

International Monetary Fund

[Ghana](#) and the IMF

Press Release:

[IMF Executive Board
Completes Third
Review Under
Ghana's PRGF
Arrangement and
Approves US\\$38.7
Million Disbursement](#)
June 21, 2005

[Country's Policy
Intentions Documents](#)

E-Mail Notification

[Subscribe](#) or [Modify](#)
your subscription

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

May 20, 2005

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

May 20, 2005

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, D.C. 20431

Dear Mr. de Rato:

Since May 2003, the government of Ghana has been implementing a financial and economic program with support from the Fund's Poverty Reduction and Growth Facility (PRGF). We are pleased to inform you that on February 23, 2005, petroleum prices were adjusted upward as part of the commitment on petroleum sector deregulation made by the President of Ghana during the discussions for the second review. The Petroleum Deregulation Bill has been submitted to Parliament, and is expected to be passed by end-May 2005. The government of Ghana has worked diligently to implement policy commitments under the existing arrangement, particularly with respect to achieving our macroeconomic objectives. Moreover, for the first time in recent history, macroeconomic discipline was maintained during the recent presidential and parliamentary elections. However, there were some inadvertent slippages in policy implementation in 2004 for which explanation is provided below. Accordingly, we are requesting waivers for nonobservance of three quantitative and one structural performance criteria.

Below is the listing of the performance criteria that were not observed, the contributing factors for their nonobservance, and the remedial measures designed to ensure achievement of the original program objectives.

- The ceiling on net domestic financing of government operations was exceeded at end-December 2004 on account of (i) higher poverty-related and infrastructure expenditures linked to higher-than-expected foreign financing (including from recent debt relief); (ii) higher petroleum-related subsidies as a result of higher world oil prices; and (iii) a wage overrun for subvented agencies because their base wage payments was inadvertently not provided for in the program, and the monitoring of these payments was not as comprehensive as it should have been. To prevent overruns in future, the government will strengthen payroll management, including through computerization to cover all subvented agencies as well as central government employees. In any event, the program for 2005 includes a quantitative performance criterion on the absolute wage bill for the year (including all allowances).

- The ceiling on the stock of net domestic bank credit to the Tema Oil Refinery (TOR) was exceeded at end-December 2004 because of a lag in verifying and transferring the required (petroleum-related) subsidy for the last quarter of 2004. The transfer to the TOR was made in early 2005 and the related bank credit repaid. Also, as subsidies to the TOR have ceased with the establishment of a new pricing mechanism for petroleum products, this issue will not arise in future. Nonetheless, we will continue to monitor TOR's financial performance, and, for this reason, the 2005 program includes a ceiling on its outstanding bank credit.
- The (zero) ceiling on the contracting or guaranteeing of medium- to long-term nonconcessional debt was breached in August 2004 with a US\$40 million loan from Nigeria to finance Ghana's participation in the World Bank-supported West African Gas pipeline—a project of significant economic benefit to Ghana and the region. Expected financing for this project did not materialize, and the government could not make alternative arrangements in time to avoid a US\$25 million penalty (0.3 percent of GDP). However, timely prior consultation with the Fund would have prevented the misunderstanding regarding Ghana's commitment to not undertake any commercial borrowing. We have instituted mechanisms to ensure early consultation on all matters related to the program monitoring, including—but not limited to—regular meetings between officials and the IMF Resident Representative.
- The implementation of a new automatic adjustment mechanism to price petroleum products (a structural performance criterion) was met with a week's delay (February 23, 2005, against February 15, 2005), and the establishment of an independent oversight board (the National Petroleum Authority) to monitor the pricing mechanism for petroleum products is now expected by end-May 2005 (against February 15, 2005), since it is part of a whole framework of petroleum sector deregulation. These delays were necessary to allow for adequate consultation within the country, and to ensure the durability of this important, highly political and radical reform. The reform measures were taken in a difficult socio-political environment and in the context of rising world oil prices. Nevertheless, the government is committed to fully implementing this pricing mechanism as well the provisions of the legislation on the deregulation of the petroleum sector when the Bill is passed by Parliament.

The attached Memorandum of Economic and Financial Policies (MEFP) sets out the objectives for 2005. The strategy is to build on the significant improvements in macroeconomic performance during 2004, and we believe that the policies specified in the attached MEFP provide a basis for sustaining growth, lowering inflation, and alleviating poverty. Furthermore, we believe that the policies and measures described therein are adequate to achieve these objectives, but we stand ready to take additional actions if required. The government will provide the Fund with the information needed to assess our progress in implementing the program and will consult with the Fund on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Fund staff requests such a consultation.

The government intends to make the contents of this letter and those of the attached MEFP, the technical memorandum of understanding (TMU), and the staff report for this review, as well as the 2005 Article IV consultation available to the public. In this regard, it authorizes the IMF to arrange for them to be posted on the Fund's website, subsequent to Board completion of the review and conclusion of the 2005 Article IV consultation.

Accordingly, we are requesting completion of the third program review and disbursement of the fourth loan installment in an amount equivalent to SDR 26.35 million. Also, we are requesting an extension of the current PRGF arrangement to October 31, 2006, so that the final and sixth review (based on June 2006 test date) and disbursement could be completed.

Yours sincerely,

/s/

Hon. Kwadwo Baah-Wiredu, MP
Minister of Finance and Economic Planning

/s/

Hon. Paul A. Acquah
Governor, Bank of Ghana

Attachments (2)
Memorandum of Economic and Financial Policies for 2005
Technical Memorandum of Understanding

**Memorandum of Economic and Financial Policies
of the Government of Ghana for 2005**

I. INTRODUCTION

1. In May 2003, the IMF confirmed its support for Ghana's Poverty Reduction Strategy (GPRS) and approved an arrangement under the Poverty Reduction and Growth Facility (PRGF). At that time, the GPRS targeted a decline in poverty over the long term and improvements in social indicators in line with the Millennium Development Goals (MDGs). Accordingly, government policies aimed to raise real GDP growth during 2003-05 to an average of 5 percent a year, reduce inflation to the single-digit range, and rebuild gross international reserves to three months of imports of goods and services by end-2005.
2. Since that time, Ghana has made significant progress in implementing the program. Indeed, 2004 saw significant advances in economic reform: the fiscal position was held broadly in check and the recent gains from macroeconomic stabilization were preserved, unlike in previous election years; the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative was reached, thereby ensuring long-term external debt sustainability; and the politically and socially unpopular liberalization of the petroleum sector was started, removing government involvement from the pricing of petroleum products and opening the sector to private sector participation.
3. For the second consecutive year, macroeconomic performance surpassed program projections for 2004. Real GDP growth rose to 5.8 percent on the strength of a record cocoa harvest and a broadening of economic activity. Credit growth to the private sector reached its highest level of the past five years. Twelve-month inflation was halved to 11.8 percent by end-year. Even though domestic supply shortages and inclement weather prevented further disinflation, nonfood inflation stayed within the single-digit range for most of the year. Underpinned by growing confidence in macroeconomic policies, market-determined interest rates and the nominal exchange rate for the cedi remained relatively stable through this period. Strong foreign exchange inflows from buoyant cocoa and gold exports and personal remittances, together with donor support that exceeded projections, made possible a further buildup of gross international reserves to US\$1,816 million (equivalent to 3.7 months of imports of goods and services) by the end of the 2004.
4. The credibility of macroeconomic policies was further buttressed in 2004, even though some of the program targets were missed. Faster GDP growth supported efforts to achieve the programmed reduction in domestic debt that anchors fiscal policy, but some fiscal slippages occurred relative to the projections. The slippages were largely due to higher petroleum-related subsidies necessitated by high world oil prices, increased domestic capital spending as a counterpart to higher donor-related (including HIPC) inflows, and higher-than-projected wage payments to subvented agencies caused by weak payroll management.

Nevertheless, the stance of monetary policy continued to be firm, and the monetary aggregates were broadly in line with program goals at end-2004.

5. Ghana also made progress in implementing structural reforms. Public expenditure management was further improved through the enforcement of reporting and profit transfer requirements (for state-owned enterprises) under the recently enacted Financial Administration Act (FAA). The restructuring of Ghana Commercial Bank proceeded as planned, and central bank bills were introduced to enhance the efficacy of monetary policy. Public utility prices were kept in line with cost recovery.

6. So far in 2005, the government has followed through on its long-standing commitment to withdraw from administering petroleum product prices. On February 23, 2005, a mechanism for petroleum product pricing was adopted—ensuring full recovery of all costs and taxes and ending the need for budget subsidies. The mechanism is specified along similar lines as that employed earlier, through the use of import-parity ex-refinery prices, based on competitive tenders from private-sector participants for both refined products and crude imports. Distribution margins and all other taxes and levies are added to this ex-refinery price to determine retail prices. Parliament is expected to pass (as a prior action) legislation to establish the National Petroleum Authority, an independent oversight body that is charged with monitoring the implementation of the new pricing mechanism. The composition of the authority includes representatives from government, oil-marketing companies, trade unions, and nongovernmental organizations such as the Association of Ghana Industries, and persons with knowledge, expertise, and experience in matters related to the functioning of such an entity. In addition, parliament is also expected to pass legislation to deregulate the petroleum sector, including measures to ensure a competitive market for fair prices and an adequate and continuous supply of environmentally clean and high-quality petroleum products. The legislation also includes measures to promote and encourage the entry of new participants in the downstream oil industry.

II. ECONOMIC POLICIES IN THE PERIOD AHEAD

7. Economic policies in the period ahead are being guided by the GPRS, which encompasses the government's overarching strategy. The GPRS is to be updated by end-June 2005 to cover 2006-09; recent experience—including through the participatory process—has sharpened the government's policy focus. Achieving the MDGs will require scaling up investment, sustaining economic growth, lowering inflation to single digits, and undertaking structural reform to enhance the capacity of the economy to withstand shocks. In this regard, the macroeconomic objectives for 2005 are to maintain real GDP growth of 5.8 percent; contain inflation at an average of 14½ percent even though inflation accelerated to 16.7 percent in March 2005, in response to the deregulation of petroleum product prices which were increased by 50 percent in February; and accumulate US\$130 million in net international reserves to provide a larger cushion against shocks. Accordingly, in the 2005 economic and financial program,

- fiscal policy will ensure that the ratio of net domestic debt to GDP declines to half the level at end-2002;
- monetary policy will aim at achieving the inflation and international reserves targets;
- structural measures will be taken to enhance the conditions for private sector development, including through investment in human and physical capital and a deepening of financial intermediation; and
- economic governance will be strengthened, in particular through reform of the civil service and state-owned enterprises (SOEs).

A. Fiscal Policy

8. The 2005 budget targets a domestic primary surplus of about 2½ percent of GDP, consistent with a net repayment that will achieve the targeted reduction in the ratio of net domestic debt to GDP. The achievement of the domestic debt objective is expected to result in a further durable decline in interest rates, and the reduced domestic debt service will provide much-needed room in the budget for growth-enhancing and poverty-alleviating spending. However, while the ratio of domestic debt to GDP remains appropriate as the fiscal anchor, Ghana may be reaching a point where the net marginal benefits from further reduction in domestic debt are minimal.

9. In the budget that was passed by parliament in March 2005, lower domestic debt service, together with the elimination of petroleum subsidies, provides a fiscal space of 2½ percent of GDP. This space has been used for (i) increased capital expenditures (with a significant component devoted to infrastructure); and (ii) a slight increase in poverty spending mainly for health and education to foster human capital development and address the recent deterioration in some health indicators. In line with technical assistance from the Fund, the expenditure program includes outlays to ameliorate the impact of petroleum deregulation on vulnerable households through, among other things, increased grants for education and health services in rural areas, expanded electrification, and the extension of public transportation to less developed areas.

10. The budget also calls for an increase in public sector wages, mainly to encourage capacity building and higher productivity by attracting and retaining qualified personnel. This increase, together with the slippage in wages last year and the need to clear arrears from 2004, will bring the wage bill to 9.1 percent of GDP, which experience suggests is high in light of the need to provide more resources for pressing demands to fight poverty. This year, the government will ensure tight control over wage payments by (i) establishing quarterly ceilings (inclusive of all allowances), and (ii) integrating all government employees into personnel and payroll data bases (with technical assistance from our development partners). The new data bases will include all employees under the Ghana Universal Salary Structure and subvented agencies. Over the medium term, the government will undertake a comprehensive reform of the civil service that will include addressing employment and wage

policies. The reform is expected to result in increased efficiency and productivity to support the private sector-led strategy for growth. In addition, the civil service reform is expected to reduce the wage bill to around 8.5 percent of GDP over the medium term, thereby creating further fiscal space for other high-priority spending programs.

11. On the revenue side, the budget provides for a reduction of corporate income taxes to spur investment, and an increase in the personal income tax threshold to reduce the tax burden facing low-income earners. The loss of revenue from these two measures, however, will be more than offset by the yield from petroleum taxes consequent upon the high oil prices and the full-year impact of the national health insurance levy introduced in August 2004. Following improvements in administration and with the strict enforcement of the FAA, nontax revenue will rise further this year. Thus, total tax revenue is set to increase to 24½ percent of GDP. At the same time, foreign financing is expected to be about the same as last year.

12. The government continues to improve public expenditure management in a way that will enhance transparency and accountability. Fiscal reporting in the budget has recently been expanded to include the internally generated funds of ministries, departments, and agencies (MDAs), as well as the financial statements of statutory funds and the Social Security and National Insurance Trust; the legislative framework has been strengthened; and the budget and public expenditure management system (BPEMS)—which will become the key instrument for the full implementation of the legal framework—has been deployed in a significant number of MDAs. In the period ahead, the goal will be to follow through with the proper enforcement and implementation of several key pieces of legislation, in particular, the FAA, the Financial Administration Regulations, the Procurement Act, and the Internal Audit Agency Act.

B. Monetary and Exchange Rate Policies

13. The goal of monetary policy will continue to be to reduce inflation. To achieve this goal, the central bank (the Bank of Ghana (BOG)) will keep the pace of monetary expansion broadly in line with the projected growth of nominal income, implying annual growth of reserve and broad money (excluding foreign-currency deposits) of 18 and 23 percent, respectively, during 2005. By maintaining a firm stance, the BOG will be able to contain the indirect effects of petroleum price deregulation and thereby prevent an upward spiral of inflation. The BOG has been developing its set of policy instruments, recently adding bank bills to complement treasury securities for conducting open market operations. Also, the BOG has promoted transparency by regularly and candidly assessing and reporting economic conditions and its policy stance through reports from the Monetary Policy Committee. The Monetary Policy Committee determined in March 2005 that the policy stance was appropriate to contain the indirect effects of the petroleum-related spike in inflation, and left the BOG's prime rate unchanged at 18.5 percent.

14. Ghana remains committed to a managed floating exchange rate regime for the cedi with no preannounced path for the exchange rate. Under this regime, interventions in the

foreign exchange market are limited to short-term smoothing, liquidity management, and achievement of the international reserves objectives. The transmission of exchange rate effects through prices is rather strong in Ghana, so the BOG remains concerned about the potential for sharp fluctuations in the cedi's external value. While international reserves are at a record-high level, a further buildup may provide an added cushion against shocks, such as the recent surge in world oil prices.

15. As part of the ongoing reforms, the BOG intended to introduce a computerized interbank foreign exchange market, as a means of creating an active interbank market. However, it delayed this initiative out of concern over both its own capacity and that of market participants to operate the system effectively and without undue risk to exchange rate stability. Once the requisite institutional capacity exists (mainly through training), the computerized interbank market will be launched. At this time, the BOG does not consider it prudent to eliminate the surrender requirement for foreign exchange, as this would shift to one or two enterprises the responsibility for properly managing annual foreign exchange receipts that have reached US\$1 billion (about 10 percent of GDP).

III. STRUCTURAL POLICIES

16. With the benefit of recent experience and an assessment of preliminary outcomes, Ghana has reshaped the focus of the GPRS to increase the effectiveness of policies aimed at promoting private sector led growth and alleviating poverty. The main thrust of the structural policies for 2005 outlined below are consistent with this focus.

A. Financial Sector

17. The BOG will help strengthen the financial sector in order to expand private sector credit by using the Bank of Ghana Act to enforce compliance with the increased capital and capital adequacy requirements (10 percent of risk-weight assets as of April 2005, up from 6 percent earlier) or revoke their licenses; adopt the international norm of classifying non-performing loans; and facilitate access to credit and reduce lending risks, including by passing a law to establish a credit bureau. In addition, the government will step up efforts to enhance private sector credit expansion by implementing various other supporting legislation which have been enacted—such as the Long-Term Saving Bill and the Venture Capital Fund Bill, which are intended to mobilize domestic savings; and by passing the Insolvency Bill and the Companies Code to clarify creditor and borrower rights—and by accelerating the judicial and legal processes to secure land tenure, which is the only form of collateral for small- and medium-size enterprises and entrepreneurs.

18. A key element of the development strategy is to increase financial intermediation, which remains at a relatively low level. In recent years, prudential and legislative reform, better governance, and macroeconomic stability have strengthened the banking system. Also, the consolidation of the fiscal position has provided increased scope to expand credit to the private sector at lower cost. The Financial Sector Strategic Plan continues to provide the

medium-term direction of financial sector reform, with emphasis on regulatory and judicial reform, institutional capacity building, protection of private property rights, and competition.

19. In the period ahead, however, measures will be taken to address structural rigidities that impinge on the availability and cost of credit while ensuring ongoing financial stability. The secondary reserve requirement (35 percent of deposits) has served as an effective macroprudential tool, but prevents some banks from allocating their assets optimally because they have to meet the requirement by holding government or central bank securities. For the system as a whole, this requirement is not binding, as indicated by the existence of free reserves. While the BOG is moving to reduce barriers that hamper the private sector's ability to obtain credit, it remains concerned about balancing macroeconomic stability and the soundness of the financial sector, on the one hand, and efficiency and growth of the portfolios of banks, on the other hand. The BOG will move to reduce, and eventually eliminate, the secondary reserve requirement when there is firmer control over liquidity through more robust policy instruments.

B. External Policies and Debt Management

20. In December 2004, the government finalized its National Trade Policy, which fosters foreign direct investment, so as to further open the domestic market to competition, and the transfer of technology. While a further opening to the world and, equally important, regional markets will take time, the government will focus on several priority issues: harmonizing external tariffs with the members of the Economic Community of West African States; establishing a trade sector support program to make the National Trade Policy operational; and stepping up efforts to implement the President's Special Initiatives, which seek to broaden the export base (for manufactured products, such as garments and textiles, salt, industrial starch, and oil palm), create employment opportunities, and promote economic development in rural areas.

21. Reaching the completion point under the enhanced HIPC Initiative made Ghana's external debt sustainable. In line with the initiative, Ghana has completed nearly all of the bilateral negotiations with Paris Club creditors on the precise terms of the debt stock relief. Nearly all creditors committed themselves to granting additional relief beyond the HIPC Initiative. In addition, Ghana has been actively seeking to restructure the terms of some external liabilities on more favorable terms. It has recently adopted several measures to improve debt management, such as monthly reconciliation of external debt data among relevant government agencies, shifting the focus of debt management from data collection to analyzing debt sustainability, and integrating such analyses into the decision-making process of external borrowing consistent with the government's objective of debt sustainability.

22. Ghana has a great need of further funds to undertake crucial development projects. In view of the improved debt outlook, some international investment banks have signaled their desire to assist Ghana in tapping resources from international capital markets. However, Ghana's decision to access such funds will be based on (i) assurance that such borrowing would not worsen its debt-service profile over the medium term; (ii) a strengthening of its

debt management capacity to both assess and design loan proposals: and (iii) maintenance of its good track record of macroeconomic performance that will result in better financing terms. Furthermore, Ghana will seek to exhaust all available concessional assistance to meet the resource needs. On this basis, the government will avoid contracting or guaranteeing nonconcessional debt, as defined in the technical memorandum of understanding (TMU) attached to this MEFP.

C. Public Enterprise and Civil Service Reform

23. Fiscal consolidation has reduced the government's involvement in economic activity, which has been complemented over time by the divestiture of a significant number of SOEs. However, its involvement remains substantial and has a direct impact on Ghana's overall economic performance. In this regard, the 2005 program aims at improving the quality and efficiency of the civil service, enhancing the financial performance and monitoring of the largest SOEs, and reducing SOE's current and contingent liabilities to the government.

Public Enterprise Reform

24. Public enterprises account for a sizable part of Ghana's economy, with 35 SOEs and about 200 other entities that are partially owned by the government. These include some of the largest enterprises, concentrated in the service, energy, and financial sectors. While a few of the SOEs are profitable and have recently begun to remit profits to the budget, the majority operate at a loss because of technical and operational inefficiencies.

25. The private sector should lead economic development, and the government will thus move out of those activities that private agents can undertake more efficiently. In activities in which the government remains, it will ensure that public enterprises contribute positively to the budget and the wider objectives of economic policies. The primary goal of reform in this area, therefore, will focus on improving the performance of all SOEs over time, with immediate attention placed on the largest entities (such as the public utilities, Tema Oil Refinery, and Ghana Railways Corporation). The government envisages three elements to this strategy. First, it plans to expand the mandate of the Nontax Revenue Unit in the Ministry of Finance and Economic Planning by end-2005 to monitor, on a quarterly basis, the financial and operating performance of the 35 SOEs now reporting to the State Enterprise Commission, while the latter is being restructured. Second, it will continue to require each entity to produce and submit annual financial plans to the Ministry of Finance and Economic Planning—including its investment program, borrowing requirements, and projected performance (with prospective dividend payments to the budget). These financial plans will be submitted in time for the preparation of the national budget. Finally, the government will ensure that commercial entities maintain or adopt pricing policies that reflect full cost recovery.

26. By the end of this year, the Divestiture Implementation Committee is projecting revenue from the sale of shares in 12 joint-venture companies of about 0.6 percent of GDP. However, these proceeds have not been included in the 2005 budget because of the associated uncertainty regarding time and the eventual amounts. In the event, the proceeds

will be used to increase poverty-related spending and finance the civil service reform in a manner that would not give rise to future recurrent obligations or such that the additional recurrent obligations could be absorbed without compromising the overall budget objectives.

27. After Ghana Airways ceased operations in July 2004, a debt-restructuring committee was established to engage creditors and audit its liabilities. Once the committee's work is completed in September 2005, the government will devise a strategy to address this debt, which is currently estimated at US\$172 million. A task force has also been created to resolve issues associated with severance payments, and an allocation has been made in the budget to accommodate this eventuality. A new airline, Ghana International Airlines (GIA), has been established through a joint venture between the government (70 percent stake) and a U.S.-based investor. The 2005 budget makes provision for the government's equity contribution amounting to US\$4.9 million.

Civil Service Reform

28. The government has developed a policy document—*Towards a New Public Service for Ghana*—that will form the starting point for reforming the civil service. This document is to inform the policy debate by drawing important lessons about past attempts to restructure government operations. A number of shortcomings in past attempts at civil service reform include (i) the inability to tackle system wide issues, such as public sector pay, rightsizing of public-sector agencies, and human resource development; (ii) capacity constraints at managerial and professional levels; (iii) fragmented, technology-driven, and uncoordinated public sector modernization programs; and (vi) a lack of synergy of reforms between different levels of government. In looking ahead, the government has identified a number of key issues to deal with: (i) establishing a human resource policy that recognizes the need for a civil service that emphasizes professional and career development; (ii) reviewing the organization and structure of the civil service; (iii) addressing wage policy and payroll management (including pensions); and (iv) bolstering service delivery to ensure value for money.

29. Reflecting the importance of civil service reform, a Minister of State has been appointed to help accelerate it. With help from development partners, the Minister of State will present a draft action plan based on the policy document for cabinet consideration by end-June 2005. After approval by the cabinet, the implementation of the plan will begin no later than January 2006.

IV. STATISTICS

30. Progress has been made in improving the quality, timeliness, and availability of economic data. Ghana is working towards participation in the IMF's General Data Dissemination System and has started providing metadata to the IMF. The authorities intend to make Ghana's economic and financial data available on the internet. In December 2005, GSS will publish revised national accounts (from 1990 onward), including by expenditure-based categories. A revised consumer price index reflecting current consumption patterns will also be published at that time.

V. PROGRAM MONITORING

31. Quantitative and structural performance criteria and structural benchmarks for 2005 are set out in Tables I.1 and I.2. The fourth review of the program is expected to take place by November 2005, with end-June 2005 as the test date for the quantitative performance criteria. The review will focus on, among other issues, prospects in strengthening payroll management, progress in civil service and financial sector reform, establishment of a basis for monitoring the performance of state-owned enterprises, and how the pricing mechanisms for utilities and petroleum products are working (including the oversight activities of the Public Utility Regulation Commission and the proposed National Petroleum Authority). The fifth review is expected in March 2006, with December 2005 as the test date for the quantitative performance criteria.

32. Detailed definitions and reporting requirements for all performance criteria and structural conditions are contained in the TMU attached to this memorandum. The government will make available to Fund staff all core data, appropriately reconciled and on a timely basis, as specified in the TMU.

Table I.1. Ghana: Quantitative Performance Criteria and Benchmarks, PRGF Arrangement, 2005 1/
(Cumulative flows from beginning of calendar year 2005 to end of month indicated, unless otherwise indicated)

	End-March Est.	End-June Perf. criterion	End-September Indicative	End-December Perf. criterion
Performance criteria				
Net domestic financing of government (ceiling)	-119	-237	-1,374	-996
Net domestic assets of the Bank of Ghana (ceiling) 2/	166	1,170	2,095	444
Stock of net domestic banking sector credit to TOR (ceiling)	918	568	600	600
		(In billions of cedis)		
Net international reserves of the Bank of Ghana (floor)	-132	-217	-283	130
The contracting or guaranteeing of new nonconcessional external debt with original maturity greater than or equal to 1 year by the government or the Bank of Ghana (ceiling) 3/	0	0	0	0
		(In millions of U.S. dollars)		
Outstanding stock of external debt with original maturity of less than one year owed or guaranteed by the government or the Bank of Ghana (ceiling) 4/	0	100	100	100
Stock of external payment arrears (ceiling) 5/	0	0	0	0
		(In billions of cedis)		
Wage bill of the central government (ceiling) 6/	1,825	3,747	6,447	8,832
Indicative benchmarks				
Government domestic primary balance (floor)	660	1,598	2,109	2,532
Reserve money stock (ceiling)	8,087	8,313	8,633	10,777
Government revenue, excluding grants and divestiture proceeds (floor)	5,061	10,646	16,886	23,911
Poverty related expenditures (floor)	1,713	3,549	5,758	8,014

1/ Definitions of line items and terminology are elaborated in the technical memorandum of understanding. Variables are measured at end of month values, unless otherwise indicated.

2/ Based on a fixed exchange rate of 9,177 cedis/U.S. dollar, the rate prevailing at end-March 2005.

3/ This is a continuous performance criterion. It applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by Decision 12274-(00/123) of August 24, 2000 but also to commitments or contracted for which value has not been received, as specified in paragraph 18 of the TMU.

4/ The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by Decision 12274-(00/123) of August 24, 2000, as specified in paragraph 16 of the TMU.

5/ This is a continuous performance criterion. The TMU stipulates the precise program definition of payment arrears.

6/ Cumulative from January 2005, and including subvented agencies, all allowances (including additional duty hour allowance), and clearance of all wage arrears from 2004 amounting to 149 billion cedis.

Table I.2. Ghana: Proposed Structural Performance Criteria and Benchmarks for 2005

Conditionality	Status
Prior action	
Establish an independent oversight body to monitor application of the petroleum product pricing mechanism adopted on February 23, 2005.	
Performance criteria	
<ul style="list-style-type: none"> • End-September 2005. Establish computerized integrated personnel and payroll databases, which will include all employees covered under the Ghana Universal Salary Structure and all subvented agencies (such as the police, universities, and research centers). • By December 31 2005. Cabinet to approve the final plan for the civil service reform covering human resource policy, reviewing the organization and structure of the civil service, and addressing wage policy and payroll management (including pensions) (in line with paragraphs 28 and 29 of the MEFP). 	
Benchmarks	
<ul style="list-style-type: none"> • Continuous. Starting January 1, 2006, Bank of Ghana will start to enforce compliance of commercial bank with the capital adequacy stipulated in the Bank of Ghana Law and Banking Act. Noncomplying banks must take timely remedial actions, or their licenses will be revoked. • By end-December 2005. The Minister of Finance and Economic Planning will issue an Administrative Directive to expand the mandate of the Non-Tax Revenue Unit at the Ministry of Finance and Economic Planning to monitor—on a quarterly basis—the financial and operating performance of the 35 state-owned enterprises that now report to the State Enterprise Commission, as well as any other key public enterprises so determined by the Minister of Finance and Economic Planning (in line with paragraph 25 of the MEFP). 	

Technical Memorandum of Understanding

1. This technical memorandum of understanding contains definitions that are intended to clarify the measurement of items in Table I.1, Quantitative Performance Criteria and Benchmarks, Poverty Reduction and Growth Facility (PRGF) Arrangement, 2005, attached to the Memorandum of Economic and Financial Policies (MEFP). Unless otherwise specified, all quantitative performance criteria and benchmarks will be evaluated in terms of cumulative flows from December 31, 2004.

Provision of data to the Fund

2. Data with respect to all variables subject to performance criteria and indicative benchmarks 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 I.3). 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, including the Fund's Resident Representative.

Definitions

3. **Government** is defined for the purposes of this memorandum to comprise the central government as well as all special funds (the Education Trust Fund, the Road Fund, the District Assembly Common Fund, and the National Health Insurance Fund) and various 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. With regard to government deposits in commercial banks, the BOG's definition of government, circulated to commercial banks in May 2004, will apply for program purposes.

4. **Government domestic revenue** comprises all tax and nontax revenues of the government (in domestic and foreign currency), excluding foreign grants and divestiture receipts. Revenue will be measured on a cash basis as gross inflows to the government's uncommitted treasury collections accounts (as reported by the BOG).

5. **Government domestic expenditure** comprises all spending from uncommitted accounts for Items 1-4, as captured by the accounts of the Controller Accountant General's Department (CAGD). Reporting will be based on the current National Expenditure Tracking System (NETS) accounting system and its associated 15-digit chart of accounts and will be fully reconciled with BOG bank statements on spending (outflows) from the 42 newly created ministries, departments, and agencies' (MDA's) operational accounts (plus any residual use of existing treasury drawing/overdraft accounts). Expenditure will also be verified by comparing it with accounts produced by the Budget and Public Expenditure

Management System (BPEMS) accounting system, until such time as it becomes fully operational.

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

7. **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, including deferred accrued-interest payments on inflation-indexed bonds but 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).

8. **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 and deferred accrued interest on BOG holdings of inflation-indexed bonds, less government deposits (1101 including the main HIPC Initiative receiving account, and 1202) as defined in the monetary template.

9. **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.

10. **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.

11. The **domestic primary balance** is defined as the difference between government domestic revenue and noninterest domestic government expenditure as reported by the CAGD. It will exclude foreign-financed capital expenditure, for which data are reported by the Aid and Debt Management Unit (ADMU). The measurement will be on a cash basis, with any positive (negative) discrepancy between the above- and below-the-line measure of the overall balance being added to (subtracted from) the measure of the domestic primary balance (including unspent balances remaining in committed accounts).

12. The **wage bill of the government** is defined as the sum of personal emoluments and Item 1 under the contingency expenditure, both provided by the CAGD in "Report and Financial Statements on the Public Accounts of Ghana (Consolidated Fund)." The wage bill is to include all remunerations (plus the Additional Duty Hourly Allowance) paid to civil servants covered under the Ghana Universal Salary Structure (GUSS) and subvented agencies.

13. The **program exchange rate** for the purposes of this memorandum will be 9,177 cedis per dollar, which was the average interbank transaction rate prevailing at end-March 2005.

14. **Reserve money** is defined as the sum of currency in circulation (BOG statement of accounts codes 901 plus 902), plus cedi-denominated currency deposits at the BOG (excluding accounts that are overdrawn, blocked, or owned by banks in liquidation) of the following entities: commercial banks, other financial institutions, private sector entities, public institutions, and public enterprises. A more detailed listing of accounts to be included in the measure of reserve money is contained in the monetary template referred to in paragraph 7. If aggregate reserves fall below the legal reserve requirement of 9 percent of bank deposits (as reported in the quarterly STCRBB), then reserve money will be adjusted upward to the extent of any shortfall in compliance with that reserve requirement.

15. **Net foreign assets** are defined in the monetary survey as short- and long-term foreign assets minus liabilities of the BOG that are contracted with nonresidents. Short-term foreign assets include: monetary gold (valued at the spot market rate for gold, US\$/fine ounce, London), holdings of SDRs, reserve position and HIPC Initiative trust investment in the IMF, the HIPC Initiative Umbrella SDR account (all as reported by the IMF), foreign notes and travelers checks, foreign securities, positive balances with correspondent banks, and other positive short-term or time deposits. Short-term foreign liabilities include foreign currency liabilities contracted by the BOG at original maturities of one year or less (including overdrafts), outstanding liabilities to the IMF, and deposits of international institutions at the BOG. Long-term foreign assets and liabilities are comprised of: other foreign assets (BOG statement of accounts code 303), investments abroad (a subset of 60201), other long-term liabilities to nonresidents (a subset of 1103), and bilateral payment agreements (305). All values not in U.S. dollars are to be converted to U.S. dollars at the exchange rates prevailing at end-March 2005 and then into cedis at the program exchange rate indicated in paragraph 13. A more detailed listing of accounts to be included in the measure of net foreign assets is contained in the monetary template referred to in paragraph 7 above.

16. **Net international reserves** of the BOG are defined for program monitoring purposes and in the balance of payments as short-term foreign assets of the BOG, minus short-term external liabilities. To the extent that short-term foreign assets are not fully convertible external assets readily available to and controlled by the BOG (that is, they are pledged or otherwise encumbered external assets, including, but not limited to, the HIPC umbrella SDR account, they will be excluded from the definition of net international reserves. Net international reserves are also defined to include net swap transactions (receivable less payable) and exclude all positive foreign currency deposits at the BOG held by resident deposit money banks, public institutions, nonfinancial public enterprises, other financial institutions, and the private sector. All values not in U.S. dollars are to be converted to U.S. dollars at the exchange rates prevailing at end-March 2005 and then into cedis at the program exchange rate indicated in paragraph 13. A more detailed listing of accounts to be included in the measure of net international reserves is contained in the monetary template referred to in paragraph above.

17. **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.

18. The performance criterion on **short-term external debt** refers to the outstanding stock of external debt with an original maturity of one year or less, including overdraft positions and debt owed or guaranteed by the government or the BOG.¹ Data on the BOG's short-term external debt are those reported from the statement of accounts template as short-term liabilities to nonresident commercial banks (BOG statement of accounts code 1201 plus 301 overdrafts plus Crown Agent).

19. The performance criterion on **nonconcessional medium- and long-term external debt** (Table I.1) refers to the contracting or guaranteeing of external debt with an original maturity of more than one year by the government or Bank of Ghana.² Medium- and long-

¹ (A) The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) August 24, 2000). This includes overdrafts on accounts with correspondent banks. (B) Excluded from this performance criterion are normal import-related credits, pre-export financing credits of public enterprises, cocoa loans collateralized by cocoa contracts, and individual leases with a value of less than US\$100,000 and a loan (not exceeding US\$60 million) that may be contracted to securitize future reimbursements from the United Nations in connection with Ghana's participation in UN peacekeeping operations. This PC does not apply to any obligations that may arise from the conclusion of negotiations with a foreign shareholder in Ghana Telecom relating to a US\$50 million payment made by the shareholder to the government of Ghana in 2000.

² (A) This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) August 24, 2000) but also to commitments contracted or guaranteed for which value has not been received. (B) Excluded from this performance criterion are: individual leases with a value of less than

(continued)

term debt and its concessionality will be reported by the Aid and Debt Management Unit of the Ministry of Finance and Economic Planning, and will be measured in U.S. dollars at current exchange rates.

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

External Data, Debt and Debt Service, and HIPC Relief

21. **To improve the transparency and accountability of external debt management**, the Minister of Finance and Economic Planning has written to the Controller Accountant General and the Governor of the BOG setting down the formal procedures for settlement of debt and specifying the functions that the CAGD and the BOG are expected to fulfill in carrying out those procedures. In addition, the following measures have been initiated and will be maintained:

a) All MDAs have been informed that the ADMU in the Ministry of Finance and Economic Planning is the only entity authorized to contract or guarantee external debt, and all leases with a total value above US\$100,000 should be submitted to ADMU for authorization. The ADMU will report to the IMF with a lag of not more than one month on the concessionality of all new loans contracted.

b) The Minister of Finance and Economic Planning has sent a circular to all donor desks officers in the Minister of Finance requesting that arrangements be put in place to ensure that the ADMU is informed of all correspondence with creditors, including the latest information on disbursements and project financing developments and any notices of payment due. All new loan documents should also state clearly that the ADMU is the main initial point of contact for settlement of all debt obligations.

US\$100,000; debts with a grant element equivalent to 35 percent or more, calculated using currency-specific discount rates based on OECD commercial interest reference rates; a loan (not exceeding US\$60 million) that may be contracted to securitize future reimbursements from the United Nations in connection with Ghana's participation in UN peacekeeping operations; and loans or purchases from the IMF. The grant element of each loan will be assessed only with regard to (i) the interest rate and repayment schedule of the loan and (ii) any grants or other concessional loans provided by a foreign official entity in connection with the loan in question. Loans provided by a private entity will not be considered concessional unless accompanied by a grant or grant element provided by a foreign official entity equal to at least 35 percent of the combined loan. This performance criterion does not apply to any obligations that may arise from the conclusion of negotiations with a foreign shareholder in Ghana Telecom relating to a US\$50 million payment made by the shareholder to the government of Ghana in 2000.

- c) Formal procedures have been established requesting donors and creditors to confirm with the ADMU debt-payment obligations—including for government-guaranteed obligations—in advance of payment due dates.
- d) Formal delegations have been put in place in the Ministry of Finance and Economic Planning and at the CAGD to ensure that an absence of signing authority does not delay payment requests. In addition, a register will be kept of the timing of formal debt-payment actions. This register should be signed by the various institutions involved in the payment of external debt.
- e) At the same time, procedures instituted in early 2003 relating to prior authorization and fiscal booking of external and other payments by direct debit will be maintained.
- f) In the event that a shortage of foreign exchange results in a queuing of debt-service obligations at the BOG, delaying payments beyond their due dates, the Ministry of Finance and Economic Planning is responsible for issuing any instructions needed to revise payment priorities and for maintaining a record of payment arrears. Formal reporting and follow-up procedures have been established for the BOG to confirm the transactions to CAGD and the ADMU in the MoF on a daily basis. These reports contain information on the transactions completed as requested, transactions previously queued and paid and transactions added to the queue. These reports are copied to both the governor of the BOG and the Minister of Finance and Economic Planning and his senior officials and to the IMF staff on a monthly basis.
- g) The procedures for verifying BOG data to the Fund have been formalized, and a senior officer has been formally delegated with the responsibility for the compilation and verification of data on program conditionality to be reported. Formal reconciliation procedures to verify both the derivation of data reported to the Fund and the BOG internal audit procedures have been amended to include a periodic check that procedures are followed.
- h) **Two accounts** have been established at the BOG for the receipt and disbursement of HIPC Initiative relief. When each debt-service payment falls due, the government of Ghana (or the BOG for IMF repurchases) will transfer to the account that proportion of the amount due that, under the terms of the HIPC Initiative, does not have to be paid to the creditor. For debt owed by public enterprises under the HIPC Initiative, the Government of Ghana will transfer to the HIPC Initiative account the debt-relieved portion of the debt service payment, if the enterprise fails to do so on the due date. The ADMU will issue, in advance of the due date, a request for payment to the CAGD indicating the portions due to the creditor and the HIPC Initiative account. The ADMU will prepare a monthly report indicating for the coming month (i) the total debt service due by creditor, (ii) the amount of HIPC Initiative relief on each transaction, and (iii) the debt service paid and the transfers to the HIPC Initiative account by creditor for the previous month. This report will be provided within two weeks of the end of the month to the CAGD and the IMF.

Table I.3. Ghana: Data to be Reported to the IMF

Item	Periodicity
Fiscal data (to be provided by the MOFEP) Central budget operations for revenues, expenditure and financing.	Monthly within six weeks of the end of each month.
Functional breakdown by Ministry, Department, and Agency of expenditure authorizations, payment vouchers issued, payment vouchers liquidated, and arrears. These data will also identify poverty-related and expenditures financed through the HIPC Initiative, as well as the inflows and disbursements from the HIPC receiving and drawing accounts at the BOG.	Monthly within six weeks of the end of each month.
Divestiture receipts received by the budget (in cedis and foreign exchange, net of divestiture transactions costs).	Monthly within six weeks of the end of each month.
Monetary data (to be provided by the BOG) Net domestic assets and net international reserves of the BOG.	Weekly within two weeks of the end of each week.
Detailed balance sheet of the monetary authorities.	Monthly within four weeks of the end of each month.
Monetary survey detailing the consolidated balance sheet of commercial banks using the new BSD2 Report Form.	Monthly within six weeks of the end of each month.
Summary position of government committed and uncommitted accounts at BOG, as well as total financing from BOG. Accompanying table showing composition of other receipts and other expenditure.	Monthly within four weeks of the end of each month.
Composition of banking system and nonbanking system net claims on government.	Monthly within four weeks of the end of each month.
Debt registry showing structure and holders of domestic government debt, at face value and at discount. Similar table showing holders of treasury bills for open market operations.	Monthly within four weeks of the end of each month.
Supervisory Technical Committee Review of Banking Business quarterly report showing aggregate reserves of the banking system.	Quarterly within eight weeks of the end of each quarter.
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.
External debt and foreign assistance data (to be provided by MOFEP) Information on the concessionality of all new external loans contracted by the	Monthly within four weeks of

Table I.3. Ghana: Data to be Reported to the IMF

Item	Periodicity
government or with a government guarantee.	the end of each quarter.
For the coming quarter: (i) total debt service due by creditor, (ii) amount of HIPC Initiative relief on each transaction, and (iii) debt service paid and the transfers to the HIPC Initiative account by creditor for the previous month. Report should cover government and government-guaranteed debt (as defined in this document).	Quarterly within four weeks of the end of each quarter.
External debt and external debt service incurred by enterprises with government ownership above 50 percent, even if loans have not been explicitly guaranteed by the government.	Quarterly, within three weeks of the end of each quarter.
Disbursements of grants and loans by creditor	Quarterly, within four weeks of the end of each quarter.
Other data (to be provided by GSS)	
Overall consumer price index.	Monthly within two weeks of the end of each month.
National accounts by sector of production, in nominal and real terms.	Annual within three months of the end of each year (switching to quarterly when they become available).