International Monetary Fund

Ghana and the IMF

Press Release:
IMF Executive Board Completes Third and Fourth Reviews Under ECF Arrangement with Ghana and Approves US$94.3 Million Disbursement
May 27, 2011

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

May 12, 2011

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.

APPENDIX II—LETTER OF INTENT

May 12, 2011

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Mr. Strauss-Kahn:

After a temporary slowdown, buoyant exports and increased construction and service sector activities have helped the economy to recover. Growth is estimated at 6.6 percent this year, up from 4.7 percent in 2009. Fiscal and monetary policy tightening and currency stability have eased inflationary pressures and inflation has remained in single digit level since mid-2010. Medium-term prospects look promising and will be boosted by rising oil production.

Despite good progress in stabilizing the economy, policy implementation faced important challenges. In particular, adjustments to electricity and fuel tariffs to cost-recovery levels were implemented despite strong public resistance. Furthermore, the conflicts in Côte d'Ivoire and Libya are impacting the economy as people have sought refuge in Ghana and more than 16 thousand Ghanaian migrant workers have been evacuated from Libya. Consequently, we anticipate a reduction in Ghana's remittance earnings, an important source of foreign exchange, and an increased burden on public service deliveries.

The attached Memorandum of Economic and Financial Policies (MEFP) reports on Ghana's recent economic developments and implementation of Ghana's economic program under the three-year Extended Credit Facility (ECF), which was approved by the IMF Executive Board on July 15, 2009.

All quantitative performance criteria for end-June 2010 and end-December 2010 were met except those for the net change in the stock of domestic arrears and the overall deficit of the government (missed in end-December). The fiscal deficit target at end-December 2010 was only narrowly missed, and the shortfall would have been just 0.1 percent of GDP if a measure involving the sale of gold company shares received in lieu of royalties had been completed in December 2010, rather than slipping to January 2011. The government views the accumulation of domestic arrears as the central challenge to its fiscal adjustment program. To address the issue, it is improving the monitoring of arrears and conducting a stock-taking exercise to determine the actual size of outstanding arrears. With a number of priority projects being jeopardized by non-payment, the government has settled arrears totaling 2½ percent of GDP in 2010 and further arrears of a similar magnitude in relation to GDP in the first quarter of 2011.

Progress in implementing the program's structural benchmarks was mixed. Debt management policies and performance was strengthened, which contributed to meeting the performance criterion on external borrowing. However, the implementation of several benchmarks was delayed and the government gives importance to implementing them as soon as possible. The ongoing modernization of Ghana's revenue administration that started in 2009 has improved tax collections. Expenditure management is being strengthened with support from Ghana's development partners and efforts are underway to better monitor the public sector wage bill and pension payments.

These and other components of the government's economic stabilization and reform program are described in the MEFP. Based on these policies, the government requests that the IMF's Executive Board grant a waiver for the missed performance criteria on the overall fiscal deficit of the government and on the net change in the stock of domestic arrears for end-December 2010. The government also requests approval of proposed new structural benchmarks for the period through June 2012 and adjustments to June 2011 performance criteria and the establishment of performance criteria through March 2012.

In support of its policies, the government requests that the IMF's Executive Board complete the third and fourth reviews of Ghana's ECF arrangement and approve disbursement of the fourth and fifth tranches of the loan, based on proposed rephasing of disbursements as set forth in the attached schedule to the MEFP. The fifth review is expected to be completed before end-December 2011, and the sixth and seventh reviews are expected to be completed by end-April and end-June, 2012, respectively.

The Government of Ghana will provide such information as the Fund may request in connection with progress in implementing its economic and financial policies. The government believes that the policies set out in this letter are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. The Government will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. We have no objection to publication of the staff report for the third and fourth reviews under the ECF arrangement, this letter of intent, and the attached memorandum of economic and financial policies and technical memorandum of understanding.

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

/s/
Mr. K. B. Amissah-Arthur
Governor
Bank of Ghana

APPENDIX II—ATTACHMENT I

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES, 2011–13

I. RECENT DEVELOPMENTS AND 2010 PROGRAM PERFORMANCE[1]

A. Growth and Inflation in 2010

1. **The economy is recovering from a temporary slowdown in 2009.** After growth of 4.7 percent in 2009, the Government Statistical Service is projecting a 6.6 percent expansion in 2010, underpinned by buoyant commodity exports, construction, and services. Business and consumer confidence have improved with greater macroeconomic stability in Ghana, the global recovery, and Ghana's transition to oil producer status.

2. **Rebased national accounts show Ghana as richer and growing faster than earlier perceived**. In the rebased accounts, income levels and income per capita are almost 70 percent higher than earlier estimates, lifting Ghana into lower-middle income status. The latest growth estimates for 2007–09 are also about 1 percent higher than earlier estimates. Recent growth has been particularly rapid in the service sector, which now accounts for close to half of the overall economy.

3. **Inflation rates have declined**. Annual consumer price inflation has been in single digits since mid-2010, with a year-on-year outturn of 8.6 percent in December 2010, down from 16.0 percent a year earlier. The slower pace of inflation reflects earlier monetary policy tightening, broad exchange rate stability, and favorable crop yields. Inflation is currently at the middle of the inflation target range.

B. Fiscal Performance Through end-2010

4. **The fiscal deficit target was only narrowly missed in 2010**. While revenue collections were broadly as programmed, grant receipts fell short and spending overruns were recorded, notably for recurrent goods and services where the program allocation was very tight. The fiscal deficit (cash basis, measured from financing side) was 6.7 percent of GDP in 2010, compared to 5.6 percent of GDP in 2009, and an adjusted 2010 program target of 5.9 percent of GDP. The government adopted corrective actions as deficit pressures emerged in 2010 to bring the deficit back on track, but the sale of gold company shares received by the government in lieu of royalties slipped into the early days of January 2011, rather than being finalized in 2010, as planned. If this revenue (equivalent to 0.7 percent of

[1] 2010 program performance is summarized in Appendix Table 1.

GDP) had been collected in 2010, the slippage relative to the program target would have been less than 0.2 percent of GDP.

5. **Fiscal pressures continued in respect of domestic arrears**. Arrears were accumulated in 2010 to contractors for investment projects, where spending ran above appropriated levels, and to statutory funds, where fiscal resources were not adequate to make earmarked revenue transfers. As a result, while the program had sought a net reduction in arrears equivalent to 0.2 percent of GDP in 2010, arrears increased, in net terms, by 1.9 percent of GDP. A review of these arrears indicates that the large majority relate to a surge in spending commitments in 2007–08 for projects which are now being completed and invoices submitted. The combined fiscal slippage, taking into account both cash transactions (the cash deficit) and unpaid bills (arrears), was equivalent to 2.6 percent of GDP, and would have been less than 2 percent of GDP, had the additional revenue measure noted above been completed in 2010, as planned.

6. **The domestic financing ceiling was narrowly missed due to delays in revenue and loan financing**. Although foreign credits performed well, net domestic financing of the cash deficit was 0.8 percent of GDP higher than the adjusted program target for end-2010. A substantial portion of this financing was raised by selling Treasury bonds to nonresident investors, which ensured that financing from the domestic banking system was kept below programmed levels. Had the additional revenue effort been completed in 2010, the slippage relative to the adjusted domestic financing ceiling would have been less than 0.2 percent of GDP. Moreover, a World Bank loan disbursement of $215 million had been long-planned for 2010, but was approved only in January 2011. If the Bank financing had been on the original timetable, the NDF targets would have been met. Although public debt rose to an estimated 41½ percent of GDP at end-2010, nonconcessional external borrowing was managed tightly, and remained within program limits.

C. Monetary and Financial Sector Developments

7. **Falling inflation allowed an easing of monetary policy in 2010**. The Bank of Ghana (BoG) has held its policy rate at 13½ percent since July 2010, down from a peak of 18½ percent in mid-2009. Market interest rates responded more than one-to-one to the BoG easing, with interbank rates at end-2010 reduced by 11 percentage points from their 2009 peak, and Treasury bill rates down by 13–16 percentage points on the same basis. Bank lending rates have adjusted by less, remaining well above 25 percent, reflecting a historic pattern of slow adjustment to policy rates as well as the adverse impact of high non-performing loans.

8. **Liquidity conditions also reflect strong reserve accumulation**. With a large rise in net international reserves (exceeding program targets), the BoG's net foreign asset position boosted reserve money growth by 45 percent during 2010; broad money growth was equally

strong. After sluggish private sector credit growth in the first half of 2010 (with declines in real terms), the pace of lending recovered briskly toward year-end.

9. **While nonperforming loans declined by year-end, some banks are still burdened by them**. Banks remain profitable on average, and the industry is generally well capitalized (due, in part, to higher minimum statutory capital requirements). Nonperforming loans were high at 17.6 percent in December 2010, but fell from a peak of 20.0 percent in February.

D. External Sector

10. **External performance was strong in 2010**. Exports rose by $2 billion in 2010, with cocoa and gold exports benefiting from high global commodity prices. This broadly offset a strong recovery in imports after a decline in 2009, leaving the current account deficit broadly unchanged at 6 percent of GDP. This was more than financed by strong capital inflows, including foreign direct investments in the oil sector and bond purchases by nonresident investors. Gross international reserves totaled more than $4.7 billion at end-2010 (3.3 months of import cover).

11. **Currency stability was maintained through 2010**. The cedi traded through the year at a little under GH¢ 1.45 per dollar, with the real effective exchange rate remaining its range over recent years.

II. Macroeconomic Framework

12. **The government's economic program aims at sustained robust growth.** Real GDP growth is projected to exceed 13 percent in 2011, reflecting the start of oil production. Beyond 2011, growth would be 6–7 percent or higher, reflecting strong expansion in the non-oil economy and steady rates of oil extraction. The growth forecast assumes that Ghana's favorable business climate will be preserved and strengthened, while infrastructure bottle-necks will be addressed through targeted public investments and public-private partnerships. Steps to address the problem of government arrears will also strengthen bank balance sheets, contributing to improved credit conditions.

13. **Financial policies will be geared at single-digit inflation**. Under the inflation targeting regime, the target band for inflation is centered on 9 percent at end-2011. A gradual further reduction is assumed for the medium term.

14. **Fiscal deficits will be reduced to levels that can be prudently financed**. The government's goal is to reduce the fiscal deficit to levels that can be comfortably financed without crowding out private sector credit, and with the goal of progressively reducing debt-GDP ratios over the medium term.

15. **With better control over the budget deficit and the start of oil production, current account deficits are projected to narrow over the medium term**. Gross reserve

cover is projected to rise to 3½ months of import cover at end-2011, supporting Ghana's flexible exchange rate regime in the context of an increasing openness to portfolio capital flows.

III. Accelerating Fiscal Consolidation

16. **The key budget priority for 2011 is to accelerate the fiscal consolidation program**. Policies will be informed by experience in 2010. For 2011, the government is resolved to limit the fiscal deficit to 5.7 percent of GDP (cash basis, financing measure). Within this deficit, the government is designing an arrears payment strategy, which would include cash payments to clear arrears of about 2.5 percent of GDP in 2011, while seeking to avoid any new arrears accumulation. Revenue measures have been incorporated in the 2011 budget to strengthen fiscal performance in that year. The debt-to-GDP ratio would reach 46 percent of GDP at end-2011, partly due to the issue of Treasury bonds to settle public enterprise debts to the banking system.

17. **In 2012–13, continued fiscal consolidation would reduce the fiscal deficit to 2½-3 percent of GDP**. This further fiscal adjustment will be driven by rising oil revenues, strengthened revenue administration, and tight expenditure control. Deficits in this range would allow a steady, albeit gradual reduction in the debt-GDP ratio.

18. **As discussed below, the government's fiscal strategy has three pillars:**

- Strengthened revenue mobilization;
- Reinforced expenditure control; and
- A program to regularize arrears and other unmet claims.

A. Strengthened Revenue Mobilization

Background

19. **Ghana's tax revenue base needs to expand**. When the government's adjustment program was launched in mid-2009, tax revenues were estimated as equivalent to 20 percent of GDP. Under the rebased and revised national accounts, Ghana's tax yield is now calculated as 13-14 percent of GDP.

20. **This elevates the priority to be given to strengthening Ghana's tax performance**. The government's economic program sought to combine an increase in tax yields from more efficient revenue administration, new tax measures, and cuts in tax exemptions. Progress is continuing on each front:

- **Modernizing revenue administration is continuing**. A good start was made in establishing the integrated Ghana Revenue Administration (GRA) by end-2009, bringing together the separate customs, VAT, and direct tax services. External support for GRA reforms was put in place by development partners and the World Bank, while the IMF has provided TA and a resident advisor. After appointing the GRA's Commissioner General in March 2010, the process of appointing commissioners and their deputies by end-June 2010 (structural benchmark) lagged; all commissioners were appointed by end-December, while deputies were appointed in early-March 2011 subject to Public Service Commission approval. These delays unfortunately slowed the broader reform effort. The effectiveness of the Large Taxpayer Unit (LTU), including filing compliance, remains to be fully established. The process of developing criteria for coverage of the LTU (June 2010 structural benchmark) and reassigning companies to the LTU is now expected to be completed by June 2011. More broadly, further progress is needed in integrating VAT and direct taxation within the domestic tax department. As a result, tax administration has not yet fully benefited from the modernization that was envisaged with the launch of the GRA.

- **Tax exemptions remain a burden**. Despite efforts to tighten procedures for granting tax exemptions in early-2010, foregone revenues on account of exemptions amounted to 10.8 percent of indirect tax collections in 2010, little different from the 11.8 percent figure for 2009. Due to the heavy work load on revenue administration and tax reform, plans for a comprehensive review of the scope of tax exemptions and discretionary waivers were delayed from September 2009 to September 2010 (revised structural benchmark). This project was partly achieved through completion of a consultant report on import tariff exemptions prepared by end-2010. The review of the status of other exemptions and waivers will be conducted by June 2011 (structural benchmark).

Policy measures

21. **The pace of tax administration reform will be accelerated**. To ensure strong leadership of the GRA's reform program, the confirmation of the appointed deputy commissioners remains a priority. In the year ahead, the focus in GRA will be on effectively integrating VAT and income taxation in a single domestic tax department, and adopting an organizational structure based on taxpayer size. Eleven pilot offices in the Greater Accra area will integrate VAT and direct taxation under single office heads and with common audit processes; this pilot will be launched by end-2011(structural benchmark). With the roll-out of the E-Gov computerization process scheduled for 2011-12, these offices will also move to unified IT systems for VAT and direct tax administration.

22. **As a first step toward its modernization, the large taxpayer unit will be moved to new premises**. The relocation, expected to be completed by end-May 2011, would provide a more transparent, user-friendly tax environment, and will be followed by an update of the criteria for corporate coverage by the LTU. In the next phase of reforms, medium- and small taxpayer offices will be established. Initially, one medium taxpayer office will be established

in Accra to assess business processes. The process of self-assessment for tax purposes will be extended to all medium- and large taxpayers by mid-2012 (structural benchmark).

23. **To focus VAT administration, the turnover threshold for VAT reporting was increased in the 2011 budget from GH¢ 10,000 to GH¢ 90,000** (from about $6,500 to $60,000). Over time, this will focus VAT administration on the 3,000 VAT filers (out of 23,000) who account for over 95 percent of VAT collections. As an interim approach, the 20,000 taxpayers excluded from the core VAT regime are now subject to a new VAT regime with a 3 percent rate (for which refunds cannot be claimed) in addition to a 2 percent income tax rate. GRA plans to develop by mid-2011 plans for a successor small taxpayer regime (structural benchmark), to be adopted in the 2012 budget. This will be based on options identified by a February 2011 Fund TA mission, with taxpayers moving to the income tax regime, and paying taxes based on imputed profits calculated using 2 or 3 rates applied to reported turnover.

24. **Given budget pressures, the government intends to boost non-oil tax collections to GH¢ 7.7 billion in 2011 (14.9 percent of GDP).** The government is confident that this goal (a new indicative target under the program) can be exceeded through the following components of an intensified focus on revenue mobilization:

- **Revenue measures in the 2011 budget**. Collections will benefit from extension through 2011 of the temporary national stabilization levy (corporate profit tax) as well as the extended coverage of the communications service tax;

- **Extension of VAT to fee-based financial services**. As a supplementary budget measure, the government is seeking early parliamentary approval of an extension of VAT to the fee-based incomes of banks and other financial institutions. The required legislation will be submitted to parliament in May 2011 ahead of the completion of the third and fourth ECF reviews (see Appendix Table 3). Based on projected implementation by mid-2011, the yield is estimated at GH¢ 53.6 million in 2011, with a full-year yield of GH¢ 107 million;

- **Taxation of the self employed**. The government has established a task force staffed from the GRA and Ministry of Finance's Tax Policy Unit to tackle a long-standing problem of weak filing compliance by Ghana's self-employed taxpayers. A unique desk for the self-employed will be created, and filing compliance will be checked against professional organizations' registers of accountants, lawyers, consultants, etc. Consideration is being given to establishing a list of professionals in 'good standing" with regard to tax filing; evidence of good standing would then be required for participation in government contract work. The presumptive tax levied on lower-income self-employed (taxi operators, stallholders, etc) is also being reviewed. The current fiscal yield from taxation of the self-employed is GH¢ 60–70 million, and a more dedicated focus and a revised presumptive tax is projected to yield at least an additional GH¢ 30 million in 2011;

- **Streamlined tax exemptions**. In the 2011 budget, the government eliminated the authority of the Ghana Investment Promotion Council (GIPC) to grant tax exemptions, except with the approval of the Minister of Finance. The budget also limited tax exemptions for real estate developers to projects which provide affordable housing in partnership with the Ministry of Water Resources, Works and Housing. The goal is to reduce tax exemptions from the 2010 figure of 11 percent of tax collections.

- **Strengthened revenue administration**. Oversight over tax collections at the Tema port and other key customs locations has been strengthened. This oversight is being reinforced by the required use of computerized valuation systems and other automated procedures that limit administrative discretion. The use of bonded warehouses is also being more closely monitored, following indications that goods admitted duty free for re-export were being released into the domestic market. Following initial steps to strengthen oversight and enforcement, tax yields have already risen sharply. For example, customs collections in the first quarter of 2011 were 65 percent higher than a year earlier. Positive trends are also seen in the area of direct taxation, through the use of technology to improve PAYE compliance.

B. Reinforced Expenditure Control

Background

25. **Further progress is needed in strengthening public expenditure control**. Notwithstanding the launch of a broad-based Public Financial Management Reform Program (PUFMARP) in the mid-1990s, recent experience has highlighted the limited extent of the progress achieved. Weaknesses in procedures for tracking and controlling commitments and associated spending continue to give rise to overruns in the fiscal deficit and to payments arrears. Issues that remain to be addressed include the credibility of budget appropriations, expenditure rigidities, and procedures for within-year expenditure control and cash release. Partly reflecting these problems, Ghana’s outlays on recurrent goods and services in 2010 were 50 percent higher than budgeted, while the sum of paid and unpaid bills (arrears) relating to the discretionary domestic investment budget were almost three times higher than the 2010 budget appropriation.

Status of structural reforms launched in 2009–10

26. **Initial efforts to strengthen public financial management focused on computerizing Ghana’s budget systems**. The former Budget and Public Expenditure Management System (BPEMS) had effectively stalled after being rolled out to 8 pilot

ministries. An implementation strategy for a successor Ghana Integrated Financial Management Information System (GIFMIS) was developed with IMF technical assistance based on a review of existing public financial management processes and guided by the systemic weaknesses identified in the Public Expenditure and Financial Assessment (PEFA) process. The project is being managed under the Steering Committee chaired by a Deputy Minister of Finance, and development partner financing has been identified.

27. **The timetable for rolling out GIFMIS to 14 pilot ministries, departments, and agencies (MDAs) has been updated**. The pilot roll out was scheduled to be completed by March 2011 (structural benchmark), but was delayed pending resolution of conflicts between planned software and existing hardware, and by delays in securing external funding. The revised plan is now to pilot the GIFMIS within the CAGD from July 2011, with a roll out to ministries in January 2012.

28. **In the run up to GIFMIS, parallel efforts have been underway to strengthen cash management and commitment forecasting and control**. Since May 2009, cash management committee meetings have been held on a weekly basis, involving the Ministry of Finance, Controller and Accountant General's Department (CAGD), and BoG. This intensified monitoring of revenues, cash balances, and expenditures has helped in setting quarterly expenditure ceilings and monthly cash limits for spending units. The effectiveness of this cash planning was undermined, however, by weak information about the commitment pipeline and prospective spending claims. To address this gap, the cash management committee, using a module in the existing budget preparation software, has been strengthening data collection on past commitments and contracts for capital expenditure. The requirement for ministries to obtain commencement certificates was also tightened in mid-2010 by removing exemptions from the system extended to a few ministries managing priority programs.

29. **Cash management within the banking system is also being tackled**. To address delays in transferring revenue collections by commercial banks to the government's accounts at the BoG, tax and other payments to government are now credited directly to BoG accounts rather than to commercial banks, except in rural areas. This measure has led to a significant improvement in government cash flows. Steps are also being taken to better utilize the government's cash balances, which extend to 2,500 accounts at the Bank of Ghana with some further accounts in commercial banks. A number of ministerial, departmental, and agency accounts at the BoG have been closed, and remaining accounts are now monitored daily by the BoG to inform the work of the cash management committee. Idle cash balances will be reallocated to finance expenditures, reducing the need for new domestic debt issuance. Over time, the Ministry of Finance and CAGD will gain computer access to monitor these accounts directly.

Steps to further enhance expenditure control

30. **Following discussions with staff during the September 2010 mission on emerging fiscal slippages, the government's commitment to strict expenditure control was** reinforced at the highest level. A presidential memo was sent in October 2010 to all MDAs requiring them to seek authorization from the *Ministry of Finance and Economic Planning* (MoFEP), through Commencement Certificates, before undertaking any capital spending. This message was reiterated by MoFEP in its Budget Implementation Instruction in January 2011. Indications in the opening months of 2011 are that this is having an important impact on the pace of spending.

31. **The government's commitment to expenditure control will be supported by reforms to the budget process**. As highlighted in a recent review by IMF experts, stronger expenditure control requires a range of short and medium-term measures, and spans a number of topics. Within a broadened program to strengthen PEM, the government intends to give the following priority:

- **More strategic and realistic expenditure budgeting**. Under past budgets, ministries submitted unconstrained spending proposals in August, and were required to develop constrained budgets only in October (one month ahead of the budget's submission to parliament). This process provides little incentive or opportunity for ministries to develop realistic, prioritized spending plans. For the 2012 budget, the Cabinet will identify program priorities in April/May 2011. These priorities will be communicated to MDAs with indicative spending ceilings in the July budget preparation guidelines. This process is identified as a structural benchmark under the program.

- **Quarterly expenditure ceilings**. The adoption of monthly cash limits for MDAs (above) has helped cash management by MoFEP at the expense of operational flexibility for MDAs. Given the time required to obtain funds releases (warrants), the monthly cash ceiling provides MDAs with very limited scope to plan and manage their spending and commitments. A return to quarterly expenditure ceilings which will be used as a ceiling for approving commitments will restore this flexibility, and will be backed by high-level political commitment to ensuring that all MDAs respect appropriation ceilings.

- **GIFMIS design**. It is critical that GIFMIS support the strengthened expenditure control targeted above. In this regard, the GIFMIS team will review the warrant (funds release) and expenditure control mechanism, and simplify it for adoption within GIFMIS. The new computerized regime will allow MDAs to record commitments when issued and invoices when received, and not just as funds are available.

C. Regularizing Arrears and Other Claims

Background

32. **The budget continues to experience payments arrears following the intensification of budget imbalances in the run up to the 2008 elections**. As noted above, the stock of budgetary arrears continued to increase in 2010. As a result, outstanding claims in respect of budget arrears and public liabilities for SOE debts were estimated at 9.4 percent of GDP at end-2010. The government gives a high priority to regularizing these claims. A holistic approach is being adopted to tackle the arrears situation, drawing on technical assistance provided by the IMF in early 2011.

Policy measures

33. **Avoiding new arrears**. A first step will be to stem the emergence of new arrears. This will require strengthened expenditure control, as described above.

34. **Monitoring arrears**. Currently, the monitoring of expenditure arrears and other claims is the responsibility of different MoFEP departments. Data tracking is limited (in terms of stocks, payments, and new liabilities) and it is not straightforward to monitor the extent of the arrears situation, or to track new trends. To address this situation, the MoFEP Budget Department has been assigned overall responsibility for building and maintaining a comprehensive database to track the full breadth of stocks and flows of arrears and other claims on a monthly basis (program structural benchmark). Monthly reports will be prepared to facilitate close monitoring, and quarterly reports will be provided to the cabinet, starting in June 2011.

35. **Stock take and audits**. To ensure that the above database is comprehensive and accurate, the recent instruction to MDAs to report all claims as of end-2010 will be reiterated, and MoFEP will instruct MDAs to report potential liabilities of state owned enterprises. Where claims cannot be verified using normal budget validation procedures, an independent audit will be sought; this is expected to be particularly important for the reported liabilities of state-owned enterprises.

36. **Strategy to regularize arrears**. A strategy for regularizing arrears will be developed in the coming months, based on the enhanced claims database discussed in paragraph 34 above. Cash payments will need to be consistent with available fiscal space, and a large part of the existing stock of liabilities will need to be regularized through the issue of special purpose bonds or promissory notes that will spread the payment profile over 2012 and the medium term. The macroeconomic framework is currently consistent with cash payments of no more than GH¢ 1,290 million in 2011, and payments will not exceed this amount, unless an updated fiscal framework based on strengthened fiscal performance is developed with the IMF showing enhanced payment capacity. Priority in making 2011 cash payments is being

given to road contractors (to restart critical highway projects), the health and education funds (where social projects have suffered), and to the district assembly common fund (critical for rural development).

D. Managing the 2011 Budget

37. **The government is determined to strictly enforce its budget plans for 2011**. The budget continues to be subject to important risks. As a result, the government is taking steps to ensure that its fiscal plans are achieved in 2011.

- **Fiscal monitoring is being strengthened**. The government will monitor monthly fiscal developments closely, with a particular focus on areas subject to slippages in 2010, such as recurrent expenditure on goods and services and discretionary domestic investment spending. Adverse deviations from monthly budget projections will be assessed to establish whether additional fiscal adjustment measures need to be adopted. A new indicative target under the program has been established for non-oil revenue collections. The planned monthly monitoring of the arrears situation will also help with expenditure control.

- **New expenditure commitments will be strictly limited**. Additional obligations will be considered only where they are consistent with the government's goals for fiscal consolidation described in this memorandum and letter of intent.

- **Fiscal contingency plans have been identified**. The fiscal framework for 2011 has been designed to ensure that program targets for fiscal correction are achieved. A contingency element equivalent to 1 percent of GDP within the expenditure budget has not been appropriated to spending units. This will be a first source of savings, in the event of fiscal slippages. If these savings are not sufficient, investment programs will be downsized or deferred, where possible. In addition, a number of anticipated revenues have not been included in the budget framework. These include receipts from a gold mining company in lieu of royalty payments currently under negotiation, which is expected to yield at least 0.2 percent of GDP, as well as tax receipts that would accrue in the event of a transfer of oil production rights between Jubilee field investors (which could significantly exceed 1 percent of GDP). Based on trends through March, the government also intends to exceed the program's tax collection targets. As these additional revenues are realized, they will be set aside as a fiscal contingency fund.

IV. Other Structural Fiscal Reforms

A. Public Sector Reform and Payroll Management

38. **Ghana has started to migrate its public workforce onto a new public pay structure, a process that will ensure pay equity and simplify future pay negotiations**. Some previously low-wage employees have seen large pay increases; for others, the impact on salaries will be more limited. The cost of the new pay regime will be determined once the 520,000 public sector employees have been mapped from the old to the new pay structure and after determining the treatment of some former allowances, which will be integrated into base pay. The government has estimated that the cost of completing the migration to the new pay structure at GH¢ 420 million per annum (about 0.8 percent of GDP). The migration of the Education Service has been completed in March 2011, with an estimated full-year cost of GH¢ 300 million. The government will manage the remaining 2011 migration to the single spine within the allocated budget.

39. **The process of migrating all remaining non-security subvented agencies to the Integrated Personnel and Payroll Database (IPPD) remains to be completed** (structural benchmark for September 2009, extended to July 2010). The slippage relative to earlier migration plans was partly due to a push-back from some agencies, difficulties in harmonizing allowance rates within some subvented agencies, and the need to review some agency-specific allowances. As of February 2011, 97 out of 137 subvented agencies have been migrated onto the IPPD. The priority of completing the IPPD migration has been enhanced by the use of this platform for the payroll audit being conducted by an external consultant. Given this, the government plans to complete the migration of all non-security subvented agencies by June 2011. The current stand-alone IPPD database will be integrated and upgraded into the GIFMIS once roll-out of the latter has been completed. Pending this integration, for agencies already on the payroll database, new recruitments are verified by the CAGD on a continuous basis to ensure appropriate budget authorization. As part of the reforms to contain the wage bill, independent consultants were contracted to review which subvented agencies should stay on government subvention, liquidated, partially or fully commercialized. The report recommended that 12 out of the 132 subvented agencies assessed should be closed, 71 should remain on government subvention, while 16 could be partially or fully commercialized. The lack of adequate information prevented the report to make a recommendation on the remaining subvented agencies. The list was submitted to Cabinet for decision in March 2011 (structural benchmark for December 2010).

40. **Efforts are underway to better monitor public wage and pension payments**. The government conducted its own payroll audits of the two largest public employers, the Health Services in 2007, and the Education Services in 2010, eliminating about 2,000 ghost workers in the first and 10,000 in the second. The process of migrating staff to the new computerized single spine pay structure is also helping to confirm staffing numbers. To strengthen controls over payrolls and public pensions, a pilot program will introduce biometric identification

technology. A pilot program covering more than 100,000 public pension recipients is planned for completion by August-September 2011. An initial review of the pension records for this exercise has revealed an implausible number of recipients, confirming scope for savings from cleaning the system. This process will subsequently be extended to all public sector employees.

B. Energy Sector Reforms

41. **The government is committed to cost-recovery pricing of energy products**. Earlier efforts to shelter consumers from increases in global energy costs resulted in large losses to public utility companies that remain a drain on the budget.

Electricity sector

42. **Electricity tariffs were raised to cost-recovery levels in June 2010**. World Bank has reviewed this new tariff structure, including the impact of an August 2010 downward revision in some tariffs. In its assessment, the new tariff structure is consistent with a return to financial viability in the power sector. Quarterly reviews of the tariff structure will be conducted to ensure continuing cost-recovery pricing. Based on access to relatively cheap natural gas as a result of the reopening of the West Africa Gas Pipeline (WAGP) power generation costs are calculated to have fallen; as result, the Public Utilities Regulatory Commission, has calculated that the tariff structure should be reduced by a weighted average of 17 percent, effective March 1, 2011. The cost structure will be reassessed with a view to setting a new tariff effective June 1, 2011.

Refined petroleum products

43. **Petroleum product prices were adjusted in early-January 2011.** Petroleum pump prices were increased by 30 percent to full cost-recovery levels; gasoline prices rose to the equivalent of $3.81/gallon, up from a preceding $2.93/gallon. This increase was sustained notwithstanding widespread protests.

44. **A hedging scheme using call options adopted from October 2010 provides temporary protection against further upward movements in oil prices**. The government has purchased monthly call options that generate revenues in the event of upside shocks to global oil prices; under these conditions, the revenues will be used to cover temporary delays in adjusting domestic petroleum product prices to higher cost-recovery levels. The hedging operations are calculated to cost around GH¢140 million (0.3 percent of GDP) on an annual basis; this cost is included in the budget, and will not be exceeded.

45. **Hedging incomes will provide temporary relief from the global rise in petroleum product prices during 2011**. Following further increases in global oil prices, the prices established for petroleum products in January are no longer at cost recovery level. As

envisaged under the hedging scheme, the accumulated and anticipated revenues accruing from call options will be used to provide temporary relief from higher market prices. Hedging revenues, together with a small windfall income from Ghana's oil export activities, are estimated at 0.3–0.4 percent of GDP. With this support, it is anticipated that petroleum pump prices can be maintained at current levels through at least mid-2011 without the need for a price increase. Closer to that date, the need for an adjustment in pump prices will be assessed, based on trends in global prices, the operations of the hedging scheme, and the broader fiscal situation. The continued appropriateness of petroleum pump prices within this context will be a focus for the next ECF review.

46. **Past under-pricing of petroleum products saddled the Tema Oil Refinery (TOR) with large losses**. As a result of its weak balance sheet, the refinery was idled for a portion of 2010, and a strategy for financial and commercial viability was needed (December 2010 structural benchmark). This was partly achieved by clearing TOR's large overdraft liabilities to GCB through cash payments from the budget and, more importantly, issuance of government bonds to GCB in exchange for its TOR claims. Following these steps, TOR has regained the financial viability to operate in the petroleum market without ongoing government support. Looking further ahead, TOR still has issues of efficiency and competitiveness as well as some long term debt obligations that may need to be refinanced. TOR has developed its own proposals for this commercial modernization. A task force established by the Ministry of Energy is reviewing these plans, and they will be provided to the World Bank for its assessment.

C. Oil Revenue Management

47. **The government remains committed to establishing a transparent framework for managing petroleum and gas revenues**. Drawing on international experience, a draft Petroleum Revenue Management Bill was submitted to parliament in 2010 (structural benchmark) and approved in March 2011. Receipts will be managed through a dedicated Petroleum Account, to be established at the Bank of Ghana, with full fiscal reporting to Parliament and the public, subject to stringent requirements for auditing of account transactions. Quarterly audits of petroleum accounts will be conducted by the BoG, and annual external audits will be carried out by the Auditor General or an auditor contracted by him. Portions of oil revenues will be used to finance budget expenditure; the remainder will be saved in two funds—one for "future generations" and the other for smoothing expenditures in the face of commodity price or production shocks. Consistent with the bill, funds allocated to GNPC for its investments will be incorporated in the budget. The creation of these funds would improve medium term budgetary framework of the country.

D. Public Debt Management

48. **Good progress is being achieved in strengthening the government's debt management framework**. The debt management division is being reorganized with units specialized by functional areas. A head of unit will be identified for each of the four units: domestic debt unit, external debt unit, on-lending and guaranteed unit, risk management and policy analysis unit. With the support of the World Bank, a functional review of the debt management division will be conducted with the objective of identifying skill needs, and ensuring effective coordination of the various units. Monitoring of SOEs' borrowing has been intensified. Quarterly meetings are held with major SOEs to review their operational activity and balance sheets, in order to identify risks of delayed payments or defaults.

49. **Debt management reforms**. A debt management strategy was developed with technical support from the IMF and World Bank, and published on the MoFEP website in December 2010 (structural benchmark). This strategy will help the government better analyze the implications of alternative borrowing options within a coherent framework taking into account the cost and risk implications of various borrowing options. The next version of the strategy, to be developed by end-2011, will take stock of emerging debt management risks and policies to address them. Guidelines have been developed and published for the appraisal and selection of projects financed by nonconcessional external financing (structural benchmark).

50. **In 2010, the government contracted new external loans totaling about $2.8 billion**. These focused on its sectoral priorities in health, agriculture, rural development, highways, and communication. The new loans included a $1.5 billion lending arrangement with a Korean company, providing financing on concessional terms for the construction over five-year period of housing for public sector employees. Commercial external borrowing in 2010 amounted to $329.2 million and was below the ceiling under the ECF arrangement.

51. **Borrowing plans will be tailored to debt sustainability**. Based on the latest debt service indicators calculated using Ghana's rebased national accounts, Ghana's risks of debt distress have declined. Public debt at end-2010 was equivalent to 43 percent of GDP, and new borrowing will be carefully calibrated to levels that can be serviced over the medium term.

52. In 2011, commercial borrowing will not exceed $800 million. GNPC envisages a commercial borrowing need of $300 million, in large part to cover its share of investments in the oil and gas sectors. Outside the oil and gas sectors, the government plans to limit new commercial borrowing to $500 million. The process of prioritizing projects is continuing; goals include ensuring that public services have up-to-date equipment, and financing machinery for rural development.

IV. Monetary, Financial, and Exchange Rate Issues

A. Monetary and Exchange Rate Policy

53. **Monetary policy will continue to be guided by the Bank of Ghana's inflation targeting regime**. The successful convergence of inflation in 2010 to the BoG target reflected the lagged impact of earlier policy tightening, exchange rate stability, and the impact of favorable crop yields on food prices. Looking forward, the BoG intends to seek a modest further reduction in inflation, with the centre point of the target band reduced from 9½ percent in December 2010 to 9 percent in December 2011.

54. **Policies will be alert to upside inflation risks**. Over the coming year, further disinflation will be complicated by possible domestic spillovers from higher global commodity prices and a gathering momentum of domestic activity. Domestic liquidity also rose strongly in 2010, driven by a balance of payments surplus and reserve build-up. The Bank of Ghana is monitoring conditions closely, and stands ready to tighten monetary policies, as needed, to head off any resurgence in inflationary pressures.

55. **The Bank of Ghana will continue to maintain a flexible exchange rate regime**. Exchange rate policy is designed to support Ghana's inflation target. Over the year ahead, the balance of payments is projected to remain in surplus, reflecting high commodity export prices, the start of oil production, and continuing portfolio capital inflows. Under these circumstances, the Bank of Ghana expects to build further its reserve cover to provide a larger cushion to manage potential external volatility, including in nonresident portfolio investments. Inflationary risks arising from the liquidity impact of reserve accumulation will be mitigated by sterilization actions using domestic paper.

B. Financial Sector Policies

56. **In the financial sector, the priority is to continue with efforts to strengthen banks**. Several specific areas of action are underway or envisaged:

- **TOR debts and Ghana Commercial Bank**. In early 2011, the government provided Ghana Commercial Bank (GCB) with interest-bearing government securities equivalent to GH¢ 570 million (1 percent of GDP) to clear virtually all of TOR's remaining liabilities to GCB. Outstanding is a US$ 50 million (equivalent to GH¢ 75 million) loan to BOG that was extended to GCB and the on-lent to TOR. In the coming months, GCB will submit to the Bank of Ghana an updated business model, covering among other topics its plans for further broadening its customer base and strengthening risk management.

- **Audit of banks**. A group of banks will be selected for independent external audit, including banks considered most at risk from impaired portfolios. External consultants are being selected to help draft the terms of references for these audits, and the audits should be completed by November 2011. The outcome of the audits will inform the strategy for addressing problem institutions.

- **Bank supervision**. Efforts would focus on developing new supervisory guidelines and strengthening the technical capacity of supervisors. The recent hiring of over 40 new staff in the supervision department is aimed to address the imminent succession problem due to retirements. A training program is being developed for these and existing staff, aimed at bringing BoG's supervisory approaches into line with the financial reforms and structural changes in Ghana's banking industry.

- **Central bank resolution powers**. The recent FSAP update identified some gaps in the Bank of Ghana's legal arsenal for resolving troubled institutions. Legal language is being developed, with a view to parliamentary submission by end-March 2012.

- **Bank of Ghana ownership of banks**. As an interim measure to address the potential conflict of interest as supervisor and part-owner of the two banks and to pave way for the disposal of BoG's shareholdings in these two banks, the ownership interests were transferred by a Deed of Transfer to an independent Financial Investment Trust. The Trust is registered with the Registrar of Companies and has an independent Board of Trustees and the returns accruing on the investments are to be used for social projects. A full exit strategy from BoG shareholding in these two banks is being considered, drawing on Fund technical advice.

VI. OTHER PROGRAM ISSUES

57. **Ghana's Shared Growth and Development Agenda (GSGDA) has been published as an updated poverty reduction strategy for 2010–13**. It emphasizes structural transformation of the Ghanaian economy, based in part on industrialization in the agricultural and natural resource sectors. The cost of meeting the GSGDA's objectives was calculated in close collaboration with affected spending units. The aggregate cost significantly exceeds Ghana's projected fiscal space, and the financing gap will guide efforts to identify additional funding and use public private partnerships to meet infrastructure needs.

VII. PROGRAM DESIGN AND MONITORING

58. **Program targets and benchmarks.** Quantitative program targets are documented in Appendix Table 2. Structural benchmarks are documented in Appendix Table 3. A few minor modifications have been made to the program design, as described further in the Technical Memorandum of Understanding (TMU):

- **Indicative target on revenue mobilization**. To monitor progress toward the government's goal for boosting tax collections, the ECF arrangement will include a new indicative target for quarterly non-oil tax collections.

- **External nonconcessional borrowing limits**. For greater clarity, the limits on contracting or guaranteeing external nonconcessional debts have been redefined on an annual basis, rather than as before on a cumulative basis from the beginning of the program.

- **Definition of external debt/borrowing**. This covers now any debt/borrowing that is denominated in foreign currency, as oppose to the earlier residency criterion.

- **External arrears** have been more precisely defined in the TMU to clarify coverage and simplify monitoring.

59. **Phasing of disbursements under ECF arrangement**. Total disbursements under the ECF arrangement would be unchanged (Appendix Table 4), though some financing would be deferred from 2010–11 to 2012. This is consistent with Ghana's stronger-than-expected international reserve position.

Appendix Table 1. Ghana: Quantitative Program Targets, March 2010–December 2010

	Mar. 2010				Jun. 2010				Sep. 2010				Dec. 2010			
	Prog.[3]	Adjusted Target	Act.	Target met?	Prog.[2]	Adjusted Target	Act.	Target met?	Prog.[3]	Adjusted Target	Act.	Target met?	Prog.[2]	Adjusted Target	Act.	Target met?
I Quantitative Performance Criteria																
Overall fiscal deficit of the government (ceiling; in millions of cedis)	499	746	956	Not met	1,186	1,670	1,575	Met	1,958	2,509	2,611	Not met	2,077	2,638	3,000	Not met
Increase in net international reserves of the Bank of Ghana (floor; millions of U.S. dollars)[4]	-81	-81	155	Met	-15	-15	200	Met	-98	-98	102	Met	315	315	937	Met
Net change in the stock of domestic arrears (ceiling, in millions of cedis)[5]	…	…	-105	n/a	-55	-55	-134	Met	-83	-83	-25	Not met	-110	-110	654	Not met
II Continuous Performance Criteria (cumulative from July 15, 2009)																
Non-accumulation of external arrears (ceiling; millions of U.S. dollars)	0	0	0	Met	0	0	0	Met	0	0	0	Met	0	0	0	Met
Contracting or guaranteeing of new medium-to-long-term nonconcessional external debt (ceiling; US$ millions)	300.0	300.0	130.0	Not met	649.1	649.1	274.4	Met	649.1	649.1	316.7	Met	649.1	649.1	329.2	Met
Oil and gas sector[6]	300.0	300	0	Met	200.0	200.0	0.0	Met	200.0	200.0	0.0	Met	200.0	200.0	0.0	Met
Fire-fighting equipment	…	…	0	n/a	49.1	49.1	49.1	Met	49.1	49.1	49.1	Met	49.1	49.1	49.1	Met
Ada coastal protection project	…	…	0	n/a	100.0	100.0	83.5	Met	100.0	100.0	83.5	Met	100.0	100.0	83.5	Met
Any sectors[7]	0.0	0	130	Not met	300.0	300.0	141.8	Met	300.0	300.0	184.1	Met	300.0	300.0	196.6	Met
III Inflation Consultation																
Twelve-month consumer price inflation (percent)																
Outer band (upper limit)	15.2	15			12.7	12.7			12.5	12.5			12.5	12.5		
Inner band (upper limit)	14.2	14			11.7	11.7			11.5	11.5			11.5	11.5		
Central target rate of inflation	12.2	12.2	13.3	Met	9.7	9.7	9.5	Met	9.5	9.5	9.4	Met	9.5	9.5	8.6	Met
Inner band (lower limit)	10.2	10			7.7	7.7			7.5	7.5			7.5	7.5		
Outer band (lower limit)	9.2	9			6.7	6.7			6.5	6.5			6.5	6.5		
IV Indicative Targets																
Net domestic financing of the government (ceiling, in millions of cedis)	875	877	1,074	Not met	1,234	1,242	1,155	Met	1,650	1,725	1,803	Not met	1,688	1,768	2,143	Not met
Net domestic assets of the Bank of Ghana (ceiling; millions of cedis)[4]	-103	-103	-115	Met	-278	-278	-542	Met	-8	-8	67	Not met	50	50	-529	Met
Poverty-reducing budget expenditures (floor; in millions of cedis)	…	…	494	n/a	820	1,109	1,169	Met	1,463	1,463	1,918	Met	2,106	2,106	2,411	Met

Sources: Ghanaian authorities, and IMF staff estimates and projections.
[1] All variables and adjustors to the targets are defined in the Technical Memorandum of Understanding (TMU).
[2] Performance criterion.
[3] Indicative target.
[4] December 2009 target after adjustment for SDR allocation. March 2010 indicative ceiling from the original July 2009 ECF program.
[5] Includes net payments of arrears to statutory fund and contractors as defined in the TMU attached to the Letter of Intent of May 2010.
[6] For the GNPC to finance oil and gas exploration and production projects in Ghana and to acquire equity stakes in companies undertaking oil and gas exploration and production in Ghana.
[7] The non-observance of the March 2010 ceiling for "any sector" was waived at the first/second ECF reviews in June 2010.

Appendix Table 2. Ghana: Quantitative Program Targets, March 2011–June 2012

		2010 Dec.	2011 Mar.	Jun. 2011	Sep. 2011	Dec. 2011	Mar. 2012	Jun. 2012
		Act.	Prov.	Prog.[2]	Prog.[3]	Prog.[2]	Prog.[2]	Prog.[3]
I	**Quantitative Performance Criteria**							
	Overall fiscal deficit of the government (ceiling; in millions of cedis)	3,000	560	1800	2,420	2,919	326	733
	Increase in net international reserves of the Bank of Ghana (floor; millions of U.S. dollars)	937	-154	-370	-364	788	-105	-275
	Net change in the stock of domestic arrears (celing, in millions of cedis)	654	-420	-693	-1,070	-1,167	-288	-403
II	**Continuous Performance Criteria**							
	Non-accumulation of external arrears (ceiling; millions of U.S. dollars)	0	0	0	0	0	0	0
	Contracting or guaranteeing of new medium-to-long-term nonconcessional external debt (ceiling; US$ millions)[4]	196.6	0.0	800.0	800.0	800.0	500.0	500.0
	Oil and gas sector [5]	0.0	0.0	300.0	300.0	300.0	0.0	0.0
	Other sectors	196.6	0.0	500.0	500.0	500.0	500.0	500.0
III	**Inflation Consultation**							
	Twelve-month consumer price inflation (percent) [6]							
	Outer band (upper limit)			12.0	12.0	12.0	11.7	11.7
	Inner band (upper limit)			11.0	11.0	11.0	10.7	10.7
	Central target rate of inflation	8.6	9.1	9.0	9.0	9.0	8.7	8.7
	Inner band (lower limit)			7.0	7.0	7.0	6.7	6.7
	Outer band (lower limit)			6.0	6.0	6.0	5.7	5.7
IV	**Indicative Targets**							
	Net domestic financing of the government (ceiling, in millions of cedis)	2,143	580	960	1,550	1,545	470	130
	Non-oil tax revenue collection (floor, in millions of cedis)	6,046	1625	3450	5,400	7,607	2100	4455
	Net domestic assets of the Bank of Ghana (ceiling; millions of cedis)	-529	-166	503	643	-279	-77	-154
	Poverty-reducing budget expenditures (floor; in millions of cedis)	2,411		1,100	1,920	2,700	660	1330

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

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

[2] Performance criterion.

[3] Indicative target except for the inflation consultation mechanism.

[4] Measured on an annual basis.

[5] For the GNPC to finance oil and gas exploration and production projects in Ghana and to acquire equity stakes in companies undertaking oil and gas exploration and production in Ghana.

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

Appendix Table 3. Ghana: Prior Actions and Structural Benchmarks under the ECF Arrangement, 2010–12[1]
(Shaded benchmarks are covered by the third and fourth ECF reviews)

Measures	Timing	Implementation status	Macroeconomic rationale
1. Tax policy and revenue administration			
● Complete comprehensive reviews of zero-rated VAT items and the nature and scope of tax exemptions and discretionary waivers.	End-Sep. 2009	**Partially implemented**. A review of imports exemptions was prepared with consultant support, and a number of exemptions were eliminated with the 2011 budget. The status of other exemptions and waivers will be reviewed by Dec 2011. (See MEFP, ¶20)	Strengthen revenue mobilization as part of the fiscal consolidation strategy.
● Appoint senior GRA management (commissioners and deputy commissioners) and adopt criteria to ensure that the Large Taxpayer Unit (LTU) covers businesses accounting for at least 70 percent of total tax revenues.	End-Jun. 2010	**Partially implemented**. Senior GRA management appointed with delay by March 2011. Development of criteria for business coverage by the LTU is postponed to June 2011, pending progress in strengthening LTU efficiency. (See MEFP, ¶20)	As above.
● Increase the VAT threshold to no less than GH¢45,000 as the first stage of a phased increase.	End-Dec. 2010	**Implemented**. (See MEFP, ¶23)	As above.
● Submit draft legislation to parliament to extend the VAT to fee-based incomes of banks and other financial institutions.		**Prior action for the completion of the third and fourth ECF reviews** (See MEFP, ¶24)	As above.
● Adopt a tax regime for small business taxpayers for introduction in the 2012 fiscal year.	End-Jun 2011	**New benchmark** (for fifth review). The GRA plans to finalize a tax regime drawing on FAD TA provided in February 2011. (See MEFP, ¶23)	As above.

[1] Includes 2009 benchmarks that have not been implemented.

● Pioneer the integration of VAT and income tax in 11 pilot offices in Greater Accra. Staff will be in common offices, under a single head of office, and with a common audit process.	End-Dec 2011	**New benchmark** (for sixth review). (See MEFP, ¶21)	As above.
● Extend self assessment for tax purposes to all medium and large taxpayers.	End-June 2012	**New benchmark** (for seventh review) (See MEFP, ¶22)	As above.
3. Public expenditure management			
● Roll out GIFMIS to 14 selected pilot MDAs.	End-March 2011	**Delayed**. Roll out to pilots delayed; will be piloted within the CAGD from July 2011 and rolled out to ministries starting January 2012. (See MEFP, ¶27)	Strengthen monitoring and control of budget execution.
● Reintroduce quarterly expenditure ceilings for planning purposes, while retaining the current monthly cash ceiling.	End-October 2011	**New benchmark** (for fifth review). (See MEFP, ¶31)	As above.
● Design and implement a revised 2012 MTEF/budget calendar to allow for a Cabinet discussion in August/September 2011 to frame 2012 budget priorities (across GSGDA goals) and provision of indicative resource ceilings to ministries, departments, and agencies (MDAs) in July 2011.	End-Dec 2011	**New benchmark** (for sixth review). (See MEFP, ¶31)	As above.
4. Arrears management			
● Assign organizational responsibility for maintaining a comprehensive	End-June 2011	**New benchmark** (for fifth review). (See MEFP, ¶34)	To restore credibility to the budget process and address the liquidity

central database of central government arrears and public liabilities in regard of SOE obligations. The responsible unit will compile monthly reports, tracking outstanding liabilities, new claims, and settlements. Quarterly reports on claims to be presented to Cabinet, with a first report by end-June 2011.			problems of contractors, banks, and SOEs associated with domestic arrears and other unpaid fiscal obligations.
● Develop a strategy for regularizing arrears and other liabilities within the medium-term macro-fiscal framework.	End-Sep 2011	**New benchmark** (for sixth review). (See MEFP, ¶36)	As above
5. Public debt management			
● Develop and publish a debt management strategy for Ghana.	End-Dec. 2010	**Implemented**. (See MEFP, ¶49)	To support the achievement of public debt sustainability.
● Develop and submit to Cabinet for approval procedures for appraisal and selection of public investment projects considered for external nonconcessional loans.	End-Dec 2010.	**Implemented**. (See MEFP, ¶49)	As above.
● Publish a second annual debt management strategy.	End-Dec 2011.	**New benchmark** (for sixth review). (See MEFP, ¶49)	
6. Public sector reform and payroll management			
● Migrate to the automated payroll system (IPPD2/3) all remaining non-security subvented agencies.	End-July 2010	**Delayed**. To be completed by end-June 2011. (See MEFP, ¶39.)	To strengthen oversight and control of the high and growing public payroll.

● Submit for cabinet approval list of subvented agencies to be commercialized or liquidated.	End-Dec 2010.	**Implemented.** A roll of subvented agencies to be liquidated or commercialized was completed and submitted to Cabinet for decision in March 2011 (See MEFP, ¶39).	As above.
● Complete pay comparability survey for public and private sectors for a sizeable number of public sector career streams.	End-June 2011.	For fifth review.	As above.
7. Energy sector management			
● Implement additional required increase in electricity tariffs to bring the average tariff to cost recovery levels.	3rd ECF review.	**Implemented**. The World Bank has established in mid-2010 that electricity tariffs were raised to cost recovery level. (See MEFP, ¶42)	To avoid energy sector SOE losses, that have historically posed serious burdens on the budget.
● Develop strategy for restoring financial and commercial viability to Tema Oil Refinery (TOR).	End-Dec 2010.	**Implemented**. TOR has developed its own strategy, which will be provided to the World Bank for review. (see MEFP, ¶46)	As above.
● Submit to parliament legislation establishing rules for oil and gas revenue management, establishing clear rules for the transparent reporting of revenues and spending in the budget, rules governing possible revenue retention by GNPC, and audit requirements.	End-Dec 2010	**Implemented**. (see MEFP, ¶47)	Ensure transparent and prudent management of Ghana's oil incomes.
● Management of petroleum product prices to avoid fiscal subsidies.	End-September 2011	**New benchmark** (for fifth review). (See MEFP, ¶45)	To avoid energy sector SOE losses, that have historically posed serious burdens on the budget.

8. Monetary and financial policy			
● Develop strategy to fully strengthen Ghana Commercial Bank balance sheet.	End-July 2010	**Partially implemented**. GCB's liquidity position has been improved with the repayment of TOR debts. An outstanding debt to BoG, on-lent to TOR, still needs to be repaid (See MEFP, ¶56).	To contribute to continued financial sector stability.
● Conduct an independent audit of remaining problem banks.	End-Nov 2011	**New benchmark** (for fifth review). (See MEFP, ¶56)	As above.
● Develop a strategy for addressing problem banks.	End-Dec 2011	**New benchmark** (for sixth review). (See MEFP, ¶56)	As above.
● Submit for parliamentary approval amendments to the Banking Laws to close regulatory gaps, including with respect to bank resolution options;	End-Mar 2012	**New benchmark** (for sixth review). (See MEFP, ¶56)	As above.

Appendix Table 4. Ghana: Proposed Schedule of Disbursements under the ECF Arrangement, 2009–12 [1]

Amount	Date available	Condition necessary for disbursement
SDR 67.65 million	July 15, 2009	Disbursed on approval of ECF arrangement
SDR 16.00 million	Dec 15, 2009	Observance of the performance criteria for September 30, 2009, and completion of the first review under the arrangement.
SDR 65.50 million	March 15, 2010	Observance of the performance criteria for December 31, 2009, and completion of the second review under the arrangement.
SDR 29.79 million [2]	September 15, 2010	Observance of the performance criteria for June 30, 2010, and completion of the third review under the arrangement.
SDR 29.79 million [2]	March 15, 2011	Observance of the performance criteria for December 31, 2010, and completion of the fourth review under the arrangement.
SDR 59.58 million [3]	September 15, 2011	Observance of the performance criteria for June 30, 2011, and completion of the fifth review under the arrangement.
SDR 59.58 million [3]	March 15, 2012	Observance of the performance criteria for December 31, 2011, and completion of the sixth review under the arrangement.
SDR 59.56 million [3]	June 15, 2012	Observance of the performance criteria for March 31, 2012, and completion of the seventh review under the arrangement.
SDR 387.45 million	Total for the ECF arrangement	

[1] In addition to the generally applicable conditions under the Extended Credit Facility arrangement.
[2] About \$93.3 million for the combined third and fourth ECF reviews, at a projected exchange rate of SDR1 = \$1.566.
[3] About \$93.3 million each loan disbursement, at a projected exchange rate of SDR1 = \$1.566.

APPENDIX II—ATTACHMENT II

TECHNICAL MEMORANDUM OF UNDERSTANDING

Arrangement Under the Extended Credit Facility 2011–12

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) [date]. It also describes the methods to be used to assess the program performance and the information requirements to ensure adequate monitoring of the targets. The authorities will consult with the Fund before modifying measures contained in this letter, or adopting new measures that would deviate from the goals of the program, and provide the Fund with the necessary information for program monitoring.

2. **Program exchange rate:** The exchange rates for the purpose of the program of the Ghanaian cedi (GH¢) to the U.S. dollar will be GH¢1.5 per US$1, which is calculated as the average of buying and selling exchange rates reported by banks to the Bank of Ghana. The exchange rates to other currencies will be calculated as the average of buying and selling exchange rates against the U.S. dollar.

I. Quantitative Program Indicators

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

4. The **performance criteria** under the arrangement are:

- a ceiling on the overall fiscal deficit of the government, measured in terms of financing;
- a floor on the net international reserves of the Bank of Ghana;
- a ceiling on the net change in the stock of domestic arrears;
- a continuous zero ceiling for the accumulation of new external arrears; and
- a ceiling on the contracting or guaranteeing of new external nonconcessional debt

5. **Indicative targets** are established as:

- a ceiling on the net domestic financing of the government;
- a floor on non-oil tax revenue collection
- a ceiling on the net domestic assets of the Bank of Ghana; and
- a floor on poverty-reducing government expenditures.

6. A **target** is set for the twelve-month rate of consumer price inflation, with triggers on discussions or consultations with the Fund if inflation moves outside specified inner and outer bands.

A. Government

7. **Definition:** The government is defined as comprising the central government, all special funds (including the Education Trust Fund, the Road Fund, the District Assembly Common Fund, and the National Health Insurance Fund), and all subvented and other government agencies that are classified as government in the Bank of Ghana (BoG) Statement of Accounts (SOA). The Social Security and National Insurance Trust (SSNIT) and public enterprises, including Cocobod, are excluded from the definition of government

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

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

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

11. **The fiscal deficit** is measured as total financing extended to the government (as defined in paragraph 7 above), comprising the sum of net foreign borrowing (as defined in paragraph 15 below), net domestic financing (defined in paragraph 14 below), exceptional financing (including HIPC and MDRI relief against loan repayments falling due), and receipts from net divestitures.

12. **Domestic payments arrears** will be measured as the sum of three components. The first component, arrears to the *government's statutory funds*, represents any delay of more than one month in revenue transfers to these statutory fund, relative to the normal payment schedule (typically monthly or quarterly, and defined as a specific percentage of the previous month or quarter's revenue collections).[2] The second component, arrears to *contractors*, is defined as payments in local and foreign currencies that are due and not settled within 30 days after the end of the fiscal year. The third component, wages and pensions arrears, is defined as payments outstanding after the agreed date for payment to staff or the social security fund. In the case of pay awards, arrears are calculated as the amount outstanding at

[2] Transfers to the statutory funds are scheduled as follows: (i) District Assemblies Common Fund—quarterly, with a one-quarter lag; (ii) Social Security Fund, National Health Fund, Ghana Education Trust Fund, Road Fund, Petroleum-related Fund,—monthly, with a one-month lag.

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

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

14. **Net domestic financing of government** is defined as the change in net credit to government by the banking system (i.e., the Bank of Ghana plus deposit money banks) plus the net change in holdings of treasury bills and other government securities by the nonbank sector, excluding divestiture receipts. Such credit will also exclude treasury bills issued for open market operation purposes from January 1, 2003 onward (the holdings of which are excluded from the BoG Treasury Department's Debt Registry of central government securities, and the proceeds of which are sterilized in deposits held as other BoG liabilities, as defined in the monetary template provided to the IMF on December 3, 2003).

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

16. **Outstanding net credit to the government by the Bank of Ghana** comprises the sum of claims on government (SOA codes 0401 and 050101-4), including overdrafts of the government with the BoG, less government deposits (1101 including the main HIPC Initiative receiving account, and 1202) as defined in the monetary template.

17. **Outstanding net credit by deposit money banks** comprises deposit money bank (DMB) holdings of government securities at cost of purchase value, as reported by the BoG Treasury Department's Debt Registry, plus overdrafts less government deposits as reported by DMBs in the revised BSD2 report forms (and defined in the Monetary Template), plus deferred accrued interest on their holdings of inflation-indexed bonds.

18. **Nonbank financing** is the difference between total net cash receipts to the treasury main cash account (issues/redemptions account when it becomes operational) from the

sale/repurchase of government securities, less the corresponding net cash value received from the BoG and DMBs as indicated on the Debt Registry by holder at discount value, plus deferred accrued interest on their holdings of inflation-indexed bonds. For each test date, any adjustment by the BoG to the data reported by individual DMBs, on account of their misclassification of government or for other reasons, will be reported to the Fund.

B. Consultation Mechanism on Inflation

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

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

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

C. Bank of Ghana

22. **Net foreign assets** are defined in the monetary survey as short- and long-term foreign assets minus liabilities of the BoG that are contracted with nonresidents. Short-term foreign assets include: monetary gold (valued at the spot market rate for gold, US$/fine ounce, London), holdings of SDRs, reserve position and HIPC Initiative trust investment in the IMF, the HIPC Initiative Umbrella SDR account (all as reported by the IMF), foreign notes and travelers checks, foreign securities, positive balances with correspondent banks, and other positive short-term or time deposits. Short-term foreign liabilities include foreign currency liabilities contracted by the BoG at original maturities of one year or less (including overdrafts), outstanding liabilities to the IMF, and deposits of international institutions at the

BoG. Long-term foreign assets and liabilities are comprised of: other foreign assets (BoG statement of accounts code 303), investments abroad (a subset of 60201), other long-term liabilities to nonresidents (a subset of 1103), and bilateral payment agreements (305). All values not in U.S. dollars are to be converted to U.S. dollars at the program exchange rate defined in paragraph 2. A more detailed listing of accounts to be included in the measure of net foreign assets is contained in the monetary template referred to in paragraph 14 above.

23. **Net international reserves** of the BoG are defined for program monitoring purposes and in the balance of payments as short-term foreign assets of the BoG, minus short-term external liabilities. To the extent that short-term foreign assets are not fully convertible external assets readily available to and controlled by the BoG (that is, they are pledged or otherwise encumbered external assets, including, but not limited to, the HIPC umbrella SDR account), they will be excluded from the definition of net international reserves. Net international reserves are also defined to include net swap transactions (receivable less payable) and exclude all positive foreign currency deposits at the BoG held by resident deposit money banks, public institutions, nonfinancial public enterprises, other financial institutions, and the private sector. All values not in U.S. dollars are to be converted to U.S. dollars at the program exchange rate defined in paragraph 2. A more detailed listing of accounts to be included in the measure of net international reserves is contained in the monetary template referred to in the paragraph 14 above.

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

D. External Debt and Debt Service

25. **For the purposes of this technical memorandum of understanding, the definition of debt is set out in point 9 of the Guidelines on Performance Criteria with Respect to External Debt** (see below). It not only refers to debt, but also to commitments contracted or guaranteed for which value has not been received. The definition of debt is as follows:

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

(including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

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

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

(b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

26. **For the purposes of the ceiling on the contracting or guaranteeing of new non-concessional external debt,** external debt is any debt as defined in paragraph 27, which is denominated in foreign currency, i.e., currency other than Ghanaian cedis (GH¢). Similarly, external borrowing is borrowing denominated in foreign currency.[3]

27. **Nonconcessional medium- and long-term external debt** is defined as external debt contracted or guaranteed by the government (defined in paragraph 7), the BoG, and specific public enterprises (defined in paragraph 31) on nonconcessional terms (see paragraph 34) and denominated in foreign currencies, with an original maturity of more than one year, provided that debt maturing within one year which has been extended beyond one year from its original date, pursuant to the contract which allows for maturity extension, would be considered medium to long term. Medium- and long-term external debt and its concessionality will be reported by the Aid and Debt Management Unit of the Ministry of Finance and Economic Planning, and will be measured in U.S. dollars at current exchange rates.

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

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

29. A ceiling applies to the contracting and guaranteeing of new medium-to-long term nonconcessional external debt by the government and the BoG, and the following public enterprises: (i) Tema Oil Refinery; (ii) Ghana National Petroleum Corporation; (iii) Bulk Oil Storage and Transport Corporation; (iv) Volta River Authority; and (v) Electricity Company of Ghana. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received.

30. The ceiling on the contracting or guaranteeing of new nonconcessional external debt (US$800 million) comprises the following two subceilings: (i) A subceiling for the maximum amount of nonconcessional external debt in the oil and gas sector that can be contracted or guaranteed for oil and gas exploration and production projects in Ghana and to acquire equity stakes in companies undertaking oil and gas exploration and production in Ghana

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[3] (A) The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (see paragraph 25). This includes overdrafts on accounts with correspondent banks. (B) Excluded from this performance criterion are normal import-related credits, pre-export financing credits of public enterprises, cocoa loans collateralized by cocoa contracts, and individual leases with a value of less than US$100,000.

(US$300 million); and (ii) A subceiling for the maximum amount of nonconcessional external debt that can be contracted or guaranteed in any sector other than the oil and gas sector (US$500 million).

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

32. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the net present value (NPV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The NPV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the NPV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD would continue to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more). Loans provided by a private entity will not be considered concessional unless accompanied by a grant or grant element provided by a foreign official entity, such as both components constitute an integrated financing package with a combined grant element equal to at least 35 percent.

F. Adjustors to the Program Targets

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

Overall fiscal deficit of the government

34. The deficit ceilings for 2011–12 will be adjusted for excesses and shortfalls in loans and grants as defined below, relative to the program assumptions in the table below. The fiscal deficit will be adjusted:

(i) Upward (or downward) for the full amount of any **excess (or shortfall) in concessional project loans**. Thus, foreign-financed investment projects, which are not under the short-term control of the government, would be unconstrained, varying in line with project loan financing.[4]

[4] No adjuster is needed for project grants, as shortfalls/excesses in project grants are precisely offset by shortfalls/excesses in foreign-financed capital spending, leaving the fiscal deficit unaffected.

(ii) Downward by 50 percent of any **shortfall in concessional program loans**[5] of GH¢150 million or less, and downward by the full amount of any shortfall beyond this amount. Thus, for shortfalls of up to GH¢150 million in external loans, the government would have the option of balancing cuts in expenditures with resort to additional domestic financing. The possible resort to additional domestic financing from this adjuster is effectively capped at GH¢75 million, limiting potential crowding-out of private sector credit;

(iii) Upward for the full amount of any **excess in concessional program loans**, where these are used to repay outstanding domestic arrears at a more rapid pace than programmed.[6]

(iv) Upward by 50 percent of any **shortfall in program grants** of GH¢150 million or less, with no adjustment for any shortfall beyond this amount. As with adjuster (ii), this gives the option of balancing cuts in spending with additional resort to domestic financing. The latter is capped, again, at GH¢75 million;[7]

(v) Downward by the full amount of any **excess of program grants**, less any use of program grants to repay outstanding domestic arrears at a more rapid pace than programmed; and

Budget Financing Assumptions, 2011–12
(GH¢ millions, cumulative from the start of the calendar year)

	2011 Mar[2/]	2011 Jun	2011 Sep	2011 Dec	2012 Mar	2012 Jun
Program/budget grants	123	199	248	291	84	195
Program/budget loans[1/]	327	360	539	575	14	352
Project loans[1/]	304	684	1038	1422	226	492

[1/] Concessional financing.
[2/] Preliminary estimates.

Net international reserves of the Bank of Ghana

35. For the net international reserve (NIR) floors will be adjusted upward for any excess of budget grants and loans relative to the program baseline (see paragraph 25), except where this financing is used to repay outstanding domestic arrears at a more rapid pace than programmed.

[5] Program grants and loans are also referred to as budget grants and loans.
[6] Adjusters (iv) and (v) ensure that higher than programmed budget support (grants or loans) are used to repay domestic expenditure arrears as a first priority.
[7] The combined scope for additional domestic financing from adjusters (ii) and (iii) is thus GH¢150 million.

Net domestic financing of the government

36. The ceiling on net domestic financing (NDF) will be adjusted upward by 50 percent of any shortfall in concessional program loans and grants relative to the program (see paragraph 37), up to a maximum adjustment of GH¢75 million for shortfalls in each of program loans and grants (and a maximum combined adjustment of GH¢150 million). For higher than programmed loans and grants, the ceiling will be adjusted downward by the full amount, except where these loans or grants are used to repay outstanding domestic arrears at a more rapid pace than programmed. The ceiling will also be adjusted upward by the full amount for a reduction in net arrears paid through bond issuance.

F. Provision of Data to the Fund

37. Data with respect to the variables subject to performance criteria and indicative targets will be provided to Fund staff on a monthly basis with a lag of no more than eight weeks (except for select data for which the reporting lag is explicitly specified in Table 1). The authorities will transmit promptly to Fund staff any data revisions. For any information (and data) that is (are) relevant for assessing performance against program objectives but is (are) not specifically defined in this memorandum, the authorities will consult with Fund staff.

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

Item	Periodicity
Fiscal data (to be provided by the MOFEP)	
Central budget operations for revenues, expenditures and financing, including clearance of arrears.	Monthly, within six weeks of the end of each month.
Divestiture receipts received by the budget (in cedis and foreign exchange, net of divestiture transactions costs).	Monthly, within six weeks of the end of each month.
The stock of domestic payments arrears by sub-category (as defined in para. 9 of the MEFP)	Quarterly, within six weeks of the end of each quarter
Monetary data (to be provided by the BOG)	
Net domestic assets and net international reserves of the BOG.	Monthly, within two weeks of the end of each month.
Detailed balance sheet of the monetary authorities.	Monthly, within four weeks of the end of each month.
Monetary survey detailing the consolidated balance sheet of commercial banks using the new BSD2 Report Form.	Monthly, within six weeks of the end of each month.
Summary position of government committed and uncommitted accounts at BOG, as well as total financing from BOG. Accompanying table showing composition of other receipts and other expenditure.	Monthly, within four weeks of the end of each month.
Composition of banking system and nonbanking system net claims on government.	Monthly, within four weeks of the end of each month.
Debt registry showing structure and holders of domestic government debt, at face value and at discount. Similar table showing holders of treasury bills for open market operations.	Monthly, within four weeks of the end of each month.
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.

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

External debt and foreign assistance data (to be provided by MOFEP)	
Information on the concessionality of all new external loans contracted by the government or with a government guarantee.	Quarterly, within four weeks of the end of each quarter.
For the coming quarter: (i) total debt service due by creditor, (ii) amount of HIPC Initiative relief on each transaction, and (iii) debt service paid and the transfers to the HIPC Initiative account by creditor for the previous month. Report should cover government and government-guaranteed debt (as defined in this document).	Quarterly within four weeks of the end of each quarter.
External debt and external debt service incurred by enterprises with government ownership above 50 percent, even if loans have not been explicitly guaranteed by the government.	Quarterly, within three weeks of the end of each quarter.
Short-term liabilities to nonresidents (maturity in one year or less), including overdraft positions and debt owed or guaranteed by the government or the BoG. Data on the BoG short-term liabilities to nonresident commercial banks on accounts 1201 plus 301 plus Crown Agent).	Quarterly, within three weeks of the end of each quarter.
Disbursements of grants and loans by creditor	Quarterly, within four weeks of the end of each quarter.
Other data (to be provided by GSS)	
Overall consumer price index.	Monthly, within two weeks of the end of each month.
National accounts by sector of production, in nominal and real terms.	Annual, within three months of the end of each year (switching to quarterly when they become available).
Electricity pricing (to be provided by the Ministry of Energy) Data on the tariff structure and the cost of producing electricity.	Quarterly, within four weeks of the end of each quarter.
Petroleum pricing (to be provided by the Ministry of Energy)	
(i) a breakdown of costs, including the ex-refinery price, duties, levies, and margins, for each of the individual petroleum products; and	Bi-weekly, within two days of the completion of the pricing review.
(ii) the indicative maximum price approved in the bi-weekly review of petroleum pricing for each of the individual petroleum products.	See above.
(iii) commitments to subsidize oil marketing companies in respect of losses incurred due to administrative prices that fall below cost-recovery levels.	Monthly, within four weeks of the end of each month.
(iv) the cumulative unused balance from the petroleum price hedging operations available to subsidize petroleum products.	See above.