, but with a number of delays relative to program benchmarks (MEFP, Appendix Table 2).** Of the eleven benchmarks for the sixth and seventh reviews, three were met, while eight were missed or only partially implemented. However, progress on the reform agenda has continued, with implementation delays resulting from the operational challenges of managing new financial systems (Ghana Integrated Financial Management Information System, GIFMIS), connectivity (integration of VAT and income tax offices), and human resources (civil service payroll audit). The government remains committed to implementing the remaining reforms, as outlined in Appendix Table 2.

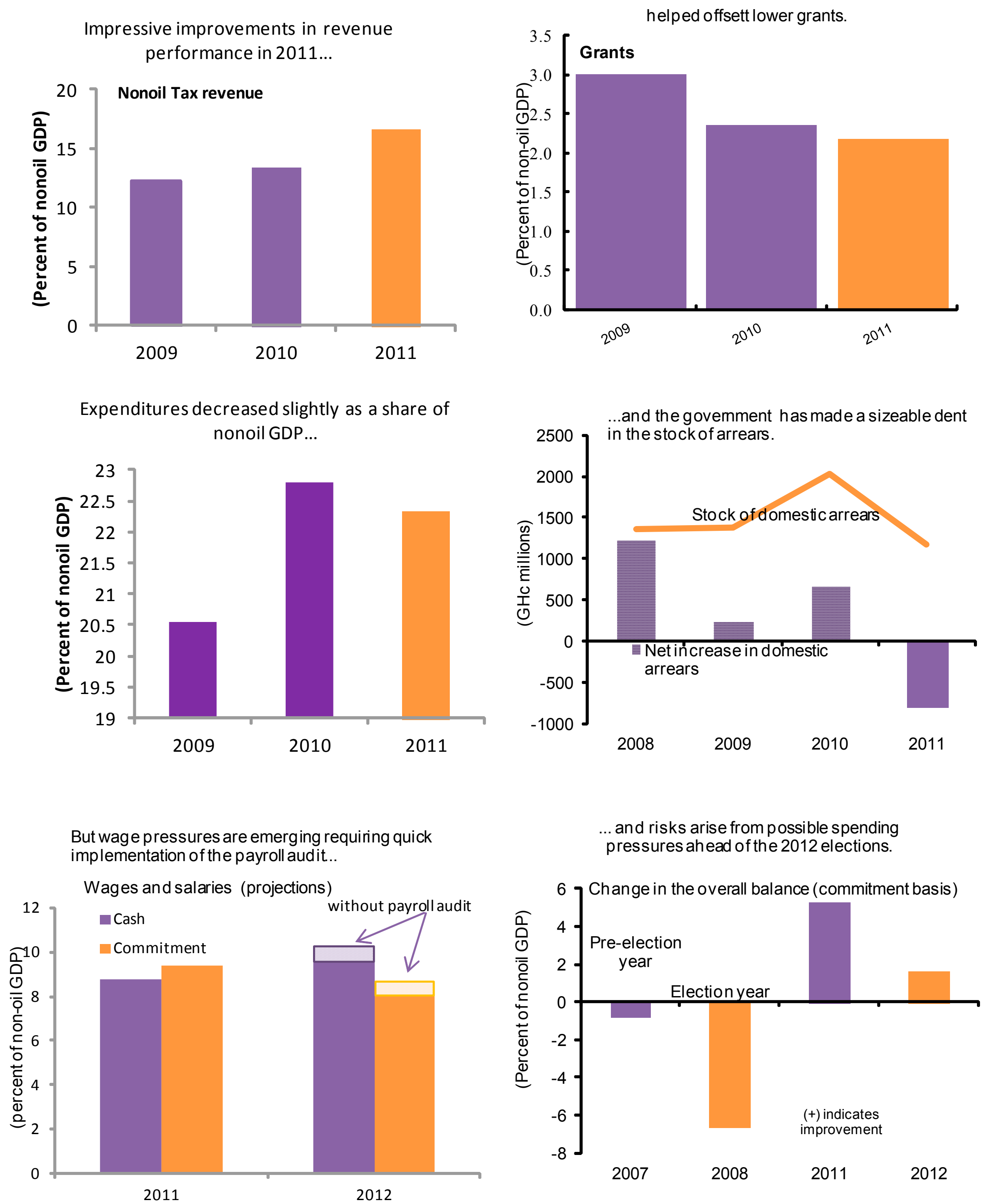
II. Fiscal Policy

Fiscal policy discussions focused on actions needed to preserve the 2012 primary deficit target on a commitment basis, while completing the remaining structural reform agenda.

A. Background

6. **After a strong performance during most of 2011, fiscal policy met some challenges toward the end of the year (Figure 3).** Strong revenue performance for the year, as programmed, was accompanied by lower cash expenditure, and the fiscal deficit (cash basis) was below the program ceiling. However, while gross arrears clearance was substantial at 2.7 percent of non-oil GDP, the government accumulated new arrears of about 1.3 percent of non-oil GDP, missing the program target. Moreover, late tax receipts created liquidity shortages toward the end of the year, and spending of about 0.7 percent of non-oil GDP above the programmed float was carried over into 2012. Without this carry over, the fiscal

Figure 3. Ghana: Fiscal Indicators, 2007–12



Source: Ghanaian authorities and IMF staff estimates.

[1]Ghana's GDP was rebased in 2010. Current projection line uses the rebased GDP, while previous reviews are based on the old GDP series.

cash deficit in 2011 would have exceeded the adjusted target by 0.1 percent of non-oil GDP. Taking all developments together, the fiscal adjustment between 2010 and 2011 on a commitment basis was still sizeable at 5.3 percentage points of non-oil GDP, but was about 1.1 percentage points lower than envisaged at the time of the fifth review.

7. **The authorities took corrective actions in the first quarter to compensate for slippages at the end of 2011.** Carry-over expenditure from 2011 was fully repaid, and net arrears clearance exceeded the program target for the first quarter by 0.4 percent of non-oil GDP. However, with these significant payments the overall deficit (cash) ceiling was missed, despite lower recurrent and capital expenditure.

8. **Additional spending pressures materialized in early 2012, with higher-than budgeted public wage increases and the reemergence of energy subsidies:**

- **Wages**. A base pay increase of 18 percent for 2012 negotiated with civil service unions in February threatens to raise the wage bill significantly above the budgeted amount.

- **Domestic fuel prices**. The authorities raised domestic pump prices by 15 percent in late-December 2011, consistent with their commitment under the fifth review. However, faced with the threat of public unrest, they decided to reverse part of the increase (by 3 percentage points) and have not raised prices since. In May, domestic pump prices were about 15 percent below their cost-recovery levels (implying monthly subsidies of about 0.1 percent of annual non-oil GDP), though the subsequent decline in international oil prices reduced the gap to about 10 percent by mid-June. Utility tariffs, last adjusted in December 2011, have fallen below cost-recovery levels by a similar magnitude.

B. The 2012 Program

The 2012 program seeks to preserve the annual fiscal targets through measures to offset the unbudgeted wage increase and the reemergence of energy subsidies.

9. **The program maintains the primary deficit target of 0.1 percent of non-oil GDP on a commitment basis.** Achieving this target now implies an adjustment of 1.8 percentage points of non-oil GDP relative to 2011, versus 0.5 percentage points envisaged at the time of the fifth review. The cash deficit will be higher, however, at 6.7 percent of non-oil GDP,

Central Government Operations (commitment basis)

	2010	2011		2012	
	Act.	5 ECF	Est.	5ECF	Target
	(in percent of non-oil GDP)				
Budget balance (commitment basis)	-10.1	-3.7	-4.8	-3.0	-3.2
Overall balance (before arrears)	-6.0	-2.0	-1.1	-3.0	-3.2
Accumulation of wage deferred payments	-1.4	-1.3	-1.2	0.0	0.0
New arrears	-2.6	0.0	-1.3	0.0	0.0
Commitments related to float transactions	0.0	-0.5	-1.2	0.0	0.0
Interest payments	3.1	3.2	2.9	2.9	3.1
Primary balance (commitment basis)	-7.0	-0.6	-1.9	-0.1	-0.1
Memorandum items					
Cash balance	-6.5	-5.1	-4.3	-5.2	-6.7
Overall balance (before arrears)	-6.0	-2.0	-1.1	-3.0	-3.2
Arrears clearance	-1.2	-2.6	-2.7	-0.6	-2.1
Deferred wage payments	0.0	-0.5	-0.6	-1.5	-1.4
Discrepancy	0.7	0.0	0.1	0.0	0.0

Sources: Ghanaian authorities and IMF staff projections.

reflecting the carry-over expenditure from 2011, additional clearance of arrears, and higher interest payments as a result of tighter monetary policy.

10. **The program hinges on the authorities' ability to rationalize expenditure and strengthen revenue collection.** Specific measures to fill the gap have been identified, as discussed below and summarized in the text table.

Financing Gap, 2012
(In percent of non-oil GDP)

(1) Additional spending obligations	**2.6**
Wage increase	1.6
Energy subsidies	1.0
(2) Primary deficit w/o adjustment	**2.8**
(3) Targeted primary deficit	**0.1**
(4) Required savings (2) - (3)	**2.7**
(5) Identified savings	**2.7**
Revenues and grants	1.8
Corporate taxes on mining	0.3
Fees from stability agreements	0.8
Hedging profits	0.1
Grants	0.6
Expenditure (- indicates savings)	-0.9
Pension audit	-0.2
Payroll audit	-0.7
Goods&services	-0.1
Capital spending	0.1
Foreign	0.4
Domestic	-0.2

Sources: Ghanaian authorities and IMF staff projections

Rationalizing expenditure

11. **It was agreed that rationalization of civil service numbers and prudent wage bill management would be key for a successful completion of the program (MEFP ¶7).** The authorities were confident that the permanent cost of the pay increase would be offset by savings from an ongoing payroll audit. The payroll audit (structural benchmark) was delayed relative to earlier plans in favor of finalizing the pension audit. The latter has been completed and payments to ineligible persons have stopped, generating estimated full-year savings of 0.2 percent of non-oil GDP in 2012. Work on the payroll audit received high priority in recent months, with completion of six regions by end-June, covering about 75 percent of public employees. Based on this sample, the audit promises to reduce the overall wage bill permanently by an estimated 15-20 percent. The range reflects uncertainty about (i) the share of employees that were inadvertently omitted from the biometric registration and will be captured later in a mop-up exercise; and (ii) the savings in subvented agencies, which promise to be higher than in other parts of the public sector. For 2012, the savings will only be realized in the second half of the year, once payments to ineligible persons are discontinued. The government has publicly announced that it will discontinue these payments in July, for the first six regions, and as soon as the exercise is complete in the remaining four regions. Assuming full implementation by September, the estimated savings would be in the range of 0.6-0.8 percent of non-oil GDP. It was agreed to base projections on the mid-point estimate of 0.7 percent, with the understanding that identified contingency measures (see ¶12) would be activated if savings fall short of this estimate. It was also agreed that payroll management needed to be strengthened going forward, to avoid overpayments and keep the payroll accurate. In this context, the authorities highlighted their commitment to resume the planned migration to the automated payroll system of all remaining non-security subvented agencies (structural benchmark), as soon as the payroll audit has been fully implemented.

12. **The government also plans to contain discretionary spending (MEFP ¶9)**. The revised spending plans foresee some reductions in outlays on goods and services and

domestically-financed capital spending, relative to the budget. Relative to 2011, however, outlays for goods and services would still grow in line with non-oil GDP, and domestically-financed capital spending would increase marginally, as a share of GDP. The authorities identified specific savings with a view of not disrupting ongoing capital projects. In addition, they identified a number of expenditure items, equivalent to 0.2 percent of non-oil GDP, as contingency measures (not included in the "financing gap" text table) that could be cut in the event of shortfalls in revenue or additional spending pressures.

13. **While the authorities agreed, in principle, that energy prices should reflect cost-recovery levels, they were concerned about raising prices at the current juncture.** Following the 15 percent fuel price increase in December 2011, some of the increase had to be clawed back to avoid public unrest. Since then, the cost of living had increased considerably, as a result of the cedi depreciation. In these circumstances, the government felt that lower-income groups, in particular, would have serious difficulties coping with higher fuel prices. Similarly, the Public Utilities Regulatory Commission had not adjusted tariffs since December, citing poor service delivery as its main reason. The mission expressed concern about the high cost of poorly-targeted energy subsidies and the adverse implications for the service delivery and financial viability of public utility companies from below-cost pricing. It urged the government to consider at least some increase in domestic energy prices, combined with an expansion of well-targeted social programs to use scarce public resources more effectively. Failure to adjust prices now, would also expose the government to significantly higher fiscal costs should global oil prices increase again, or the cedi depreciate further. The authorities agreed that energy prices should eventually return to cost-recovery levels and be adjusted automatically on a more frequent basis to depoliticize the process. However, in the short term, they preferred finding savings elsewhere.

Strengthening revenue collection

14. **Tax collection and administration efforts have yielded substantial additional revenues in 2011, and the government targets further improvements in 2012 (MEFP ¶10-11)**. The improvements stem from successful reforms, including strengthened customs administration and streamlined tax exemptions, as well as ongoing tax administration efforts and upgrades in information technology. The integration of VAT and income tax in pilot offices (structural benchmark) is proceeding with some delay, but is on track to be completed by the end of the year.

15. **New tax policy measures introduced in the 2012 budget are likely to yield higher revenues than originally estimated (MEFP ¶12).** The budget included an improvement in corporate tax collection of 0.5 percent of non-oil GDP, resulting from the increase of the corporate tax rate for mining from 25 to 35 percent. This estimate has now been revised up by 0.3 percentage points to include additional revenue from the establishment of a uniform regime for capital allowances. The budget also announced new rules for ring fencing of mining projects—for which the government has legislated modalities in March—and the

adoption of OECD guidelines for transfer pricing, soon expected to be tabled in parliament. The mission urged the authorities to accelerate the resubmission of the VAT bill, originally submitted in May 2011, but delayed by the undertaking of a comprehensive review.

16. **The authorities expect additional non-tax revenue stemming from the negotiation of new stability agreements in the mining sector (MEFP ¶13).** For the two mining companies with existing stability agreements, negotiations focus on compensation for maintaining the existing favorable terms. Other mining companies have expressed interest in negotiating new agreements, for which the government will also request upfront fees. Based on past experience with similar agreements, the government estimates to receive one-off non-tax revenue of 0.8 percent of non-oil GDP as a result of these agreements. The mission pointed out that the outcome of such negotiations was uncertain and considered the timeline ambitious. At the same time, it acknowledged that the identified contingency measures on the expenditure side provided some buffer, and that a delay of receipts to early 2013 would not have a material impact on macroeconomic outcomes.

17. **Projections of revenue from other domestic sources are conservative, but grants will be higher.** Nominal tax revenue has been revised up, but projections are now more moderate in percent of non-oil GDP than at the time of the fifth ECF review. However, external grants are expected to be higher as a share of non-oil GDP, due to a shift of certain disbursements from the last quarter of 2011 to the first quarter of 2012, as well as a more depreciated currency.

Strengthening public financial management

18. **Although the government has made substantial efforts to reduce domestic payment arrears, new arrears reemerged in 2011 (MEFP ¶14)**.The authorities noted that liquidity shortages at the end of the year, as well as delays in reconciling liabilities between the central government and state-owned enterprises, resulted in the accumulation of new arrears late in the year. The mission welcomed the authorities' determination to settle these arrears early in 2012, but also noted concerns about the risks of new arrears arising in the current election year. The authorities reconfirmed their strong commitment to fiscal discipline. To prevent overspending and new arrears accumulation, a presidential circular was issued, mandating all line ministries to secure commencement certificates before committing the government to any contractual obligations, and the president also issued directives requiring strict adherence to the budget.

19. **The mission stressed the importance of continued efforts to improve cash and liquidity management (MEFP ¶15–16).** The implementation of GIFMIS (structural benchmark) has been delayed by a number of operational challenges that are being addressed, with the planned rollout of the general ledger and procurement modules to all government agencies and ministries by August. Full implementation of GIFMIS should reduce the occurrence of float transactions, which have sometimes been sizeable. The

mission also encouraged the authorities to accelerate the transition to a treasury single account, welcoming the plans to further consolidate government bank accounts at the BoG.

Reinforcing debt management and investment planning

20. **Parliamentary approval of subsidiary agreements under the Master Facility Agreement (MFA) with the China Development Bank is well advanced (MEFP ¶17).** Thus far, parliament has approved nine out of twelve subsidiary agreements for infrastructure development in the context of the MFA, including US$1 billion related to the gas infrastructure project, to be disbursed over three years. The remaining subsidiary agreements have also been submitted to parliament for approval. The authorities reiterated their commitment to ensure that, as projects are phased in, they are all supported by robust feasibility and financial viability studies, as required under the MFA. The mission stressed the need to ensure that the phasing of disbursements for these and other projects remains consistent with the agreed program targets and medium-term fiscal plans to preserve debt sustainability. The authorities confirmed that total disbursements under the MFA would not exceed US$750 million in 2012, consistent with commitments under the fifth review.

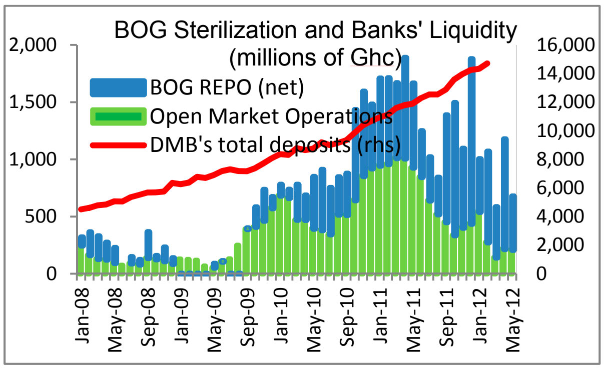
21. **Debt management capacity and policies have been strengthened, but progress has been slow on improving the framework for investment planning (MEFP ¶18–19).** A second annual debt management strategy for 2012–14 was published at end-December 2011, as foreseen under the program (structural benchmark) and the newly reorganized Debt Management Division (DMD) will closely monitor the financial costs of public debt as well as its market and operational risk. The recently created Public Investment Division (PID) will provide strategic direction and coordination in the management and delivery of public investments, and a new PPP policy framework has been developed with World Bank and DFID support. The PID will also supervise project selection and appraisal, budgeting, implementation, and evaluation. The mission welcomed the creation of the PID, but stressed the continued need to strengthen the institutional framework for public investment decisions, to ensure that the contracting of debt be guided by medium-term planning and debt sustainability analyses. In light of this objective, the mission encouraged the authorities to accelerate work on policy guidelines to improve the coordination between PID, DMD, and the Economic Research and Forecasting Division (structural benchmark), which has only started recently.

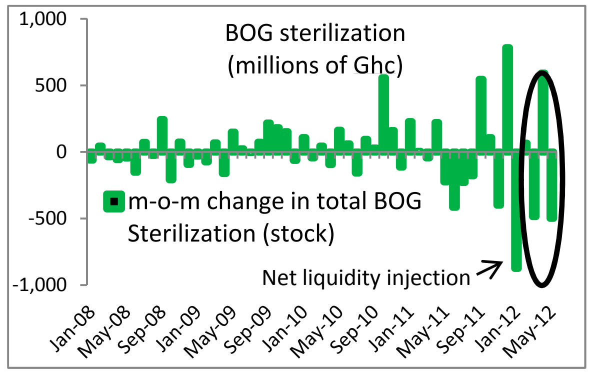
III. Monetary and Exchange Rate Policies

Discussions with the BoG focused on maintaining a tight policy stance to help stabilize the currency and achieve the inflation target, while gradually rebuilding the stock of foreign reserves.

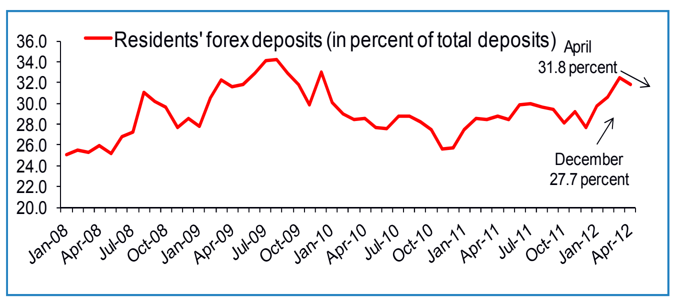
22. **A delayed response to mop up liquidity created considerable pressures for monetary policy in early 2012.** Having been successful in meeting its end-year inflation target and replenishing its stock of foreign reserves in 2011, the BoG had to shift gear in the

first five months of 2012 to stabilize a rapidly depreciating currency. Its attempt to stem the depreciation in January through sizeable forex interventions reduced international reserves by $1 billion, but had only a temporary effect on the cedi. As a result, the (adjusted) end-March NIR target was missed by about $ 1.1 billion. The BoG started tightening its policy rate (the overnight repo rate) in January by 100 basis points. However, interbank rates remained low as sizeable excess reserves continued to accumulate in the banking system and further liquidity was injected, as a result of only partial rollover of maturing BoG sterilization paper. While banks' deposits doubled in the past two years, the stock tied up in sterilization operations had reverted to mid-2010 level (see text charts).





23. **Discussions focused on the causes of the cedi depreciation and the need for policies to react.** The authorities concurred with the mission that a depreciation of the cedi was not surprising in the context of still sizeable inflation differentials and a high current account deficit. However, the pace of the depreciation in recent months created challenges for anchoring expectations. While initial triggers included seasonally strong demand for foreign exchange at the beginning of the year, the ongoing depreciation was sustained by loose monetary conditions, as high domestic liquidity was not sterilized and instead partly invested in foreign assets. In this environment, the large interventions by the BoG in January provided only temporary relief. Moreover, once the cedi had begun to depreciate, perceptions shifted, with increased demand for foreign-currency deposits adding to the pressure on the currency.



24. **The mission welcomed the authorities' intensified policy response since April (MEFP ¶20).** The BoG raised its policy rate twice more, in April and June, by 100 and 50 basis points, respectively, to 14.5 and 15.0 percent. It also implemented a number of additional measures, including the reintroduction of BoG bills at different tenors to facilitate the mopping up of excess liquidity, a reduction in banks' maximum net open forex position, and the requirement that mandatory reserves on forex deposits be held in cedi rather than

foreign currency, to increase the availability of foreign exchange to the market. Following the BoG's policy tightening, market interest rates on government paper have risen significantly by 500–800 basis points for different maturities, and the cedi has begun to stabilize. The mission supported the policy tightening aimed at preserving the inflation target and slowing the recent acceleration in private credit growth. Indeed, with short-term market rates currently hovering around 18–20 percent, the policy rate would need to be increased further to be effective in guiding market rates.

25. **The mission stressed the importance of relying on market-based policies to manage liquidity under the inflation targeting framework (MEFP ¶23).** The focus should be on ensuring the mopping up of excess liquidity, to keep short-term market rates in line with the policy rate, while improving fiscal and monetary policy coordination and strengthening information sharing and communication with the public. Administrative measures should preferably be taken only as a second line of defense after carefully assessing their impact. The authorities generally concurred with the mission's assessment, but believed that under the circumstances, administrative measures were a useful and cost-effective complement to market-based policies in helping to arrest the slide of the cedi.

26. **With reserve coverage of less than three months of prospective imports, staff urged the BoG to refrain from further interventions in support of the cedi.** As it was not opportune for the BoG to replenish its reserves at a time when the cedi was just beginning to stabilize, the mission considered a gradual recovery appropriate—helped by seasonally high cocoa export receipts in the fourth quarter (MEFP ¶21). The authorities, however, preferred to raise gross reserves immediately by relying on foreign exchange swaps with commercial banks that would advance availability of foreign exchange to the BoG. In early June, the BoG conducted a swap for US$250 million, half of which will be reversed in December 2012, and the remainder in September 2013. The liquidity impact has been sterilized by the simultaneous issuance of domestic bonds of the same maturity. The mission acknowledged that advancing the receipt of foreign exchange provides an immediate cushion and may signal a stronger ability to intervene, if needed. However, it also noted the high cost associated with current bond rates of more than 20 percent.

27. **The mission also encouraged the BoG to improve the functioning of the foreign exchange market to reduce volatility and ensure convergence of exchange rates (MEFP ¶22).** Currently, the BOG calculates a reference rate and uses it for certain official transactions without having a mechanism in place to ensure that this exchange rate does not differ from the rate prevailing in the market by more than 2 percent, thus giving rise to a multiple currency practice (MCP). Staff welcomes the BoG's recent decision to exclude the BoG's own transactions in the calculation of the reference rate, which leads to better representation of the market price. Such improvement does not modify the MCP and thus does not lead to a nonobservance of the continuous performance criterion on prohibition of introduction or modification of an MCP. The authorities intend to change the current practice to remove the MCP.

IV. Financial Sector Policies

The policy priority in the financial sector is to strengthen banks' risk management capacity, including the recapitalization of remaining problem banks.

28. **The banking system has recorded steady growth in assets and profitability, and non-performing loans declined to 14.1 percent of total loans by the end-April 2012 (Figure 4)**. However, the NPL ratio is still high, and its decline also reflects a rising denominator in an environment of strong credit growth. Recent stress testing conducted by the BoG indicates that the banking system is resilient to interest rate increases and exchange rate depreciation, while remaining exposed to credit and deposit concentration risks.

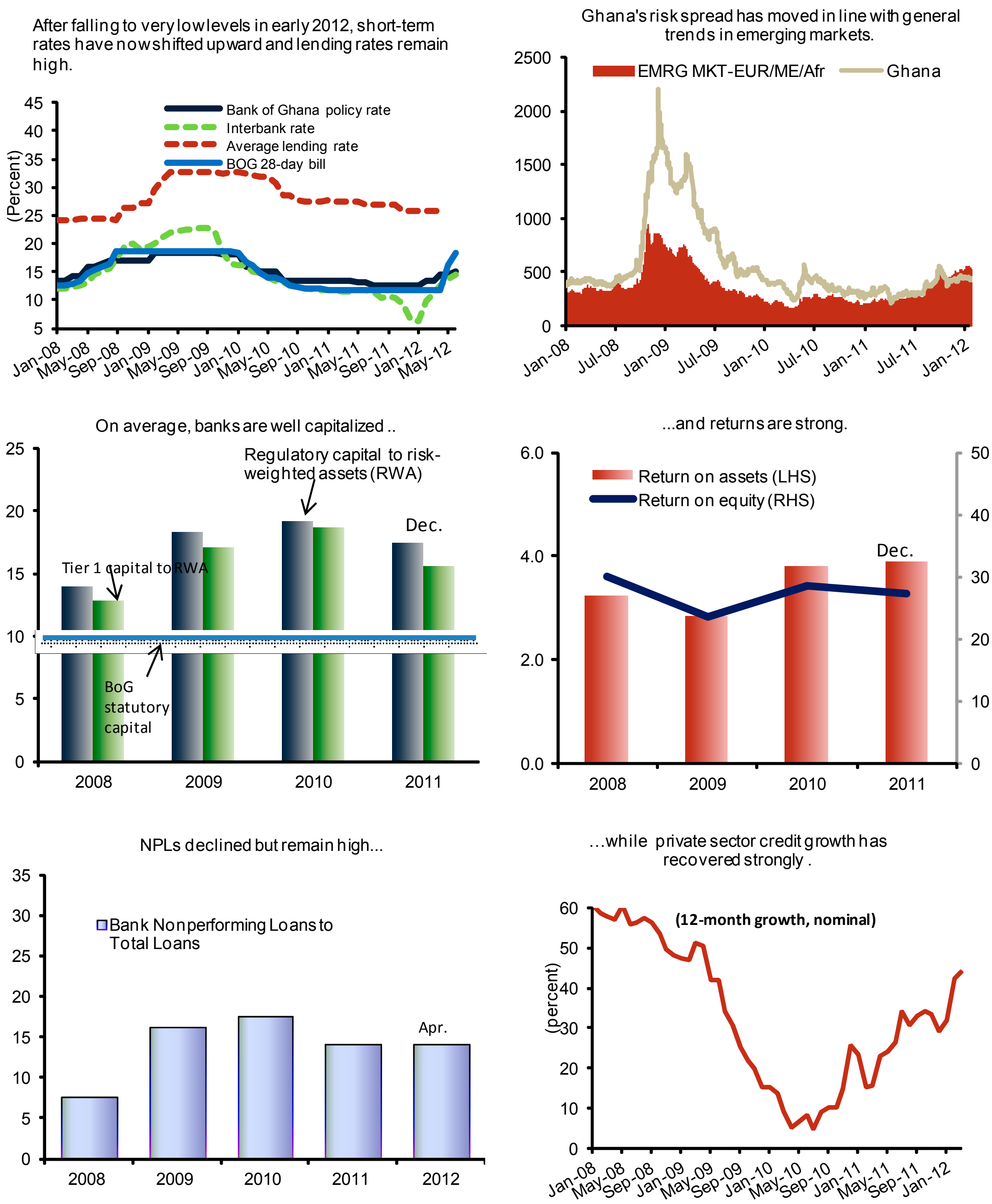
29. **The authorities' policy priority in the financial sector continues to be a strengthening of banks' risk management capacity (MEFP ¶25).** The recapitalization of problem banks is proceeding. In addition, supervision authorities have strengthened the audit of banks by commissioning special audits with periodic mandatory rotation of external auditors and trilateral meetings. These new audits have proven to be effective in terms of achieving more thorough audit reviews, more meaningful public disclosures of audited financial statements, and extensive dialogue with banks and their external auditors. Other structural measures, such as the amendments to the legal framework (structural benchmark), have faced delays. The BoG is now receiving technical assistance from the Fund to move the process forward.

30. **The Financial Action Task Force (FATF) has further increased its scrutiny of Ghana's AML/CFT regime.** In early 2012, the FATF noted that Ghana had not made sufficient progress in implementing its AML/CFT action plan, and that certain strategic deficiencies remained. The government has taken some steps to address these deficiencies, including strengthening of the legislation and the functioning of the Financial Intelligence Centre. However, several serious issues remain outstanding, and the authorities are particularly encouraged to criminalize terrorist financing and money laundering in line with international standards. The authorities are supported by technical assistance from the Fund and other institutions, with a view to resolving all issues identified by the FATF (MEFP ¶25).

V. Program Issues

31. **The authorities, with support from the staff, request waivers on the nonobservance of three performance criteria.** A waiver on the net change in domestic arrears for end-December 2011 is requested on the basis of significant corrective actions taken in the first quarter of 2012. A waiver for the deviation from the fiscal balance target for end-March 2012 is requested on the basis of its small and temporary nature, reflecting one-off payments for the 2011 carry over. Finally, a waiver on the floor on net international reserves for end-March 2012 would reflect recognition of the recent tightening of monetary policy and decisive sterilization operations as corrective actions. The government also requests a technical extension of the program by about two weeks until July 31, 2012 to allow for the final disbursement of the remaining amount (SDR 119.14 million).

Figure 4. Ghana: Financial Indicators, January 2008 – June 2012



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

VI. Staff Appraisal

32. **After strong program implementation for most of 2011, subsequent performance has been mixed.** Spending slippages at the end of 2011, a larger-than-budgeted wage increase, and the reemergence of energy subsidies have put fiscal discipline at risk. While some cedi depreciation would be consistent with inflation differentials and a large current account deficit, the rapid depreciation this year was fuelled by loose monetary conditions and reinforced by unanchored expectations. Interventions by the BoG in January provided only temporary relief, while reducing foreign reserves below comfortable levels.

33. **The decisive actions in recent months to contain expenditure and stabilize the currency are welcome**. On the fiscal side, the pension and payroll audit promise considerable permanent savings, while carry over spending from 2011 was fully repaid. At the same time, recent actions by the BoG to tighten liquidity and hike domestic interest rates appear to have stemmed the cedi's slide.

34. **To achieve the program's fiscal objectives, it is critical that the authorities resist pre-election spending pressures and realize expected savings.** The higher-than-budgeted increase in base pay could unduly strain the fiscal situation, unless the savings from the payroll audit are realized promptly. Similarly, reemerging energy subsidies are crowding out other spending and could seriously endanger the fiscal targets, if international oil prices rise again or the cedi weakens further. An even limited increase in energy prices at the current time would have created an important buffer. In the absence of this, the government has identified alternative savings to secure the fiscal targets, but with little room left for further tightening, if needed.

35. **The government's efforts to increase revenues are welcome**. New tax policy measures introduced in the 2012 budget are projected to generate higher revenues than originally estimated. Prompt parliamentary passage of new legislation to broaden the value added tax would help create additional fiscal space.

36. **While progress has been made on the structural agenda, accelerated efforts are needed to complete the reforms**. Repayment of domestic arrears in line with agreed plans, and their avoidance in the future, must remain priorities. Further progress in public financial management processes, including GIFMIS, will help in the tracking of expenditure and liquidity management. In addition, given Ghana's increasing reliance on nonconcessional financing, there is an urgent need to develop a robust institutional framework for integrated investment planning and debt management. In light of repeated delays, the government's renewed focus and determination are crucial to complete its remaining structural agenda by the end of the year.

37. **Monetary policy will need to remain tight to contain the cedi depreciation and rebuild reserves.** The recent policy tightening was welcome, and with inflation risks on the upside, it will be important for the BoG to remain ready to raise its policy rate further and

manage liquidity closely through market-based policies under its inflation targeting framework. With limited reserve coverage, the BoG should refrain from further interventions to support the cedi and gradually restore the stock of reserves to more comfortable levels.

38. **Based on past performance and the strength of the government's policy intentions for 2012, staff recommends completion of the sixth and seventh reviews under the ECF arrangement**. Given identified measures to preserve the fiscal targets and the decisive tightening of monetary policy in support of the inflation target, staff supports the requested waivers on the nonobservance of the performance criteria on the net change in domestic arrears at end-December 2011, and the overall deficit and net international reserves at end-March 2012. Staff also recommends that a short extension of the program to end-July 2012 be granted for making the final disbursements under the ECF arrangement.

Table 1. Ghana: Selected Economic and Financial Indicators, 2008–13[1]

	2008	2009	2010	2011		2012		2013
				5 ECF	Prel.	5 ECF	Proj.	
	(Annual percentage change; unless otherwise indicated)							
National account and prices								
GDP at constant prices 1/	8.4	4.0	8.0	13.6	14.4	8.5	8.2	7.8
Real GDP (nonoil)	8.4	4.0	6.4	8.2	8.7	7.6	8.8	7.6
Real GDP per capita	5.7	1.4	5.3	10.8	11.5	5.8	5.5	5.1
GDP deflator	20.2	16.6	16.5	9.0	12.5	11.9	15.3	14.1
Consumer prices (average)								
Consumer price index (annual average)	16.5	19.3	10.7	8.7	8.7	9.1	9.8	10.9
Consumer price index (end of period)	18.1	16.0	8.6	9.0	8.6	8.7	11.5	9.5
Consumer price index (excl. food)	17.5	21.8	13.9	11.0	15.0	13.1	14.3	12.9
Money and credit								
Net domestic assets[2]	82.4	3.1	31.7	40.9	29.3	37.3	29.1	22.0
Credit to the private sector[2]	48.6	15.4	25.7	26.9	29.0	30.4	20.1	28.1
Broad money (M3, including foreign currency deposits)	38.1	25.7	37.5	40.0	32.5	39.2	34.8	22.8
Velocity (GDP/M2, end of period)	3.8	3.7	3.3	3.6	3.1	3.1	2.8	2.9
Prime rate (Bank of Ghana; percent; end of period)								
Base money	27.1	36.3	45.4	34.3	31.1	…	24.5	-24.8
M2	28.7	19.5	50.1	34.3	29.7	42.6	31.3	19.0
Policy rate (in percent, end of period)	17.0	18.0	13.5	…	12.5	…	…	…
	(Percent of GDP)							
National accounts								
Gross capital formation	21.5	20.7	18.0	25.8	18.6	26.1	19.8	20.1
Government	9.1	7.1	7.6	6.8	6.2	8.8	7.8	8.0
Private	12.3	13.5	10.4	18.9	12.3	17.3	12.0	12.1
National savings	11.0	18.4	14.6	17.4	9.3	20.1	10.7	12.7
Government	2.8	3.3	2.4	6.0	5.6	5.5	5.6	6.3
Private[3]	8.2	15.1	12.3	11.5	3.7	14.6	5.1	6.4
Foreign savings	-11.9	-5.4	-8.4	-8.3	-9.2	-6.0	-9.1	-7.4
External sector								
Current account balance								
(including official grants)	-11.9	-5.4	-8.4	-8.3	-9.2	-6.0	-9.1	-7.4
(excluding official grants)	-12.8	-6.5	-9.0	-9.6	-9.8	-7.3	-9.7	-7.8
External public debt (including IMF)	16.2	19.5	20.0	19.7	19.7	21.4	21.5	22.9
NPV of external debt outstanding	10.2	10.8	8.4	9.7	9.9	13.4	13.6	15.9
percent of exports of goods and services	41.0	36.8	28.6	25.1	25.6	34.9	36.2	42.4
Gross international reserves (millions of US$)	2,036	3,168	4,680	5,432	5,475	6,390	5,517	6,131
Months of prospective imports of goods and services	2.2	2.7	2.9	3.1	3.1	3.5	2.9	3.0
Total donor support (millions of US$)	1,434	1,790	1,595	1,455	1,673	1,373	1,612	1,356
percent of GDP	4.8	4.9	3.5	3.8	2.8	3.6	2.2	1.5
Central government budget	(Percent of non-oil GDP)							
Total revenue	13.3	13.5	14.5	19.3	18.6	19.9	19.8	19.5
Grants	2.7	3.0	2.4	1.8	2.2	1.8	2.2	1.6
Total expenditure	24.0	20.5	22.8	23.5	22.3	26.1	26.5	24.1
Arrears clearance and VAT refunds	0.4	1.6	1.1	-2.7	2.3	-0.7	0.9	0.6
Overall balance, cash (including grants)	-8.5	-5.8	-7.2	-5.1	-4.4	-5.2	-6.7	-3.9
Net domestic financing	5.7	2.8	4.7	4.4	3.6	2.6	4.0	-0.1
Central government debt (gross)	33.6	36.2	46.4	45.4	46.3	46.4	47.5	43.1
Domestic debt	17.4	16.7	26.3	24.4	25.3	22.7	22.3	17.9
External debt	16.2	19.5	20.1	21.0	21.0	23.7	25.2	25.2
Central government debt (net)	30.1	32.7	43.2	42.7	42.2	44.0	44.9	40.4
Memorandum items:								
Nominal GDP (millions of GHc)	30,179	36,599	46,043	57,254.4	59,264	69,538	73,919	90,923
GDP per capita (millions of U.S. dollars)	1,266	1,116	1,358	1,559	1,580	1,741	1,610	1,675

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

[1] Based on new national accounts rebased to 2006, including ECF program indicators.

[2] Percent of broad money (including foreign currency deposits) at the beginning of the period.

[3] Including public enterprises and errors and omissions.

Table 2A. Ghana: Summary of Central Government Budgetary Operations, 2008–13

	2008	2009	2010	2011		2012		2013
				5 ECF	Prel.	5 ECF	Proj.	
	(In percent of non-oil GDP)							
Total revenue and grants	16.0	16.5	16.9	21.1	20.8	21.7	22.0	21.1
Revenue	13.3	13.5	14.5	19.3	18.6	19.9	19.8	19.5
Oil revenue	0.0	0.0	0.0	1.2	1.2	1.9	1.8	2.0
Nonoil revenue	13.0	13.4	14.4	18.0	17.4	18.0	18.0	17.5
Tax revenue	12.6	12.1	13.2	16.7	16.3	17.5	16.7	16.9
Direct taxes	4.2	4.7	5.4	7.4	7.3	8.7	8.4	8.7
Indirect taxes	6.4	5.5	5.5	6.7	6.6	6.7	6.2	6.6
Trade taxes	2.4	2.1	2.5	3.0	2.7	3.0	3.0	2.9
Nontax revenue	0.4	1.3	1.2	1.3	1.1	0.5	1.3	0.5
Total Grants	2.7	3.0	2.4	1.8	2.2	1.8	2.2	1.6
Project grants	1.3	1.5	1.3	0.8	0.9	1.1	1.1	0.8
Program grants	…	…	…	0.5	0.5	0.3	0.6	0.5
HIPC & MDRI assistance	0.5	0.4	0.4	0.5	0.4	0.4	0.5	0.3
Total expenditure	24.0	20.5	22.8	23.0	21.7	24.6	25.1	24.1
Recurrent expenditure	14.8	13.4	15.2	16.1	15.0	15.8	16.8	15.7
Recurrent Non-interest expenditure	12.6	10.6	12.1	13.0	12.1	12.9	13.7	12.1
Wages and salaries[1]	6.6	6.8	6.9	8.0	8.2	7.8	8.1	7.0
Goods and services	2.1	1.7	2.1	1.5	1.3	1.5	1.3	2.0
Transfers	2.9	1.6	2.0	2.7	2.1	2.6	3.3	2.1
Reserve Fund	0.9	0.5	1.0	0.8	0.6	1.1	1.0	1.0
Interest	2.3	2.8	3.1	3.2	2.9	2.9	3.1	3.6
domestic	1.6	2.1	2.5	2.6	2.4	2.1	2.4	2.6
foreign	0.7	0.7	0.7	0.6	0.5	0.8	0.7	1.0
Capital Expenditure	9.1	7.1	7.6	6.8	6.7	8.8	8.3	8.5
Domestic financed	6.1	2.7	3.2	4.1	3.5	4.1	3.6	3.9
Foreign financed	3.0	4.4	4.4	2.8	3.1	4.7	4.7	4.6
Overall balance (before arrears)	-8.0	-4.1	-6.0	-2.0	-1.1	-3.0	-3.2	-3.2
Arrears clearance[2]	-0.5	-1.7	-1.2	-2.6	-2.7	-0.6	-2.1	-0.8
Deferred wage payments	…	…	…	-0.5	-0.6	-1.5	-1.4	0.0
VAT refunds	-0.1	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1
Overall balance (after arrears)	-8.5	-5.8	-7.2	-5.1	-4.4	-5.2	-6.7	-3.9
Discrepancy	0.4	-0.2	-0.7	0.0	-0.1	0.0	0.0	0.0
Financing	8.9	5.6	6.5	5.1	4.3	5.2	6.7	3.9
Divestiture receipts (net)	2.3	0.0	-1.0	-1.1	-1.0	0.0	0.0	0.0
Foreign (net)	0.6	2.6	2.6	1.5	1.5	2.4	2.6	3.9
Exceptional financing (debt relief, bilateral)	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Domestic financing (net)	5.7	2.8	4.7	4.4	3.6	2.6	4.0	-0.1
Memorandum items:								
Poverty-reducing expenditures	5.2	5.1	5.3	5.4	5.2	5.3	4.9	5.4
Domestic arrears[3]								
New arrears	4.5	2.4	2.6	0.0	1.3	0.0	0.0	0.0
Arrears cleared	0.5	1.7	1.2	2.6	2.5	0.6	1.0	0.8
Arrears outstanding	4.5	3.7	4.4	1.4	2.5	0.9	0.9	0.0
Budget balance (commitment basis)	-12.5	-6.5	-10.1	-3.7	-4.8	-3.0	-3.2	-3.2
Primary balance (commitment basis)	-10.2	-3.7	-7.0	-0.6	-1.9	-0.1	-0.1	0.4
Total government debt (gross)	33.6	36.2	46.4	45.4	46.3	46.4	47.5	43.1
Domestic debt	17.4	16.7	26.3	24.4	25.3	22.7	22.3	17.9
External debt	16.2	19.5	20.1	21.0	21.0	23.7	25.2	25.2
Total government debt (net)	30.1	32.7	43.2	42.7	42.2	44.0	44.9	40.4

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

[1]Excludes deferred wage payments
[2]For 2012, includes carry over payments from 2011 of 1 percent of 2012 non-oil GDP.
[3] Excludes SOEs' liabilities, non-cash payments and deferred wage payments. For 2012, excludes carry-over payments from 2011 of 1 percent of 2012 non-oil GDP.

Table 2B. Ghana: Summary of Central Government Budgetary Operations, 2008–13

	2008	2009	2010	2011		2012		2013
				5 ECF	Prel.	5 ECF	Proj.	
	(In millions of GHc, unless otherwise specified)							
Total revenue and grants	4,839	6,048	7,739	11,348	11,530	14,091	15,341	18,101
Revenue	4,019	4,947	6,659	10,358	10,320	12,935	13,791	16,733
Oil revenue	0	0	0	652	666	1,240	1,240	1,718
Nonoil revenue	3,914	4,888	6,587	9,706	9,654	11,695	12,551	15,014
Tax revenue	3,788	4,427	6,046	8,997	9,036	11,362	11,639	14,549
Direct taxes	1,253	1,717	2,454	3,972	4,037	5,656	5,874	7,506
Indirect taxes	1,920	2,006	2,518	3,597	3,667	4,354	4,324	5,682
Trade taxes	719	763	1,146	1,631	1,516	1,973	2,061	2,475
Nontax revenue	126	461	541	709	618	332	913	465
Total Grants	821	1,101	1,080	989	1,210	1,156	1,550	1,368
Project grants	402	544	591	450	523	691	756	658
Program grants	…	…	…	293	281	187	436	393
HIPC & MDRI assistance	162	158	201	246	242	278	320	265
Total expenditure	7,229	7,521	10,461	12,360	12,052	15,992	17,512	20,737
Recurrent expenditure	4,469	4,904	6,974	8,678	8,348	10,294	11,723	13,460
Recurrent Non-interest expenditure	3,789	3,872	5,535	6,981	6,737	8,410	9,531	10,396
Wages and salaries[1]	1,988	2,479	3,183	4,324	4,535	5,050	5,637	6,049
Goods and services	648	621	962	786	724	967	897	1,718
Transfers	878	604	920	1,467	1,148	1,685	2,289	1,770
Reserve Fund	275	168	471	404	330	708	708	859
Interest	679	1,032	1,439	1,697	1,611	1,884	2,191	3,064
Domestic	482	774	1,124	1,372	1,308	1,387	1,683	2,232
Foreign	197	259	315	325	303	496	508	832
Capital Expenditure	2,760	2,616	3,486	3,682	3,704	5,698	5,789	7,278
Domestic	1,844	990	1,454	2,202	1,963	2,666	2,508	3,332
Foreign	916	1,627	2,033	1,480	1,741	3,032	3,281	3,946
Overall balance (before arrears)	-2,415	-1,504	-2,767	-1,066	-611	-1,978	-2,248	-2,736
Arrears clearance[2]	-142	-626	-551	-1,412	-1,505	-400	-1,430	-655
Deferred wage payments	…	…	…	-263	-343	-991	-991	0
VAT refunds	-26	-31	-45	-53	-89	-77	-77	-99
Overall balance (after arrears)	-2,558	-2,131	-3,318	-2,741	-2,459	-3,369	-4,669	-3,390
Discrepancy	133	-69	-318	0	-71	0	0	0
Financing	2,690	2,062	3,000	2,741	2,388	3,369	4,669	3,390
Divestiture receipts (net)	707	6	-445	-572	-572	0	0	0
Foreign (net)	171	955	1,209	828	856	1,572	1,778	3,329
Project loans	515	1,083	1,441	1,030	1,054	1,139	1,105	1,090
Program loans	153	330	270	427	387	184	273	408
Commercial borrowing	0	0	0	0	0	1,202	1,382	2,682
Amortization	-497	-458	-502	-628	-584	-953	-983	-851
Exceptional financing (debt relief, bilateral)	78	59	93	123	116	131	131	118
Domestic financing (net)	1,735	1,042	2,143	2,361	1,988	1,666	2,761	-56
Memorandum items:								
Nominal nonoil GDP (millions of GHc)	30,179	36,599	45,865	53,775	55,518	65,034	69,714	85,902
Poverty-reducing expenditures	1,584	1,856	2,411	2,883	2,883	3,434	3,434	4,679
Domestic arrears[3]								
New arrears	1,353	866	1,208	0	720	0	0	0
Arrears cleared	142	627	551	1,412	1,362	400	732	655
Arrears outstanding	1,353	1,372	2,029	747	1,386	616	655	0
Budget balance (commitment basis)	-3,768	-2,370	-4,632	-2,012	-2,681	-1,978	-2,248	-2,736
Primary balance (commitment basis)	-3,089	-1,338	-3,193	-315	-1,070	-94	-57	328
Total government debt (gross)	10,138	13,256	21,299	24,392	25,707	30,189	33,123	37,047
Domestic debt	5,239	6,103	12,081	13,095	14,060	14,763	15,572	15,358
External debt	4,899	7,153	9,218	11,298	11,647	15,425	17,551	21,689
Total government debt (net)	9,083	11,963	19,813	22,971	23,405	28,635	31,313	34,740

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

[1]Excludes deferred wage payments
[2]For 2012, includes carry over payments from 2011 of 1 percent of 2012 non-oil GDP.
[3] Excludes SOEs' liabilities, non-cash payments and deferred wage payments. For 2012, excludes carry-over payments from 2011 of 1 percent of 2012 non-oil GDP.

Table 3. Ghana: Monetary Survey, 2008-13[1]

	2008	2009	2010	2011		March 2012		2012		2013
				5 ECF	Prel.	5 ECF	Prel.	5 ECF	Proj.	
	(In millions of GHc, unless otherwise indicated)									
	I. Depository Corporation Survey									
Net foreign assets	2,064	3,925	5,754	7,988	7,880	8,145	6,830	11,339	11,202	13,857
Net Domestic Assets	5,877	6,059	7,978	11,287	10,320	12,011	13,067	15,501	13,323	16,255
Domestic Claims	8,382	10,149	12,812	16,559	15,675	17,184	17,114	20,431	17,657	20,902
Net Claims on Central Government	2,398	3,169	4,352	5,638	5,181	4,019	5,389	6,588	5,457	5,502
Claims on Other Sectors	5,984	6,979	8,461	10,921	10,494	13,166	11,725	13,843	12,201	15,400
Claims on Other Financial Corporations	-4	-5	-6	0	-7	0	-10	0	0	0
Claims on State and Local Government	0	0	0	0	0	0	0	0	0	0
Claims on Public Non-financial Corporations	1,095	1,340	1,374	1,805	1,351	1,825	1,945	1,958	1,209	1,319
Claims on Private Sector	4,893	5,645	7,092	9,116	9,150	11,341	9,790	11,884	10,992	14,081
Other Items (Net)	-2,505	-4,090	-4,834	-5,271	-5,355	-5,174	-4,046	-4,930	-4,335	-4,646
Money and quasi-money (M3)	7,940	9,984	13,732	19,276	18,200	20,155	19,898	26,839	24,525	30,112
Broad money (M2)	6,124	7,319	10,983	14,797	14,245	15,941	15,070	21,104	18,701	22,256
Foreign exchange deposits	1,817	2,664	2,749	4,479	3,954	4,215	4,828	5,735	5,824	7,856
	II. Central Bank									
Net foreign assets	1,809	3,261	5,241	6,263	6,670	6,205	5,324	8,025	8,544	10,741
Net domestic assets	416	-229	-831	-341	-890	175	-282	421	-1,352	-2,226
Net Domestic Claims	975	570	27	887	297	1,284	1,527	1,068	-1,746	-2,621
Claims on Other Depository Corporations	-466	-815	-1,749	-221	-2,299	297	-1,219	1,443	-3,378	-3,288
Net Claims on Central Government	1,448	1,355	1,371	151	1,943	31	1,920	-1,331	909	-56
Claims on Other Sectors[2]	-7	29	405	956	653	956	826	956	724	724
Other Items (Net)[3]	-560	-799	-858	-1,228	-1,187	-1,109	0	-647	394	394
Base money	2,225	3,032	4,410	5,922	5,780	6,380	5,042	8,447	7,193	8,514
Currency In Circulation (net of cash in vaults)	1,543	1,835	2,893	3,522	3,763	3,230	4,886	4,365	4,838	6,107
Liabilities To Other Depository Corporations	637	1,121	1,354	…	1,840	…	…	3,981	2,178	2,231
Required Reserves	513	727	961	…	1,283	…	…	…	…	…
Excess Reserves	124	395	393	…	553	…	…	…	…	…
Liabilities To Other Sectors	45	76	162	101	176	101	155	101	176	176
Memorandum items:	(In 12-month percentage change; unless otherwise indicated)									
Base money	27.1	36.3	45.4	34.3	31.1	47.9	16.9	25.1	24.5	18.4
M3	38.1	25.7	37.5	40.0	32.5	39.3	38.6	22.4	34.8	22.8
Credit to the private sector	48.6	15.4	25.7	25.8	29.0	52.8	31.9	11.4	20.1	28.1
M3-to-GDP ratio (in percent)	26.3	27.3	29.8	33.7	30.7	39.3	38.6	38.6	33.2	33.1
Base money multiplier (M2/base money)	2.8	2.4	2.5	2.5	2.5	2.5	3.0	2.5	2.6	2.6
Credit to the private sector (in percent of GDP)	16.2	15.4	15.4	25.8	15.4	15.3	13.2	17.1	14.9	15.5

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

[1] End of period

[2] Include public enterprises and the local government.

[3] Including valuation.

Table 4. Ghana: Balance of Payments, 2008–13

	2008	2009	2010	2011		2012		2013
				5 ECF	Prel.	5 ECF	Proj.	
	(In millions of U.S. dollars)							
Current account	-3,400	-1,395	-2,699	-3,159	-3,549	-2,614	-3,651	-3,172
Trade balance	-4,999	-2,207	-2,962	-2,508	-3,057	-2,046	-2,561	-2,659
Exports, f.o.b.	5,270	5,840	7,960	12,841	12,785	14,857	14,814	16,129
Imports, f.o.b	-10,268	-8,046	-10,922	-15,348	-15,843	-16,902	-17,375	-18,789
Of which: oil	-2,357	-1,489	-2,236	-3,212	-3,170	-3,386	-3,100	-3,268
Services (net)	-497	-1,173	-1,526	-2,081	-1,859	-2,191	-1,928	-1,941
Income (net)	-116	-93	-534	-957	-1,230	-1,387	-1,497	-1,211
Of which: interest on public debt	0	0	0	-268	-223	-345	-355	-358
Transfers	2,211	2,078	2,322	2,387	2,597	3,010	2,335	2,639
Official transfers	241	290	200	492	229	548	237	185
Other transfers	1,970	1,788	2,123	1,895	2,369	2,461	2,098	2,454
Capital and financial account	3,297	4,320	4,290	3,724	4,479	3,383	3,546	3,820
Capital account	463	564	337	320	445	270	431	275
Financial account	2,834	3,756	3,952	3,404	4,034	3,113	3,115	3,545
Foreign direct investment (net)	2,706	2,897	2,527	3,122	3,222	3,188	3,124	3,301
Portfolio investment (net)	-49	-41	620	234	118	210	210	224
Other investment (net)	177	899	804	48	694	-285	-219	20
Medium and long term (net)	682	951	386	360	291	1,091	916	752
Official (net)	487	1,086	880	910	650	1,642	1,106	1,724
Disbursements	730	937	1,058	1,132	889	2,034	1,498	1,968
Amortization	-231	-160	-178	-265	-239	-425	-392	-244
Private (net)	196	-135	-493	-551	-359	-551	-301	-411
Short-term (net)	-505	-52	418	-312	404	-1,376	-1,135	-732
Errors and omissions	-697	-1,899	-197	-47	-319	0	0	0
Overall balance	-800	1,026	1,393	518	611	768	-105	648
Financing								
Net international reserves (-, incr.)	800	-1,026	-1,393	-518	-611	-768	105	-648
Use of Fund credit (net)	0	106	120	189	184	190	147	-34
Increase in gross reserves (-)	800	-1,131	-1,513	-708	-795	-958	-42	-614
Memorandum items:	(Percent of GDP)							
Current account	-11.9	-5.4	-8.4	-8.3	-9.2	-6.0	-9.1	-7.4
Trade Balance	-17.5	-8.6	-9.2	-6.6	-8.0	-4.7	-6.4	-6.2
Capital and Financial Account	11.6	16.7	13.3	9.8	11.7	7.8	8.8	8.9
Overall Balance	-2.8	4.0	4.3	1.4	1.6	1.8	-0.3	1.5
Official grants	0.8	1.1	0.6	1.3	0.6	1.3	0.6	0.4
Gross International Reserves								
(in millions of U.S. dollars)	2,036	3,168	4,680	5,432	5,475	6,390	5,517	6,131
Months of imports	2.2	2.7	2.9	3.1	3.1	3.5	2.9	3.0

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

Table 5. Ghana: Financial Soundness Indicators, 2005–12

	2005	2006	2007	2008	2009	2010	2011	2012 Mar
	(In percent, end of period, unless otherwise indicated)							
Capital adequacy:								
Regulatory capital ratio	16.2	15.8	14.8	13.8	18.2	19.1	17.4	17.3
Regulatory tier 1 capital ratio	7.2	15.0	13.6	12.8	17.0	18.6	15.5	15.5
Asset quality:								
Nonperforming loans to total gross loans	13.0	7.9	6.4	7.7	16.2	17.6	14.1	13.1
Credit to total assets	48.7	45.0	50.3	52.3	43.8	40.1	37.8	41.2
Loan provision to Gross loan	8.5	7.4	5.5	6.3	11.1	9.4	7.7	6.6
Bank Provisions to NPLs	…	…	…	…	68.7	70.6	76.2	74.6
Earnings and profitability:								
Return on assets, before taxes (average)	4.6	4.8	3.7	3.2	2.8	3.8	3.9	4.3
Return on equity, before taxes (average)	23.6	39.6	35.8	23.7	17.5	20.4	19.7	24.2
Interest margin to gross income	64.0	51.8	46.1	41.3	39.4	50.1	46.8	47.3
Interest spread[1]	16.7	17.7	17.0	13.8	17.8	18.7	25.9	25.9
Liquidity:								
Core liquid assets to total assets ratio	20.7	23.5	23.4	25.2	26.3	25.3	27.8	23.8
Broad liquid assets to total assets ratio	47.0	46.3	40.7	39.4	47.2	51.3	54.9	51.4
Core liquid assets to short-term liabilities ratio	42.8	31.4	31.0	33.5	34.5	32.9	35.3	30.1
Broad liquid assets to short-term liabilities ratio	97.4	61.9	54.1	52.4	62.0	66.6	69.6	64.9
Exposure to foreign exchange risk:								
Share of foreign currency deposits in total deposits	26.3	28.1	22.3	28.4	32.7	25.4	27.4	32.2
Share of foreign liabilities in total liabilities	2.4	4.0	8.1	7.0	6.2	4.7	3.4	3.4

Source: Bank of Ghana.

[1] Average lending rate minus average (saving and demand) deposit rate.

Table 6. 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 81.50 million	Jun 9, 2010	Observance of the performance criteria for September 30, 2009 and for December 31, 2009, and completion of the combined first and second review under the arrangement.
SDR 59.58 million	May 27, 2011	Observance of the performance criteria for June 30, 2010, and for December 31, 2010, and completion of the combined third and fourth review under the arrangement.
SDR 59.58 million	September 15, 2011	Observance of the performance criteria for June 30, 2011, and completion of the fifth review under the arrangement.
SDR 59.58 million	March 15, 2012	Observance of the performance criteria for December 31, 2011, and completion of the sixth review under the arrangement.
SDR 59.56 million	July 5, 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.

APPENDIX I. LETTER OF INTENT

June 26, 2012

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Madame Lagarde:

The attached Memorandum of Economic and Financial Policies (MEFP) reports recent economic developments and reviews progress in implementing the Government of the Republic of Ghana's economic program under the three-year Extended Credit Facility (ECF), approved by the IMF Executive Board on July 15, 2009. It also sets out macroeconomic policies and structural reforms that the government will pursue for the remainder of 2012.

The strong performance in 2011 met some challenges toward the end of the year and in early 2012. While policies have remained broadly on track, three quantitative performance criteria were missed. For end-December (sixth review) all quantitative performance criteria were met with the exception of net domestic arrears clearance. The government took prompt corrective action to make up most of the shortfall in the first quarter of 2012, but, as a result, missed the adjusted deficit target for end-March (seventh review). The (adjusted) floor on net international reserves for end-March was also missed, reflecting the Bank of Ghana's large foreign exchange intervention in January in support of the cedi.

The government took decisive actions in recent months to contain expenditure and stabilize the currency. On the fiscal side, the pension and payroll audits promise considerable savings to make up for higher-than-planned wage increases, while carry over spending from 2011 was fully repaid. At the same time, recent actions to tighten liquidity and hike domestic interest rates appear to have stemmed the cedi's slide. To achieve the program's fiscal objectives, the government will keep the primary deficit close to balance, by resisting pre-election spending pressures and realize expected savings. The government will continue to defend the inflation target and stand ready to adjust interest rates further, if warranted to keep inflation within its target range, while gradually replenishing its foreign reserve buffer.

Progress has also been made on the structural reform agenda, but a number of reforms were delayed relative to program benchmarks. Debt management policies and performance was strengthened, and the government remains committed to developing a robust institutional framework for integrated investment planning and debt management, which will contribute to continued prudent external borrowing. The ongoing modernization of Ghana's revenue administration that started in 2009 has improved tax collections. Expenditure management is being strengthened with support from Ghana's development partners and efforts are underway to better monitor the public sector wage bill and pension payments. Implementation delays have resulted from operational challenges of managing new financial systems (Ghana Integrated Financial Management Information System), connectivity (integration of VAT and income tax offices), and human resources (civil service payroll audit). Despite these delays, the government remains strongly committed to advance the structural reform agenda and is stepping up efforts to implement the remaining measures. In the financial sector, the government's policy priority is to strengthen banks' risk management capacity, including the completion of remaining problem banks' recapitalization.

In support of its policies, the government requests that the IMF Executive Board complete the sixth and seventh reviews of Ghana's ECF arrangement and approve the associated disbursements. The government also requests that the IMF's Executive Board grant three waivers of nonobservance of performance criteria on the limits of net domestic arrears clearance by end-2011, the overall fiscal deficit at end-March 2012, and on the floor on net international reserves at end-March 2012. In addition, the government requests a technical extension of the program by about two weeks until July 31, 2012 to allow for the final disbursement of the remaining amount (SDR 119.14 million).

The ECF arrangement has played an important role towards the consolidation of macroeconomic stability, particularly during the global economic and financial crisis. It has also created a platform for accessing technical assistance from the IMF and other institutions and provided important signals on Ghana's economic performance and prospects.

The Government authorizes the IMF to publish this letter, the attached Memorandum of Economic and Financial Policies and the related Staff Report, including placement of these on the IMF website subject to removal of market-sensitive information, following the IMF Executive Board's conclusion of the reviews.

/s/
Dr. Kwabena Duffuor
Minister of Finance and
Economic Planning

/s/
Dr. H. A. Kofi Wampah
Deputy Governor
Bank of Ghana

APPENDIX I—ATTACHMENT I
MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

This document summarizes the government's assessment of Ghana's current economic situation and performance of the economy through March 2012 and discusses the projections and policy objectives for the remainder of 2012. These objectives are informed by, and consistent with, the Ghana Shared Growth and Development Agenda.

I. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

1. **Ghana benefited from a favorable economic environment in 2011, and growth prospects remain strong.** The economy grew by an estimated 14½ percent in 2011, boosted by the onset of oil production, while end-2011 inflation fell to 8.6 percent—below the government's 9 percent target. Despite a strong export performance, the current account deficit rose above 9 percent of GDP in 2011, on account of rapid import growth. In 2012, economic growth is expected to continue at a robust pace of more than 8 percent, with inflation projected to approach the upper end of the 5.7–11.7 percent target band by the end of the year.

2. **Risks to macroeconomic stability are rising.** A rapid depreciation of the cedi in the first quarter of 2012—likely reflecting a combination of seasonally strong demand for foreign exchange, a shift to cash-based transactions with new trading partners, and high domestic liquidity—has slowed in May, in response to decisive policy actions by the Bank of Ghana (BoG). International cocoa prices dropped significantly in recent months, but most cocoa export sales have been hedged through September, and still high gold prices provide a buffer. Nevertheless, Ghana's economy is exposed to upside risks to inflation from a depreciating currency and high domestic demand, as well as to a possible deterioration in the external position, resulting from a deeper global slowdown with potentially adverse repercussions on commodity prices and foreign inflows.

II. PROGRAM PERFORMANCE

3. **The strong performance in 2011 met some challenges toward the end of the year and in early 2012.** For end-December 2011, all quantitative performance criteria and indicative targets were met, with the exception of the target for net arrears clearance (Table 1). For end-March 2012, both the overall deficit target and the floor on net international reserves were missed, reflecting special circumstances outlined below. The government has since taken significant corrective actions to safeguard the program objectives to which it remains fully committed. Structural reforms have also been progressing, though with some delays and deviations from the previously agreed benchmarks (Table 2).

4. **The fiscal deficit in 2011 was below the program ceiling, but net clearance of arrears fell short, and some spending was carried over into 2012.** Revenue was broadly

as programmed and grants were higher than projected, while expenditure was lower. The wage bill, however, exceeded earlier projections, as challenges with migration to the single spine caused some overpayments. Moreover, late tax receipts created cash shortages toward the end of the year. While the program provided room for carry over of GH¢ 270 million, the actual amount (carry over, float, and residual petroleum subsidies) exceeded this level by GH¢ 404 million (about 0.7 percent of non-oil GDP). In addition, although gross arrears clearance of more than GH¢ 1.5 billion (2.7 percent of non-oil GDP) exceeded the program target, there was an accumulation of new arrears of GH¢ 720 million by end-December. As a result, the net arrears clearance target was missed by GH¢ 626 million. With the full collection of revenue in late December, the fiscal cash deficit was, in the end, lower than the (adjusted) target by GH¢ 362 million, but would have exceeded the target in the absence of the carry over.

5. **The government has adopted decisive corrective actions to settle the new arrears and the outstanding 2011 claims.** Carry-over expenditure from 2011 was fully repaid, and net arrears clearance in the first quarter of 2012 exceeded the program target by GH¢ 327 million (0.5 percent of non-oil GDP), while net domestic financing was below the program's (adjusted) indicative target. However, with these significant efforts, the (adjusted) overall deficit was missed, despite lower recurrent and capital expenditure. The floor on net international reserves was missed by US$1.1 billion, reflecting interventions by the BoG in January to stem pressures on the cedi. Since then, monetary policy has been tightened significantly to help stabilize the cedi without a further depletion of NIR.

III. Economic Objectives and Policies for the Remainder of 2012

After a successful macroeconomic outturn in 2011, the government's main challenge for 2012 will be to maintain the hard-won stabilization gains in the face of resurgent global risks and domestic spending pressures.

A. Fiscal Policy

6. **The government is committed to maintaining the agreed primary deficit target of 0.1 percent of non-oil GDP on a commitment basis.** Achieving this target will now require an adjustment of 1.8 percentage points of non-oil GDP relative to 2011, versus 0.5 percentage points targeted at the time of the 5th review. The cash deficit, however, will be higher by 1.5 percentage points at 6.7 percent of non-oil GDP, reflecting the carry-over of payments from 2011, as well as higher interest payments from tightened monetary policy. To achieve this target, higher-than-programmed wage increases awarded in early 2012 and the reemergence of domestic energy subsidies will be partially covered by savings from the completed pension audit and the ongoing payroll audit, some reductions in discretionary current and domestic capital expenditure, and higher estimates of returns from adjusting the mining tax regime.

Containing spending pressures

7. **The wage bill**. Migration to the single spine salary structure is virtually complete, with 99 percent of public servants now placed on the new structure. In October 2011, the government began paying deferred wages resulting from delays in the migration. The remaining amount of GH¢ 991 million to be paid in 2012 will be disbursed in monthly installments until July 2012. Instead of an increase in pay relativity, as originally planned, the government negotiated a base pay increase of 18 percent in late-February, which is effective January 1, 2012. Public servants started receiving the higher base pay in May 2012 and payments for January to April 2012 will be made in August. The cost of the pay increase of GH¢ 1,100 million will be partially met by savings from a payroll audit, which will begin to materialize in the second half of the year and promise to lower the overall wage bill permanently by an estimated 15–20 percent. This estimate is based on a 75 percent completion rate, covering six regions, which was achieved by end-June. The government has publicly announced that it will discontinue payments to ineligible workers in these six regions as of July 2012. While the audit was originally expected to be completed by May (structural benchmark for seventh review), completion is now anticipated by end-August at the latest.

8. **Energy pricing.** In late December, the government raised pump prices by 15 percent to restore cost recovery, but was compelled to claw back 3 percentage points of the increase in February, to avoid public unrest. Since then, prices have been kept constant, as domestic fuel price increases on top of the strong cedi depreciation were deemed intolerable, particularly for lower-income households. The implied subsidies between January and May 2012 of GH¢ 228 or 0.3 percent of non-oil GDP million were covered from the budget. In late May, domestic pump prices were about 15 percent below their cost-recovery level (implying monthly subsidies of about GH¢ 60 million), but the latest decline in international oil prices has reduced the gap to about 10 percent (implying monthly subsidies of about GH¢ 45 million). Utility tariffs, last adjusted in December 2011, have also fallen below cost-recovery levels by a similar magnitude. The government remains committed to restore cost-recovery levels in the future. In the short term, however, it has identified alternative revenue and expenditure measures to preserve its fiscal targets

9. **Other expenditure measures.** To offset the additional spending commitments, the government will also reduce discretionary current and domestically-financed capital expenditure by GH¢ 228million, relative to the 5th review target. The savings will be achieved by a GH¢ 69 million reduction in current spending and by delaying a number of identified new projects. A number of contingency measures (equivalent to 0.2 percent of nonoil GDP) have been identified in the event of revenue shortfalls or additional spending pressures.

Maintaining improvements in revenue performance

10. **Non-oil tax collections have risen substantially since the launch of the ECF program, from 12.3 percent of non-oil GDP in 2009 to 16.3 percent in 2011.** This is largely due to improvements in tax administration, including strengthened customs administration and streamlining of tax exemptions. The government is targeting an increase of the non-oil tax revenue ratio to 16.9 percent of non-oil GDP in 2012, which would stem from ongoing reform efforts as well as new tax measures.

11. **Tax administration**. The integration of VAT and direct taxation under single office heads is proceeding (structural benchmark). Three integrated offices of the Domestic Tax Revenue Division (DTRD)—the large taxpayer office as well as one medium and one small taxpayer office—were operational by end-March 2012. Six additional integrated offices are scheduled to become operational by end-June 2012, with full integration by the end of the year (for a total of 64 offices). Roll out of the information technology (IT) system under the *e-gov* reform in pilot offices is proceeding in parallel. In addition, the government is pursuing further improvements in customs administration. A review of the customs law is in progress and a new bill will be proposed to modernize customs administration.

12. **Tax policy.** In its 2012 budget, the government proposed a number of new measures to strengthen revenue performance:

- **Natural resource taxation.** The corporate tax for mining was increased from 25 to 35 percent and a uniform regime for capital allowances was established, including an annual allowance of 20 percent for five years for mining. An annual revenue yield of GH¢ 314 million (0.5 percent of non-oil GDP) from the increase in the corporate tax rate was incorporated in the 2012 budget, but refined estimates now point to a yield of GH¢ 488 million which includes additional revenues from the change in capital allowances. A windfall profit tax has been developed with IMF technical assistance and will be submitted to Parliament by end-June 2012. However, revenues from this measure are only expected to start in 2013. The government has drafted new regulations to govern ring fencing of projects in mining. New modalities were legislated with the passage of the amendment to the Internal Revenue Act in March. OECD guidelines for transfer pricing have been adopted and new regulations will be sent to Parliament in June.

- **Capital gains.** A revision of the Internal Revenue Act is underway, including provisions concerning the transfer of interest between non-resident business entities, with a view to enhance the government's ability to collect more capital gains taxes from these transactions. The amendment to the Act, already legislated, did not include provision for capital gains tax. The tax is, thus, being considered in the general revision of the Internal Revenue Act which is ongoing. A draft of the new bill will be completed in June.

- **Revised VAT legislation.** The government has undertaken a comprehensive review of the draft VAT bill which was submitted to Parliament in May 2011 and includes the extension of VAT to fee-based financial services. The new draft has been resubmitted in June 2012 after incorporating substantive comments from the IMF's Legal Department, and will be considered during the current legislative session. The delayed introduction will reduce the VAT intake by about GH¢ 107 million relative to the budget projections incorporated in the 5th review.

13. **Non-tax revenue.** The government also expects additional non-tax revenue, following changes to the tax regime for mining. For those mining companies that have stability agreements, the government approached these companies to negotiate compensation for maintaining the existing favorable terms. In addition, a number of mining companies have approached the government to negotiate new stability agreements. Fees as compensation for the stability agreements are expected to yield non-tax revenue of GH¢ 525 million (0.8 percent of non-oil GDP).

Continuing PFM reforms

14. **Management of arrears**. The government has made significant progress in arrears management. The focused implementation of its arrears clearance strategy in 2011 has reduced outstanding obligations by 2.7 percent of non-oil GDP through cash payments and an additional 1.5 percent of non-oil GDP through issuance of promissory notes and bonds. The requirement that commencement certificates be secured by line ministries before committing the government to any contractual obligations has limited the occurrence of new arrears. The latter, however, still amounted to 1.3 percent of non-oil GDP in 2011, as a result of a tight cash flow position at the end of the year and delays in the reconciliation of liabilities between the central government and utility companies.

15. **Ghana Integrated Financial Management System.** The government continues to make progress on the implementation of GIFMIS, despite some delays related to the negotiation of contractual obligations with software providers. Recent progress has been made with the set up of the general ledger module and the roll out of a unified chart of accounts, compliant with GFSM 2001. The general ledger transactions from January to November 2011 were converted into the new chart of accounts and uploaded to the Oracle General Ledger in November 2011. The implementation partner (Oracle Consulting Services) revalidated and re-setup the general ledger as part of their contract scope which commenced in December 2011, and this was rolled out to all ministries in February 2012 (structural benchmark). All MDAs have been trained in the use of the general ledger, although their ability to post transactions is at times hampered by connectivity problems. In addition, testing and training for the Procure-to-Pay (P2P) module—which includes purchasing, payables and cash management—is underway. The module will be operational in two pilot offices (MoFEP and CAGD) by end-June 2012 and the roll out to all MDAs will

begin in August 2012. Going forward reforms will focus on the next phases of implementation, including the integration of the payroll and financial systems.

16. **Cash management.** The government has made progress in the transition to a Treasury Single Account to address ongoing challenges in cash management. The number of government bank accounts at the Bank of Ghana has been reduced to 3,500 from 5,000. Of these, 410 constitute the nucleus of the TSA. Further consolidation of accounts will be undertaken as the roll out of the GIFMIS general ledger and P2P modules is completed for each MDA. The completion of the GIFMIS roll out should also facilitate the elimination of large unclassified fiscal float transactions. Going forward, the cash management team envisages 3 accounts for each MDA, but the number of remaining accounts to serve the needs of MDAs is currently under review.

Strengthening investment planning and debt management

17. **CDB loan.** Parliament has approved nine out of twelve subsidiary agreements for infrastructure development in the context of the Master Facility Agreement (MFA) with the China Development Bank. They include US$150 million to finance ICT-enhanced surveillance and monitoring for the oil and gas enclave project and US$850 million for the gas infrastructure project to be disbursed over three years. The remaining subsidiary agreements have also been submitted to Parliament for approval. As projects are being phased in, the government will ensure that all are supported by robust feasibility and financial viability studies, as required under the MFA. The government will also ensure that the phasing of disbursements for these and other projects is consistent with the agreed program targets and medium-term fiscal plans to preserve debt sustainability. Total disbursements under the MFA will not exceed US$750 million in 2012, consistent with commitments under the 5th review.

18. **Debt management.** Capacity and policies have been strengthened and a second annual debt management strategy for 2012–14 was published at end-December 2011, as foreseen under the program (structural benchmark). The reorganization of the Debt Management Division (DMD) was completed in October 2011. The main objective of the Division is now to minimize the financial cost of the public debt, while maintaining the market and operational risks at an acceptable level, taking into account the general objectives of fiscal and monetary policies.

19. **Investment planning.** A new Public Investment Division (PID) has been created to provide strategic direction and coordination in the management and delivery of public investments be it through Continental Traditional Procurement or Public Private Partnership Procurement. It (i) establishes and maintains a rolling medium-term public investment plan, consistent with GSGDA priorities; (ii) evaluates, assesses, and monitors major investment projects; and (iii) advises on the selection of Public-Private Partnership (PPP) projects. A national policy on PPP policy framework has been developed with World Bank and DFID

support and approved by Cabinet in June 2011. Work is ongoing on policy guidelines to strengthen coordination between PID, DMD, and the Economic Research and Forecasting Division at MoFEP (structural benchmark for the seventh review). The guidelines cover coordination on: (i) debt sustainability and risk analyses; (ii) establishing multi-year investment and borrowing plans that are consistent with the medium-term expenditure framework and the public debt management strategy; and (iii) managing fiscal commitments and contingent liabilities from PPP. A draft framework for managing fiscal commitments and contingent liabilities from PPPs has been developed and is currently under review.

B. Monetary, Financial, and Exchange Rate Issues

Defending the inflation target

20. **In 2012, the BoG aims to keep inflation broadly stable, with an end-year target in the range of 5.7 to 11.7 percent.** The accelerated decline in the exchange rate, however, creates upside risks. To rein in inflationary expectations and slow the cedi depreciation, the BoG has undertaken a number of measures. Since the beginning of the year, the BoG has raised its policy rate thrice to 15.0 percent, and also took additional measures in April, including: (i) a reduction in banks' maximum net open forex position (from 15 to 10 percent on single currency and from 30 to 20 percent on aggregate exposures); (ii) a shift in the currency at which banks hold mandatory reserves on forex deposits from foreign currency to cedi, to raise the supply of foreign exchange in the market; (iii) the reintroduction of BoG bills at different tenors to facilitate the mopping up of excess liquidity and (iv) the provision of a 100 percent cover by commercial banks for all *vostro* accounts, to be held with the BoG in line with operational guidelines that preclude foreign investors from participating in the short end of the money market. These measures have recently shown effect in raising market rates and halting the depreciation.

21. **The BoG stands ready to adjust interest rates further, if warranted to keep inflation within its target range, while gradually replenishing its foreign reserve buffer.** A larger buffer will facilitate the smoothing of excessive volatility in the foreign exchange market, while allowing an orderly adjustment of the exchange rate to market forces. To avoid adding further to short-term exchange rate pressures, the pace of reserve accumulation will be gradual, with the aim of restoring March levels by June and retaining a coverage of close to 3 months of prospective imports by the end of the year.

22. **The BoG, together with MoFEP support, will also implement structural improvements in the functioning of the foreign exchange market.** Several actions will be adopted in the following months to reduce volatility and ensure convergence of exchange rates in the market:

i. Enforcement of repatriation requirements and establishment of sunset clauses for concessions, to increase supply of foreign exchange.

ii. Strengthening monitoring and intervention practices in the market by improving cash-flow budgeting and facilitating timely and effective intervention at market rates. The BoG is now an active participant in the foreign exchange interbank market by offering two-way quotes on the U.S. dollar to all banks for intra-day trading in the currency. The BoG is also enhancing its cash flow budgeting, including considering the forecasted benchmark petroleum revenue to better gauge the amount that is earmarked for the annual budget funding amount as required in the Petroleum Revenue Management Act, and ensuring that all transactions occur at market rates.

iii. Enhancing transparency and providing regular and frequent information on reserve levels and reserve management policies.

23. **To strengthen monetary operations and liquidity management under the inflation targeting framework, the BoG will:**

i. Continue mopping up excess liquidity with the reintroduced BoG bills as well as treasury bills. The BoG will further tighten the policy rate, if excessive depreciation pressures persist. An account will be established for accruing interest related to the mopping up of excess liquidity from foreign participation in domestically-issued 3-year and 5-year bonds. Discussions on cost-sharing arrangements are ongoing.

ii. Continue to conduct monetary policy operations so that the short-term market rates are consistent with the policy rate.

iii. Continue to publish information regarding its monetary operations on its website and communicate regularly with market participants to promote understanding of BoG actions.

iv. Improve the liquidity forecasting framework and coordinate closely with the MoFEP to obtain better information on the government's cash flow projections.

Financial sector developments

24. **The banking system continued to record steady growth in assets and profitability in the first quarter of 2012.** Total assets increased by 24.2 percent year-on-year to end-March-2012, funded mainly by deposits. The non-performing loans (NPLs) ratio of the banking industry declined to 13.1 percent at the end-March, 2012, while the Capital Adequacy Ratio (CAR) of the sector also declined to 17.3 percent, but remained well above the statutory level of 10 percent. Most profitability indicators for the first quarter of 2012 improved compared to 2011 levels, whilst overall liquidity levels also remained high.

25. **The policy priority in the financial sector continues to be a strengthening of banks' risk management capacity.** Several specific actions are being taken**:**

- **Recapitalization of remaining problem banks**. Some progress has been made regarding the re-capitalization of the remaining nine banks yet to achieve the GH¢ 60 million minimum capitalization. One bank has since met, while another is going through due diligence checks towards compliance. Five others have presented re-capitalization plans which are being monitored for implementation. The remaining two banks may face challenges, and the BoG will put in contingency measures to deal with these. The possibility of public listing on the Ghana Stock Exchange remains an option open to under-capitalized banks. Banks that choose this option, by spreading ownership and subjecting themselves to additional oversight by the GSE, could benefit from an extension of the deadline, but this will be assessed on a case by case basis.

- **Audit of banks**. The alternative measures taken by the BoG in lieu of commissioning special audits of banks (periodic mandatory rotation of external auditors and trilateral meetings) have proved to be effective in terms of achieving more thorough audit reviews, more meaningful public disclosures of audited financial statements, and extensive dialogues with banks and their external auditors. Twelve banks have changed their auditors since the policy change, while some changes will take place from the 2012 financial year. By end-March 2012, trilateral meetings among BoG, banks and their external auditors were held with 10 banks prior to the publication of audited financial statements in newspapers. Issues raised by BoG involving prudential and accounting concerns were incorporated in the final audited statements that were published. This year's round of trilateral meetings for the rest of the banks will conclude by mid-July 2012. Those banks which had published their audited financial statements were duly advised that they will be required to republish if material issues come up during the ongoing trilateral meetings. The required rotation of external auditors also significantly improved the quality of audit and has resulted in a number of re-statements in the banks' prior year earnings and recognition of impairments in the loan portfolio. The objectives of these alternative measures were achieved, more particularly that of making external auditors aware that the BoG takes their statutory duties under the Banking Act 2004, as amended, very seriously and that failure to comply with these duties could be a ground for disqualification of external auditors from engaging in audit of banks and other financial institutions

- **Amendments to financial sector legal framework.** The two groups of legal consultants who have been engaged by BoG to review different banking and financial sector laws were required to submit their first progress reports by end-April 2012 and to complete the assignments by September 2012. The Working Committee and the IMF Banking Supervision Advisor have started providing inputs to the consultants regarding the priority amendments needed in the Acts and the weaknesses of some sections in the Acts. The priority is to draw up Regulations to give effect to the existing Banking Act 2004 and to progress with an overhaul and consolidation of the existing banking Acts. The BoG has also approached the Legal Department of the

Fund through MCM to assist with providing model laws and possible TA in reviewing laws when drafted. Indications are that these laws may not be passed until Q1 of 2013.

- **BoG equity shareholding in banks.** The BoG remains committed to its objective of reducing its direct equity interest in banks. For the remaining two banks in which it continues to hold equity interest, one requires Parliamentary approval to convert from a statutory corporation into a limited liability company so it can list on the GSE, while the other requires government approval as the principal shareholder. The Bank of Ghana will sell its shares once these hurdles are cleared.

- **Social Security and National Insurance Trust (SSNIT) equity shareholding in banks.** The Board of SSNIT has agreed to dilute its shareholdings in the banking industry. In this regard, it has disposed of all its shares in one bank in which it has majority ownership (more than 50 percent), and merged its majority stake in another participated bank, thereby reducing its equity from 61 percent to just 14 percent. For the third bank, it has had to provide tier 2 Capital to bolster its operations, while looking to a conclusion of discussions with the strategic investor to buy out SSNIT by taking a majority stake. SSNIT may need to convert this to equity to meet the impending deadline, while it continues to pursue options for divesting its shares in the bank.

- **Addressing AML/CFT deficiencies.** Following FATF's downgrading of Ghana, a number of initiatives have been undertaken to improve the AML/CFT environment. First, a National Strategy and Action Plan has been adopted to mobilize all government agencies in the fight against ML/TF offences. Secondly, Parliament is expected to pass two laws to criminalize the remaining predicate offences and also the regulations to give effect to the Anti-Terrorism Act and Mutual Legal Assistance Act. Thirdly, steps have been taken to grant the Financial Intelligence Centre technical and administrative capacity to be fully operational. Finally, the BoG continues to draw on technical assistance from the OTA and the Fund to build capacity for implementation of a risk-based approach to AML/CFT regimes in supervised institutions. The first round of on-site visits to banks began in April and will be extended to other institutions in the course of the year.

- **Strengthening consolidated supervision.** Within the framework of the Forum of Regulators (domestic) and the College of Supervisors (external), efforts continue to be made to strengthen the structures for oversight within and across the region of banking and non-bank institutions. Formal and informal information exchange between banking supervision and the capital market supervisor is helping to address cross cutting issues and institutions, while the quarterly meeting of the WAMZ College of Supervisors is facilitating the exchange of information on cross-border banking.

C. Program Design and Monitoring

26. **Program targets and benchmarks.** Quantitative program targets are documented in Appendix Table 1. Structural benchmarks are documented in Appendix Table 2.

Appendix Table 1. Ghana: Quantitative Program Targets (December 2010— June 2012) [1]

(Cumulative from the beginning of calendar year, unless otherwise indicated)

	2010 Dec.	2011				Mar. 2012				Jun. 2012	
	Act.	Prog.[2] 5 ECF Rev.	Adjusted Target	Act.	Target met?	Prog.[2] 5 ECF Rev.	Adjusted Target	Est.	Target met?	Prog.[3] 5 ECF Rev.	Rev. Prog.[3] 6/7 ECF Rev.
I Quantitative performance criteria											
Overall fiscal deficit of the government (ceiling; millions of cedis)	3000	2741	2751	2388	Met	857	943	979	**Not Met**	2273	3467
Increase in net international reserves of the Bank of Ghana (floor; millions of U.S. dollars)	937	518	468	574	Met	-115	24	-1074	**Not Met**	-191	-733
Net change in the stock of domestic arrears (celing, millions of cedis)	654	-1412	-1412	-785	**Not Met**	-63	-63	-327	Met	-87	-410
II Continuous performance criteria											
Non-accumulation of external arrears (ceiling; millions of U.S. dollars)	0	0	0	0	Met	0	0	0	Met	0	0
Contracting or guaranteeing of new medium-to-long-term nonconcessional external debt (ceiling; US$ millions)[4]	197	3400		3364	Met	810		264	Met	810	810
Oil and gas sector [5]	0	1250		1250	Met	0		0	Met	0	0
Other sectors	197	2150		2114	Met	810		264	Met	810	810
III Inflation consultation											
Twelve-month consumer price inflation (percent) [6]											
Outer band (upper limit)		12				12				12	12
Inner band (upper limit)		11				11				11	11
Central target rate of inflation	9	9		9	Met	9		9	Met	9	9
Inner band (lower limit)		7				7				7	7
Outer band (lower limit)		6				6				6	6
IV Indicative targets											
Net domestic financing of the government (ceiling, millions of cedis)	2143	2361	2387	1988	Met	844	984	741	Met	1642	2644
Net domestic assets of the Bank of Ghana (ceiling; millions of cedis)	-924	583	583	80	Met	635	635	1029	**Not Met**	955	1833
Poverty-reducing budget expenditures (floor; millions of cedis)	2411	2888		2974	Met	858	858	711	**Not Met**	1717	1717

Sources: Ghanaian authorities and IMF staff estimates and projections.

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

[2] Performance criterion.

[3] Indicative target except for the inflation consultation mechanism. For June 2012, indicative targets for every indicator.

[4] Measured on an annual basis.

[5] 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.

[6] Performance is measured on a continuous basis. The outer and inner bands shown for the last month of each quarter apply throughout the respective quarter.

Appendix Table 2. Ghana: Structural Benchmarks Under the ECF Arrangement, 2011–12
(Shaded benchmarks are covered by the 6th review)

Measures	Timing	Implementation Status	Macroeconomic Rationale
1. Tax policy and revenue administration			
● Pioneer the integration of VAT and income tax in 11 pilot offices in Greater Accra. Staff will be in common offices, under a single head of office, and with a common audit process.	End-Dec. 2011	**Partially implemented.** Three integrated offices of the Domestic Tax Revenue Division (DTRD)—the large taxpayer office as well as one medium and one small taxpayer office—were operational by end-March 2012. Six additional integrated offices are scheduled to become operational by end-June 2012, with full integration by the end of the year (for a total of 64 offices).	Strengthen revenue mobilization as part of fiscal consolidation strategy.
● Extend self-assessment for tax purposes to all medium and large taxpayers.	End-June 2012	**Delayed.** The self-assessment regime is currently applicable to all taxpayers under the large taxpayers office and to one medium taxpayers office (MTO). Plans, including a detailed timeline, are in place to extend the self assessment to all medium taxpayers as the MTOs are rolled out, with the last office scheduled to open in December 2012.	As above.

2. Public expenditure management			
● Roll out GIFMIS to all ministries.	End-March 2011	**Partially implemented**. Progress has been made despite some delays related to the negotiation of contractual obligations with software providers. The general ledger module was rolled out to all ministries in February 2012. The Procure-to-Pay module will be operational in two pilot offices by end-June 2012 and the rollout to all MDAs will begin by August 2012.	Strengthen monitoring and control of budget execution.
● Design and implement a revised 2012 MTEF/budget calendar to allow for a Cabinet discussion in August/September 2011 to frame 2012 budget priorities (across GSGDA goals) and provision of indicative resource ceilings to ministries, departments, and agencies (MDAs) in July 2011.	End-December. 2011	**Implemented**	As above.
3. Public debt management			
● Publish a second annual debt management strategy.	End-December. 2011	**Implemented**	Support the maintenance of public debt sustainability.
● Establish policy guidelines to strengthen the coordination between the Public Investment Division, the Debt Management Division, and the Economic Research and Forecasting Division at the Ministry of Finance and Economic Planning.	End-April 2012	**Delayed.** A first draft of the policy guidelines to enhance coordination between divisions has been completed and is under review. A final draft is expected by end-September 2012.	As above.

4. Public sector reform and payroll management			
● Migrate to the automated payroll system (IPPD2/3) all remaining non-security subvented agencies.	End-July 2010	**Not implemented.** Implementation has been delayed as resources have been allocated to the completion of the migration to the single spine salary structure. Implementation will resume, once the single spine migration and the payroll audit are completed.	To strengthen oversight and control of the high and growing public payroll.
● Complete civil service payroll audit to remove ghost workers.	End-May 2012	**Delayed.** Work on the payroll audit is ongoing with completion of six regions by end-June 2012, covering 75 percent of public employees. Completion of the audit is expected by end-August 2012.	Contain public sector wage costs.
5. Monetary and financial policy			
● Develop a strategy for addressing remaining problem banks.	End-March 2012	**Implemented.** The BoG's strategy is centered upon a two-round process of increasing banks' minimum capital (25 millions cedi by end-2011 and 60 millions cedi by end-2012) and encouraging several banks to forge new partnerships through equity shareholdings from larger banks in the region.	Support continued financial sector stability.
● Appoint international firms to conduct independent audit of remaining problem banks.	End-March 2012	**Not implemented.** Audit by international firm has been replaced by a number of corrective actions being undertaken in the banking sector, consistent with advice of long-term banking supervision consultant at the BoG.	As above.

● Submit for parliamentary approval amendments to the Banking Laws to close regulatory gaps, including with respect to bank resolution options.	End-March 2012	**Not implemented.** Following delays in appointing legal consultants to draft regulations, the Fund is providing technical assistance to strengthen the legal and regulatory framework for mergers and acquisitions, bank resolution, as well as to enhance supervisory capacity in these areas. An implementation work plan will be prepared by the Bank of Ghana by end-July 2012.	As above.

APPENDIX I—ATTACHMENT II

TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This technical memorandum of understanding (TMU) defines the variables subject to quantitative targets (performance criteria and indicative targets), as specified in the authorities' Letter of Intent (LOI) of November 28, 2011. 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¢ 1.5374 per US$1, which is calculated as the average of buying and selling exchange rates reported by banks to the Bank of Ghana. The exchange rates to other currencies will be calculated as the average of buying and selling exchange rates against the U.S. dollar.

I. Quantitative Program Indicators

3. For program monitoring purposes, the performance criteria are set for end-June 2011, end-December 2011, and end-March 2012, while indicative targets are set for end-March 2011, end-September 2011, and end-June 2012. Performance criteria, indicative targets, and adjusters are calculated as cumulative flows from the beginning of the calendar year.

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 floor on non-oil tax revenue collection;
- 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 Assemblies Common Fund, and the National Health Insurance Fund), and all subvented and other government agencies that are classified as government in the Bank of Ghana (BoG) Statement of Accounts (SOA). The Social Security and National Insurance Trust (SSNIT) and public enterprises, including Cocobod, are excluded from the definition of government

8. The government's **total tax revenue** includes all revenue collected by the Ghana Revenue Authority (GRA) (direct taxes, indirect taxes, trade taxes) whether they result from past, current, or future obligations. Receipts are recorded on a cash basis.

9. **Oil tax revenue** is defined as the government's net proceeds from the sale of oil, including corporate tax and royalties paid by oil companies, excluding any revenue associated with GNPC's carried interests in oil fields.

10. **Non-oil tax revenue** will be measured as total government tax revenue less oil tax revenue (as defined in paragraph 9).

11. **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 15 below), net domestic financing (defined in paragraph 14 below), exceptional financing (including HIPC and MDRI relief against loan repayments falling due), and receipts from net divestitures.

12. **Domestic payments arrears** will be measured as the sum of three 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 in local and foreign currencies that are due and not settled within 30 days after the end of the fiscal year. The third component, wages and pensions arrears, is defined as payments outstanding after the agreed date for payment to staff or the social security fund. In the case of pay awards, arrears are calculated as the amount outstanding at

[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.

the date at which the award specifies the first payments should be made. Net changes in the stock of arrears to contractors at end-March 2011 are as defined in the TMU attached to the Letter of Intent of May 13, 2010. Starting at end-June 2011, the net change in the stock of arrears to contractors will be measured at each end-quarter as the accumulation of arrears within the current fiscal year, less amounts settled in the current fiscal year in respect of the claims accumulated in previous fiscal years.

13. **The government will continue to report poverty-related expenditures**. Budgeted poverty spending for these categories will be taken from each year's final appropriations bill and will include only spending financed by the government or from internally generated funds. Actual poverty-related spending will be identified using the last 3 digits of the 15-digit chart of accounts of the CAGD's current NETS. 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 all donor-supported expenditure.

14. **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).

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

16. **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.

17. **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.

18. **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

19. **A consultation mechanism adopted for the twelve-month rate of inflation.** Inflation is measured by the headline consumer price index (CPI) published by the Ghana Statistical Services. Quarterly consultation bands are specified in Appendix Tables 1 and 2 attached to the memorandum of economic and financial policies. The bands are defined for each quarter and apply to the three month inflation outturns in each quarter. Appendix Tables 1 and 2 attached to the memorandum of economic and financial policies show the relevant bands for each quarter. Whenever the twelve-month rate of CPI inflation moves outside a specific band, this would trigger a consultation/discussion with the Fund.

20. **Breach of the outer band.** The authorities will complete consultations with the Executive Board of the Fund on the proposed policy response before requesting further disbursements under the program when the observed twelve-month rate of CPI inflation moves outside the outer band as specified for each quarter in Appendix Tables 1 and 2 of the memorandum of economic and financial policies. The authorities will not be able to request any further disbursements under the ECF arrangement if the observed twelve-month rate of CPI inflation moves outside of the outer band until the consultation with the Executive Board has taken place. 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.

21. **Breach of the inner band.** The authorities will conduct discussions with the Fund staff when the observed twelve-month rate of CPI inflation falls outside the inner band as specified for each quarter in Appendix Tables 1 and 2 of the memorandum of economic and financial policies.

C. Bank of Ghana

22. **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.

23. **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.

24. **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

25. **For the purposes of this technical memorandum of understanding, the definition of debt is set out in point 9 of the Guidelines on Performance Criteria with Respect to External Debt** (Executive Board's Decision No.6230-(79/140), as amended). It not only refers to debt as defined in Point 9 of the Executive Board decision, but also to commitments contracted or guaranteed for which value has not been received. The definition of debt is as follows:

> 9 (a) For the purpose of these guidelines, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of financial and nonfinancial assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:
>
> > (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay

interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

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

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

(b) Under the definition of debt set out in point 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 (e.g., payment on delivery) will not give rise to debt.

26. **For the purposes of the ceiling on the contracting or guaranteeing of new non-concessional external debt,** external debt is any debt as defined in paragraph 27, which is denominated in foreign currency, i.e., currency other than Ghanaian cedis (GH¢). Similarly, external borrowing is borrowing denominated in foreign currency.[2]

27. **Nonconcessional medium- and long-term external debt** is defined as external debt contracted or guaranteed by the government (defined in paragraph 7), the BoG, and specific public enterprises (defined in paragraph 31) on nonconcessional terms (see paragraph 34) and denominated in foreign currencies, 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 Division of the Ministry

[2] (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. 6230-(79/140), as amended). 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.

of Finance and Economic Planning, and will be measured in U.S. dollars at current exchange rates.

28. **For the purpose of the ceiling on the accumulation of external payment arrears,** external payment arrears will accrue when undisputed payments such as interest or amortization on debts of the government (as defined in paragraph 7) to non-residents are not made within the terms of the contract.

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

29. A ceiling applies to the contracting and guaranteeing of new medium-to-long term nonconcessional external debt by the government and the BoG, and the following public enterprises: (i) Tema Oil Refinery; (ii) Ghana National Petroleum Company; (iii) Bulk Oil Storage and Transport Company; (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.

30. The 2011 ceiling on the contracting or guaranteeing of new nonconcessional external debt (US$3,400 million) comprises the following two subceilings: (i) a subceiling for the maximum amount of nonconcessional external debt in the oil and gas sector that can be contracted or guaranteed for 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 (US$1,250 million); and (ii) a subceiling for the maximum amount of nonconcessional external debt that can be contracted or guaranteed in any sector other than the oil and gas sector (US$2,150 million). For 2012, the contracting of nonconcessional external debt of US$810 million is envisaged to be outside the oil and gas sector.

31. Excluded from the ceiling are (i) the use of Fund resources; and (ii) lending from the World Bank, the African Development Bank, and the International Fund for Agricultural Development.

32. 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 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

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

Overall fiscal deficit of the government

34. The deficit ceilings for 2011–12 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 concessional 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 concessional 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 for the full amount of any **excess in concessional program loans**, where these are used to repay outstanding domestic arrears at a more rapid pace than programmed.[5]

(iv) 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

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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] 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.

with additional resort to domestic financing. The latter is capped, again, at GH¢ 75 million;[6]

(v) 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

Budget Financing, 2012
(GHc millions, cumulative from the start of the calendar year)

	2012 Mar Prov.	2012 Jun Proj.
Program grants	232	353
Program loans[1]	88	161
Project loans[1]	261	507

[1]Concessional financing

Net international reserves of the Bank of Ghana

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

Net domestic financing of the government

The ceiling on net domestic financing (NDF) will be adjusted upward by 50 percent of any shortfall in concessional program loans and grants relative to the program (see paragraph 37), 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. The ceiling will also be adjusted upward by the full amount for a reduction in net arrears paid through bond issuance.

[6] The combined scope for additional domestic financing from adjusters (ii) and (iv) is thus GH¢ 150 million.

F. Provision of Data to the Fund

36. 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 six weeks of the end of each month.
Divestiture receipts received by the budget (in cedis and foreign exchange, net of divestiture transactions costs).	Monthly, within six weeks of the end of each month.
The stock of domestic payments arrears by sub-category (as defined in para. 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, and 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.

(continued)

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	Bi-weekly, within two days of the completion of the pricing review.
(ii) the indicative maximum price approved in the bi-weekly review of petroleum pricing for each of the individual petroleum products.	See above.
(iii) the commitments to subsidize oil marketing companies in respect of losses incurred due to administrative prices that fall below cost-recovery levels.	Monthly, within four weeks of the end of each month.
(iv) the cumulative unused balance from the petroleum price hedging operations available to subsidize petroleum products.	See above.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth and Seventh Reviews Under the Extended Credit Facility Arrangement for Ghana and Approves US$178.74 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the sixth and seventh reviews of Ghana's performance under the program supported by the Extended Credit facility (ECF). In completing the reviews, the Executive Board approved waivers for nonobservance of three performance criteria: the net change in domestic arrears for end-December 2011, the fiscal balance target for end-March 2012, and the floor on net international reserves for end-March 2012.

The Executive Board's decision will allow for the final disbursement of an amount equivalent to SDR 119.14 million (about US$178.74 million), bringing total disbursements under the arrangement to an amount equivalent to SDR 387.45 million (about US$581.28 million). The Executive Board also approved the government's request of an extension of the program by about two weeks until July 31, 2012 for making the final disbursement. Ghana's current three-year ECF arrangement was approved on July 15, 2009.

Following the Executive Board's decision on Ghana, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, issued the following statement:

"Ghana's economic performance was strong last year and medium-term growth prospects remain favorable, but short-term risks to macroeconomic stability have risen. A rapid depreciation of the cedi is fuelling inflation and reserve cover has fallen below comfortable levels. Furthermore, spending overruns at the end of 2011, large public wage increases, and reemergence of energy subsidies have created the need for corrective actions to achieve fiscal targets.

"The authorities' 2012 economic program focuses appropriately on measures to preserve hard-won stabilization gains. On the fiscal side, this implies greater revenue mobilization and expenditure restraint. In particular, savings identified by the pension and payroll audits must be realized and spending pressures in the run up to elections need to be resisted.

“The authorities will need to accelerate their ongoing efforts to complete the fiscal reform agenda. Priority areas include tax administration and public financial management. In addition, given Ghana’s increasing reliance on nonconcessional financing, it is critical to develop a robust and transparent framework for public investment prioritization and debt management.

“Monetary policy has reacted slowly to the sharp cedi depreciation and the associated inflation risks. Loose conditions have now been tightened and will need to remain tight to preserve the credibility of the inflation-targeting regime. The authorities should stand ready to raise the policy rate further, if needed, and manage liquidity tightly, while restoring foreign exchange reserves to more comfortable levels.

“Financial sector reforms continue to be a priority. The authorities should sustain their efforts to strengthen the legal and regulatory framework and improve supervisory capacity. It will also be important to continue to address long-standing deficiencies in Ghana’s AML/CFT regime,” Mr. Shinohara added.

Statement by Jafar Mojarrad, Executive Director for Ghana
July 13, 2012

Our Ghanaian authorities express their appreciation to the mission chief, Ms. Daseking and her team for their hard work and the constructive dialogue during the sixth and seventh reviews of the ECF-supported program. The discussions focused on the macroeconomic gains made in 2011, the challenges that confronted program implementation, and the risks stemming mainly from the global environment. Preserving macroeconomic and financial stability, and implementing high-priority investments to spur economic growth and poverty reduction, were among the key focus areas for policy implementation. Our authorities also thank management and the Board for their continuous support and are grateful for the high quality Fund Technical Assistance extended to Ghana.

Recent developments and near term outlook

As highlighted during the Board meeting for the Fifth review, Ghana's overall economic performance in 2011 was strong: growth was buoyant (14½ percent) and broad based, headline inflation was stable and within the Bank of Ghana (BoG)'s target, and the current account deficit was almost fully covered by foreign direct investment, which contributed to accumulation of gross international reserves. The fiscal deficit was also reduced significantly and the banking sector remained well capitalised, liquid, and profitable, with declining, but still high, non performing loans (NPLs).

The macroeconomic outlook for 2012 is generally favorable, with growth projected to remain robust at 8.2 percent, while inflation could move closer to the upper end of the BoG target. The authorities are fully aware of the risks emanating from unsettled global conditions, and their impact on commodity prices, as well as from domestic factors, including the effects of the depreciation of the cedi and possible further pressure on the exchange rate. While these risks could make policy implementation challenging, the authorities stand ready to address them through a combination of macroeconomic policies and commodity price hedging.

Program implementation

Policy implementation has remained broadly on track, despite the challenging environment in the first quarter of 2012. Almost all the quantitative performance criteria and indicative targets for end-December 2011 were met (sixth review), with the exception of the target for net arrears clearance. While the authorities moved swiftly to clear arrears in excess of the program target during the first quarter of the year, this together with expenditure carryover from 2011, resulted in exceeding the adjusted cash deficit target for end-March 2012 (seventh review). The floor on net international reserves was also missed, reflecting interventions by the BoG in the first quarter to minimise the pressures on the cedi. Implementation of structural reforms has continued, albeit with delays and deviations from the program benchmarks, reflecting capacity constraints and operational challenges.

Our authorities have introduced corrective measures to ensure that fiscal policy remains on track and to safeguard the program objectives, to which they remain committed. In view of the difficult circumstances surrounding program implementation and the corrective actions taken, the authorities request waivers on the non-observance of three performance criteria, and completion of the sixth and seventh reviews. They also request a technical extension of the program until July 31, which would allow for the disbursement of the remaining amount of SDR 119.14 million.

Policies for the remainder of 2012

Building on the progress made towards the attainment of macroeconomic stability over the past three years, the main thrust of the Government's macroeconomic policy for 2012 is to maintain low and stable inflation, while sustaining high growth and income by supporting the private sector and providing adequate infrastructure.

Fiscal Policies

The 2012 budget reflects the authorities' commitment to containing the primary fiscal deficit to 0.1 percent of non-oil GDP while at the same time scaling up investment in infrastructure. A fiscal adjustment equivalent to 1.8 percent of non-oil GDP is targeted this year, which comes on top of the 5.1 percent achieved in 2011. Efforts in this area will focus on revenue mobilization, mainly through tax reform and improvements in tax administration, strengthening management of the wage bill, and rationalization of recurrent expenditures.

Significant achievements have been made in revenue mobilization under the ECF-supported program. Non-oil tax revenue collection has risen from 12.1 percent in 2009 to 16.3 percent of non-oil GDP in 2011 owing to continued efforts to improve tax administration and reduce exemptions. Under the 2012 budget, the same ratio is expected to increase to 16.7 percent.

Efforts will continue to focus on strengthening tax administration, including the integration of VAT and income tax in pilot offices (structural benchmark), as well as further streamlining of exemptions. The revised draft VAT legislation, including the extension of the VAT to fee-based financial services, has been resubmitted to parliament in June 2012 after incorporating comments of the IMF legal department. New tax measures on mining have been proposed under the 2012 budget and are projected to bring in revenues higher than originally projected (¶12 MEFP). Moreover, fees from renegotiation of the mining stability agreements are also expected to bring additional non-tax revenue equivalent to 0.8 percent of non-oil GDP.

On the expenditure front, the authorities remain committed to achieving cost recovery in the energy sector. Recent efforts in this area, however, have been particularly challenging. After adjusting domestic petroleum prices by 15 percent at end-December 2011, prices were scaled back in February 2012 by 3 percent to avoid public unrest. The net 12 percent price increase and the currency depreciation have caused the cost of living to rise significantly, resulting in hardship for the low-income categories of the population. In the meantime, world oil market prices have declined, which helped to narrow the gap between domestic prices and the cost recovery level. With regard to electricity, after adjusting tariffs to cost recovery levels in line with the formula during most of 2011, the Public Utilities Regulatory Commission (PURC) did not accede to the request of utility providers to increase tariffs in March and June 2012. Poor service delivery was cited as the main reason for the PURC to deny this request, and the government agreed to support utility providers by covering part of their higher import cost. The authorities will continue to work toward reforming the energy subsidy system and bringing petroleum and electricity prices to cost recovery levels.

Regarding the wage bill, the budget impact of the base pay increase of 18 percent negotiated with civil service unions in February 2012 will be partially met by savings from a payroll audit, which is estimated to lower the wage bill permanently by 15-20 percent (¶7 MEFP). For 2012, the savings will be realized in the second half of the year, and are estimated at 0.7 percent of non-oil GDP. With the migration to SSSS being virtually completed, the new salary structure will help improve the management of the wage bill.

Further progress in other areas of public finance management will be made, including clearance of all outstanding arrears, improved cash management, and implementation of the Ghana Integrated Financial Management System as highlighted in the MEFP (¶14–16). To prevent expenditure overrun and new accumulation of arrears, a presidential circular was issued, mandating all line ministries to obtain commencement certificates before committing the government to any new contractual obligations. Work is also underway to strengthen investment planning and debt management in line with the second annual debt management strategy for 2012-14, which was published at end-December 2011. The newly created Public Investment Division will provide strategic direction and coordination of public investment, including advice on project selection and appraisal, budgeting implementation, and evaluation.

Monetary and financial sector policies

Monetary policy has been tightened in the first half of the year to stabilize the exchange rate and contain inflationary pressures. The BoG raised the policy rate (the overnight repo rate) three times since the beginning of 2012 to 15.0 percent, together with additional measures, including shifts in the composition of mandatory reserve holdings in favour of the cedi and reduction in banks' maximum open forex positions (¶20 MEFP). This has helped bring about some stability in the foreign exchange rate market.

The authorities are prepared to adjust interest rates further, if warranted, to contain the cedi depreciation and to bring inflation within their end-year target band of 5.7 to 11.7 percent. The BoG also intends to gradually rebuild its foreign exchange buffer to facilitate the smoothing of excessive exchange rate volatility, in addition to implementing a series of structural reforms to improve the functioning of the foreign exchange market. It will also strengthen monetary operations and liquidity management under the IT regime as outlined in the MEFP (¶23).

With strong capital adequacy ratios and funding positions, the banks are well situated to withstand adverse conditions. Recent stress tests conducted by the Central Bank indicate that the banking system is resilient and well positioned to absorb interest rate and exchange rate shocks. Recapitalization of problem banks is underway and steps are being taken to build capacity towards risk management and strengthen supervision, including through special audits of banks. Technical Assistance from the IMF has been sought in various areas of supervision management. Further efforts will focus on amendments to the financial sector legal framework, strengthening consolidated supervision across the sub-region, further reducing the BoG's and the Social Security and National Insurance Trust's equity participation in commercial banks, and addressing deficiencies in the AML/CFT provisions.

Conclusion

Our authorities remain committed to achieving their objectives aimed at sustaining high growth and poverty reduction while maintaining financial stability. Against the background of multiple challenges during the first half of the year, they intend to redouble their efforts to strengthen policies and bring about lasting improvement in capacity implementation. They highly appreciate Fund assistance and look forward to the Board's support to their request.