

International Monetary Fund

[Ghana](#) and the IMF

Press Release:

[IMF Completes First Review of Ghana's ECF and Approves US\\$116.6 Million Disbursement](#)

August 31, 2015

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

[Country's Policy Intentions Documents](#)

August 17, 2015

E-Mail Notification

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

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

Letter of Intent

Accra, August 17, 2015

Ms. Christine Lagarde
Managing Director
International Monetary Fund (IMF)
Washington, D.C. 20431

Dear Ms. Lagarde,

1. In support of its policies, the government requests that the Executive Board of the IMF completes the first review of Ghana's ECF arrangement and approves disbursement of the second tranche of the loan, based on the successful implementation of all but one performance criteria and a satisfactory implementation of key structural reforms—as set forth in the attached MEFP.

2. Considerable progress was made in implementing the envisaged fiscal consolidation. The fiscal deficit was substantially reduced for the first five months of the year, compared to the same period last year. At the same time, good progress was made in implementing the ambitious public sector reform agenda, including in debt and cash management. Implementation of the payroll plan is also on course. The central bank tightened its monetary policy through increases in its policy rate.

3. The economy has come under severe stress due to a combination of unfavorable cocoa and gold production, and an ongoing energy crisis. Lower exports and a lack of market confidence have added significant volatility to the exchange rate putting pressures on interest and foreign capital spending. To maintain the fiscal targets as envisaged under the program and to prevent further increase in the public debt, the government has taken the decision not to spend higher revenue projected for the remainder of the year as well as to reduce low priority capital expenditure—as set in the budget mid-year review. The central bank confirmed its commitment to bring inflation down to its medium target, through setting its policy rate at an appropriate level. The central bank stands ready to take any further action required to combat inflation.

4. The MEFP describes corrective policies adopted by the government in response to the non-observance of the end-April 2015 performance criterion under the ECF for the continuous performance criterion on the central bank financing of the government deficit, and we request a waiver of non-observance for this PC. The government also requests that the IMF Executive Board approve the modifications to the performance criteria as set in the MEFP. These include: an increase in the ceiling on non-concessional borrowing to allow for the implementation of critical infrastructure projects and in line with the new debt limit policy; an increase in the continuous PC on gross credit to government (following a technical revision of the stock at end-2014), a decrease in the end-December 2015 PC on net domestic assets of the Bank of Ghana, and adjustments in the August 2015 and December 2015 PCs on net international reserves to reflect the larger amount of the Eurobond envisaged this year and a revision of the definition requested by the Fund to better

reflect guidelines on international reserves.

5. The government believes that the measures and policies set forth in the attached MEFP and in the mid-year review of the 2015 Budget Statement and Economic Policy are appropriate and sufficient to achieve the objectives of its program, but it stands ready to take any additional measures that may be necessary to that end. We will consult with the IMF on the adoption of such measures in advance of any revision of the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

6. The government consents to make public the content of the IMF staff report, including this letter, the attached MEFP and TMU, and the debt sustainability analysis (DSA) performed by IMF and World Bank staff. It therefore authorizes the IMF to publish these documents on its website once the IMF Executive Board approves the completion of the first review under the three-year arrangement under the ECF.

Sincerely yours,

/s/

Seth Emmanuel Terkper
Minister for Finance

/s/

Henry Akpenamawu Kofi Wampah
Governor of Bank of Ghana

Attachments:

Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment 1

Memorandum of Economic and Financial Policies, 2015–17

1. This memorandum updates and reports developments on Ghana’s economic and financial policies for the period 2015–2017 which is being supported by the International Monetary Fund under a three-year ECF arrangement. It summarizes the government’s assessment of Ghana’s current economic situation and program performance (Section I), government’s program and policies that will be adopted to address the challenges that the country faces (Section II), developments in the structural reforms (Section III); policies to support growth (section IV); program risks (section V); and program monitoring (Section VI).

I. RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

Growth and Inflation

2. Economic growth decelerated to 4.0 percent in 2014, broadly as estimated before. Shortages in electricity supply, coupled with increasing input costs from the depreciation of the Cedi contributed to a contraction in the industry sectors and a significant slowdown in the services sectors. Within industry, manufacturing and water sectors experienced a contraction while the petroleum and mining, electricity, and construction sectors slowed down markedly. The outbreak of Ebola in the West-African region, and the resulting moratorium of international conferences in Ghana contributed to a contraction in the hotel and restaurant sector. Oil output was revised slightly downward. Preliminary national accounts estimates indicate that the economy expanded by 4.1 percent in the first quarter of 2015 compared to a contraction of 3.8 percent in first quarter of 2014. The Agriculture Sector recorded the highest growth of 7.4 percent, the Services sector followed with 4.7 percent whilst industry recorded a growth rate of 0.9 percent. On June 3rd, severe flooding in the capital city Accra caused some property damage (including infrastructure) and resulted in at least 150 deaths, the worst tragedy in recent history.

3. Inflation pressures persist. The decline in international oil prices and the 10 percent reduction in domestic fuel prices contributed to a slight decline in headline inflation in January 2015. Subsequently, however, inflation inched up again to 17.1 percent in June 2015 fueled by the depreciation of the Cedi of 23 percent in nominal effective terms between December 2014 and June 2015. Core inflation (excluding food and energy) accelerated from 19 percent at end-2014 to 23 percent in May before slightly easing in June.

Fiscal Performance

4. Despite setbacks, fiscal performance during January–April of 2015 was satisfactory. The overall fiscal deficit on a cash basis was substantially lower than budgeted, with a primary surplus against a projected deficit. Strong revenue performance benefited largely from tax administration and policy measures and the sharper-than-expected depreciation as reflected by larger-than-

budgeted indirect tax revenues, stemming from higher VAT on imported goods, petroleum products tax, and export tax, as well as strong collection of corporate income tax. In addition, an unanticipated transfer of BOG's dividend (0.4 percent of GDP) also contributed to the strong revenue performance.¹ At the same time the government contained current spending, including maintaining the wage bill within the budget envelope, while foreign capital spending was higher than budgeted reflecting a delayed foreign loan disbursement that was originally expected in December 2014. Some mandatory payments to Social Security and most statutory funds were delayed and paid in the subsequent month due to liquidity constraints.

5. While no new arrears were accumulated so far in 2015 and higher-than-programmed arrears has been cleared, additional arrears as of end-2014 were identified in audits and reviews of claims from oil importers and cross debts among utility companies. In 2014 the Bulk Distribution Companies (BDCs) submitted a request for US\$327 million in respect of forex losses payable by Government. In order to address disagreements between the BDCs and Government, an independent auditor was appointed to audit the claims submitted by the BDCs. The Audit has been completed and a final report issued. Based on consensus reached on the audit, Government has accepted a total of US\$181 million as the amount due the BDCs in respect of forex losses for the period. A portion of the amount will be paid in 2015 and the remaining paid in subsequent years. In order to avoid the recurrence of forex losses in respect of petroleum imports and sale by BDC's, Government is implementing a policy of liberalizing the pricing of petroleum products.

Financing and Public Debt

6. The government has raised GHc 0.9 billion in net financing from the domestic debt market during January-April 2015. However, net issuances became negative during the second quarter. Domestic market financing continued to be skewed towards T-bill issuances, while modest maturity extension through the net issuances of 3- and 5-year notes was achieved. Maturing BOG holdings of T-bills have mostly been paid off, and no new T-bills have been purchased by the BOG. Net financing from BOG was lower than projected. Combined with the effect of the exchange rate depreciation, public debt has increased to GHc 88.7 billion as at end-April 2015. The weighted average time to maturity of the marketable domestic debt stood at 10 months, and continues to represent a significant rollover risk for the government debt portfolio. In addition, recent observed uncovered auctions pose risk to deficit financing of the Budget. There was no increase in non-marketable domestic debt during the period.

Monetary and Financial Sector Developments

7. The Monetary Policy Committee (MPC) increased its benchmark policy rate by 100 basis points to 22 percent in May 2015, but decided to keep it unchanged in July. Although the committee recognized still elevated inflation and inflation expectations, it considered that pressures

¹ Even excluding BOG dividend the fiscal outcome would have been in line with the program.

in the medium term were receding with tight monetary policy, continuing fiscal consolidation, and the recovery of the cedi in July. The committee announced also the introduction of a new 7-day reverse repo instrument at the monetary policy rate, which was then re-aligned on August 13.

8. The response of money market rates has been mixed. The shorter end of the market saw the 91-day Treasury bill rate decline by 9 basis points in May but increase by 8 basis points in June, remaining at 25.2. At the longer end of the market, while the rate on the 3 year bond went up by 100 basis points in the month to 23.5 percent in May, that for the 1-year, 2-year, 5-year and 7-year bond rates remained unchanged at 22.5 percent, 23 percent, 21percent and 18 percent respectively.

9. Growth in monetary aggregates decelerated. Reserve money growth declined significantly on a year-on-year basis from 30 percent in December 2014 to 16 per cent in April and 13 percent in June 2015. In line with the trends in reserve money growth, Broad Money growth also declined from 33 percent in December 2014 to 27 percent in April 2015. Growth in the broader measure of money supply (M2+), defined to include foreign currency deposits, slowed down from 37 percent in December 2014 to 33 per cent in April 2015. This growth is expected to decline further to 28 percent by December 2015. Reflecting tighter liquidity conditions in 2015, private credit growth slowed to 33 percent in April from 42 percent at end-2014. In real terms the growth in credit declined from 22 percent to 14 percent during the same period.

Exchange Rate Developments

10. The domestic currency weakened against the major currencies during the first half of the year but recovered strongly in July. The cedi depreciated against the US dollar by close to 30 percent during the first half of the year. Some factors that fueled the cedi depreciation are the outflows of foreign exchange from a higher-than projected trade deficit fueled by the oil price decline and lower production levels of cocoa and gold. It may also have been exacerbated by speculative activities on the foreign exchange market, following similar depreciation trends during the same period in 2014. However, the steady depreciation during the first half of the year was largely reversed in July, following BoG's announcement to intensify intervention in the foreign exchange market, resumption of disbursements from key development partners, indications that fiscal consolidation was on track, and confirmed expectations of foreign exchange inflows in September-October from a new Eurobond and cocoa crop financing. BoG is closely monitoring current developments in the foreign exchange market and will take appropriate measures when necessary to contain any potential excessive volatility. To better comprehend the dynamics in the foreign exchange market, BoG has requested technical assistance from the Fund to assess the current situation and advise on ways to deepen the market.

Financial Sector Developments

11. The impact of the shocks from the cedi depreciation during the first half of the year and slowdown in growth has been well contained by the banking system. The banking system continues to remain generally well capitalized, liquid, and profitable, though there is substantial variation

across banks. Nonperforming loans (NPLs) have remained stable in early 2015. The BoG has commissioned an audit into the system of provisioning of loans by banks to confirm the NPL trends.

External Sector

12. The current account improved significantly compared with last year but not as much as envisaged in the program. A poor harvest of cocoa and lower gold production partly due to the energy crisis have led to somewhat lower-than-projected exports. Despite the rapid depreciation of the currency, non-oil imports were slightly larger than projected, with a rebound from historic low levels recorded in 2014. The capital and financial account deficit has been broadly in line with the program projection.

13. The overall balance of payments recorded a large deficit of some US\$ 850 million—around US\$ 150 million higher than projected for the first quarter. The relatively high BoP deficit reflects to some extent the seasonal pattern of Ghana's balance of payments. As a result, BoG's gross international reserves declined by about US\$400 million in Q1. Meanwhile, from January to June, BoG has contracted two external bridge loan facilities equivalent to the amount of currency swaps with domestic banks repaid during the period, leaving BOG foreign currency liabilities broadly unchanged.

Quantitative performance criteria and structural benchmarks

14. All performance criteria (PC) at end-April 2015 were met with the exception of BOG's gross credit to government (continuous ceiling for 2015) that was technically missed by a small margin. This was because the balance on the Government's domestic debt restructuring (DDR) account which was earmarked to reduce gross claims on government was not transferred to reduce the overdraft to Government, although the account had been tagged. Following discussions with IMF staff, the amount in the DDR account has been transferred into the Government overdraft account, thereby avoiding any future confusion about the determination of this PC.

15. A correction was made to the PC's on gross credit to government initial stock in 2014 in order to properly account for all government accounts with negative balances (equivalent to overdraft), as defined in the TMU. The original estimate mistakenly did not include these negative balances as they were aggregated within total government deposits. While the revised initial stock in 2014 increased by GH¢6.1 billion, in April Bank of Ghana in consultation with the Ministry of Finance and IMF staff transferred resources from accounts with positive balances to accounts with negative balances in order to reduce the size of the latter. As a result, the stock of gross credit to government has declined by almost Ghc 5 billion between December 2014 and April 2015. While the PC was missed for the reasons explained above, the government did not receive any gross financing from BOG during this period as initially envisaged in the program design. On the contrary, the government's cash buffers in the form of (positive) deposits at BOG declined substantially, leaving minimal cash buffers.

16. The PC targets on net international reserves for August 2015 and December 2015 are requested to be revised in order to reflect a revision of the definition of international reserves requested by the Fund in order to better adhere to standard guidelines. The revised definition excludes the total amount of Bank of Ghana deposits with Ghana International Bank, London, from the definition of foreign assets.
17. Inflation remained higher than the program's indicative target while some social protection spending was slightly delayed until after end-April. Some delays in small payments due to an official creditor were resolved and did not give rise to arrears.
18. Structural benchmarks were largely met, some with delays. In particular:
- a. A first draft plan to eliminate the compulsory surrender requirements of foreign exchange was completed before the end-April 2015 target. A revision of the plan addressing comments from the IMF was completed and adopted by the BoG Board in end-July. Further implications of the reform need to be addressed and a detailed action plan will be developed, drawing from in-depth analysis of a planned IMF TA mission.
 - b. The benchmark at mid-May related to the audit of the payroll security system was met with a delay. The interim audit of the security system was completed by Mid-May, but a preliminary draft of the assessment was provided only in mid-June. The final draft was completed by mid-July.
 - c. The benchmark at end-June related to the biometric validation of employees on the mechanized payroll is partially met, while the publication of the public audit of payroll management is delayed. While the payroll databases have been matched with the biometric databases, a full integration to allow automatic validation will require more resources, and will be finalized by June 2016. The public audit of the payroll management has started on a limited scale. To avoid duplication of resources, the revised plan is to use the comprehensive HR audit being undertaken by the PSC, with private sector support, to update the payroll by end-year.

II. THE GOVERNMENT'S ECONOMIC PROGRAM

Macroeconomic Framework for 2015 and the Medium-Term Objectives

19. **Outlook for 2015.** Real GDP growth for 2015 is projected to further decelerate to 3.5 percent mainly on account of fiscal consolidation, the energy crisis and a weak cocoa harvest. The 2015 first quarter provisional growth of 4.1 percent, however, increases the probability of exceeding the 2015 growth target. Given the persistence of inflation and the depreciation of the cedi during the first half of the year, the average inflation projection was revised upwards to 15.5 percent. Following the sharp appreciation in July, the year-end inflation projection was kept unchanged. The ruling of the international tribunal is not expected to have an immediate impact on the estimated oil production in 2015-17 until the final decision is taken in 2017.

20. For 2015 as a whole, the current account deficit is expected to be reduced from last year, but not as much as previously expected, from 9.6 percent of GDP in 2014 to 8.2 percent of GDP. Financial account would contribute to reserve build-up towards the end of the year through the forthcoming Eurobond issuance and annual external borrowing by Cocoa Board.

21. **Medium term Outlook.** Medium-term projections remain broadly unchanged. As electricity shortage should be largely addressed by end-2015 with emergency power projects, non-oil growth is projected to rebound in 2016 and reach an average of about 6 percent over the medium term. Oil production is projected to increase in 2016 and 2017, contributing to real hydrocarbon GDP growth of 22 and 18 percent, respectively. Accordingly, real GDP growth for 2016 is targeted at 5.7 percent. With tighter fiscal and monetary policies, the year-end inflation is expected to decelerate to 8 percent and projected to remain within BoG's medium term target range (8 +/- 2 percent). The current account deficit would decline to around 5.5 percent of GDP by 2017, and net reserve cover rise to the equivalent of 3.5 months of goods and services imports.

Fiscal Policy for the Second Half of 2015 and the Medium Term

22. The government will continue with its fiscal consolidation efforts, despite the unfavorable macroeconomic condition including the weakening currency.

- a. Overall revenues (excluding BoG dividend) are expected to perform in line with the budget for the remainder of the year, while the composition may change. Based on the revenue performance in the first 4 months of the year, we expect the positive performance in import duties, corporate taxes, and oil revenues to continue in the second half of the year. Upward adjustment of the oil revenues reflects higher oil prices and larger-than-expected depreciation.
- b. The government intends to continue containing domestic primary spending, in particular to keep net hiring within the budget envelope for the wage bill. Larger-than-expected depreciation during the first half of the year has increased foreign interest payment, as well as foreign-financed capital spending resulting from higher disbursement in cedi terms of foreign loans.
- c. While staying current on its expenditure commitments, the government intends to continue clearing domestic arrears according to plan and use the unanticipated BoG dividend to partly clear the additional arrears stemming from the audited BDCs claims, while the remainder will be used to cover the payments of the damage caused by the recent flooding.
- d. Supported by higher oil revenues, the government is now aiming for a 2015 fiscal deficit of about 7.3 percent of GDP. The government plans to save at least 50 percent of the additional oil revenue stemming from the higher-than-projected oil prices compared with the program (latest oil price projections remain substantially lower than envisaged originally in the 2015 budget).
- e. The Government is in the process of assessing the full impact of the flood disaster. Initial work done indicates costs in the areas of building and repair of bridges and roads as well as the

payment of hospital bills, provision of relief items and resettlement costs. The budget will cover up to GHc 300 million of these flood-related costs.

23. Domestic prices of petroleum products were liberalized as of July 1. The goal of the price liberalization policy is to ensure full cost recovery of petroleum pricing. The policy expects that taxes and levies will remain the same. Margins will be determined by industry players and the role of the National Petroleum Authority (NPA) will be purely regulatory, ensuring that the right standards are kept in the industry. The Bulk Oil Distribution Companies (BDCs) and their banks will be responsible for the foreign exchange needs of the BDCs with Bank of Ghana playing a monitoring role.

24. The utility tariff policy will continue to aim as a primary objective at ensuring that electricity, natural gas and water tariffs at any particular point are cost effective. This is achieved through a biannual tariff review process and quarterly tariff review mechanism under an automatic adjustment formula. The Public Utilities Regulatory Commission (PURC) is planning a major tariff review which is to take effect from October, 2015. It will look at the electricity generation mix to determine the fuel and price mix (which has changed substantially following the relative decline in hydro power generation in recent years), other costs and growth in demand with a five-year tariff outlook. These elements will constitute revised components determining the quarterly automatic adjustments going forward.

25. The government will continue to face financing challenges, particularly domestic financing, over the short to medium term. The financing mix for the remainder of 2015 will be more externally oriented. While the gross financing needs during the first half of the year were almost entirely financed domestically, program financing and the planned issuance of a new Eurobond should contribute to ease pressures on the domestic debt market and reduce roll-over risks of government debt. In addition, the 2-year notes will be opened up to non-resident investors, currently only permitted to invest in securities 3-years and longer. The government will aim to achieve a net domestic issuance on a proceeds basis of GH¢ 1.1 billion in the second half of the year, which will also enable building cash buffers in preparation for its transition towards zero gross financing from the BoG. Over the medium term, the financing mix will gradually revert towards greater domestic financing. Work will continue to deepen the domestic debt market in the primary and secondary markets, the money market, and market infrastructure, to enhance the efficient functioning of the domestic market, expand the investor base and increase their absorptive capacity, and improve the risk-reward profile of Ghana's government debt as an investment asset.

26. The donor support has been unlocked since the approval of the Fund's program. So far the EU has released about US\$ 180 million and the World Bank will disburse US\$ 150 million shortly, while the African Development Bank is set to release around US\$50 million in September. Additional disbursements from bilateral donors during the remainder of the year will bring total program financing to close to US\$ 500 million, as expected.

27. The objective of fiscal policy for 2016 will be to continue the strong fiscal consolidation efforts in order to put public debt on a more sustainable path by enhancing revenue mobilization and strictly containing expenditures. The non-oil tax revenue performance will be enhanced by

about $\frac{3}{4}$ percentage points of GDP through improvements in tax compliance and administration, reduction in exemptions and additional tax policy measures, if needed. On the expenditure side the wage bill ratio to GDP will be reduced through the enhanced implementation of wage measures and reforms. The estimated cost for elections will be reflected along additional measures to fully offset its impact on the fiscal balance. The implementation of structural reforms will support consolidation efforts. Overall, the Government aims to reduce the fiscal deficit (on a cash basis) from an estimated 7.3 percent of GDP in 2015 to $5\frac{3}{4}$ percent in 2016 and further down to 3.7 percent in 2017.

Arrears Clearance Strategy

28. With the revision of the stock of arrears, the arrears clearance strategy has been revised slightly. Currently, about GH¢1.6 billion is programmed for clearance in 2015, while GH¢1.7 billion and GH¢2.1 billion are programmed for clearance in 2016 and 2017 respectively. Of the newly identified arrears to the BDCs, the government intends to use part of the proceeds from the BoG dividend payment to clear about GH¢300 million in 2015. The government has reached an agreement with the utility company, Electricity Company of Ghana (ECG), to clear the identified stock of arrears over the next 5 years in quarterly installments of GH¢36 million each. This is to ensure that the plan for clearance stays within Government's medium term strategy for arrears clearance.

Debt Management Strategy

29. With the technical assistance of the IMF and World Bank, the government has developed a medium-term debt management strategy (MTDS) which was approved by cabinet in May. The MTDS aims to support fiscal consolidation and monetary tightening through a financing mix that minimizes cost while taking due account of the risks. In this regard, the government considers it crucial to reduce domestic financing pressures to smooth the transition towards no monetary financing, while facilitating the monetary tightening needed to anchor inflation expectations and stabilize the exchange rate.

30. The management of domestic interest rate risk and refinancing risk will be the Government's risk priorities. The MTDS therefore is oriented towards reduced domestic financing in 2015, particularly 91-day T-bills, while aiming to lengthen domestic debt maturities, including through the introduction of the 1- and 2-year notes to non-resident investors. Externally, the strategy will continue to maximize concessional borrowing, while limiting non-concessional borrowing to projects critical for national development and raising a Eurobond to refinance expensive existing debt.

31. To ease domestic financing constraint over the medium term, the government is implementing reforms to deepen its domestic debt market. In the primary market, the auction calendar has been calibrated to ensure consistency with the MTDS, while auction frequency of the 1-year and 2-year notes will be reduced to promote secondary market trading of these instruments. Benchmark securities will be introduced to improve the liquidity of the securities in the secondary

market and facilitate price discovery. To this end, existing fragmented outstanding securities with original maturities greater than 1-year will be gradually consolidated into benchmark securities. Refinancing risk will be managed ahead of time through liability management transactions including switches, buyback and reverse-auctions in line with international best practices. The government has requested IMF assistance to strengthen capacity in liability management operations and to deepen the domestic debt market. In addition, 2-year notes will be opened to non-resident investors.

Monetary Policy and Financial Sector Issues

32. Monetary policy continues to be guided by Bank of Ghana's inflation targeting framework. After a short lived decline of inflation in January, inflation continued on an increasing trend. In light of this, and in order to reduce aggregate demand pressures to the exchange rate, the BoG increased its policy interest rate by 100 bp to 22 percent in mid-May 2015. In July, while noting that inflation continued to rise, the Monetary Policy Committee (MPC) decided to maintain the policy rate at 22 percent, considering that the pressures in the inflation outlook for the medium-term were waning as a result of continuing fiscal consolidation, the recent recovery of the cedi and tight liquidity conditions in the banking sector. The policy rate was re-aligned in August and brought to 24 percent at the time when the new 7-days reverse repo was introduced in order to maintain money market conditions unchanged. The BoG will continue to stand ready to further tighten monetary conditions, if necessary, to ensure that inflation moves gradually to its medium-term target.

33. Further monetary operation reforms are needed to facilitate money market development and enhance the effectiveness of the inflation targeting framework. BOG is introducing a main instrument to inject liquidity to the interbank market, a fixed-rate full-allotment 7-day reverse repo. This will offer more flexibility in liquidity management of banks and contribute to bring the interbank money market rate closer to the policy rate, hence strengthening the signaling effect of the latter and its role as the monetary policy operational target. In order to increase transparency of BOG' government financing, BOG will undertake regulatory and information technology reforms needed to prevent government deposits to turn negative and record any overdraft in the government's overdraft account. With these improved monetary operations, and strict control of BoG credit to the government, the Inflation Targeting framework is becoming fully effective again.

34. A main objective of BoG remains to increase the external reserves coverage up to comfortable levels to eliminate pressures on cedi while being prepared to provide appropriate amounts of foreign currencies to the FX market to avoid unwarranted volatility. BOG has changed current regulations to allow foreign participants to invest in 2-year government bonds from August 2015, and in 1-year bonds later this year. This will broaden the pool of possible investors and potentially attract further foreign exchange inflows.

35. BOG is adopting measures to ensure that the financial system remains strong and stable, including by strengthening the legal framework for supervising and regulating the financial system. The new Banks and Specialized Deposit-Taking Institutions Bill and the Ghana Deposit Protection Bill

have been submitted to Parliament (Structural Benchmark by mid-May 2015). BoG will develop any required regulations needed to fully implement these new laws once approved by Parliament.

36. A special diagnostic audit to review asset classification and valuation, provisioning and loan restructuring practices in the commercial banks (structural benchmark by end September 2015) was awarded to four external auditor firms and a final report is due by end of August. Results from this audit will determine whether a revision of loans classification and provisioning practices is needed to ensure a more uniform, prudent standard in banks' qualitative assessments of customer creditworthiness by December 2015. In addition, when considered necessary Bank of Ghana has advised the banks exhibiting lower Capital Adequacy Ratios (CAR) to raise their capital, including by suspending dividend payments if needed.

37. A new Bank of Ghana Act is being drafted by a committee within BOG led by the Legal Department in consultation with the MOF and other stakeholders. Within the constraints of the December target proposed for parliamentary submission by the Fund, the Committee has begun work on the proposed amendments with a roadmap as follows.

- The draft of the proposed amendments shall be ready for discussion and transmission to the Management of Bank of Ghana (BOG) by Mid August 2015.
- Feedback or comments on the draft and redress or necessary corrections from the Bank's management by end of August 2015.
- Transmission of the draft amendments from BOG Management for comments to the IMF by end-August 2015.
- Transmission of the revised draft amendments from BOG Management to the BOG Board for consideration by September 2015.
- Simultaneously, the Bank is drawing the attention of the Ministry of Finance to the proposed amendments in July 2015 for their necessary reaction and inputs by August, 2015.

38. The draft seeks to incorporate the recommendations of the Safeguards Assessment Mission, in consultation with Fund staff. The final draft will be delivered to the Cabinet for their consideration and onward submission to the Attorney General for their review, before final submission to Parliament by December 2015.

39. Pan-African banks have grown in the region, which brings to the fore the need for regular exchange of information as well as the harmonization of the regulatory and supervisory practices in the sub-region. In order to meet these, the Committee of Governors of the West African Monetary Zone (WAMZ) set up the College of Supervisors of the WAMZ (consisting of The Gambia, Ghana, Guinea, Sierra Leone, Liberia and Nigeria). The College meets on quarterly basis to deliberate on issues of supervisory and regulatory concerns in the WAMZ. BoG continues to play an active role as a member of the College and contributes to the adoption of best practices in banking supervision, including risk-based supervision framework, implementation of IFRS, corporate governance code for the WAMZ, development of model Banking Act for the WAMZ and compliance with the Basel Core Principles for Effective Banking Supervision.

40. BoG has also spearheaded the signing of MOUs with WAMZ member countries, the Commission Bancaire of WAEMU, South Africa and the Banking Regulatory Commission of China. These are aimed to promote the exchange of information among the regulatory agencies to facilitate effective regulation and supervision of banks and other supervised intermediaries. There are plans to sign similar agreements with the Prudential Regulatory Authority (UK), France, India and Trinidad and Tobago. The Bank has also signed the MOU with sister regulatory agencies in Ghana for insurance, pensions and the capital markets. The BOG has also conducted 3 joint examinations with Central Bank of Nigeria (CBN) of the subsidiaries of Nigerian banks in Ghana. The bank participated in College meetings for Stanbic and UBA (in 2014) and Ecobank (2015) and plans to attend the college for Standard Chartered Bank in the UK in July 2015.

41. The Bank has been collaborating with AFRITAC WEST 2 to build capacity for implementing Basel II/III and looking forward to assumption of duty of a long term advisor on banking Supervision (from the Fund) to assist in the implementation of the transition to Basel II.

42. BOG continues implementing measures to ensure the stability of microfinance institutions and monitor their operations. BOG has identified institutions performing irregular activities and their licenses have been suspended. BOG is also establishing Units in its regional offices with the objective to strengthen its monitoring capabilities. The Bank of Ghana has put in place the following measures to address the challenges and strengthen the industry:

- An upward revision in the minimum paid-up capital for MFIs and RCBs
- Instituted new liquidity management requirements for MFIs of primary reserve requirement of 10% and secondary reserve requirement of 20%;
- Continued training of MFIs staff and directors;
- Training, and capacity building of supervisory staff;
- Review of the licensing requirements with in-depth analysis of feasibility projections and the issue of ultimate beneficiaries;
- Review of Board and management compositions of RCBs and MFIs;
- Introduction of an improved templates and electronic submission of data by MFIs;
- Increased strength of supervisory staff and intensification of off-site surveillance; and
- Steps to deal with unlicensed institutions.

III. Structural Reform Agenda

A. Tax Policy and Tax Administration

43. **Tax Policy.** A Tax Expenditure Committee has started, with assistance of the World Bank, to undertake a review and quantify existing tax expenditures. The quantification will enable the government to identify the largest tax expenditures and undertake necessary reforms to eliminate the least useful to achieve government's objectives. The resulting report will inform the preparation of the statement of tax expenditures which will be included as an annex to the 2016 Budget.

44. The government has also initiated reviews in the following areas, to be concluded by October 2015, to identify exemptions to be eliminated with the 2016 Budget:

- The government plans to reduce the exemption on corporate income tax for free-zone companies benefiting from tax holidays by increasing their corporate income tax from 8 percent to 25 percent after the tax holidays;
- The government is reviewing the exemptions granted by legislation to the SOEs.² In a first step, the government intends to narrow down the list of exempted imports enjoyed by SOEs. In this regard, from August, 2015, the process of clearing imports by these SOEs will be redesigned to allow the Ministry of Finance to scrutinize their exemption request list before they are cleared from the ports. In a second step, the government intends to quantify and assess the impact of fully eliminating these exemptions;
- The government is reviewing the GIPC act to make it mandatory for the Minister to be the final authority to grant exemptions;
- The government has set up a Committee to review the Free Zones Act. A workshop is being organized to look at the impact assessment of the free zones regime which was conducted by a consultant engaged with the assistance of the GIZ and the Ministry. The report of the Consultant, particularly recommends the redefinition of the free zone regime to focus on value addition and manufacturing.

45. **Tax Administration** The Ghana Revenue Authority (GRA)), in March 2015 has approved a Strategic Plan for the 2015–17 period to strengthen Ghana’s revenue administration. Significant full-time resources will be assigned to the implementation of priority reforms included in the Plan. Priorities already identified in the plan include the ongoing TRIPS rollout at the MTOs and reforms of VAT threshold and segmentation. A Strategic Plan Steering Committee overseeing the reforms implementation will be instituted and kept separate from the GRA’s Management Committee, which will be responsible for monitoring of revenue performance and oversight of day-to-day operations. An operational plan will be developed with the help of technical assistance beginning in September 2015.

46. One of the priorities identified in the plan will be the continued modernization of GRA with the implementation of the domestic Tax Administration software known as TRIPS (Total Revenue Integrated Processing System) which will automate the GRA processes and provide critical information for taxpayer compliance management. The deployment is ongoing, with 12 out of 67 offices now already using the TRIPS. The roll out has been completed for the large taxpayer office (LTO) and two MTOs. The rollout for the remaining 6 MTOs in Accra will be completed by end-December 2015. The TRIPS rollout process will be evaluated with donors’ assistance.

² The SOEs currently being reviewed are: VALCO, VRA, COCOBOD, ECG, GNPC, GWCL.

47. The authorities are committed to improve the efficiency and performance of tax audits. While the functionalities of the TRIPS system will be of great help for the monitoring of local offices audit activities, in the interim the authorities will use existing available data to identify high-risk issues and increase the percentage of revenues generated through risk-based audits.³ In particular, the authorities intend to increase the use of third party information to identify compliance risks for large taxpayers, like for instance, government contract payments and import declarations.

48. GRA intends to reform the VAT refund system and restore its integrity. The 2015 VAT amendment Act institutes a General Refund Account at the Bank of Ghana, administered by the Commissioner General of the GRA. The new law states that 4 percent of total revenues collected by the GRA are set aside for this account, with the objective to ensure enough funds are available for timely repayment. Accrual of revenues to this account will start in June 2015, and payments will begin in August 2015. To improve the working of the refund system, GRA will seek technical assistance from the IMF to: (i) issue new directives for VAT refund processing to LTO and MTO offices; (ii) initiate legislative changes to streamline VAT refund management (in particular to extend the period for processing of refund claims from one to three months); and (iii) ensure payment of interest according to the current law by March 2016. Given the significant revenue at risk, GRA will set up a proper management system to monitor VAT refund workloads and to ensure the applications are processed within set timelines and claims are verified in accordance with established risk procedures.

49. Custom senior management has initiated the establishment of a Valuations and Classification Unit. The Customs Commissioner has instructed a technical committee to develop and present a report on the deployment of a functional valuation and classification system. A software company has been contracted to install the related hardware and software. Customs and GCnet are rewriting a completely new module to strengthen controls for the warehousing system.

Natural Resource Management

50. The government has requested technical training from the IMF to introduce the FAD's model for the Fiscal Analysis of the Resource Industries (FARI) which will enable the MoF to: i) improve the analysis of the fiscal regimes by allowing a project specific estimation of the government's tax take under alternative fiscal regimes, prices and other outcomes; ii) more accurate revenue forecasting, by allowing aggregation of project specific composition and timing of expected revenue streams; iii) enhance revenue administration, by allowing ex-post comparison of realized revenues with model results.

51. The government is also committed to maintain high standard in terms of natural resource management transparency and accountability. To further enhance transparency, the government

³ According to a technical assistance report from the IMF, in 2014, 97 percent of LTO's revenues was collected through taxpayers' self-assessment of their liabilities; the remaining 3 percent was generated by the LTO's audit program.

will: i) ensure that the Public Interest and Accountability Committee (PIAC) is adequately funded (the revised PRMA makes provisions for the PIAC to be funded from ABFA); ii) make all Petroleum Agreements publicly available; iii) enhancing accountability and transparency of GNPC, by publishing its audited financial statements and its medium-term plans for its use of accumulated financial reserves.

52. **Amendments to the PRMA.** The government has consulted a broad range of stakeholders to address some of the issues raised by the implementation of the law over the last four years. The consultations have resulted in a series of amendments that have recently been adopted by parliament. Among these amendments a new provision seeks to give the Minister of Finance the possibility to propose to parliament a revision of the Benchmark Revenue, in case of unexpected changes in prices or production. Another amendment modifies the allocation of petroleum revenues between the budget and the Ghana Petroleum Funds, proposing that a minimum of 30 percent of benchmark revenues are allocated to the Ghana Petroleum Funds (GPFs), so that constant transfer of funds accrue to the GPF, irrespective of whether the quarterly Annual Budget Funding Amount (ABFA) ceiling has been met. This is opposed to transferring only excess funds over the quarterly ABFA to the GPFs. The rationale is to build the GPFs, especially, the Ghana Stabilization Fund (GSF), to a level where it is able to stabilize the budget adequately in times of unanticipated petroleum revenue shortfalls. The authorities will seek technical assistance to address specific policy design issues related to these amendments, including the drafting of regulations and guidelines for their implementation. The amended PRMA Bill has been passed into an act and assented to by the President.

B. Reforms to Improve Public Financial Management

53. **PFM Reform Strategy** The authorities have developed a PFM Reform Strategy (PFMRS) document. The strategy has been approved by Cabinet, but further work is sought, with the help of technical assistance from the IMF, to prioritize, sequence, and cost the various reform initiatives. An action plan of the strategy, containing these elements, will be prepared with the help of technical assistance from the IMF and is expected to be presented to the Steering Committee by August 2015.

54. **Review of the PFM legal framework** The government has started a review of existing laws with the aim of integrating them into an overarching PFM law. With technical assistance from the IMF, a set of recommendations and drafting suggestions for the new PFM law have been prepared, which will be reviewed by the government in consultation with various stakeholders. The government will develop a time-bound plan for the finalization of the law which will be included in the action plan of the PFMRS as delineated in the previous paragraph. The draft PFM bill resulting from this consultation will be presented to Cabinet by December 2015, and submitted to parliament for approval in 2016.

55. **Strengthening credibility of the Budget** The government is undertaking, as part of the PFMRS, a series of initiatives to strengthen the credibility of the budget, and in particular the Medium Term Fiscal Framework (MTFF), and the Medium Term Expenditure Framework (MTEF) as an instrument of top-down budgetary discipline.

- As a commitment to improve the quality and capacity of its revenue forecasting, the government is seeking technical training from the IMF to strengthen its capacity at forecasting revenues from natural resources with the adoption of the FARI model.
- The government is working on the institution of the Pre-Budget Statement. The government will liaise with Parliament on the modalities for sharing the statement with Parliament after its adoption by Cabinet.
- The government intends to strengthen its capacity in Public Investment Management (PIM). It will in this respect participate in the new IMF's Public Investment Management Assessment (PIMA), which helps countries evaluate the strength of their PIM practices. The PIMA assesses the various institutions that shape decisions-making at the planning, allocation and implementation stage of the investment cycle. The results of the evaluation will enable Ghana to enhance the efficiency and impact of public investment.

56. **Extending GIFMIS coverage.** The government intends to start including transactions related to revenues and expenditures of Internally Generated Funds (IGFs) in the GIFMIS for 5 MDAs (at the headquarters and regional levels) currently using GIFMIS by September 2015, and then extend it to all 33 MDAs (at the headquarters and regional levels) by June 2016.

57. **Budget Performance Reports.** To strengthen monitoring and enhance transparency of fiscal operations, the government will be publishing monthly budget performance reports generated through the GIFMIS on the website of the Ministry of Finance starting in October 2015. Delays in funding and in setting up all the modules under the GIFMIS have prevented this activity from taking place in June 2015. However the Ministry has started publishing an annual budget performance report. The first report which was for the 2014 fiscal year was published in June 2015. Also, provisional fiscal data will continue to be published monthly with a 6-weeks lag.

Payroll Management and Controls

58. To reduce the incidence of the phenomenon of "ghost workers" on the payroll and to strengthen its monitoring and control, the government started the implementation of a payroll clean-up plan announced in October 2014. The measures envisaged by the plan have produced the following results:

59. **Suspension of salaries of employees with invalid bank accounts** Salaries of 47,186 employees without bank account were suspended in October and November 2014, as part of the exercise to update the bank account details of staff on the mechanized payroll system. By February 2015, 44,496 employees had been validated by the Auditor General and payments reactivated. The names of the remaining 2,690 who failed to present themselves to the Auditor General to validate their position were submitted to the Bureau of National Investigation (BNI) for investigation. This resulted in a savings of GHC10 million for the nine months.

60. **Suspension of salaries of employees without SSNIT numbers** The government has further suspended salaries to employees without SSNIT numbers from June 2015. The measure, initially envisaged to be done by April 2015, was postponed to June 2015. Out of 104,000 employees

without SSNIT numbers, 27,805 failed to submit their social security information to regularize their positions at end-of May 2015 and have been suspended from June 2015 payroll. By September 2015, if no regularization has occurred, their names will be transferred to the BNI for investigation.

61. **Biometric validation of employees.** The payroll data at CAGD was matched with the biometric data at MOF. As a result, 1,277 staff that were on the payroll without biometric registration were identified and their names suspended. Currently, all staff paid on the mechanized payroll have been registered on the biometric database. The use of the biometric database for payment of salaries has been in operation since 2012. The database is, however, not yet interfaced with the payroll. The government is therefore currently exploring the possibility to link the existing mechanized payroll to the biometric database of SSNIT and use the database to do periodic re-validation of staff. In line with this, a joint technical working group of CAGD/SSNIT has been constituted. Once the biometric database of all employees is validated, the database will be interfaced with the payrolls. The government intends to finalize this interface and re-validate biometric information for all employees by June 2016. To strengthen controls on new hiring, the government has commenced the implementation of the HRMIS to improve position management and establishment control in the Public Service. The government is already implementing the policy that recruitment can only be made when MOF has given approval so that the effective date of recruitment by the MDAs will not precede the financial clearance date.

62. **Roll-out of e-SPV.** The E-SPV System which allows electronic validation of payment vouchers by Heads of Departments and Management Unit heads at cost centre level before salaries are paid has been rolled out to 6 regions.⁴ The government will prioritize the full roll-out of the E-SPV. The expected date for the completion of the roll-out to all regions is August 2015. The E-SPV will also be partially interfaced with payroll, so that aspects relating to the deletions of separated employees by heads of MDAs will be reflected directly in the payroll.

63. **Review of the payroll systems security** The security of the payroll systems⁵ has been assessed by an independent audit. An initial draft has been delivered which concludes that the key security issues identified in a payroll assurance report for IPPD2 have been addressed. The audit identified areas of improvement which the authorities intend to address with urgency. One particular area that the audit report identifies as a priority measure to improve the level of payroll controls is to continue improving the quality of the data input. While payroll data is being cleaned-up under the payroll clean up plan, further levels of controls to new data entry are being added by: i) making the SSNIT numbers mandatory for employees (but not including trainees) and; ii) restricting the number of bank accounts to one per employee.

⁴ The regions where the system is currently operational are: Greater Accra, Ashanti, Brong Ahafo, Tamale, Northern, Upper East and Upper West Northern Regions.

⁵ There are currently two mechanized payroll systems in Ghana. These are: the IPPD2, which is the payroll for 132 organizations and a total of 205,367 staff, and the IPPD3 which is the payroll of the Ghana Education System (GES) with 303,490 staff, and also runs the pensioners' payroll.

64. **Nationwide payroll headcount.** A head-count has been commissioned to the Internal Audit Agency by the MoF and the CAGD. The first phase of the planned nationwide payroll headcount covering 30,237 employees in the Greater Accra Region has been completed. After the head-count has been completed, only 54 employees were left unaccounted for, and their names have been deleted. Currently the HR audit which PSC is undertaking also involves headcount of employees. In the light of this, the planned headcount by the Internal Audit Agency which is part of the payroll cleanup plan has been evaluated and to avoid duplication of efforts, it has been decided to use the results of the HR audit by PSC to clean the payroll.
65. **Sanctions and Recoveries.** The names of 2,690 employees with zero bank account who did not present themselves for validation by the Auditor General have been submitted to the BNI. Where the investigations find evidence that such acts are fraudulent, those cases will be referred to the Attorney General for potential prosecution. The names of the 54 staff identified during the payroll headcount have also been deleted. Ineligible salaries from staff with double biometric registration have been recovered and appropriate sanctions are being applied.
66. **Migration of Subvented Agencies to the mechanized payroll** A total of 155,000 employees as of May 2015 are left to be migrated, of which 70,000 belong the national service and 85,000 belong to the other 19 agencies which will be effectively migrated. The Ministry of Finance has sent a request to these 19 agencies to complete the migration. Currently the process of migration has started with an assessment of the readiness of the MDAs sites for connectivity. The work is expected to be finalized by December 2015.
67. **Publication of a report on status of implementation of the payroll clean-up plan.** The plan to publish a quarterly report by the Inter Ministerial committee on payroll on the status of implementation of measures on cleaning of the payroll will be carried out. In the interim, a payroll clean-up plan authorized by the Inter-ministerial Committee and approved by Cabinet was published on the CAGD website in March 2015. A report on the implementation of the payroll clean-up plan was published in early August 2015.
68. **Implementation of improved business processes on the payroll.** The plan to implement improved business processes with the introduction of E-Payroll Input forms has been initiated with the development of a TOR for securing consultancy services for development of a system for online submission of payroll input forms (excluding those to be covered under the HRMIS). A pre-approval has been obtained. The online submission of forms reduces the time it takes to update the payroll and also provides a readily identifiable audit trail on authorities who submit information on update of the payroll.
69. **Human resource management.** The plan to integrate the HRMIS with the payroll system was reviewed as part of the audit commissioned by the government. Currently, HR audits to reconcile the mechanized payrolls with the GoG Established Posts are taking place. The government will follow the recommendation of the audit that before any organization actively uses HRMIS, which is expected in nine of the pilot MDAs, including the Ministries of Health and Education, by

December 2015 and to all MDAs by December 2016, an independent verification will be done to ensure full matching between the mechanized payroll and the GoG Established Structure.

70. **GIFMIS Financial, Budget and HRMIS systems** The government is currently finalizing the integration of GIFMIS financial with the Oracle payroll to be able to exercise budgetary control over payroll cost. In furtherance of this, the management unit structure on the payroll has been mapped to the cost centers on GIFMIS financials (where the budget on the payroll is held). Also the process of integration of the payroll with HRMIS is ongoing. As part of this integration, the GES payroll data for the month of June 2015 has been extracted from the IPPD3 and the data is currently being prepared for loading into the Oracle payroll (IPPD2). Once the integration of the payroll with the HRMIS is completed, the budget system (Hyperion) will use the information created by the HRMIS for budget purpose. The full integration of all the components is expected to be completed by June 2016 and will ensure full budgetary control over public service wages and salaries in the medium term.

71. **Budget Execution Controls.** The government has instituted several reforms to enhance budget execution. A system of quarterly allotment is in place for expenditure items including goods and services, wages and salaries and capital expenditures. Yet, such reforms have not prevented arrears accumulation due mainly to inadequate financing resulting from uncovered auctions. The Government will improve commitment controls into the new PFM law. The new PFM law will indicate that only duly authorized purchase orders generated from the GIFMIS system are recognized as valid commitments of Government and therefore payable from budgetary allocations.

72. **Improving accounting standards.** The government plans to shift budget and financial accounting from cash to accrual basis to better track its financial liabilities and assets. In order to achieve this, it will develop a strategy for the phased transition to accrual accounting, focusing initially on the most material liabilities. This is in line with the government's adoption of International Public Sector Accounting Standard (IPSAS) as prescribed by the Institute of Chartered Accountants, which will be enshrined in the new PFM law. In furtherance of this, a conference on IPSAS facilitated by the Chartered Institute of Public Finance and Accounts (CIPFA) was held under the auspices of the Institute of Chartered Accountants in May 2015. Currently a TOR is being developed to seek technical assistance from CIPFA to produce a strategic plan for a phased transition to accrual accounting. This will be implemented over a period of five years from January 2016, the date approved by the Institute of Chartered Accountants for commencement.

Treasury and Cash Management

73. The Government intends to continue the implementation of the Treasury Single Account (TSA). As an integral part of the PFMRS, a complementary paper is being prepared which highlights the strategy to include IGFs for all 33 MDAs using GIFMIS in the TSA, and to finalize its implementation in coordination with the Bank of Ghana. It will be presented for Cabinet approval by August 2015. As part of the review of the legal framework, the government intends to introduce the principle of a TSA in the law, including its coverage and respective responsibilities, with the details left to regulations.

74. To prepare for the implementation of the zero financing from Bank of Ghana to the budget starting January 2016, the government has already started a number of initiatives to strengthen cash management. A Cash Management Operational Framework which forecast revenue and public expenditure numbers two weeks ahead of time has been developed. The framework provides information on government cash flows on a weekly basis. Government has also put in place a Cash Management Committee which meets weekly to take decisions to help source timely funding for needed public expenditure and debt service; and also avoid the need to keep substantial idle balances in the banking system with their associated costs. Currently, weekly decisions of the Committee are relayed to the Controller and Accountant General's Department, Ghana Revenue Authority and the Debt Management Division of Ministry of Finance as guide that will enable them implement their mandate in the strengthening of cash management.

75. The PFMRS will prioritize the further strengthening of cash flow forecasting and management capacity. The government will seek technical assistance from the IMF in order to progressively extend the horizon of the cash flow forecasting and management of cash balances and ensure coordination between the Debt Management Division (DMD) and the Public Expenditure Management Unit (PEMU).

76. Currently, an inventory of bank accounts with BOG has been carried out and the accounts classified into various categories. This exercise is aimed at identifying accounts that will constitute Central Government position with BOG.

Public Service Reform

77. A Task Force has been established to develop a Comprehensive Public Service Reform Strategy. The principal objective of the reform is to develop a cost-effective, efficient, and effective public service to help improve the quality and timeliness of public service delivery at all levels of the Government machinery. The Task Force is made up of representatives from: (i) the State Enterprises Commission; (ii) Public Sector Reform Secretariat; (iii) Office of the Head of Civil Service; (iv) Local Government Services Secretariat; (v) Public Services Commission and the Ministry of Finance; the involvement of development partners is currently being explored. The Task Force is currently reviewing a Public Sector Reform Strategy Document and Proposed Work Program for 2015–17 produced by the Public Sector Reform Secretariat. The Local Government Services Secretariat is in the process of hiring a consultant, on behalf of the Task Force, to carry out a desk-review of past reports on Public Sector Reforms in Ghana to inform the Strategy. The government intends to seek collaboration from development partners to support the strategy. A time-bound plan for the implementation of the strategy, including consultations with stakeholders, has been developed by the Task Force, with the aim to present the strategy for approval by Cabinet by December 2015.

78. **Reform of Subvented Agencies.** The government, as part of the Subvented Agencies Reform Program (SARP) and in line with the development of a strategy to reform the public sector, will continue to review existing subvented agencies in order to: close those that are no longer relevant to the government's development objectives; promote partial or full commercialization of selected subvented agencies; review the appropriate level of subvention. To promote transparency,

financial information on all existing subvented agencies will be published as an annex to the 2016 Budget.

79. **Pay Reform.** Consistent with the government's objective of ensuring that the outcome of public pay negotiations informs the annual budget, the government intends to align the public sector wage negotiations with the budget cycle. Public sector salary and salary-related negotiations have started and aim to be finalized before the Budget is submitted to Parliament in November. The negotiations will aim at covering a 3-year period on a rolling basis.

Statutory Funds

80. The Government will consult the necessary stakeholders and embark on a review of the statutory funds which include: (i) District and Assemblies Common Fund (ii) Ghana Education Trust (GET) Fund; (iii) National Health Fund; (iv) Road Funds; (v); Petroleum Funds; (vi) Ghana Investment Fund; (vii) Student Loan Trust Fund; (viii) Export Trade, Agriculture and Industrial Development Fund; and (ix) Ghana Infrastructure Investment Fund. The government will review the administrative and legal framework guiding the operations of the Statutory Funds as part of the new PFM law, with a goal of consolidating them into the government accounts, integrating them into the budget process and aligning their expenditures to national priorities.

IV. Policies to support growth and poverty reduction

81. To address one of the key constraints to growth in Ghana, Government's foremost strategy is to bring an end to the ongoing power crisis and also to put in place measures to ensure that load shedding does not recur in Ghana. This is to be achieved through short-term measures such as the restoration of already existing plants that have been shut down and completion of the 220MW Kpone Thermal Power Project (KTPP), the 110MW Tico Expansion Project, and the 180MW Asogli Phase 2. In addition, the following emergency (fast track) Power Projects are to be brought on board:

- 225MW Powership (Preparatory works in progress) – IPP project
- 250MW Ameri Project (Civil works have commenced) – B.O.O.T Arrangement with Government for 5 years
- 370MW AKSA Project (Commercial Contract sent to Parliament) – IPP Project for 5 years with option to negotiate a further term with ECG
- 110MW TEI Project (Commercial proposal submitted to Cabinet) – IPP Project for 4 years with option to negotiate a further term with ECG
- 300MW GE Early Power Project (Commercial Agreement under review) – IPP Project

Over the medium term, the Government plans to add another 3,000MW of power through the following projects:

- 360MW Asogli Phase 2 Project (construction has commenced); 180MW expected in 2015;
- 350MW CenPower Project (Sod has been cut)

- 360MW Jacobsen Project (Parliamentary approval obtained for GCSA)
- 240MW Amandi Project (Parliamentary approval obtained for GCSA)
- GE 1,000 Project (Discussions ongoing)
- 1,000MW of 'clean' coal into the generation mix
- Use of solar in households and hotels for basic lighting and water heating to free grid power industrial use.

V. RISKS AND CONTINGENCIES

82. Key downside risks to program include an abrupt increase in global financial market volatility leading to lower private capital inflows, a sustained decline in key commodity prices (gold, cocoa and oil), economic slowdown in main trading partners, and a deepening of the energy crisis currently affecting Ghana. In addition, risks associated with rollovers and uncovered auctions in the domestic markets are key. If these risks materialize, the government stands ready to adjust its policies, in close consultation with IMF staff, to ensure the achievement of a sustainable external position by the end of the program period.

VI. PROGRAM DESIGN AND MONITORING

83. While most of the quantitative performance criteria (PC) and structural benchmarks for the remainder of the year will remain unchanged, the following revisions would be needed:

- The PC on gross credit to government by BoG for August and December needs to be increased by GH¢ 1.2 billion, in view of the upward revision to the outstanding stock at end-2014 to include large overdrafts accumulated in 2014 in the form of negative deposits (these negative deposits were mistakenly excluded from the end-2014 stock of gross credit to government). This will allow restoring some government cash buffers, which were largely used to repay part of the 2014 overdrafts and bring gross credit to government close to the PC level at end-April 2015. Net credit to government is projected to be close to zero for the year as a whole if financing on the domestic and international markets can be raised as planned.
- The PCs on net international reserves and net domestic assets at end-December can be revised upward by US\$ 500 million and downward by GhC 1,504 million respectively, to reflect the larger amount of Eurobond envisioned this year.
- In addition, the PC on net international reserves for August 2015 and December 2015 should be revised downwards to take into account the revision in the definition of net international reserves. This is needed to exclude the stock of BOG deposits in Ghana International Bank, London from the initial value of the stock and hence in the targets.
- The indicative targets for inflation should be revised upward for end-August to account for the higher inflation trend observed up to June 2015.

- The debt limits for external debt would be set under the Fund's new debt limits policy. As foreshadowed in earlier discussions, the non-concessional debt limits will need to be increased from the current US\$ 1 billion to US\$ 2.5 billion to accommodate the forthcoming Eurobond issuance of up to US\$1.5 billion with a partial guarantee provided by the World Bank as well as some growth-enhancing projects equivalent to US\$1,000 million. Key projects necessary to achieve national development goals were identified mainly in the areas of transportation, rural developments, and urban infrastructures, requiring non-concessional financing of up to US\$ 500 million this year. The new debt limit would also include the US\$350 million associated with the national oil company, GNPC's oil field development and World Bank's budget support equivalent to US\$ 150 million which is not on strictly concessional terms. The proceeds of the Eurobond would be purely used for budget support and debt management purposes, including by retiring expensive debt and extending the maturity. In addition to the limits on the contracting of non-concessional loans (PC), an indicative ceiling (IT) of US\$ 100 million on concessional loans would be put in place to comprehensively address the vulnerabilities associated with external debt in line with the new IMF Debt Limits Policy.

84. The program will continue to be monitored based on periodic performance criteria, continuous performance criteria and indicative targets as at end-August 2015 and end-December 2015, set out in Table 1. To monitor progress on the structural reforms previously described, structural benchmarks are set out in Table 2. Detailed definitions and reporting requirements for all performance criteria are contained in the Technical Memorandum of Understanding (TMU) attached to this letter, which also defines the scope and frequency of data to be reported for program monitoring purposes. During the program period, the government will not introduce or intensify restrictions on payments and transfers for current international transactions or introduce or modify any multiple currency practice without the IMF's prior approval, conclude bilateral payments agreements that are incompatible with Article VIII of the IMF's Articles of Agreement, or introduce or intensify import restrictions for balance of payments reasons. Completion of the second and third reviews under the program is expected on or after November 15, 2015 and on or after April 15, 2016, with end-August 2015 and end-December 2015 as test dates, respectively.

85. To ensure coordinated implementation of the program, the Ministry of Finance and Bank of Ghana is consulting with the relevant institutions such as CAGD, GRA, GSS and NDPC within the Economic Policy Coordinating Committee (EPCC) framework and tracking progress on various targets and reforms under the program. Similarly, the Ministry of Finance will provide oversight responsibility for ensuring that public spending is compliant with budget limits. A technical Committee made up of staff from the Ministry of Finance, Bank of Ghana and the Controller and Accountant-General's Department have been constituted to monitor the program and ensure that the provision of data under the program is done on a timely basis.

Table 1. Ghana Quantitative Program Targets¹
(Cumulative from the beginning of the calendar year, unless otherwise indicated)

	2014		Apr 2015		Aug 2015		Dec 2015		
	Act.	Revised	Target	Adjusted target	Actual	Revised	Revised	Revised	
I Quantitative Performance Criteria									
Primary fiscal balance of the government (floor in millions of cedis)	-3,555	...	-544	-536	46	-380	...	-422	...
Wage Bill (ceiling; in millions of cedis)	9,449	...	3,413		3,341	6,857	...	10,286	...
Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars) ²	1,415	...	1,042		1,186	331	147	1,962	2,278
Net Domestic Assets of Bank of Ghana (ceiling; millions of cedis) ³	3,095	...	5,755		5,561	8,772	...	4,914	3,410
Net change in stock of arrears (ceiling, millions of cedis)	428	...	-424		-565	-1,001	...	-1,561	...
II Continuous Performance Criteria									
Gross financing of BoG to the Government and SOEs (ceiling; in millions of cedis) ⁴	13,603	19,723	14,614		14,873	14,614	15,814	14,614	15,814
Non-accumulation of external arrears (ceiling; millions of U.S. dollars)	...	...	0		0	0	...	0	...
Non-accumulation of domestic arrears (ceiling; millions of cedis)	...	...	0		0	0	...	0	...
Contracting or guaranteeing of new external nonconcessional debt (ceiling; millions U.S. Dollars)	...	...	0		0	1,000	...	1,000	2,500
III Indicative Target									
Program central target rate of inflation (12 month percentage change)	17.0	...	15.4		16.8	13.8	15.0	12.0	...
Contracting or guaranteeing of new external concessional debt (ceiling; millions U.S. Dollars)	...	...	...		...	...	...	100	...
Social Protection (floor, in million of cedis)	947	...	388		252	806	...	1,294	...

¹ Targets as defined in the attached Technical Memorandum of Understanding (TMU).

² Program definition excludes foreign currency deposits in BOG. Defined as a level.

³ Net domestic assets is computed using the program's exchange rate of GHc 3.40 per U.S.\$1 as defined in the attached Technical Memorandum of Understanding (TMU). Defined as a level.

⁴ Defined as a level.

Table 2. Ghana: Structural Reforms Benchmarks for 2015–16

Category	Possible structural benchmarks	Economic rationale	Indicative timeframe	Status	Paragraph
Revenue administration and tax policy					
Revenue administration	- Adoption of the presumptive income tax, followed by revision of VAT thresholds	To enhance compliance in tax payments.	August 2015	Proposed to be reset to October 2015	
Tax policy	- Identify exemptions to SOEs and free zone companies that will be eliminated in 2016, to be included in the 2016 budget, and further eliminate GIPC's role in granting exemptions.	Broaden tax base	September 2015	Proposed to be reset to October 2015	44
Public Financial Management (PFM)					
Human resource Management	- Finalize roll out the HRMIS to remaining MDAs	To strengthen the control on net hiring and the wage bill.	December 2016		69
	- Integration of the GIFMIS Payroll, financial HRMIS and Hyperion in the Health and Education sectors.	To strengthen the control on net hiring and the wage bill.	June 2016		70
Payroll management	- Audit of the payroll database and security system.	Improve security of the payroll system	May 15, 2015	Not Met. Implemented with delay 1/	63
	- Biometric validation of all employees on the mechanized payroll, as well as publication of the public audit of payroll management	Cleaning of the payroll database	June 2015	Not Met. Partially Implemented 2/; Delayed 3/	61

	- Migrating employees of subvented agencies into the mechanized payroll	To strengthen control on net hiring and the wage bill	December 2015	66
PFM reform strategy	- Approval by Cabinet of a new PFM reform strategy and action plan, including a strategy for completion of the Treasury Single Account (TSA)	To revamp PFM reform effort	August 2015	53/73
Legal framework	- Approval by cabinet of drafts of Bills to amend existing PFM legal framework with the aim to: clarify the scope of application of the legislation and the institutional arrangements; ; strengthen budget formulation and execution, treasury management, accounting and reporting; introduce provisions on fiscal responsibility and on debt management	To strengthen the PFM system	December 2015	54

1/ "The audit of the security system was completed by Mid-May, but a preliminary draft of the assessment was provided only in mid-June."

2/ "Biometric data is already used to validate payment of salaries, although through manual processes. Automated biometric validation of all employees will be completed by June 2016."

3/ "The public audit is delayed. The Internal Audit Agency has conducted a partial audit in the Accra region. The revised plan is to use the HR audit by the Public Service Commission with private sector support, to update the payroll which will be completed by end-year".

Public service reform					
Public service reform	- Adoption by Cabinet of a comprehensive public service reform strategy designed with the assistance of development partners.	To rationalize the size and increase the efficiency of public sector	December 2015		77
Debt management					
Debt management strategy	- Approval by Cabinet of a medium-term debt management strategy with clear risk priorities and plans on how these will be addressed, and its publication	To have a clear financing strategy communicated with the market to reduce uncertainty and borrowing costs	June 2015	Met	29
Monetary policy and financial sector					
Bank of Ghana Act	- Submit to Parliament a revised Law that: strengthens the functional autonomy of BOG; sets a zero limit on monetary financing to the government and public institutions; establishes appointment durations for Governor and Board members; sets rules for emergency lending to banks in distress; and ensures compliance with IFRS (as described in MEFP ¶185).	Strengthen autonomy of the bank; set mechanisms for emergency lending.	December 2015		37
Exchange rate	- Adopt a plan to eliminate the compulsory requirement of foreign exchange to BoG and stop provisions of foreign currency funding for priority sector imports.	Support market-based determination of the exchange rate and deepening of the foreign exchange market.	April 2015	Not Met. Implemented with delay 4/	17
Prudential supervision	- Submit to parliament a new Banks and Specialized Deposit-Taking Institutions Bill which provides BOG with the authority for prompt corrective action, liquidity support instruments, clear triggers for bank resolution, and a range of bank resolution tools. - Submit to parliament a Deposit Insurance Bill which is consistent with the Banks SDI bill; that establishes an institution with the responsibility of paying deposits from recovered assets of failed banks; and ensures that incentives are appropriate and does not undermine market discipline.	Strengthen the legal framework for prudential supervision.	May 15, 2015	Met	35
			May 15, 2015		35
Diagnostic Review	- Complete an asset quality review of the banks, undertaken by independent third parties, in consultation with IMF staff.	Ensure prudent standards in bank's underwriting and credit evaluation practices.	September 2015		36

4/ "A first draft plan to eliminate the compulsory surrender requirements of foreign exchange was completed before the end-April 2015 target. A revision of the plan addressing comments from the IMF was completed and adopted by the BoG Board in [end-July]."

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) and Memorandum of Economic and Financial Policies (MEFP) of March 20, 2015. 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¢ 3.40 per US\$1, which is calculated as the average of buying and selling exchange rates reported by banks to the Bank of Ghana (BOG). 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 and indicative targets are set for end-April 2015, end-August 2015, and end-December 2015. Performance criteria, indicative targets, and adjusters are calculated as cumulative flows from the beginning of the calendar year, unless indicated otherwise.
4. The **performance criteria** under the arrangement are:
 - a floor on the primary cash fiscal balance of the government, measured in terms of financing;
 - a ceiling on gross credit to government by the Bank of Ghana (level);
 - a floor on the net international reserves of the Bank of Ghana (level);
 - a ceiling on net domestic assets of Bank of Ghana (level);
 - a ceiling on wages and salaries;
 - a ceiling on the net change in the stock of domestic arrears;
 - a continuous non-accumulation of domestic arrears;

- a continuous non-accumulation of new external arrears; and
 - a ceiling on the contracting or guaranteeing of new external nonconcessional debt
5. **Indicative targets** are established as:
- An indicative target is set for the twelve-month rate of **consumer price inflation**, with discussions with the Fund to be held if inflation does not reach the target.
 - A floor on poverty-reducing government expenditures.
 - a ceiling on the contracting or guaranteeing of new external concessional debt

A. Government

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

7. The government's **total tax revenue**—i.e., all revenue collected by the Ghana Revenue Authority (GRA), whether they result from past, current, or future obligations—includes Direct Taxes (taxes on income and property), Indirect Taxes (excises, VAT, National Health Insurance Levy (NHIL), and Communication Service Tax (CST)), and Trade Taxes. Total tax receipts are recorded on a cash basis.

8. **Oil revenue** is defined as the government's tax and non-tax net proceeds from the sale of oil, excluding any revenue allocated to GNPC.

9. The **wage bill** is defined as the sum of basic wages allowances paid to public servants on the mechanized payroll and in subvented agencies.

10. **The program primary fiscal balance** is cumulative from the beginning of the fiscal year and is measured from the financing side as the sum of net financial transactions of the government (as defined in paragraph 6 above)—comprising the sum of net foreign borrowing (as defined in paragraph 14 below), net domestic financing (defined in paragraph 13 below), receipts from net divestitures and net drawing out of oil funds—and domestic and external interest payments.

11. **Domestic payments arrears** will be measured as the sum of five 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 funds, 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).⁶ The second component, employees compensation arrears (consisting of wages and salaries, pensions, gratuities, and social security arrears), is defined as payments outstanding after the agreed date for payment to staff or the social security fund. The third component, debt service arrears, is defined as payments of domestic and external interest, amortization, promissory notes, that are due and not settled within the grace period specified in the contract. The fourth component, the MDAs expenditure arrears (road and other MDAs expenditure arrears), is defined as approved invoices on the GIFMIS system that remain unpaid three months after the quarter in which the invoices were approved by the MDA. The fifth component, arrears to SOEs,⁷ is defined as payments for debt owed to SOEs that are due and not settled within 30 days after the end of the quarter.

12. **Budgeted expenditures on social protection programs** (as defined in text table below) 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 spending on social protection programs, including LEAP, will be supplemented with the transfers to the National Health Fund (NHF)—which the government considers as poverty-related. Accordingly, actual poverty spending will exclude all donor-supported expenditure.

⁶ 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.

⁷ Tema Oil Refinery (TOR), Volta River Authority (VRA), Bulk Oil Storage and Transport Company (BOST), utility companies, Cocobod, other SOEs.

Overview of Social Protection programs:

1. National Health Fund (NHF)	2. Provide free school uniforms
3. Livelihood Empowerment Against Poverty (LEAP)	4. Provide Government's subsidy for Senior High Schools
5. Fertilizer Subsidy	6. Implement progressively free Senior High School Program
7. Basic Education Certificate Examination	8. Provide feeding grant for special schools for the handicapped
9. Capitation grant for Public Basic Schools across the country	10. Printing and Distribution of Exercise Books to Basic School Pupils under the Social Intervention Program
11. Provide 10million free exercise books to Public Basic Schools across the country	12. Implement First Phase of Maths and Science Reforms for 13000 KGS, 14000 Primary School and 8000 JHS
13. Provide core textbooks	14. Capitation Grant
15. Establishment supplies for all Public Basic Schools across the country	16. Feeding fee for levels 100 & 200 students of colleges of education across the country

13. **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.

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

15. **Outstanding net credit to the government by the Bank of Ghana** comprises the sum of claims on government including overdrafts of the government with the BoG, and that claims on the government resulting from accrued interest on government securities less government deposits as defined in the monetary template.

16. **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, direct loans 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.

17. **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.

B. Bank of Ghana

18. **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 in the IMF, foreign notes and travelers checks, foreign securities, positive balances with correspondent banks, encumbered external assets 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, deposits of international institutions at the BoG and swaps with non-resident commercial banks. Long-term foreign assets and liabilities are comprised of: other foreign assets, investments abroad, other long-term liabilities to nonresidents, and bilateral payment agreements. 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 provided to the IMF on January 21, 2015.

19. **Net international reserves** of the BoG are defined for program monitoring purposes⁸ 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 assets encumbered by BoG guarantees issued to third parties), they will be excluded from the definition of net international reserves. All values not in U.S. dollars are to be converted to U.S. dollars at the program exchange rate defined in paragraph 2.

Net international reserves are defined as:

- Short term assets (composed of: Gold, Holdings of SDR, Foreign Notes and Coins, Foreign Securities/Short term dep., Disposal Balances with Correspondent Banks, Fixed Deposits (excludes encumbered pledged assets), any other short term foreign assets).
- Minus foreign short term liabilities (composed of: Deposits of International Institutions, Liabilities to Int. Commercial Banks, Swap Deal Payable foreign with non-resident banks). Short term liabilities should exclude liabilities with an asset counterpart that is encumbered (which are excluded as well from the asset side),
- Minus all liabilities to the IMF, SAF/ESAF/PRGF,
- Minus all positive foreign currency deposits at the BoG held by resident deposit money banks (which includes the stock of swaps deal payable foreign with resident banks), public

⁸ Note this definition differs from the one reported in the Balance of Payments and Monetary Survey which reflect a more traditional definition of foreign assets and liabilities based on a residency basis.

institutions, nonfinancial public enterprises, other financial institutions, and the private sector.⁹

- Minus all Bank of Ghana deposits with Ghana International Bank London (GIB).

20. **Net domestic assets** of the Bank of Ghana are defined as the difference between reserve money and net foreign assets of the BoG, converted from U.S. dollars to cedis at the program exchange rate.

21. **Outstanding gross credit to government by the Bank of Ghana** is defined as the total amount of (i) all BoG loans and advances to central government and state-owned enterprises, (ii) all government overdrafts, (iii) the absolute value of government deposits reflected as negative values in the monetary survey; iv) the face value for all outstanding Government of Ghana treasury bills, notes and bonds purchased by BoG in the primary and the secondary market. For purposes of this technical memorandum of understanding the stock of gross credit to government by Bank of Ghana includes all called guarantees given by Bank of Ghana for all operations between the central government or state owned enterprises and a third party. For purposes of this technical memorandum of understanding stock of gross credit to government does not include BoG holdings of government T-bills as collateral from commercial banks and BoG reversible market transactions involving government securities that don't result in change of security ownership.

C. Non-accumulation of New External Arrears

22. 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 6) to non-residents are not made within the terms of the contract. This performance criterion will be monitored on a continuous basis.

D. Ceiling on the Contracting or Guaranteeing of New Non-concessional External Debt

23. 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 on August 31, 2009 (Decision No. 14416- (09/91)). 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 This item is not deducted from NIR in the Balance of Payments and Monetary survey definition which is based on the standard residency criteria.

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.

24. **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 23, which is denominated in foreign currency, i.e., currency other than Ghanaian cedis (GH¢). Similarly, external borrowing is borrowing denominated in foreign currency.¹⁰

¹⁰ Excluded from this performance criterion are the use of Fund resources, rollover of BOG’s existing liabilities, 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.

25. Nonconcessional external debt is defined as external debt contracted or guaranteed by the government (defined in paragraph 6), the BoG, and specific public enterprises (defined in paragraph 26) on non-concessional terms (defined in paragraph 27). External debt and its concessionality will be reported by the Debt Management Division of the Ministry of Finance and Economic Planning, and will be measured in U.S. dollars at current exchange rates.

26. A performance criterion (ceiling) applies to the nominal values of new nonconcessional external debt, and an indicative target (ceiling) applies to the nominal value of new concessional external debt, contracted or guaranteed by the government and the BoG, and the following public enterprises: (i) Tema Oil Refinery; (ii) Ghana National Petroleum Company; (iii) Ghana National Gas Company; (iv) Volta River Authority; and (v) Electricity Company of Ghana; (vi) GRIDCO; (vii) Ghana Water Company Limited; (viii) GIIF. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received, including private debt for which official guarantees have been extended.

27. 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 rate used for this purpose is 5 percent.

28. For loans carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the loan would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the loan contract. The program reference rate for the six-month USD LIBOR is 3.34 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -250 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -300 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -100 basis points. For interest rates on currencies other than Euro, JPY, and GDP, the spread over six-month USD LIBOR is -200 basis points.¹¹ Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added.

E. Adjustors to the Program Targets

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

¹¹ The program reference rate and spreads are based on the "average projected rate" for the six-month USD LIBOR over the following 10 years from the [Fall 2014] World Economic Outlook (WEO).

Primary fiscal deficit of the government

29. The deficit ceilings for 2015–17 will be adjusted for excesses and shortfalls in oil revenue and program loans and grants as defined below, relative to the program assumptions in the table below. The fiscal deficit will be adjusted:

- i) Downward (upward) by 50 percent of any excess (shortfall) in **oil revenue**.
- ii) Downward by 50 percent of any **shortfall in concessional program loans**.
- 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.
- iv) Downward by the full amount of **any excess of program grants less any use of program grants** used to repay outstanding domestic arrears at a more rapid pace than programmed.
- v) Upward by 50 percent of any **shortfall in program grants**.

Net international reserves of the Bank of Ghana

30. 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 50 percent of any shortfall in budget grants and loans relative to the program baseline.

Budget Financing and oil revenues, 2015 ^{1/}			
(Ghc millions, cumulative from the start of the calendar year)			
	April 2015	August 2015	December 2015
Program grants	0	750	915
Program loans	0	748	789
Oil revenues, net of transfers to GNPC	371	603	998

^{1/} Used to compute adjustors for performance criteria for end-April, end-August, and end-December.

F. Provision of Data to the Fund

31. 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. The authorities will share any prospective external loan agreements with Fund staff before they are submitted to cabinet and before they are contracted.

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

Item	Periodicity
Fiscal data (to be provided by the MoF)	
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. 11 of the TMU).	Quarterly, within six weeks of the end of each quarter
Public investment Plans execution.	Monthly, within six weeks of the end of each month.
Expenditures committed but not paid and within the legal period before they become arrears (float).	Monthly, within six weeks of the end of each month.
Wage bill monthly reports including breakdown of developments per MDAs.	Monthly, within six weeks of the end of each month.
Monetary data (to be provided by the BoG)	
Net domestic assets and net international reserves of the BoG.	Monthly, within two weeks of the end of each month.
Detailed balance sheet of the monetary authorities.	Monthly, within four weeks of the end of each month.
Monetary survey detailing the consolidated balance sheet of commercial banks.	Monthly, within six weeks of the end of each month.
Weekly balance sheet of the central bank, including gross international reserves, net international reserves.	Weekly, within a week of the end of each week
Summary position of government committed and uncommitted accounts at BoG, and total financing from BoG.	Monthly, within four weeks of the end of each month. (continued)

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

Composition of banking system and nonbanking system net claims on government.	Monthly, within four weeks of the end of each month.
Stock of BoG swaps and encumbered and non-encumbered loans with resident and non-resident commercial banks.	Monthly, within two weeks of the end of each month.
Daily computations for the BoG benchmark exchange rate, including all transactions used to derive it.	Monthly, within two 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.
Monthly foreign exchange cash flow projections (with actual historical figures updated)	Monthly update, with a maximum lag of two weeks of the end of the month.
External debt and foreign assistance data (to be provided by MoF)	
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.	Quarterly, within three weeks of the end of each quarter.
Data on the BoG short-term liabilities to nonresident commercial banks on accounts 1201 plus 301 plus Crown Agent).	
Disbursements of grants and loans by creditor	Quarterly, within four weeks of the end of each quarter.

Table 1. Ghana: Data to be Reported to the IMF (concluded)**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).
Quarterly financial statements of main state-owned enterprises. (i) Tema Oil Refinery; (ii) Ghana National Petroleum Company; (iii) Ghana National Gas Company; (iv) Volta River Authority; and (v) Electricity Company of Ghana; (vi) GRIDCO; (vii) Ghana Water Company Limited.	Quarterly, within three months of end of quarter
Annual financial statements of main state-owned enterprises. (i) Tema Oil Refinery; (ii) Ghana National Petroleum Company; (iii) Ghana National Gas Company; (iv) Volta River Authority; and (v) Electricity Company of Ghana; (vi) GRIDCO; (vii) Ghana Water Company Limited.	Annual, within six months of end of year
Electricity pricing (to be provided by the Ministry of Energy) Data on the tariff structure and the cost of producing electricity.	Quarterly, within four weeks of the end of each quarter.
Petroleum pricing (to be provided by the Ministry of Energy) (i) a breakdown of costs, including the ex-refinery price, duties, levies, and margins, for each of the individual petroleum products; and (ii) the indicative maximum price approved in the bi-weekly review of petroleum pricing for each of the individual petroleum products. (iii) the commitments to subsidize oil marketing companies in respect of losses incurred due to administrative prices that fall below cost-recovery levels. (iv) the cumulative unused balance from the petroleum price hedging operations available to subsidize petroleum products.	Bi-weekly, within two days of the completion of the pricing review. See above. Monthly, within four weeks of the end of each month. See above.

Supplemental Letter of Intent

Accra, August 25, 2015

Ms. Christine Lagarde
Managing Director
International Monetary Fund (IMF)
Washington, D.C. 20431

Dear Ms. Lagarde,

7. In addition to our Letter of Intent dated August 17, 2015, we wish to provide additional information on minor external arrears that were temporarily accumulated to one of our official creditors. All amounts due have since been paid and we wish to assure you we have implemented corrective actions to prevent such arrears from taking place in the future, and we request a waiver for the non-observance of this continuous Performance Criteria.

8. Small payments, not exceeding USD 2 million, due to a Spanish creditor since the program was approved on April 3, 2015, were paid with some delay. The creditor did not issue a payment notice before the due dates – such payment notice is required to initiate the payment order in compliance with our PFM procedures and regulations. On July 8, the creditor notified us of the overdue payments, and all amounts due were paid on July 21. Considering that payments were made within the usual period following reception of the payment notice from the creditor, we informed staff that no arrears were accumulated.

9. We now understand that the relevant loan agreements under consideration have no contractual requirement for a payment notice to be sent to initiate a payment. The government is thus obligated to make payments according to the repayment schedule established with the creditor.

10. To prevent such occurrence in the future, the government has taken steps to ensure that payments due are reviewed on a monthly basis and payment orders issued in accordance with the schedule of payments. Additional steps have been taken to strengthen the coordination between the Finance Ministry and Bank of Ghana for a weekly monitoring of payments awaiting funding and payments transferred. In addition, we will instruct creditors to send payments notices at least 4 weeks prior the due date to accommodate the length of our legal payment process.

11. We believe that the corrective measures adopted in response to the non-observance of the continuous performance criterion under the ECF on non-accumulation of external arrears will prevent accumulation of external arrears in the future. On this basis, we would like to request a waiver for non-observance of this PC.

12. The government reiterates that it stands ready to take any additional measures that may be necessary to further improve our debt management, a key pillar of the program. We will consult with the IMF on the adoption of such measures in advance of any revision of the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

Sincerely yours,

/s/

Seth Emmanuel Terkper
Minister for Finance

/s/

Henry Akpenamawu Kofi Wampah
Governor of Bank of Ghana

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

	2014		Apr 2015			Aug 2015		Dec 2015	
	Act.	Revised	Target	Adjusted target	Actual	Revised		Revised	
I Quantitative Performance Criteria									
Primary fiscal balance of the government (floor in millions of cedis)	-3,555	...	-544	-536	46	-380	...	-422	...
Wage Bill (ceiling; in millions of cedis)	9,449	...	3,413		3,341	6,857	...	10,286	...
Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars) ²	1,415	...	1,042		1,186	331	147	1,962	2,278
Net Domestic Assets of Bank of Ghana (ceiling; millions of cedis) ³	3,095	...	5,755		5,561	8,772	...	4,914	3,410
Net change in stock of arrears (ceiling, millions of cedis)	428	...	-424		-565	-1,001	...	-1,561	...
II Continuous Performance Criteria									
Gross financing of BoG to the Government and SOEs (ceiling; in millions of cedis) ⁴	13,603	19,723	14,614		14,873	14,614	15,814	14,614	15,814
Non-accumulation of external arrears (ceiling; millions of U.S. dollars) ⁵	...	...	0		1.7	0	...	0	...
Non-accumulation of domestic arrears (ceiling; millions of cedis)	...	...	0		0	0	...	0	...
Contracting or guaranteeing of new external nonconcessional debt (ceiling; millions U.S. Dollars)	...	...	0		0	1,000	...	1,000	2,500
III Indicative Target									
Program central target rate of inflation (12 month percentage change)	17.0	...	15.4		16.8	13.8	15.0	12.0	...
Contracting or guaranteeing of new external concessional debt (ceiling; millions U.S. Dollars)	...	...	...		...	...	...	100	...
Social Protection (floor, in million of cedis)	947	...	388		252	806	...	1,294	...

¹ Targets as defined in the attached Technical Memorandum of Understanding (TMU).

² Program definition excludes foreign currency deposits in BOG. Defined as a level.

³ Net domestic assets is computed using the program's exchange rate of GHc 3.40 per U.S.\$1 as defined in the attached Technical Memorandum of Understanding (TMU). Defined as a level.

⁴ Defined as a level.

⁵ The authorities have temporarily run small arrears to an official creditor for a technical reason. These arrears have been all cleared within a reasonable time period following the receipt of a formal payment notice.