International Monetary Fund

Ghana and the IMF

Ghana: Letter of Intent

Press Release:

Statement by an IMF Staff Mission to Ghana September 5, 2006

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October 18, 2006

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.

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

Dear Mr. de Rato:

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

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

- 5. In the circumstances, we are requesting a waiver for the nonobservance of the quantitative performance criterion on the net domestic assets of the Bank of Ghana for end-June 2006. Moreover, for the remainder of our economic program for 2006, we have adjusted (a) the end-September and end-December 2006 indicative targets for net domestic assets and the net international reserves of the Bank of Ghana, and (b) the end-December 2006 indicative target for poverty-related expenditures to reflect the higher MDRI spending and to correct the omission of the adjuster.
- 6. We continue to believe that the policies specified in our letter of May 25, 2006, provide a strong basis for sustaining growth, reducing inflation, and alleviating poverty. However, we are prepared to take any additional measures necessary to achieve the economic and financial objectives of the 2006 program. The government will continue to provide the Fund with the information necessary for assessing progress in implementing our program as specified in the TMU, and we will consult with the Fund staff and management on any measures that may be appropriate at the initiative of the government or whenever the Fund requests a consultation. The government intends to make public both this letter and the staff report for the sixth and final review under the PRGF arrangement. Accordingly, the government of Ghana authorizes the IMF to arrange for these documents to be posted on the Fund's website once the Executive Board has completed its review.
- 7. With the above, we hereby request completion of the sixth and final review and disbursement of the seventh loan installment of SDR26.4 million.

Yours sincerely,

Hon. Kwadwo Baah-Wiredu, MP Minister of Finance and Economic Planning Dr. Paul A. Acquah Governor, Bank of Ghana

Attachments (2)

Table 1. Ghana: Quantitative Performance Criteria and Indicative Targets, PRGF Arrangement, 2006 ¹ (Cumulative flows from beginning of calendar year 2006 to end of month indicated, unless otherwise indicated)

	End-March	End-June			End-September	End-December
	Prel.	Perf. criterion	Prel.	Status	Indicative	Indicative
		(Billions of cedis)				
Performance criteria	4 =00	0.470				0.15
Net domestic financing of government (ceiling)	1,722	2170	443	Met	870	215
Net domestic assets of the Bank of Ghana (ceiling) ²						
Approved by Board	-3,682	-4,376	-4,063	Not met	-5,086	-1,939
Proposed ³					-3,315	-137
Stock of net domestic banking sector credit to TOR (ceiling)	1,031	950	697	Met	300	200
	(Millions of U.S. dollars)					
Net international reserves of the Bank of Ghana (floor)						
Approved by Board	306	165	357	Met	225	160
Proposed ⁴					316	403
The contracting or guaranteeing of new nonconcessional external debt with original maturity greater than or equal to 1 year by the government or the						
Bank of Ghana (ceiling) ⁵	0	0	0	Met	0	0
Outstanding stock of external debt with original maturity of less than one year						
owed or guaranteed by the government or the Bank of Ghana (ceiling) $^{\rm 6}$	50	100	0	Met	100	100
Stock of external payment arrears (ceiling) ⁷	0	0	0	Met	0	0
	(Billions of cedis)					
Wage bill of the central government (ceiling)	2,148	5,387	4,987	Met	7,588	9,990
Indicative targets						
Reserve money stock (ceiling)	9,308	9,600	9,534	Met	9,720	11,900
Poverty related expenditures (floor) Approved by Board	1,800	4,242	4,613	Met	6,680	11.187
Proposed	1,000	,2	-,013		0,000	11,024

Sources: EBS/06/72; Table 1a; Ghanaian authorities; and staff estimates.

¹ Definitions of line items and terminology are elaborated in the Technical Memorandum of Understanding (TMU). Variables are measured at end of month values, unless otherwise indicated.

²Based on the official end-March exchange rate 9,138.8 cedis/U.S. dollar.

³ Assumes that US\$200 million was transferred to and used by the government under the MDRI resources from the Fund.

⁴ Assumes that US\$200 million from the MDRI resources from the Fund was spent and absorbed.

⁵ This is a continuous performance criterion. It applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by Decision 12274-(00/123) of August 24, 2000 but also to commitments or contracted for which value has not been received, as specified in paragraph 20 of the TMU.

⁶ The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by Decision 12274-(00/123) of August 24, 2000, as specified in paragraph 19 of the TMU.

⁷ This is a continuous performance criterion. The TMU stipulates the precise program definition of payment arrears.

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

Condition **Status** Performance criterion June 30, 2006. Present a report on the Completed comprehensive review of the wage and salary structure of public service workers, with the aim of rationalizing the emolument structure, monetizing benefits, standardizing job titles, and updating job classifications. **Benchmark** Completed June 30, 2006. The Ministry of Finance and Economic Planning will submit the Credit Reporting Bill to Cabinet for final approval.

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