

**International Monetary Fund**

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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.

October 18, 2006

Mr. Rodrigo de Rato  
Managing Director  
International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, DC 20431  
USA

Dear Mr. de Rato:

1. Further to our letter of May 25, 2006, reviewing performance under our economic and financial program over the past few years and presenting our program for 2006, we would like to inform you that performance has continued to be satisfactory. Real GDP growth has continued to be strong, and inflation is well contained—apart from the impact of domestic fuel price increases (considering rising world prices and our recent adoption of a full-cost pass-through regime). Also, Ghana's external position has strengthened, particularly after the MDRI debt relief.
2. All but one of the quantitative and structural performance criteria for June 2006 were met (Tables 1 and 2). The ceiling on the net domestic assets of the central bank for June 2006 was exceeded because an adjuster for the transfer and use of the MDRI resources was inadvertently omitted from the Technical Memorandum of Understanding (TMU) attached to our letter of May 25, 2006. Also, after the IMF Executive Board approved our program for 2006, we decided to accelerate the transfer and use of MDRI resources in 2006 from the US\$125 million indicated in our letter to US\$200 million.
3. Furthermore, the omission of the adjuster also affected the performance criterion for net international reserves for June 2006, but it had no implications for the observance of the target because net international reserves overperformed with or without correction for the errors.
4. As anticipated in our letter of May 25, 2006, parliament approved a supplementary budget for 2006 in July. The supplementary budget concentrated on the appropriate use of the additional resources made available from the MDRI to achieve our development objectives—primarily by augmenting public investment in poverty sectors. Initially, we had thought of directing nearly all the additional resources to poverty-reducing activities, which would have further raised poverty-related expenditures from 8.5 percent of GDP in 2005 to 10.0 percent in 2006. After consultation with the general public and its representatives, we have dedicated a significant portion of the resources to rehabilitation of critical infrastructure, particularly in the urban and rural poor areas, to enhance the prospect of sustainable growth. This allocation is consistent with the poverty reduction strategy we forwarded to you earlier this year. Thus, the rise in poverty-related expenditures was limited to 9.3 percent of GDP in

2006. In essence, the total MDRI resources of US\$229 million (1.8 percent of GDP) is being used about equally for poverty-reducing activities and growth-enhancing investment.

5. In the circumstances, we are requesting a waiver for the nonobservance of the quantitative performance criterion on the net domestic assets of the Bank of Ghana for end-June 2006. Moreover, for the remainder of our economic program for 2006, we have adjusted (a) the end-September and end-December 2006 indicative targets for net domestic assets and the net international reserves of the Bank of Ghana, and (b) the end-December 2006 indicative target for poverty-related expenditures to reflect the higher MDRI spending and to correct the omission of the adjuster.

6. We continue to believe that the policies specified in our letter of May 25, 2006, provide a strong basis for sustaining growth, reducing inflation, and alleviating poverty. However, we are prepared to take any additional measures necessary to achieve the economic and financial objectives of the 2006 program. The government will continue to provide the Fund with the information necessary for assessing progress in implementing our program as specified in the TMU, and we will consult with the Fund staff and management on any measures that may be appropriate at the initiative of the government or whenever the Fund requests a consultation. The government intends to make public both this letter and the staff report for the sixth and final review under the PRGF arrangement. Accordingly, the government of Ghana authorizes the IMF to arrange for these documents to be posted on the Fund's website once the Executive Board has completed its review.

7. With the above, we hereby request completion of the sixth and final review and disbursement of the seventh loan installment of SDR26.4 million.

Yours sincerely,

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

Dr. Paul A. Acquah  
Governor, Bank of Ghana

Attachments (2)



Table 2. Ghana: Structural Performance Criterion and Benchmark for 2006

Condition	Status
<b>Performance criterion</b>	
<ul style="list-style-type: none"> <li>• <b>June 30, 2006.</b> Present a report on the comprehensive review of the wage and salary structure of public service workers, with the aim of rationalizing the emolument structure, monetizing benefits, standardizing job titles, and updating job classifications.</li> </ul>	<b>Completed</b>
<b>Benchmark</b>	
<ul style="list-style-type: none"> <li>• <b>June 30, 2006.</b> The Ministry of Finance and Economic Planning will submit the Credit Reporting Bill to Cabinet for final approval.</li> </ul>	<b>Completed</b>

Sources: EBS/06/72, and information provided by the Ghanaian authorities.