International Monetary Fund

Ghana and the IMF

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December 14, 2011

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

November 28, 2011

LETTER OF INTENT

November 28, 2011

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Madame Lagarde:

The Ghanaian economy has achieved important macroeconomic stability gains since 2009. The then sizeable fiscal and external current account deficits have been greatly reduced, inflation has fallen to single digits and the exchange rate has been stabilized. With the start of oil production, and robust performance in the nonoil sector, real GDP is projected to grow by 13½ percent in 2011 and by 8.5 percent in 2012. Moreover, a rebasing of the national accounts in 2010 has raised Ghana's national income measures by some 65 percent, moving it to lower middle-income status.

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 and indicative targets for end-June 2011 were met, with early indications that end-September indicative targets were met as well; only the indicative target for arrears clearance was missed by a very small margin. Based on the strong performance during the first three quarters of the year, the 2011 fiscal deficit could well be below the target of 5.7 percent of (non-oil) GDP. The wage bill, however, is projected to be higher than programmed and is likely to continue to rise in 2012. This mostly reflects the larger-than-expected and unavoidable cost of migration to a new salary structure and retroactive payments to compensate civil servants for delayed migration. Given the projected shortfall in foreign financing, the government is committed to meet these additional obligations while keeping domestic financing in check to contain inflationary pressures.

Structural reforms have also been progressing, though with some delays. Tax administration was strengthened, resulting in more buoyant revenue mobilization. The government has tackled domestic arrears successfully by implementing a completed arrears management strategy. Public financial management reforms to improve expenditure controls continue more slowly. Some steps to improve financial stability through the supervision of problem banks are on track for delayed completion in 2012. The government is committed to implementing these reforms as soon as possible.

Going forward, the government's macroeconomic policies will focus on preserving macroeconomic stability and making fiscal space for high-priority investments. To achieve these objectives, the government will keep fiscal deficits at levels that can be prudently financed, while accelerating efforts to fill Ghana's large infrastructure gaps, consistent with the Ghana Shared Growth and Development Agenda (GSGDA). Ghana has become a middle-income country and faces the prospect of declining access to concessional financing. This has prompted the government to negotiate a $3 billion (8 percent of GDP) Master Facility Agreement (MFA) on non-concessional, but competitive, terms with the China Development Bank (CDB) to finance critical infrastructure investments, including a gas pipeline. The gas pipeline project is urgent to avoid the significant risks of damage to existing oils wells and the environment from gas flaring or reinjection.

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 modification of the limit on contracting of non-concessional debt consistent with the government's intention to sign the MFA before the end of 2011. The government also requests approval of proposed new structural benchmarks for the period through June 2012 and modifications to December 2011 and March 2012 performance criteria.

In support of its policies, the government requests that the IMF Executive Board complete the fifth review of Ghana's ECF arrangement and approve disbursements as set forth in the attached schedule to the MEFP. 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 the publication of the staff report for the fifth review under the ECF arrangement, this letter of intent, and the attached memorandum of economic and financial policies and technical memorandum of understanding.

<table>
<tr><td>/s/
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Minister of Finance and
Economic Planning</td><td>/s/
Mr. K. B. Amissah-Arthur
Governor
Bank of Ghana</td></tr>
</table>

APPENDIX I—ATTACHMENT I

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

1. This document summarizes the government's assessment of Ghana's current economic situation and performance of the economy through September 2011, discusses the projections and policy stance for the remainder of the year and sets out policy objectives for 2012 and the medium term. These objectives are informed by and consistent with the Ghana Shared Growth and Development Agenda.

I. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

2. **Ghana has achieved important gains to macroeconomic stability since the adoption of its ECF-supported program in mid-2009**. The then sizeable fiscal and external current account deficits have been greatly reduced, inflation has fallen to single digits from a peak of more than 20 percent in June 2009, the stock of international reserves has risen to close to $5 billion from only $2 billion in 2008, and the exchange rate has stabilized. With the start of oil production, and robust performance in the non-oil sector, real GDP is projected to grow by 13½ percent in 2011. Moreover, a rebasing of the national accounts in 2010 has raised Ghana's national income measures by some 65 percent, moving it to lower middle-income status.

3. **A combination of fiscal consolidation and disinflation has reinforced the favorable macroeconomic setting in 2011.** Through a mixture of new revenue and expenditure measures, the government is on track to reduce the fiscal deficit (after arrears clearance) by about 2½ percentage points of (non-oil) GDP. At the same time, the Bank of Ghana has reduced its policy rate twice this year—last to 12½ percent in July—as inflation has stabilized at 8½ percent. Despite impressive export growth from oil, cocoa, and gold, the external current account deficit for 2011 is projected to remain broadly unchanged at 8¼ percent of GDP, reflecting a strong rebound in imports, implying official reserves of $5.4 billion, covering above 3 months of projected 2012 imports. The banking sector remains adequately capitalized and liquid, and nonperforming loans, while still high at 16 percent, are declining.

4. **The outlook for 2012 is positive.** External demand for Ghana's exports is expected to remain strong, with oil production volumes projected to rise further, while sizeable infrastructure investments and strong private demand will support broad-based economic activity. The overall economy is projected to grow by more than 8 percent, with the inflation rate remaining broadly stable at around 8½–9 percent. The main risks to this generally favorable outlook arise from possible adverse developments in world commodity prices and foreign investment flows as a result of a prolonged global slowdown.

II. Program Performance

5. **Program performance since the completion of the third and fourth review has been strong.** All quantitative performance criteria and indicative targets for end-June 2011 were met, and preliminary data suggest a similarly favorable outcome for the end-September indicative targets; only the target for arrears clearance was missed by a very small margin. Structural reforms have also been progressing, though with some delays and deviations from the previously agreed benchmarks.

6. **Based on the strong performance during the first three quarters of the year, the 2011 fiscal deficit target of 5.7 percent of (non-oil) GDP is well within reach**. A shortfall in official grants and oil revenues—due to lower production volumes and the impact of carry-forward losses on corporate tax payments—is likely to be offset by overperformance in domestically-generated revenue, reflecting the fruits of recent reforms. The wage bill, however, is projected to be almost 1 percentage points of GDP higher than programmed, reflecting (i) the larger-than-expected cost of migration to the single spine salary structure including the higher-than-expected base pay increase agreed in 2011; and (ii) a retroactive payment to compensate civil servants for delayed migration (beyond the effective date of January 1, 2010). The government is committed to meet these additional obligations without exceeding the agreed deficit target, as a share of GDP.

III. Economic Objectives and Policies for 2012 and the Medium Term

7. **The government's macroeconomic policy agenda will focus on three complementary objectives**:

- Preserving the gains of macroeconomic stabilization and fiscal consolidation achieved since 2009.
- Making fiscal space for high-priority investments to spur long-run growth and development.
- Maintaining inflation in single digits.

To achieve these objectives, the government will keep fiscal deficits at levels that can be prudently financed, while accelerating efforts to fill Ghana's large infrastructure gaps, consistent with the Ghana Shared Growth and Development Agenda (GSGDA). This will help set Ghana's economy on a higher trajectory of development and poverty reduction across the country. In light of Ghana's lower middle-income status and prospects of declining access to concessional financing, the government has negotiated, and intends to sign by end-2011, a US$3 billion (8 percent of GDP) Master Facility Agreement (MFA) on nonconcessional terms with the China Development Bank. The funds will be used to finance critical infrastructure investments, including a gas pipeline that is urgently needed to avoid the significant risks to existing oil wells from reinjection.

A. Fiscal Policy

8. **In the 2012 budget, the key priority will be to continue prudent fiscal policies, while scaling up investment.** The government plans to achieve these objectives by: (i) continuing to mobilize tax revenues through tax administration and policy measures; (ii) managing the wage bill implications of the single spine migration; and (iii) controlling other recurrent expenditures. The overall deficit will be higher than envisaged at the conclusion of the previous review, but this will reflect higher foreign-financed capital expenditures, as well as the accommodation of larger-than-envisaged costs of the single spine migration. Prudent wage management and various measures on the revenue and expenditure side will ensure that the fiscal stance in 2012 and beyond remains consistent with medium- and long-term debt sustainability.

Strengthening Revenue Mobilization

9. **Tax collections have improved since the launch of the ECF program, but remain low relative to the size of the economy**. Non-oil tax revenues as a share of non-oil GDP amounted to only 12 percent in 2009, but could reach 17½ percent in 2012. This strengthening in revenue performance stems from a combination of ongoing improvements in tax administration and new tax measures.

Maintaining the Reform Momentum

10. **Appointments of senior officials at the Ghana Revenue Authority (GRA).** The Commissioner and Deputy Commissioners are in post.

11. **Segmentation of the taxpayer base.** The large taxpayers office (LTO) is now fully functional. Companies have been reassigned to the LTO based on turnover and industry-specific criteria (e.g. mining and financial services companies will be registered with the LTO regardless of turnover) to ensure that the LTO covers businesses accounting for at least 70 percent of total tax revenues. Criteria have also been established for identifying medium and small taxpayers, and the registration process will be launched by early 2012.

12. **Integration of VAT and direct taxation under single office heads.** Twelve pilot offices in the Greater Accra area tasked with piloting the integration are scheduled to begin taxpayer registration by end 2011 (structural benchmark). Required staff have been identified and fully trained, and the government expects that the pilot system will be fully operational by March 2012.

13. **VAT turnover threshold.** The threshold for VAT reporting will be increased in the 2012 budget from GH¢ 90,000 to GH¢120,000, consistent with IMF technical assistance advice. Smaller taxpayers, who are excluded from the main VAT regime, are currently covered by a temporary regime which requires payment of a 3 percent VAT, in addition to a

2 percent income tax rate. This arrangement will be replaced by a new regime in the 2012 budget based on a 5 percent tax on turnover.

14. **Streamlining of tax exemptions.** All domestic VAT zero-rating has been eliminated and replaced by exemptions. The government has completed a review of procedures for granting tax exemptions, in order to reduce the resulting foregone revenues. Exemptions granted through the Ghana Investment Promotion Center have been eliminated, unless approved by Parliament. Power to grant exemptions is also being closely monitored and the government may further limit exemptions through administrative action.

15. **Strengthening of customs administration**. Collections from taxes on imported goods have outperformed budget targets, with combined import VAT and duties rising from 4.4 percent of non-oil GDP in 2010 to an estimated 5.6 percent in 2011. New legislation will be proposed to modernize customs administration. Already, the valuation system for goods at the border has been upgraded, and further reductions in the number of bonded warehouses are envisaged as a means to reduce tax avoidance.

16. **Revised VAT legislation.** The government is seeking accelerated approval of a VAT bill submitted to Parliament in May 2011. The bill includes the extension of VAT to fee-based financial services and is expected to be passed in time to be fully implemented in 2012. This measure is expected to generate an annual revenue yield of GH¢107 million (0.2 percent of non-oil GDP).

Moving forward with new policy measures

17. **In the 2012 budget, the government will propose a number of new measures to further strengthen revenue performance:**

18. **Natural resource taxation**. Consistent with IMF technical assistance recommendations, the government plans to make extensive changes to the taxation of activities in the natural resource sector, in particular mining.

- Following established practice in the industry—and in the oil and gas sector—the corporate tax rate for mining will be increased from 25 to 35 percent, with a revenue yield estimated at GH¢ 313.6 million (0.6 percent of non-oil GDP).

- The government will also introduce a tax of 10 percent on windfall profits. The threshold for defining windfall profits still needs to be determined.

- The government will establish a uniform regime for capital allowances including the annual allowance of 20 percent for five years for mining, as is the case in the oil and gas sector.

- New rules will be established to ensure ring fencing of projects in mining—preventing losses from being transferred among projects. The absence of such rules has allowed companies undertaking a series of projects to deduct costs from new projects against profitable ventures yielding taxable income.

- The government will adopt OECD guidelines for transfer pricing. Companies will be required to disclose related-party transactions and an appropriate penalty for nondisclosure will be applied.

19. **Capital gains tax.** The government will review the existing law on mergers and acquisition with a view of enhancing its ability to collect capital gains taxes from the transfer of interest between non-resident business entities. Amendments to the existing legislation will be submitted to parliament for its approval before end-2012.

20. **Personal income tax.** The PAYE tax-free thresholds will be increased and an expansion of income bands will be proposed in the 2012 budget. Inflation can have a substantial effect on the rate structure of a progressive personal income tax, with more taxpayers facing higher marginal rates. The government however, is committed to making these changes revenue neutral. In addition, there will be projected revenue gains of about GH¢ 115 million (0.2 percent of GDP) from income tax payments on deferred wage payments from the single spine migration (see ¶ 26).

21. **Other tax measures.** The government will also implement a tax stamp on the self employed and increase the vehicle inspection tax. On the other hand, a number of measures are planned to reduce the tax burden on key private sector taxpayers. The tax holiday for the Ghana Stock Exchange will be extended by an additional five years, to encourage saving, financial sector development, and the use of equity financing. The government will honor its commitment to eliminate the national fiscal stability levy. These measures together are expected to be broadly revenue neutral.

22. **The combined revenue yield from all new tax policy measures is expected to be at least 0.8 percent of GDP.** This, however, is a conservative estimate because the potential gains from the windfall profit tax, uniform tax regime on capital allowances, new rules on transfer pricing, and changes in capital gains taxes have not yet been quantified.

Expenditures: Balancing Development Needs with Expenditure Control

Creating fiscal space for scaling up investment

23. **Meeting GSGDA priorities.** The MFA with the China Development Bank will cover a number of important projects consistent with GSGDA priorities. Projects in the oil and gas sector will begin urgently, as the government wants to avoid further damage to the oil reservoir at the Jubilee field. The government will ensure that each project is supported by robust feasibility and financial viability studies as required under the MFA. The feasibility

studies will be contracted by the relevant ministries and agencies and subjected to a reliable third-party assessment, with the MoFEP overseeing the process. Government will further ensure that the phasing of disbursements for these and other projects is consistent with the agreed program targets and medium-term fiscal plans to preserve debt sustainability. Total disbursements on public and publicly guaranteed nonconcessional loans will not exceed $1,243 million in 2012, of which $750 million (corresponding to MFA funding) will directly finance the central government budget.

24. **Strengthening investment planning and debt management.** The government realizes that further scaling up will need to be supported by an integrated investment and financing strategy. To this end:

- A Public Investment Division (PID) has been established in the Ministry of Finance and Economic Planning (MoFEP). The division's role is to: (i) establish and maintain a rolling medium-term public investment plan, consistent with GSGDA priorities; (ii) evaluate, assess, and monitor major investment projects; and (iii) advise on the selection of Public-Private Partnership (PPP) projects. For this purpose, a new PPP policy framework has been developed with support from the World Bank and the UK Department for International Development.

- Debt management capacity and policies are being strengthened. A review of the debt management division was conducted with the objective of identifying skills needs and ensuring effective coordination of the various units. The reorganization of the debt management division is nearing completion. A draft second annual debt management strategy has been formulated and should be ready for publication at end-2011, as foreseen under the program.

- Policy guidelines will be established, by end-April 2012, to strengthen the coordination between PID, the Debt Management Division, and the Economic Research and Forecasting Division at the Ministry of Finance and Economic Planning (structural benchmark). The guidelines will cover coordination among these entities with respect to: (i) debt sustainability and risk analyses, including assessing risks associated with explicit contingent liabilities, such as guarantees on debt contracted by sub-national governments or state-owned entities, or from PPPs; and (ii) establishing multi-year investment programs and borrowing plans that are consistent with the medium term expenditure framework and the public debt management strategy. The government will request technical assistance from the Fund or other development partners to support these efforts.

- The guidelines will also spell out the role and rules governing the recently established joint Public Debt Management Committee (PDMC) in advising the Minister of Finance and Economic Planning on public borrowing decisions. A key role of the PDMC will be to ensure that: (i) all public investment projects are supported by robust cost-benefit analyses; and (ii) financing arrangements are consistent with the government's debt management strategy and subjected to a thorough legal assessment by the Ministry's legal office.

Managing the wage bill

25. **Migration to the single spine salary structure.** The migration, which began in 2010 to strengthen pay equity and easier salary negotiations, will be completed by end-2011. As of mid-November 2011, 97.4 percent of public servants have been migrated onto the single spine. The cost of the migration proved difficult to estimate, as the mapping of employees from the old to the new pay structure was partially determined by an evaluation of job requirements, but exact placement in the new structure was the result of consultations. Delays in concluding these negotiations, as well as logistical and organizational challenges, resulted in the accumulation of sizeable deferred wage payments. While the exact amount of retroactive payments will only be known once the migration is complete, the current estimate is about GH¢ 1.25 billion (including some deferred payments related to the 2011 base pay increase).

26. **The government is planning to phase payment of retroactive single spine awards over a period of 10 months.** A total payment of about GH¢ 260 million (0.5 percent of non-oil GDP) will be made in the last quarter of 2011, and the remaining GH¢ 990 million (1.5 percent of nonoil GDP) will be spread over the first 7 months of 2012. A first increase in pay relativity since the inception of the single spine salary structure will also be implemented in 2012. The cost of the relativity adjustment (estimated at 9.3 percent of the wage bill) and base pay increases will be covered by savings from a payroll audit that will be completed by May 2012 (new structural benchmark), such that the overall wage bill will not exceed GH¢ 5,050 million (7.8 percent of nonoil GDP).

27. **Inclusion of non-security subvented agencies in the Integrated Personnel and Payroll Database (IPPD).** The government has completed the migration of 103 out of the 132 subvented agencies, covering approximately 21,598 employees. The measure, which in part aims at establishing the overall number of employees of subvented agencies, was delayed by the simultaneous migration to the single spine in the context of limited resources. Once the single spine migration is completed, the government will accelerate IPPD migration and expects completion by June 2012. A review of a partial list of subvented agencies was conducted by independent consultants to determine whether they should remain on government subvention, liquidated or commercialized. The report recommended that 12 out of the 132 subvented agencies should be closed, 71 should remain on government subvention while 16 could be partially or fully commercialized. Recommendations for action were submitted to Cabinet in March 2011, and the government plans to start implementation by June 2012.

Strengthening Public Financial Management

28. **Arrears clearance and management.** Following the renewed rise in domestic payment arrears in 2010, the government has made substantial progress in arrears clearance. After exceeding its target by a large margin in the first half of the year, the September indicative target was missed by a small margin, and the government remains on track to clear all arrears by early 2013. An arrears clearance strategy, involving the combination of cash payments and the issue of special purpose bonds and promissory notes, has been developed (structural benchmark), and a comprehensive database tracking the stocks and flows is being maintained by the Budget Department of the MoFEP, with monthly status reports presented to Cabinet. To prevent the emergence of new arrears, a presidential circular has mandated all line ministries to secure commencement certificates before committing the government to any contractual obligation.

29. **Ghana Integrated Financial Management Information System (GIFMIS)**. GIFMIS implementation is at the heart of the government's PFM agenda, but its pace has stayed behind earlier expectations, related to the complexity of the undertaking and challenges in procurement and system compatibility. Recent progress has been made with the set up of a general ledger and the rollout of a new unified chart of accounts, compliant with GFSM 2001. By the end of October 2011, the general ledger will be rolled out in 14 pilot ministries, departments, and agencies (MDAs) (structural benchmark). All MDAs now enjoy full network connectivity, which will facilitate the roll out of GIFMIS.

30. **Improvement of budget processes**. The government has adopted monthly expenditure ceilings to facilitate cash management at the MoFEP. After further consideration, it now favors postponing the implementation of quarterly expenditure ceilings for MDAs until spending discipline has been firmly established. The government has also communicated indicative spending ceilings ahead of the 2012 budget preparation process, based on the new unified chart of accounts to support the establishment of realistic spending plans (structural benchmark).

31. **Cash management.** Large float transactions (discrepancies) of about 825 million (1.5 percent of non-oil GDP) arose in June, pointing to ongoing challenges in cash management. While a treasury main account exists, the government's cash balances are distributed over a large number of accounts (over 4000) at the Bank of Ghana and commercial banks. This has led to situations, as in June, where the treasury main account had insufficient funds to affect payment, creating a discrepancy between the deficit and total financing. To prevent such problems in the future, the government will accelerate the transition to a Treasury Single Account (TSA) which will ensure that all Government funds represented by account balances are consolidated to finance payments. This will minimize situations where some accounts have idle balances whilst others have insufficient balances to finance payments. The following summarizes the operational framework:

- The TSA will be part of the Real Time Gross Settlement (RTGS) and will be credited directly with revenue received from commercial banks on behalf of the Ghana Revenue Authority (GRA) and others.

- Payments would be made through the Ghana Integrated Financial Management Information System (GIFMIS) directly to beneficiaries through their bankers in the RTGS.

- In the event of an insufficient balance on the TSA to fund payments, BoG will provide funding under pre-arranged terms.

- All transactions will bear their respective expenditure and revenue codes to aid reporting.

- The RTGS will also send electronic statements and confirmation of revenue/expenditure to the GIFMIS to facilitate automated reconciliation.

32. **Tight fiscal monitoring and budget execution will ensure that the 2012 fiscal targets are achieved**. The better fiscal outcomes in 2011 are partly due to improvements in monitoring fiscal developments, particularly with respect to goods and services and discretionary domestic investment spending, and the implementation of tighter commitment controls. The government will pursue these vigorously also in 2012. At the same time, the government realizes that there are risks to the fiscal outturn, for example, from higher wage payments in the event that the savings from the payroll audit are smaller than anticipated. These risks should be offset by conservative revenue estimates, which do not include gains from a number of measures that have yet to be quantified. Nevertheless, to guard against budget overruns, the government will hold back on spending commitments on goods and services and domestically-financed capital spending, until uncertainties about the outcome of the payroll audit and implementation of new tax measures are resolved.

B. Energy Sector Reforms

33. **Cost-recovery pricing of energy products remains a priority.** The government's strategy is to closely monitor energy prices, make adjustments when needed, and smooth price changes to the consumer.

- *Electricity sector*. Since June 2010, the electricity tariff structure has been reviewed on a quarterly basis. Tariffs were adjusted by 7 percent in September 2011 to cost-recovery levels.

- *Refined petroleum products*. A Petroleum Price Risk Management hedging program was adopted by Cabinet in October 2010 to stabilize domestic pump prices and mitigate the impact of higher world prices on consumers. The government purchases monthly call options that generate revenues when oil prices rise. The proceeds are used to cover the cost of subsidizing pump prices, which are reviewed on a bi-monthly basis to decide on any needed adjustment. The last price adjustment—a 30 percent increase—occurred in January 2011. While sizeable hedging gains in the first half of the year allowed the subsidies to be covered through July, subsequent subsidies left a gap of about GH¢ 100 million (0.2 percent of GDP) at end-October, which has been settled from the budget. To avoid costly subsidies, the government will increase petroleum prices to full cost-recovery levels. Thereafter, the government will adjust prices on a monthly basis, if needed to avoid subsidies, irrespective of profits (or losses) from its hedging transactions, which will be included in the budget to ensure transparency.

C. Monetary, Financial and Exchange Rate Issues

34. **The Bank of Ghana's inflation targeting regime continues to successfully anchor inflation expectations.** The BoG's inflation forecast suggests that the end-year target of 9.0 percent will be achieved, notwithstanding the recent depreciation of the Ghana cedi. Looking forward, the BoG aims at keeping inflation broadly stable, with the center point of the target band modestly reduced to 8.7 percent in December 2012. It will stand ready to adjust its policy rate in support of this target should upside risks to inflation become pronounced.

35. **The BoG stands ready to adjust policies in support of its inflation target.** Thus far, the BoG has taken advantage of balance of payments surpluses to strengthen the reserve cover to above 3 months of imports and has accommodated an expansion of private sector credit by about 12 percent, in real terms. However, the cost of sterilizing the liquidity impact has been significant and discussions are ongoing on a proposal to share the cost of sterilization with the budget. More recently, lower than expected oil revenues and an unwinding of domestic bond holdings by foreign investors has led the BoG to intervene in the opposite direction to contain undue exchange rate volatility, implying a lower level of reserve accumulation than earlier anticipated. Going forward, the BoG aims to develop a program for foreign exchange market monitoring and intervention policies to help manage liquidity and intends to request IMF technical assistance in these areas.

36. **In the financial sector the priority continues to strengthen banks' risk management capacity.** Several specific actions are underway:

- **Tema Oil Refinery (TOR) debt to Ghana Commercial Bank (GCB).** The cedi component of the debt has been cleared and the foreign-exchange components have been reduced to about $50 million. In July 2011, GCB hired two internationally reputed consultants which are providing advice on a general reassessment of risk management practices in the bank. The full implementation of a new risk management approach is expected to be rolled out in all branches by end-2012.

- **Audit of banks.** The BoG remains fully committed to resolving the issues of remaining problem banks. The independent audit of these banks will have to be delayed, however, as will the development of new banking supervisory guidelines, because the selection of the external consultant to oversee the process took longer than expected. Provided the long-term consultant in banking supervision assumes duty at the Banking Supervision Department in January 2012, as planned, international firms to conduct the independent audit will be appointed by end-March 2012 (new structural benchmark), with the plan to complete the audit by the end of the year. All banks have met the minimum capital requirement of GH¢25.0 million and are expected to comply with the GH¢ 60 million requirement by end 2012.

- **Amendments to the financial sector legal framework.** The BoG has contracted legal consultants to draw up regulations to provide for the effective implementation of financial sector laws by addressing enforcement and emerging issues of market/industry development, including central bank resolution powers**.** The priority focus will be on the Banking Act (Act 673) and Foreign Exchange Act (Act 723), followed by a consolidation of the Banking Act (Act 673) and the Banking (Amendment) Act (Act 738), which should provide an opportunity to address regulatory gaps. The Bank expects a report on the draft regulations to be submitted in the first quarter of 2012, to be followed by the submission of the Legislative Instrument to Parliament for passage.

- **BoG equity shareholding in banks**. To address the potential conflict of interest as supervisor and part-owner of banks, the Bank of Ghana's shareholding in four banks were transferred to the Financial Investment Trust (FIT) as legal owner of the shares with a mandate to sell the shares. The shares of two banks have since been sold and a third is currently on offer. The fourth bank, which was set up as a statutory corporation, is being converted into a limited liability company, as a necessary first step to list it on the Ghana Stock Exchange.

- **Social Security and National Investment Trust (SSNIT) equity shareholding in banks.** The Board of SSNIT has agreed to diluting its shareholdings in the banking industry. In this regard, discussions are underway with prospective buyers of its shares in two banks in which it has majority ownership (more than 50 percent) and a merger of a third one with another bank in which it has a minority shareholding.

- **The BoG is committed to address remaining deficiencies in AML/CFT.** To this end, an AML office was established within the Banking Supervision Department in February 2011, and resources are being recruited to make it fully operational. The office has been working with the FIC and other stakeholders to develop a guideline for the banking industry on AML/CFT measures. The office is receiving technical assistance from the Fund to strengthen the overall legislative and regulatory AML/CFT regime.

- **Strengthening consolidated supervision.** A Forum of domestic regulatory authorities, comprising the Bank of Ghana, the National Insurance Commission, the Securities and Exchange Commission and the National Pensions Regulatory Authority has been formed to collaborate and share information to close any regulatory gaps in supervision and reduce systemic risks in the financial sector.

D. Program Design and Monitoring

37. **Program targets and benchmarks.** Quantitative program targets are documented in Appendix Table 1. Structural benchmarks are documented in Appendix Table 2. For the purpose of the program, the exchange rate of the Ghanaian cedi (GH¢) to the U.S. dollar will be GH¢1.5374 (see the attachment II Technical Memorandum of Understanding).

Appendix MEFP Table 1. Ghana: Quantitative Program Targets (December 2010 - June 2012) [1]
(Cumulative from the beginning of calendar year, unless otherwise indicated)

	2010 Dec.	2011 Mar.	Jun. 2011				Sep. 2011				Dec. 2011		Mar. 2012		Jun. 2012	
	Act.	Act.	Prog.[2]	Adjusted Target	Act.	Target Met?	Prog.[3] 3/4 ECF Rev.	Adjusted Target	Act.	Target Met?	Prog.[2] 3/4 ECF Rev.	Rev. Prog.[2] 5 ECF Rev.	Prog.[2] 3/4 ECF Rev.	Rev. Prog.[2] 5 ECF Rev.	Prog.[3] 3/4 ECF Rev.	Rev. Prog.[3] 5 ECF Rev.
I Quantitative performance criteria																
Overall fiscal deficit of the government (ceiling; millions of cedis)	3,000	560	1800	1,476	528	Met	2,420	1,735	1,132	Met	2,919	2,741	326	857	733	2,273
Increase in net international reserves of the Bank of Ghana (floor; millions of U.S. dollars)	937	-154	-370	-340	-9	Met	-364	-364	-288	Met	788	518	-105	-115	-275	-191
Net change in the stock of domestic arrears (celing, millions of cedis)	654	-420	-693	-693	-1,068	Met	-1,070	-1,070	-1,068	Not Met	-1,167	-1,412	-288	-63	-403	-87
II Continuous performance criteria																
Non-accumulation of external arrears (ceiling; millions of U.S. dollars)	0	0	0	0	0	Met	0	0	0	Met	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	800	800	278	Met	800	800	278	Met	800	3400	500	810	500	810
Oil and gas sector [5]	0	0	300	300	0	Met	300	300	0	Met	300	1250	0	0	0	0
Other sectors	196.6	0	500	500	278	Met	500	500	278	Met	500	2150	500	810	500	810
III Inflation consultation																
Twelve-month consumer price inflation (percent) [6]																
Outer band (upper limit)			12.0	12.0			12.0	12.0			12.0	12.0	11.7	11.7	11.7	11.7
Inner band (upper limit)			11.0	11.0			11.0	11.0			11.0	11.0	10.7	10.7	10.7	10.7
Central target rate of inflation	8.6	9.1	9.0	9.0	8.6	Met	9.0	9.0	8.4	Met	9.0	9.0	8.7	8.7	8.7	8.7
Inner band (lower limit)			7.0	7.0			7.0	7.0			7.0	7.0	6.7	6.7	6.7	6.7
Outer band (lower limit)			6.0	6.0			6.0	6.0			6.0	6.0	5.7	5.7	5.7	5.7
IV Indicative targets																
Net domestic financing of the government (ceiling, millions of cedis)	2,143	580	960	977	600	Met	1,550	1,609	1,215	Met	1,545	2,361	470	844	130	1642
Net domestic assets of the Bank of Ghana (ceiling; millions of cedis)	-924	10	503	503	503	Met	643	643	44	Met	-279	583	-77	635	-154	955
Poverty-reducing budget expenditures (floor; millions of cedis)	2,411	…	1,100	1,100	1269	Met	1,920	1,920	2,275	Met	2,700	2,888	660	858	1330	1717

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. For June 2012, indicative targets for every indicator.

[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 2. Ghana: Prior Action and Structural Benchmarks Under the ECF Arrangement, 2011–12[1]
(Shaded benchmarks are covered by the 5th review)

Measures	Timing	Implementation Status	Macroeconomic Rationale
Prior Action			
●Increase domestic petroleum prices		**Prior action for the completion of the fifth review** (see MEFP ¶33)	To avoid energy sector SOE losses, that have historically posed serious burdens on the budget.
Structural Benchmarks			
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	**Implemented**.	Strengthen revenue mobilization as part of the fiscal consolidation strategy.
● Appoint senior Ghana Revenue Authoritiy (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	**Implemented**.	As above.
● Adopt a tax regime for small business taxpayers for introduction in the 2012 fiscal year.	End-Jun 2011	**Implemented**. Criteria for identifying medium and small taxpayers have been identified, and the registration process will be launched by early 2012 (See MEFP, ¶11)	As above.

[1] Includes earlier benchmarks not fully implemented by the time of the third and fourth review.

● 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	**Benchmark** (for sixth review). (See MEFP, ¶12)	As above.
● Extend self-assessment for tax purposes to all medium and large taxpayers.	End-June 2012	**Benchmark** (for seventh review)	As above.
3. Public expenditure management			
● Roll out GIFMIS to 14 selected pilot MDAs.	End-March 2011	**Delayed**. **Reset Benchmark** (for sixth review) Roll out to pilots delayed; will be piloted within the CAGD and 14 MDAs by October 2011 and rolled out to all ministries starting January 2012. (See MEFP, ¶29)	Strengthen monitoring and control of budget execution.
● Reintroduce quarterly expenditure ceilings for planning purposes, while retaining the current monthly cash ceiling.	End-October 2011	**Not implemented.** Implementation of quarterly expenditure ceilings for MDAs will be postponed until spending discipline has been firmly established. (See MEFP, ¶30)	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-December 2011	**Benchmark** (for sixth review).	As above.

4. Arrears management			
● Assign organizational responsibility for maintaining a comprehensive 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.	End-June 2011	**Implemented** (See MEFP, ¶28)	To restore credibility to the budget process and address the liquidity 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-Sept. 2011	**Implemented**. (See MEFP,¶28)	As above
5. Public debt management			
● Publish a second annual debt management strategy.	End-Dec. 2011.	**Benchmark** (for sixth review). (See MEFP, ¶24)	As above
● Establish policy guidelines to strengthen the coordination between the Public Investment Division, the Debt Management Division, and the Economic Research and Forecasting Division at the Ministry of Finance and Economic Planning.	End-April 2012.	**New benchmark** (for sixth review). (See MEFP, ¶24)	As above
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 2012. (See MEFP, ¶27)	To strengthen oversight and control of the high and growing public payroll.
● Complete pay comparability survey for public and private sectors for a sizeable number of public sector career streams.	End-June 2011	**Implemented**	As above.

● Complete civil service payroll audit to remove ghost workers.	End-May 2012	**New benchmark** (for seventh review).	To contain budgeted wage costs.
7. Energy sector management			
● Management of petroleum product prices to avoid fiscal subsidies.	End-Sept. 2011	**Delayed**. **Reset Benchmark** (for sixth review). Prices will be adjusted to full cost recovery by end-January 2012 and maintained thereafter through monthly price adjustments, if needed to avoid subsidies. (See MEFP, ¶33)	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 most of TOR's debt.	To contribute to continued financial sector stability.
● Conduct an independent audit of remaining problem banks.	End-Nov. 2011	**Delayed.** The external consultant has been appointed with delay and will start the audit in January 2012. Expected completion of the audits by December 2012 (See MEFP, ¶36)	As above.
● Appoint international firms to conduct independent audit of remaining problem banks.	End-Mar. 2012	**New benchmark** (for sixth review) (See MEFP, ¶36)	As above
● Develop a strategy for addressing problem banks.	End-Dec. 2011	**Reset Benchmark** to March 2012 (for sixth review). The external consultant has been appointed with delay and will assist in formulating the strategy. (See MEFP, ¶36)	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	**Benchmark** (for sixth review). (See MEFP, ¶36)	As above.

APPENDIX I—ATTACHMENT II

TECHNICAL MEMORANDUM OF UNDERSTANDING FOR THE 2011–12 EXTENDED CREDIT FACILITY (ECF) ARRANGEMENT

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) of November 28, 2011. 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¢1.5374 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 Assemblies Common Fund, and the National Health Insurance Fund), and all subvented and other government agencies that are classified as government in the Bank of Ghana (BoG) Statement of Accounts (SOA). The Social Security and National Insurance Trust (SSNIT) and public enterprises, including Cocobod, are excluded from the definition of government

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).[1] 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

[1] 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**. Budgeted poverty spending for these categories will be taken from each year's final appropriations bill and will include only spending financed by the government or from internally generated funds. Actual poverty-related spending will be identified using the last 3 digits of the 15-digit chart of accounts of the CAGD's current NETS. 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 all donor-supported expenditure.

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.

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** (Executive Board's Decision No.6230-(79/140), as amended). It not only refers to debt as defined in Point 9 of the Executive Board decision, but also to commitments contracted or guaranteed for which value has not been received. The definition of debt is as follows:

> 9 (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.[2]

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 Division of the Ministry

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[2] (A) The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 6230-(79/140), as amended). 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.

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 Company; (iii) Bulk Oil Storage and Transport Company; (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 2011 ceiling on the contracting or guaranteeing of new nonconcessional external debt (US$3,400 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 (US$1,250 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$2,150 million). For 2012, the contracting of nonconcessional external debt of US$810 million is envisaged to be outside the oil and gas sector.

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.[3]

(ii) Downward by 50 percent of any **shortfall in concessional program loans**[4] 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.[5]

(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

[3] 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.
[4] Program grants and loans are also referred to as budget grants and loans.
[5] 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.

with additional resort to domestic financing. The latter is capped, again, at GH¢75 million;[6]

(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
(GHc millions, cumulative from the start of the calendar year)

	2011 Jun	2011 Sept	2011 Dec	2012 Mar	2012 Jun
Program grants	181	244	287	48	111
Program loans[1]	389	424	427	4	108
Project loans[1]	340	412	690	255	557

Notes: [1]Concessional financing

Net international reserves of the Bank of Ghana

35. The net international reserve (NIR) floors will be adjusted upward for any excess of budget grants and loans relative to the program baseline (see text table), except where this financing is used to repay outstanding domestic arrears at a more rapid pace than programmed. The NIR floors will be lowered by any shortfall in budget grants and loans relative to the program baseline up to the equivalent of US$50 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).

[6] The combined scope for additional domestic financing from adjusters (ii) and (iv) is thus GH¢150 million.

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, and 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.

(continued)

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) the 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.